CRISIL
Ratings

Rating Rationale

April 05, 2024 | Mumbai

Tega Industries Limited

Ratings upgraded to 'CRISIL AA-/Stable/CRISIL A1+'

Rating Action

Total Bank Loan Facilities Rated	**Rs.350 Crore**
Long Term Rating	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Stable')**
Short Term Rating	**CRISIL A1+ (Upgraded from 'CRISIL A1')**

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 upgraded its ratings on the bank loan facilities of Tega Industries Ltd (TIL; a part of the Tega group) to **'CRISIL AA-/Stable/CRISIL A1+'** from 'CRISIL A+/Stable/CRISIL A1'.

The rating upgrade reflects strengthening of business risk profile with increase in scale of its existing operations driven by success of its Dyna Prime mill liner, sticky customer base and geographic diversification. Additionally, the acquisition of Tega Mcnally Minerals Ltd (TMML) will help TIL to expand its operations to engineering equipment catering to mining sector and offer an integrated solution of equipments, consumables and service to its customers.

Revenue of the Group increased by ~ 27% y-o-y in fiscal 2023 driven by increase in domestic sales of TIL and healthy demand across geographies. In fiscal 2024, the group revenue are expected to grow to be ~ Rs 1500 crores supported by healthy orderbook of ~ Rs 670 crores and incremental revenues of ~Rs 200 crore due to ramp up of Tega McNally Minerals Ltd. In 9m-fiscal 2024, revenue for TIL group has grown at ~21% with operating profitability moderating to ~ 18% compared to ~ 22.% in fiscal 2023 mainly due to integration of TMML which has lower margins of 10-11%, few instances where the conversion orders have taken longer than expected timelines and the Red sea crisis which has increased the transit time of shipments . Operating margins are likely to sustain in the range of around ~19-20% considering integration of TMML.

Financial risk profile continues to remain strong despite debt funded acquisition of TMML. Tega acquired TMML through corporate insolvency procedure on Feb 24, 2023 for Rs.165 crores which was funded by debt of Rs.100 crores and balance from internal accruals. Additionally, the company is in process of incurring capex of ~Rs 250 crore (USD 30 million) towards capacity enhancement in its Chile plant (~ USD 20 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 with gearing continue to remain below 0.3x and TOL/TNW below 0.6x in the medium. Company remains working capital intensive with gross current asset (GCA) days of 234 as on March 31, 2023 on account of export oriented nature of operations. 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 McNally Minerals Ltd, Tega Industries Inc USA, Tega Industries Canada Inc, Tega Do Brasil Servicos Tecnicos Ltd, Tega Investments Ltd, Tega Holdings Pte Ltd, Tega Holdings Pty Ltd, Tega Industries Australia Pty Ltd, Edoctum SA, Tega Industries Perus SAC , 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.

<u>Key Rating Drivers & Detailed Description</u>

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 Dynaprime 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.

  Market position is expected to improve further with ramp up of TMML. Acquisition of the equipment business will enable TIL to position itself as an integrated global player offering equipment as well as consumables to its customers. However steady ramp up of equipment business continues to remain a key monitorable

- **Strong financial risk profile:** Networth remains healthy at Rs 983 crore and gearing healthy at 0.31 time, as of March 2023. Debt protection metrics are also robust, as reflected in interest coverage and NCATD ratios of 20.93 times and 73%, respectively, in fiscal 2023. 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 234 days as on March 31, 2023 and is expected to remain at similar levels due to export oriented nature of operations. Around 80-85% of sales from India is exports which has an inherent transit period of ~ 60-90 days and additional 30-60 days credit period. Hence, on an overall basis, debtors cycle is ~3 to 4 months from time of dispatch.

- **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.

<u>Liquidity: Strong</u>

Net cash accrual is expected to be Rs 250 crore per annum against yearly term debt obligation of Rs 40-50 crores per annum. Capex of about Rs 250 crore in the medium term will be partly funded through debt. The NCATD ratio is expected to remain healthy over the medium term. Bank limit utilisation averaged 49% during the 12 months through Dec 2023. Unencumbered cash and equivalent and marketable securities improved to Rs 233 crore as on March 31, 2023, from Rs 221 crore as on March 31, 2022.

ESG profile of Tega

The ESG profile of Tega supports its credit risk profile. The sector has a moderate environmental and social impact, driven by its raw material sourcing strategies and energy-intensive processes. The impact on social factors is indicated by labour-intensive operations and safety issues on account of manufacturing-related activities. The company's increasing focus on addressing ESG risks supports its ESG profile.

Key ESG highlights:

- TIL has done investment to establish solar fencing in few of its manufacturing facilities to reduce indirect emission associated with electricity purchased from the grid.
- The Company has established appropriate processes for disposal of waste generated from its business operations.
- TIL has undertaken several community engagement initiatives focusing on the health, education, rural transformation and environment parameters.
- The governance structure is characterized by 50% of independent director, presence of investor grievance redressal mechanism and extensive financial disclosures.

ESG is gaining importance among investors and lenders. The commitment of Tega to ESG will play a key role in enhancing stakeholder confidence, given shareholding by foreign portfolio investors and access to both domestic and foreign capital markets.

<u>Outlook: Stable</u>

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:
- Significant increase in scale of operations with sustained healthy profitability resulting in operating EBIDTA at a consolidated level of over Rs.450 crores
- Improvement in working capital cycle resulting in better financial risk profile

Downward factors:
- Weakening of business risk profile with decline in sales or profitability, with consolidated Ebitda (earnings before interest, taxes, depreciation and amortisation) margin lower than 16%
- 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	2023	2022
Operating income	Rs crore	1214	953
Profit after tax (PAT)	Rs crore	184	117
PAT margin	%	15.1	12.3
Adjusted debt/adjusted networth	Times	0.31	0.32
Interest coverage	Times	20.9	11.2

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 the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Cash credit^	NA	NA	NA	186	NA	CRISIL AA-/Stable
NA	Term loan	NA	NA	Jul-2026	70	NA	CRISIL AA-/Stable
NA	Term loan	NA	NA	Mar-2025	25	NA	CRISIL AA-/Stable
NA	Proposed cash credit limit	NA	NA	NA	19	NA	CRISIL AA-/Stable
NA	Letter of credit and bank guarantee#	NA	NA	NA	50	NA	CRISIL A1+

#Fully interchangeable with letter of credit, bank guarantee, and buyer's credit

^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

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
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	funds
Tega Industries Australia Pty Ltd	Full	
Edoctum SA	Full	
Tega Industries Peru SAC	Full	
Tega Investment South Africa Proprietary Ltd	Full	
Tega Industries Africa Proprietary Ltd	Full	
Tega McNally Minerals Ltd.	Full	

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	300.0	CRISIL AA-/ Stable		--	27-01-23	CRISIL A+/Stable		--	29-10-21	CRISIL A+/Stable	CRISIL A1 / CRISIL A/ Stable
Non-Fund Based Facilities	ST	50.0	CRISIL A1+		--	27-01-23	CRISIL A1		--	29-10-21	CRISIL A1	CRISIL A1
Commercial Paper	ST		--		--		--		--		--	Withdrawn

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 AA-/Stable
Cash Credit&	40	ICICI Bank Limited	CRISIL AA-/Stable
Cash Credit&	24	RBL Bank Limited	CRISIL AA-/Stable
Cash Credit&	20	Axis Bank Limited	CRISIL AA-/Stable
Cash Credit&	55	Standard Chartered Bank Limited	CRISIL AA-/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 AA-/Stable
Term Loan	25	RBL Bank Limited	CRISIL AA-/Stable
Term Loan	70	ICICI Bank Limited	CRISIL AA-/Stable

& - 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 buyers' 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
CRISILs Criteria for rating short term debt

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