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