Rating Rationale

January 27, 2023 | Mumbai

Tega Industries Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.350 Crore**
Long Term Rating	**CRISIL A+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1 (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A+/Stable/CRISIL A1' ratings on the bank facilities of Tega Industries Limited (TIL; a part of the Tega group).

Revenue of the group improved by 28.9% in first half of fiscal 2023 driven by strong performance in its Chilean subsidiary led by sales of its Dyna Prime mill liners and it is expected to cross Rs 1,000 crore for full fiscal 2023. Operating margins have moderated to 19.3% in first half of fiscal 2023 from 20.8% in full fiscal 2022, however they are substantially better than those of first half of fiscal 2022 at 15.6%. Going forward, the operating margins are expected to improve to over 21-23% in fiscal 2023 supported by improved operating leverage and normalisation of raw material and freight costs.

Financial risk profile continues to remain strong with low leverage and limited net debt. GCA days has increased to 215 days (net of cash) in fiscal 2022 on account of higher inventory, however it is expected to gradually revert to erstwhile levels. The company is in process of incurring capex of ~Rs 250 crore (USD 30 million) towards capacity enhancement in its Chile plant (USD 22 million) as well as capacity augmentation in other plants. About 70% of the same is expected to be funded through debt. The financial risk profile should remain comfortable even with the incremental debt. While the management is not evaluating any acquisitions at present, in case of any future deal, the net debt-to-EBITDA is expected to be maintained at below 3.0 times. Higher-than-expected debt for capital expenditure and/or large acquisition resulting in deterioration in the financial risk profile will remain key rating sensitivity factors.

The ratings continue to reflect the Tega group's established market position in the wear-resistant products and components (WRP and WRC) segment, geographically diversified revenue profile, and healthy capital structure along with improved operating performance. These strengths are partially offset by working capital-intensive operations, and exposure to risks relating to aggressive growth through acquisitions and capex.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of TIL and its subsidiaries − Losugen Pty Ltd, Tega Industries Chile SpA, Tega Industries Inc USA, Tega Industries Canada Inc, Tega Do Brasil Servicos Tecnicos Ltda, Tega Investments Ltd, Tega Holdings Pte Ltd, Tega Holdings Pty Ltd, Tega Industries Australia Pty Ltd, Edoctum SA, Edoctum Peru SA, Tega Investment South Africa Proprietary Ltd, and Tega Industries Africa Proprietary Ltd. This is because all these entities, collectively referred to as the Tega group, have strong operational linkages and fungible funds.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position

The group is one of the world's leading and experienced players in the wear-resistant products and components segment. The product profile is wide and includes both mill and non-mill products such as grinding mills, wear components, screens, conveyors and hydro cyclones. Demand is highly stable with 70-75% of revenue coming from repeat orders. The group has grown both organically and inorganically in the recent past. Income is geographically diversified, with forex-denominated revenue accounting for 85-90% of sales. Its latest product in the mill liner segment has been a success in South America and was the driver of the turnaround in the Chilean subsidiary. The group is also getting good traction from Africa, North

America, Asia Pacific, EMER and Europe for the same.

Strong financial risk profile
Networth was large at Rs 670 crore and gearing healthy at 0.32 time, as of March 2022. Debt protection metrics are also robust, as reflected in interest coverage and NCATD ratios of 11.2 times and 72%, respectively, in fiscal 2022. Gearing is likely to remain below 0.3 time over the medium term, despite partly debt-funded capex. The company is in process of incurring capex of ~Rs 250 crore (USD 30 million) towards green field capacity enhancement in its Chile plant as well as capacity expansion in other plants. The financial risk profile is expected to remain comfortable even with the incremental debt.

Weaknesses:
Working capital-intensive operations
Gross current assets (GCAs; net off cash) increased to 215 days as on March 31, 2022 as against 182 days in the previous fiscal on account of higher inventory due to increasing freight expenses and raw material prices. However, the same is expected to gradually revert to its erstwhile levels with normalisation of prices

Exposure to risks relating to aggressive growth through acquisitions and capex
The group has grown inorganically in the past through acquisitions outside India. Overseas subsidiaries play a significant part in its performance and contribute 35-40% to total sales. The group has also planned capex of around Rs 250 crore over the medium term (partly funded through debt) to improve capacities in Chile and India. Thus, organic and inorganic growth remain key monitorables.

Liquidity: Strong
Net cash accrual is expected to be Rs 190-220 crore per annum against yearly term debt obligation of Rs 22-50 crore during fiscals 2023-24. Capex of about Rs 250 crore in the near term will be partly funded through debt. The NCATD ratio is expected to remain healthy over the medium term. Bank limit utilisation averaged 43% during the 6 months through November 2022. Unencumbered cash and equivalent and marketable securities improved to Rs 174 crore as on March 31, 2022, from Rs 120 crore as on March 31, 2020.

Outlook: Stable
The Tega group will continue to maintain its business and financial risk profiles, driven by favourable demand for products and improving performance of subsidiaries.

Rating Sensitivity Factors
Upward factors
- Revenue sustaining over Rs 1,500 crore while maintaining operating efficiency, leading to improvement in business risk profile
- Substantial reduction in debt or more efficient working capital cycle resulting in better financial risk profile

Downward factors
- Weakening of business risk profile with decline in sales or profitability, with Ebitda (earnings before interest, taxes, depreciation and amortisation) margin lower than 18%
- Stretched working capital cycle
- Higher-than-expected debt for capex or any large debt-funded acquisition adversely affecting financial risk profile

About the Group
Established in 1976 by Mohanka family, the Tega group manufactures wear-resistant rubber products and components for mineral-processing applications and polyurethane lining. Facilities are at Kalyani and Samali in West Bengal, and at Dahej in Gujarat. In 2001 and 2002, the company set up two wholly owned subsidiaries in the US and Australia for increasing exports to these countries. In 2006, it established a wholly owned subsidiary in the Bahamas as a holding company that owns Tega Industries South Africa Pty Ltd, a manufacturing unit in South Africa. In March 2008, it established wholly owned subsidiaries in Canada and Brazil for enhancing its presence in these regions. In February 2011, it acquired Australia-based Losugen Pty Ltd and Chile-based Tega Industries Chile SPA (formerly, Tega Acotec SA). Losugen Pty Ltd manufactures and distributes wear-resistant mining equipment products. Tega Industries Chile SPA manufactures fluid transportation products (pipe-lining products) and has an established position in Chile, Peru, Argentina and Bolivia. Tega Industries (SEZ) Ltd, a wholly owned subsidiary of TIL, was merged with the latter with effect October 1, 2016, to improve financial strength and flexibility, management control and operational efficiency.

Key Financial Indicators

As on/for the period ended March 31,	Unit	2022	2021
Operating income	Rs crore	953	810
Profit after tax (PAT)	Rs crore	117	136
PAT margin	%	12.3	16.8
Adjusted debt/adjusted networth	Times	0.32	0.34
Interest coverage	Times	11.2	14.1

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue (Rs.Crore)	Complexity level	Rating outstanding with outlook
NA	Cash Credit^	NA	NA	NA	186	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Jul-26	70	NA	CRISIL A+/Stable
NA	Term Loan	NA	NA	Mar-25	25	NA	CRISIL A+/Stable
NA	Proposed Cash Credit Limit	NA	NA	NA	19	NA	CRISIL A+/Stable
NA	Letter of credit & Bank Guarantee#	NA	NA	NA	50	NA	CRISIL A1

^Fully interchangeable with export packing credit, packing credit in foreign currency, postshipment in foreign currency, working capital demand loan and bill discounting, letter of credit, bank guarantee, and buyer's credit
#Fully interchangeable with letter of credit, bank guarantee, and buyer's credit

Annexure - List of Entities Consolidated

Name of the entity	Extent of consolidation	Rationale for consolidation
Tega Industries Ltd	Full	Subsidiaries with strong operational linkages and fungible funds
Losugen Pty Ltd	Full	
Tega Industries Chile SpA	Full	
Tega Industries Inc USA	Full	
Tega Industries Canada Inc	Full	
Tega Do Brasil Servicos Tecnicos Ltda	Full	
Tega Investments Ltd	Full	
Tega Holdings Pte Ltd	Full	
Tega Holdings Pty Ltd	Full	
Tega Industries Australia Pty Ltd	Full	
Edoctum SA	Full	
Edoctum Peru SA	Full	
Tega Investment South Africa Proprietary Ltd	Full	
Tega Industries Africa Proprietary Ltd	Full	

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	300.0	CRISIL A+/Stable		--		--	29-10-21	CRISIL A+/Stable	15-12-20	CRISIL A1 / CRISIL A/Stable	CRISIL A2+ / CRISIL A-/Stable
Non-Fund Based Facilities	ST	50.0	CRISIL A1		--		--	29-10-21	CRISIL A1	15-12-20	CRISIL A1	CRISIL A2+
Commercial Paper	ST		--		--		--		--	15-12-20	Withdrawn	CRISIL A2+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit^	47	Citibank N. A.	CRISIL A+/Stable
Cash Credit^	40	ICICI Bank Limited	CRISIL A+/Stable
Cash Credit^	24	RBL Bank Limited	CRISIL A+/Stable
Cash Credit^	20	Axis Bank Limited	CRISIL A+/Stable
Cash Credit^	55	Standard Chartered Bank Limited	CRISIL A+/Stable
Letter of credit & Bank Guarantee#	20	ICICI Bank Limited	CRISIL A1
Letter of credit & Bank Guarantee#	25	Axis Bank Limited	CRISIL A1
Letter of credit & Bank Guarantee#	5	Standard Chartered Bank Limited	CRISIL A1
Proposed Cash Credit Limit	19	Not Applicable	CRISIL A+/Stable
Term Loan	25	RBL Bank Limited	CRISIL A+/Stable
Term Loan	70	ICICI Bank Limited	CRISIL A+/Stable

This Annexure has been updated on 27-Jan-2023 in line with the lender-wise facility details as on 06-Dec-2021 received from the rated entity
^Fully interchangeable with export packing credit, packing credit in foreign currency, postshipment in foreign currency, working capital demand loan and bill discounting, letter of credit, bank guarantee, and buyer's credit
#Fully interchangeable with letter of credit, bank guarantee, and buyer's credit

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Mohit Makhija Senior Director **CRISIL Ratings Limited** B:+91 124 672 2000 mohit.makhija@crisil.com Anand Kulkarni Director **CRISIL Ratings Limited** B:+91 22 3342 3000 anand.kulkarni@crisil.com Anagha Prabhakar Sawant Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Anagha.Sawant@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html