PARTNERSHIPS IN PRACTICE

August 18, 2023

To,

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400 001

National Stock Exchange of India Limited
The Listing Department
Exchange Plaza, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai - 400 051

BSE Scrip Code: 543413

NSE Symbol: TEGA

Sub: Transcript of the Earnings Conference Call for the Quarter ended June 30, 2023

Dear Sir/Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please find enclosed the Transcript of the Earnings Conference Call of Tega Industries Limited held on August 11, 2023 at 6:30 PM IST for the Quarter ended June 30, 2023. The same can also be accessed on the Company's website at https://www.tegaindustries.com/investor#stock-exchange.

Thanking You,

Yours faithfully,

For **Tega Industries Limited**

MANJUREE RAI

Digitally signed by MANJUREE RAI
Date: 2023.08.18 15:52:57 +05'30'

Manjuree Rai
Company Secretary & Compliance Officer

Enclosed: As stated above

"Tega Industries Limited Q1 FY24 Earnings Conference Call"

August 11, 2023

MANAGEMENT: MR. MEHUL MOHANKA – MANAGING DIRECTOR AND GROUP CEO, TEGA INDUSTRIES LIMITED
MR. SYED YAVER IMAM – DIRECTOR, GLOBAL PROJECT MANAGER AND HEAD OF SALES, TEGA INDUSTRIES LIMITED
MR. SHARAD KUMAR KHAITAN – CFO, TEGA INDUSTRIES LIMITED
MR. KAUSHAL SUREKA – DEPUTY GENERAL MANAGER – FINANCE & ACCOUNTS, TEGA INDUSTRIES LIMITED

MODERATORS: MR. BHAVYA SHAH – ORIENT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Tega Industries Limited Q1 FY24 Earnings Conference Call organized by Orient Capital.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Bhavya Shah. Thank you and over to you, Mr Shah.

Bhavya Shah: Good evening, everybody. Welcome to the Q1 FY24 Earnings Conference Call of Tega Industries.

Today on this call, we have with us Mr. Mehul Mohanka - Managing Director and Group CEO, Mr. Syed Yaver Imam - Director, Global Project Manager and Head of Sales and Mr. Sharad Kumar Khaitan - CFO.

Before we proceed with the call, I would like to give a small disclaimer that the conference call may contain some forward-looking statements, which are based on beliefs, opinion and expectation of the company as of date. A detailed statement has also given on the company's investor presentation, which has been uploaded on the Stock Exchange. I hope everyone had a chance to go through the results.

I would now like to hand over the call to Mr. Mehul Mohanka. Over to you, sir.

Mehul Mohanka: Good evening and a warm welcome to all the participants on the call. I am joined this evening by Mr. Imam who is our Director of Global Product Management Group and Mr. Sharad Khaitan who is our CFO.

We are delighted to note that the recent acquisition of McNally Sayaji has not only enriched Tega, but also opened up new avenues for us. The integration of McNally's capabilities has bolstered our global market reach and positioned us to manage larger projects with increased capacity, as our expansion project in Chile is progressing smoothly. We have now completed the land acquisition phase and are eagerly awaiting the necessary regulatory approvals to commence construction. We will ensure you are kept well informed on the projects development through timely updates as they become available.

Our non-mill lining business has grown substantially on a year-on-year basis by almost 34%, highlighting our commitment to diversify our product portfolio and the ability to consistently deliver value. We are pleased to announce a significant milestone for Tega Industries Limited as our wholly owned subsidiary has recently executed a supply and maintenance agreement with the largest copper mine in Europe. Under this agreement, our subsidiary will be responsible for supplying, installing and managing both mill and non-mill products for the mineral processing plant of the mine. The duration of this engagement spans a total of 5 years, extendable by another year with effect from January 1st, 2024. The agreement is linked to production and the minimum amount the customer is expected to spend during the 6 year term of the agreement is approximately Rs. 685.2 crores. This contract establishes incredible amount of faith and commitment the customer has in Tega's ability to supply innovative engineering solutions and services to its operations.

We in Tega continue to invest in cutting edge technologies and data-driven solutions. These endeavors are aimed at optimizing our operations, enhancing efficiency and ultimately offering greater value to our esteemed customers. Our unrelenting pursuit of technological advancements has yielded game-changing products that resonate strongly with our customers and further solidifying our position as an industry leader. In keeping with our commitment to responsible business practices, we published our inaugural Business Responsibility and Sustainability Report this year. Tega has always recognized the significance of Environment, Social and Governance (ESG) stewardship. This commitment extends beyond our Indian operations to our global endeavors as we work diligently towards achieving a net zero carbon footprint. Our purpose is intrinsically tied to caring for the planet and its inhabitants and this ethos guides our every decision.

In conclusion, I would like to express our sincere gratitude to all our investors for their unwavering faith in our company. Thank you all and now I would like to hand over to Mr. Sharad Khaitan to take you through the financial performance of the company for the period under review.

Sharad Kumar Khaitan: Thank you, Mehul and good evening everyone. Thank you for joining us on the call and it is always a pleasure to interact with all of you. At a group level when we compare with the same period last year that is June 23 quarter versus June 22 quarter, the topline has grown by 10%. That is from Rs. 2,444 million to Rs. 2,681 million. Our order book has been robust and from 31st March when we had an order book of Rs. 4,800 million, we have now an order book of about Rs. 5,200 million at a group level, which demonstrates an increase of Rs. 400 million that is 8% increase in our order book. The EBITDA for the current quarter is Rs. 393 million. We can now keep the floor open for any specific questions and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir, if you can share more color on the order that you have received today, which is of Rs. 685 crores, so just wanted to know how much order contributing of the mill liner, how much is the non-mill liner and how this exhibition will take place, will it be more front ended or back ended or it will be evenly-distributed throughout the year?

Mehul Mohanka: So, at this point, we are unable to share the product mix or towards this agreement, but it is going to be executed on a monthly basis. So, the revenue is going to accrue on a monthly basis over a 6-year period starting 1st of January 2024.

Dhiral Shah: So, particularly for the FY25 next year, sir, because of this order book, how much growth we are expecting, at least for next year, sir?

Syed Yaver Imam: So, the impact of this order will be close to 8% to 10% on whatever revenue growth is.

Dhiral Shah: So, this order is more backed by the McNally related product or it also has the standalone business which is able to take this order, sir?

Mehul Mohanka: It is on the standalone business.

Dhiral Shah: And sir, in this quarter particularly we have seen a very sharp decline in our operating margin, although it is led by the other expenses as well as the higher employee cost, so will this be the run rate going ahead and what is the reason for the higher operating cost particularly?

Sharad Kumar Khaitan: This quarter we had certain lower sales account logistics and shipment issues, which created the uncertainties and nonavailability of shipping containers in the month of June of Rs. 200 million. Apart from that, we had a onetime legal and professional expenses of about Rs. 40 million account the McNally acquisition and integration into the mainstream. Otherwise, these two items together have impacted our profitability in the current quarter by about Rs. 140 million.

Mehul Mohanka: But this is a one-off situation. We don't see this impacting the rest of the quarters and at the gross margin level, you will see that there is improvement.

Dhiral Shah: So, going ahead, what is the sustainable state of EBITDA margin we are looking at for the next 3 quarters?

Mehul Mohanka: So, as we have mentioned earlier, we will continue to maintain the fact that we will be achieving EBITDA of about 20% to 22% that remains in place.

Dhiral Shah: This is including the merger that we have done of McNally Bharat**, right?

Mehul Mohanka: No, this is on the consumables business.

Dhiral Shah: And on the McNally Bharat** side, sir?

Mehul Mohanka: McNally will be at about between 12% and 13%.

****Note: During the call, the speaker said "McNally Bharat", please note that the correct name is McNally Sayaji.**

Dhiral Shah: And sir, this quarter, we have seen revenue growth of 10%, but our mill liner growth that is almost 34% Y-o-Y, if I am not wrong?

Mehul Mohanka: That is on the non-mill business was 34%.

Dhiral Shah: And sir, on the mill part?

Mehul Mohanka: So, on the mill, there has been a small degrowth as Sharad mentioned that because of the congestion in the port, the revenue was impacted for that quarter of Q1. So, there is a small degrowth in the mill business on account of that.

Dhiral Shah: Sir, if you can share the number, how much revenue has been impacted because of this issue?

Sharad Kumar Khaitan: We have an impact of Rs. 200 million in the current quarter on account of these issues.

Dhiral Shah: The CAPEX which we are doing in Chile, are we confident of commencing by Q1 FY25 the guidance which was there earlier?

Mehul Mohanka: Well, it will depend on how quickly we can get the regulatory approvals. As of today, we are holding the fact that we would be able to complete it on time, but it may shift by a quarter or two depending on how quickly we can get the approvals. We are expecting this approval to come by Q3 of this year and if that happens, then we will be online, but if that slips by quarter 2 that will have the overall impact on the commencement of the project as well.

Dhiral Shah: And sir, what is the overall capacity utilization across the plant?

Mehul Mohanka: It is about 65% utilization.

Moderator: Thank you. The next question is from the line of Darshan Shah, an Individual Investor. Please go ahead.

Darshan Shah: Sir my question is really around the McNally synergy and I wanted to understand how will we realize the synergy?

Sharad Kumar Khaitan: McNally Sayaji is like a backward integration for us because they are in the equipment space and we provide space which is getting installed in those equipment as well. So, this opens up a new market domain for Tega as well as they are not into the equipment space and the size of the market in the equipment space is pretty big as compared to the spare business. So, McNally will open up that market from the equipment side and from a Tega perspective, this will also add value because we will have more installed equipment bases of our own group company which will add advantage to us. We have started working towards the integration of the entities and creating value from the synergies which will have a positive impact in the future, but as you know, any of these integrations and synergies take some time, so we are working towards the same and we expect those synergies to have fruitful results in a very short span of time.

Darshan Shah: My second question was more towards the future outlook, so what are the growth levers we have in place to ensure we grow our business over the next 3 to 4 years' time?

Syed Yaver Imam: So, our guidance from the last couple of years has been that we are looking to grow the business at 15% CAGR and for the Tega business to maintain the EBITDA at 20% to 22%. That is what our plan is.

Darshan Shah: Sir, so those are the quantitative aspects, if you could just throw some light more on the qualitative part of your operation, so how do you intend to grow that number?

Syed Yaver Imam: Qualitative in what manner you want to talk more.

Darshan Shah: Basically, any growth levers, your inherent advantages that you will have?

Syed Yaver Imam: If you look at both copper and gold from the last one year have been growing considerably. The production is increasing, the market price is increasing and because of the old degradation, the wear and tear of the products are going higher. So, both this aspect, copper production is based on the EV, electrical vehicle introduction throughout the globe, so copper production is going to be high, our consumption will be higher and growth is based on that. Second, our DynaPrime and other product lines are entering into the segment of steel liners and the growth is coming from there and this is something we have given in the last couple of calls also. This is where our focus is.

Moderator: Thank you. The next question is from the line of Vinay Mehra, an individual investor. Please go ahead.

Vinay Mehra: I just had one question; can you please elaborate further on the copper mine order book announced earlier today?

Syed Yaver Imam: So, this is one of the biggest copper mines which is there in Europe and the contract which we have signed today is for 6 years, 5 years plus 1-year, automatic renewal and the expected revenue at the minimum level because it is a production-based contract. So, what we have given is the minimum value of Rs. 685 cores that will be there and we will be managing all the wear assets of that in the mines including the service part of it.

Vinay Mehra: And I had one more question and probably if you might have answered it and I might have missed it, but I just wanted to know what is the progress on the expansion plan in Chile and when it will be getting over, will it be fulfilled by Q1 FY24?

Sharad Kumar Khaitan: Like we told earlier, our Chile expansion project is progressing well. We have done the land acquisition and we are waiting for certain statutory approvals to commence construction, etc., which we expect to come in Q3 of this year.

Moderator: Thank you. The next question is from the line of Raunak from Kharagpur Investment Group. Please go ahead.

Raunak: It is like we have enough exposure outside of India in the current economic scenario in Europe and USA is not much good like you said good kind of environment, so I just want to know like what are the companies you would focus?

Syed Yaver Imam: Similar question we had answered, if you look at the base on which a business is built, we are looking at two major commodity, copper and gold and in spite of whatever the economic this thing that is happening, copper has been growing close to around between 3.5% to 4% and gold also above by 1%-1.5%. So, as far as production is concerned, both the copper and gold, irrespective of territory, is still going on. And I don't think any impact on the global economic situation is going to have on these two commodities because of two reasons, number one, the electrical vehicle introduction globally is going on at a very large pace and each vehicle require a large amount of copper and so the copper is on a very strong note also. So, both copper and gold, we continue to think will grow and the impact on the environment, except Russia and Ukraine, where our exposure anyways is very small, the rest of the territories are doing well as far as the production and billing has been concerned.

Moderator: Thank you. The next question is from the line of Priyesh Babariya from Max Life Insurance. Please go ahead.

Priyesh Babariya: So, my first question is to would it be possible for you to break up the growth between volume and value for Q1?

Kaushal Sureka: So, on an overall basis, if you look at our business, if you remove the equipment business, there has been a degrowth. So, the volume degrowth is close to 10%. Yes, there has been a price increase, which we have been carrying since quarter 3 of last financial year, which is close to 1%-1.5%. And there's a bit of a Forex because of the dollar appreciation against INR. So, that's close to around 2%, but that's ex-equipment business.

Priyesh Babariya: Could you tell us the reason for the volume degrowth in the equipment business?

Sharad Kumar Khaitan: Like we have mentioned to you earlier also that there has been lower sales account, the logistics and shipment issues which were there because of non-availability of shipping containers due to port congestion in the month of June. So, it's just a timing difference which we are noticing in the current quarter. The order book remains healthy for us and the impact of this issue of port congestion itself has impacted the current quarter by about Rs. 200 million.

Priyesh Babariya: So, can you also just breakup the revenue between DynaPrime and non DynaPrime cost sir?

Sharad Kumar Khaitan: I'm sorry this is a strategic decision and we don't share this data actually.

Priyesh Babariya: And how has been the penetration of DynaPrime across the region and different geography?

Syed Yaver Imam: So, again, what we have said and I think this has been the reason that we are not disclosing this number, we have been finding that there has been quite a lot of strategic changes in the competition because of the way we were representing numbers. But the total growth of the company and you can see the healthy growth of the order booking notwithstanding the impact of congestion on the quarter one result, the growth are dependent upon this DynaPrime product and also for the non-mill product that we are increasing based on penetration and wallet share increase in customer globally. So, both are going on simultaneously and the impact on this growth is seen in the order booking. And hopefully when we are looking at it, the long term growth of 15% that we have said will continue to happen at 15% CAGR.

Priyesh Babariya: So, the growth of 15% is including McNally Sayaji, right?

Syed Yaver Imam: No, we are talking about only Tega. McNally guidance, we also close to around 15% as of now.

Priyesh Babariya: And with 10% to 12% EBITDA margin in McNally, right?

Syed Yaver Imam: Yes. So, McNally equipment business will always have a lower EBITDA compared to the consumable. So, Tega will continue to between 20% to 22%, McNally will oscillate between that, 10%-12%.

Priyesh Babariya: So, what is the total capacity as of now?

Kaushal Sureka: We do not have capacity in terms of tonnage because of our value proposition in the product, but the levels of revenue which we can grow from here at least with the planned CAPEX in Chile and some bit of a debottlenecking in some other part of the world, we can cater the 15% growth which we are projecting for at least next three to four years, minimum.

Priyesh Babariya: So, how much CAPEX we have incurred in Q1?

Kaushal Sureka: So, Q1, we have not done any significant CAPEX because the land acquisition was already done in the last financial year. So, no major CAPEX as such in the current quarter, the moment we get these regulatory clearances, we'll see the lot of CAPEX being spent in the coming quarters.

Moderator: Thank you. The next question is from the line of Ashish from JM Financial. Please go ahead.

Ashish: So, my question is on the volume growth outlook for this year. You said that first quarter was weak because of the port congestion challenges and unavailability of containers. Now how is Q2 looking sir and how does FY24 look like?

Syed Yaver Imam: As we said, the order booking is healthy and our pipeline is also healthy. We are looking at a growth of 15% in FY24.

Ashish: So, that's the value growth we are talking about or that's?

Syed Yaver Imam: We are talking about volume growth.

Ashish: Also typically, so because of the unavailability of containers, would that have impacted your inventory levels as in your inventory levels would have gone up or we would have probably scaled down the production because of?

Sharad Kumar Khaitan: My inventory products have gone up to that extent.

Moderator: Thank you. The next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: So, I wanted to confirm if there are any decrease in receivable position for the company in quarter one?

Kaushal Sureka: So, at the back of the strong fourth quarter, our working capital has improved because the quarter 4 was the strongest historically and quarter one is in a way a softest quarter for us historically. So, our working capital days have improved and it is mostly because of the receivables because the inventory levels have gone up as Sharad mentioned, because of the port congestion and other thing, our inventory is stocked up, so the entire improvement in the working capital is mostly at the back of receivables improvement.

Karan Sanwal: So, could you give a number like what is the receivable at the moment quarter one?

Kaushal Sureka: It will be close to around 95 days, which was around 110-115 days in March.

Karan Sanwal: And the second question is what is the execution timeline for the order book that we have right now, 500 crore?

Kaushal Sureka: So, this 500 crore has two components, one is the consumable business, which generally we have an order book of close to 4 to 5 months. But in case of an equipment business, the order book, whatever you carry it is executable in the next 8 to 9 months. So, both businesses have their own timelines in terms of the turnaround time to deliver. So, if you look at the overall 500 crores on a weighted average basis, it will take care of our 6 to 6.5 months revenue at a group level.

Karan Sanwal: Would it be possible to bifurcate the order book between consumable and equipment?

Kaushal Sureka: We will look at our business as a whole and being the same application industry, we would prefer to look at it on a consolidated level only.

Karan Sanwal: Mill liners and non-mill liners, the sales bifurcation for the quarter?

Kaushal Sureka: See if you look at now overall basis, we always say that the mill liners constitutes around 70% of overall business and with the equipment business now going up, this portion will shrink because of the higher base. We always have to look at it on a year-on-year basis, the quarters can be a little erratic because of the some issues coming up here and there. But we always should look at a year-on-year basis, not on a quarterly basis.

Karan Sanwal: So, on our long-term basis, what would you expect the proportion of mill liner to go if we consider all the three businesses, mill liners, non-mill liners and equipment?

Kaushal Sureka: See at a 15% growth rate, 70% mill liner business might reduce to around 65-66 in years to come because McNally has a lower base and it will take some time to catch up, but it will not fall down below 65% because that's the main business of the entire group.

Karan Sanwal: One last question if I may. So, apart from copper and gold, where are we? Are you expecting any good growth for the consumable business? Because copper and gold, as I understand, is a major driver of our mill liner consumable business. So, any other metal that we are expecting which is showing a good traction?

Kaushal Sureka: Copper and gold will continue to remain high because these are the metals which need the highest amount of beneficiation. So, you cannot replace copper or gold with any other commodity because those does not need that much of a mineral beneficiation and even the grade in these metals are very low. We do have iron ore, platinum, uranium, zinc, but they are not substantial enough to replace gold or a copper and become that dominant in our whole scheme of things.

Moderator: Thank you. The next question is from Rushabh Doshi from Nimiti Investment Advisors. Please go ahead.

Rushabh Doshi: So, my first question was, has there been some significant change in the competitive scenario in Q1? And also in India, AIA is really doing great in mill lining business and they are seeing around 40% volume growth they're expecting in this financial year. So, in terms of competition like are we losing out to them somewhere and is it easier for them to sell their mill liners along with their grinding media are these two products very different? And my second question was can you just share the export benefits for this quarter?

Kaushal Sureka: What's your second question?

Rushabh Doshi: Do you receive any export benefits?

Kaushal Sureka: We do have export benefit in terms of the RoDTEP scheme of the government and we do also get some financial benefit in terms of some interest remission schemes given by the government to exporters of a particular class of products. To answer your first question, we have always mentioned that we do not consider AIA to be our competitor in any space because we are into DynaPrime or other mill liners, they are into steel liner. And we are disrupting that space, what they claim, how easy or difficult for them is to get a better margin we should not comment, but we keep our guidance of a 15% to 18% growth on a year-on-year basis with an EBITDA of around 20% for our consumable business and we hold firm on that comment on an annualized basis. Yes, quarter-on-quarter there will be some movement, but on an annualized basis we hold our guidance.

Rushabh Doshi: The export benefit number like I guess it is also part of your other number?

Kaushal Sureka: So, the export benefits is all part of operating revenue which we get from the government in terms of the RoDTEP scheme. Interest benefit which the government extends to us is netted off with this.

Moderator: Thank you. The next question is from the line of Praveen Motwani from Bank of India Mutual Fund. Please go ahead.

Praveen Motwani: So, I just wanted to understand what sort of logistics issues that we have faced during this quarter when other companies are talking about things getting normalized and their costs have come down on year-on-year basis. So, if you can just elaborate a little more on what went wrong with us in terms of container shortage or logistics issues that we have faced?

Sharad Kumar Khaitan: There was a port congestion issue in the month of June because of cyclone and other issues. It was a temporary phenomenon, but the issue which comes up till we don't have those sales done, we cannot recognize the revenue in the books of accounts. So, it's a temporary phenomenon and we have overcome like everybody has overcome. Because of the cyclone and port congestion issues, we had this container issues which was there. There's just a temporary blip, actually.

Praveen Motwani: And my second question is sir, what kind of margins that we are expecting on consolidated basis for FY24? Any guidance on that thing?

Kaushal Sureka: So, for consumable business, we have already mentioned that our gross margins will be in the level of 57% to 60%. And for the equipment business, we have always said that we need at least one or two more quarters to very firmly assess the potential of the business and then maybe give a better guidance to the market that where the gross margins of that business would look like. But there already have been an improvement with these synergies with Tega we have, it is visible, but we'll still refrain from making any numbers right now. It will be better for us to comment maybe in a quarter or two to you on this.

Praveen Motwani: And then the last question is all the cost of acquisition has been integrated right? I mean there will be no one off going forward in coming quarters?

Sharad Kumar Khaitan: No, there are no further expenses on this count.

Moderator: Thank you. We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Sharad Kumar Khaitan: Thank you to all the participants for attending this call and asking us the questions which will allow us to introspect further and help you clarify your doubts around our business. And we are happy to handle further query in the upcoming earnings call for the coming quarters. Thank you very much. Have a nice weekend.

Moderator: Thank you. On behalf of Tega Industries Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.