

February 06, 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 and nine months ended December 31, 2022

Dear Sir/Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Earnings Conference Call of Tega Industries Limited held on January 31, 2023 at 3:30 PM IST for the Quarter and nine months ended December 31, 2022. The same can also be accessed on the Company's website at <https://www.tegaindustries.com/investor#stock-tab>.

Thanking You,

Yours faithfully,

For **Tega Industries Limited**

Manjuree Rai
Company Secretary & Compliance Officer

Enclosed: As stated above

Tega Industries Limited

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“Tega Industries Ltd Q3 & 9M FY-23 Earnings Conference Call”

January 31, 2023



MANAGEMENT: **MR. MEHUL MOHANKA – MANAGING DIRECTOR &
GROUP CHIEF EXECUTIVE OFFICER, TEGA
INDUSTRIES LIMITED**
**MR. SYED YAVAR IMAM – DIRECTOR (GLOBAL
PRODUCT MANAGEMENT), TEGA INDUSTRIES LIMITED**
**MR. MANOJ KUMAR AGARWAL – DIRECTOR (GLOBAL
FINANCE) & CFO, TEGA INDUSTRIES LIMITED**

MODERATOR: **MR. DHIRAL SHAH – PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Tega Industries Limited Q3 and 9M FY23 Earnings Conference Call hosted by PhillipCapital Private Client Group. 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 conference 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. Dhiral Shah of PhillipCapital. Thank you and over to you sir.

Dhiral Shah: Thank you Zico. Good afternoon, all. Thank you for joining us on the Q3 and 9M FY23 Post-Earning Conference Call of Tega Industries Limited. We sincerely thank the management to allow us to host the call.

In the panel today we have Mr. Mehul Mohanka – Managing Director and Group Chief Executive Officer, Mr. Syed Yaver Imam – Director (Global Product Management) and Mr. Manoj Kumar Agarwal – Director (Global Finance) & CFO of the Company.

Before we begin this call, I would like to state that some of the statements are made in today's discussion may be forward-looking in nature and may involve risks and uncertainties.

I now invite Mr. Mehul Mohanka to begin the proceeding of the call. Thank you and over to you sir.

Mehul Mohanka: Thank you. Good afternoon, everyone. I welcome you to the Q3 Earnings Call. I'm joined by Mr. Imam, Director – Global Product Management Group and Mr. Agarwal, who's our CFO. As you can understand I have a sore throat because of onset of a viral prevalent in this part of the country as of today. I'd like to excuse myself and hand over to Mr. Agarwal, who's our CFO to take this forward.

Manoj Kumar Agarwal: Thank you Mr. Mohanka. On behalf of Mr. Mohanka, I just want to thank you all the investors for putting us continued faith on the company. We are also pleased to announce that our business has been double digit growth in key metrics in Q3. Building on the strong momentum from H1 sales have grown strongly across all regions. Our growing scale has also led to improved operating leverage and significant margin improvement both yearly and quarter-over-quarter. Significant improvement in global supply chain, normalization of logistics and transport costs also contributed to improved margins which is visible in the Q3 numbers as well. Despite the easing pressure the costs are still higher on a pre-COVID base and we are vigilant to managing our supply chain accordingly. Our expansion project in Chile, requisite land acquisition has been completed. We are awaiting further approvals. Shall keep you updated on the progress of the same.

We recently completed one year of our listing following our IPO in December 2021. We have had a long journey of over three decades as India's leading business in global niche. I look forward to future with increasing optimism. We have many strategic initiatives in motion to elevate Tega Industries to the forefront of the industry globally and we aim to generate value over the long term for all stakeholders.

Now I'm taking the Q3 numbers for the listeners:

For YOY Q3 the revenue has grown from 2,578 million to 2,967 million, the growth of 15% YOY. Material margin is around 55%, little subdued mainly because of the geographical mix not otherwise. We have been able to claw back the margin on account of logistics in this quarter which we have not able to make up until Quarter 2 which has helped us to boost our EBITDA for the Quarter 3 as well. Other expenses also gone down with the fact that the logistic cost has come down from Quarter 1, Quarter 2 and previous quarter as well. Operating EBITDA stands at 22.66% against 19.78% same period last year.

We have been able to manage our finance cost even in the increasing environment with a better working capital management. If I go to the YTD YOY, the revenue growth has happened to the tune of 24%. We are at INR 8,176 million versus INR 6,617 million on YOY. Material margin on a yearly basis stood at 57% against 58% last year same period. We anticipate that this margin will improve in Quarter 4 with a better geographical mix. The reason being lumpiness in the business, so quarter-on-quarter sometimes may not give a clear picture. Hence, we go into the yearly margin numbers.

Other expenses also gone down with the fact that packaging forwarding cost has gone down YOY. For nine months YOY operating EBITDA stood at 20.5% against 17.21% same period last year. On the debt side we are at a net debt plus position of about 22 crores. Working capital days stood at 154 days against target of 130 days. We expect it to normalize in Quarter 4. That is all on the finance side number. I open the forum for the Q&A from the investors. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Sandeep Tulsian with JM Financial.

Sandeep Tulsian: Yeah, a very good afternoon gentleman. My first question is pertaining to your full year guidance that you had given for FY23 at 15% to 20% sales growth. Given that we have been able to recoup volumes in newer geographies as well as got some price increases, nine-month performance looks good. Would you want to revise this guidance or at least indicate that the company should comfortably be at the upper end of this guidance?

Manoj Kumar Agarwal: We expect upper end of this guidance. We intend to be within 15% to 20% for FY23 years of now.

- Sandeep Tulsian:** Okay, Second question is on furthermore color on these gross margins which have declined in the quarter, you did highlight there is some geographical mix which changed, which led to this decline. If you could also elaborate on that. What was this specifically?
- Manoj Kumar Agarwal:** Yes, so in quarter what happened that our mix on South Africa entity and Chile entity has gone up than the India side and overall basis India margin is much better than these geographies. Because of that mix there is some impact for this quarter in the margin. Further the North America business for this quarter is down than expected, which is more or less kind of spill-over to Quarter 4. Because of the margin geographical mix from North America, lower mix which is a better margin geography for us and from South Africa and Chile which will have cost centers for us as far as RMC cost is concerned. Hence this margin is showing lower for Quarter 3 and we are sure that in Quarter 4 we'll be able to cover it up both for the Quarter 4 and year as a whole.
- Sandeep Tulsian:** Got it, understood. A bit more color on other expenses, you did highlight logistic costs have come down and packaging forwarding costs have gone down which led to this increase in margins. If you could quantify a bit what was the logistics cost as a percentage of sales in first quarter and approximately how much has it fallen in third quarter? Also is there a further downside based on the new freight rates that you would have contracted for couple of more quarters going ahead, is it we are at the bottom right now or is it further expected to decline?
- Manoj Kumar Agarwal:** Yes, let me give this some numbers to you. Basically, the logistic cost sits mostly on India side because other than India like Chile and South Africa we do all ex-works. India side, the cost was around 8.21% of our sales in December '21 quarter which has gone down to around 6.04% in September '22 and it has gone down further in December quarter to 4.62%. If I take a group as a whole where we were lagging about 1.5% in FY22 as you can recall, we have been able to recoup about 1.2% as of now. We expect that this cost may further—it has not still reached to the level it was prior COVID—but we still expect that some cost reduction will happen. We will be able to recoup another 25 basis in Quarter 4. Not beyond that.
- Sandeep Tulsian:** Got it, And some bookkeeping questions Mr. Agarwal, regarding the price and volume growth as also the segmental numbers regarding DynaPrime, non DynaPrime and non-mill liners that you typically provide every quarter.
- Manoj Kumar Agarwal:** We are at the same range but talk about, like DynaPrime we are at a range of 25% non-DynaPrime, it is about 9% to 10%. I'm talking volume side, so that we are still clogging as of YTD December '22.
- Sandeep Tulsian:** If you could give like absolute rupees crores in third quarter and how much was that growth on a year-on-year basis in each of these segments?

- Manoj Kumar Agarwal:** So let me give you nine months YOY, that will give you a picture because YOY December '22, we have done about 165 crores in DynaPrime against 135 crores last year. Mill we have done 425 crores against 360 crores last year nine months, non-mill we have done about 192 crores against 143 crores last year. Rest is services.
- Sandeep Tulsian:** Got it, and What was the price and volume and FOREX breakup that you share?
- Manoj Kumar Agarwal:** So overall volume is 17.6% as of nine months and price exchange together is about close to 6%.
- Sandeep Tulsian:** This is for nine months again, right?
- Manoj Kumar Agarwal:** Nine months because lumpiness, so it is better to take a YTD number.
- Sandeep Tulsian:** Is there any FOREX gain element over here?
- Manoj Kumar Agarwal:** Yes, FOREX is about 1%, around 1% to 1.25%.
- Sandeep Tulsian:** I meant in other income normally what we report at FOREX gain, is there a jump in this quarter?
- Manoj Kumar Agarwal:** There was again, I think it's about 8 crores FOREX gain is there for this quarter because the currency got appreciated in other geography than what it was in the Quarter 2.
- Sandeep Tulsian:** And one last question from my side. We definitely have a very comfortable balance sheet position right now. Any plans on inorganic acquisitions in related areas, any adjacencies that you have found out which would be a close watch out for you in terms of acquisition. Also, our promoter's stake continues to remain at 79%. We have of course a good 2 years to bring it down to 75%. Will that be through a fund raise or will it be a stake sale? Any thoughts on these two aspects if you can share.
- Manoj Kumar Agarwal:** As our MD said in last quarter also that we are always in a look for a better kind of deal which makes sense for the stakeholders for value appreciation. We just try to time the market in terms of if we get anything good to have in Tega's fold which gives the value appreciation to the stakeholders we may go for that also and because we have to kind of dilute 4%, we have that advantage to kind of raise the fund in company also. We're just waiting for the right time how to marry both the situations once come into the fold. We are in the look of opportunities whenever it comes, make sense for us obviously we'll go for that.
- Sandeep Tulsian:** Just one related question. When you said you are seeing some good growth across all geographies, is it possible to give some color as to which geographies are seeing faster growth? Other than of course you highlighted South Africa and Chile also subsidiaries but within geographies and major markets that you have, if you could give some more color in terms of

where the growth was higher, what were the numbers if US was declined how much was the decline?

Manoj Kumar Agarwal: Too many numbers we may not give. I can tell you that other than North America maybe even North America also talk about is on a slow pace again because of the lumpiness, something got spillover which will get cover in Quarter 4, rest all the geography is giving a trajectory on the higher trend as far as the revenue is concerned.

Moderator: Our next question is from the line of Rakesh Pal with Peace Wealth Capital.

Rakesh Pal: Hello sir, thank you for the opportunity. Sir, I have one question, two questions actually. My first question is we are hearing that copper mines are being closed in South America, so what will be the impact on our company? The second question is if I can see your order book trajectory, it was peak during Quarter 2 of this financial year and then it reduced. How does the order book lags the revenue by one or two quarters? These two are my questions.

Syed Yaver Imam: As far as South America is concerned, there are some headwinds especially in Codelco but the number of projects which are coming on stream over here in copper over there, overall copper production is not going to fall by too much as far as South America is concerned. Second issue is that most of the mines which we are working in our operating mines and even if the production goes down by a couple of percentage points, the mills are running and we are being in the consumable business, our revenue does not get much affected by it.

Rakesh Pal: And sir, My second question is about the order book. How does your order book vary over the quarter? As I can see Quarter 2 your order book was highest then it declined. Does it lag the revenue by one or two quarters? That is my second question.

Syed Yaver Imam : Again, as we have always said, the revenue is lumpy because the order books are lumpy. This year we started with a good Quarter 1. Overall, I think the pace of the revenue is what it is being kept because of the order booking. Order booking continues to grow at that between the 15-20 range. In effect the result of that is that the revenues are growing.

Rakesh Pal: The order book is for how many months? What is the execution period of this order book?

Syed Yaver Imam : Approximately three months.

Moderator: Our next question is from the line of Jasdeep Walia with Clock Wine Capital.

Jasdeep Walia: Hello sir, good afternoon. Thanks for taking my question. Out of top three copper and gold mining companies globally, how many are your clients where you're supplying commercial quantities and not quantities meant for testing?

- Syed Yaver Imam:** Both in copper and in gold, the top 20 miners we are there in all the top miners, so both in copper and in gold.
- Jasdeep Walia:** You're there in all the top 20 miners globally?
- Syed Yaver Imam:** Yes.
- Jasdeep Walia:** And you're supplying commercial scale quantities?
- Syed Yaver Imam:** Yes.
- Moderator:** Our next question is from the line of Sagar Shah with Phillip Capital.
- Sagar Shah:** Good evening, sir. Thank you so much for the opportunity. My first question is related to our CAPEX plan. Can you throw some light on our CAPEX?
- Manoj Kumar Agarwal:** As we said last time the CAPEX plan for the group is close to about \$30-\$32 million in next three years and major CAPEX will be in Chile, close to about \$22 million. Followed by some addition in India and South Africa.
- Sagar Shah:** It was related to our hedging policy. We have recorded around 8 crores of FOREX gain in the quarter. Can you throw some light at what exactly is our hedging policy? Have you received or can you throw some light or is it just a notional figure? Is it just one-off?
- Manoj Kumar Agarwal:** No. In hedging policy, we have hedging policy where we hedge net of import in India parlance. In South Africa again net of hedging position we have export. There we have a gain which is realized. In that realized gain overall group wise about 6 crores of realized gain we have and unrealized gains about 1.25 crores as of December 2022.
- Sagar Shah:** Okay, got it. My last question is related to our order book, as of December '22 and on absolute basis what is our order book?
- Manoj Kumar Agarwal:** As of December 31st, closing order books about 325 crores on a group level.
- Moderator:** Our next question is from the line of Jasdeep Walia with Clock Wine Capital.
- Jasdeep Walia:** Earlier I had asked a question to you that out of top three copper and gold mining companies globally how many are your clients? I was asking specifically for DynaPrime range of products and not for your entire portfolio.
- Syed Yaver Imam :** Let me answer that in a manner that most of the top gold and copper mines even for DynaPrime we are in different stages of development. But most of the top mines today are our customers, in

the sense that we are either having business with them or we are in trial with them. Both the largest miners, the top miners in copper and gold are our primary target for DynaPrime.

Jasdeep Walia: Like last time you gave me some numbers in the sense you said that all top 20 miners are our clients. Can you give me that a data for DynaPrime where you're supplying commercial quantities let's say amongst the top?

Syed Yaver Imam: That's what I'm saying. See DynaPrime if you look at DynaPrime as the business, it is focused on the top miners, big miners who are the top this thing. All our focus on the top 20 miners for copper and gold are there for DynaPrime. That is where our businesses are coming from DynaPrime. Whatever business you are looking at and growth is coming from the top miners who are having the larger size of mills.

Jasdeep Walia: Got it sir, Out of total sales of DynaPrime what percentage of sales are contributed where you're supplying quantities for testing?

Syed Yaver Imam: 8%-10% percent is like that. We are not continuing; testing is a part of supplying a couple of pieces here and there to see how the things are there. 8%-10% of our business would be testing which the balance is from the revenues.

Moderator: Our next question is from the line of Sushrut Gokhle with Caprize Investments.

Sushrut Gokhle: Hi good afternoon, sir. Congrats for the good set of numbers. I just want guidance on our new products like DynaPrime. So, what is the pipeline? Are we working on some new products like this?

Syed Yaver Imam : You're talking about new products or you're talking about DynaPrime?

Sushrut Gokhle: No, like DynaPrime is our flagship product. Are we working on some new products like this?

Syed Yaver Imam: We are working on number of products on the R&D sections but most of these products are in the process of patent. So, detail of these products are not available in public domain now.

Sushrut Gokhle: Just can you throw some light that 3 years down the line, what would be share from these new products?

Syed Yaver Imam: See one, we are as of now we are looking at the growth in the next 3 years from DynaPrime etc. Once these new products are fully tested, commercialized and put into operation the way DynaPrime has grown the 10%-15% growth will start coming from these kind of products also in the future.

Sushrut Gokhle: I just want this revenue number for nine months and last nine months. Sorry I didn't get that.

Manoj Kumar Agarwal: So, revenue numbers for December '22 is 8,059, revenue from sales against 6,529 previous period, numbers are in million.

Moderator: Our next question is from the line of Nikhil Jain with Galaxy International.

Nikhil Jain: Thank you for the opportunity, Just two questions, actually a little more qualitative. If I let's say assume that the market is 100. so to how many customers would we have penetrated both with the DynaPrime and with our conventional products? So basically, the point is that do we foresee scope for expansion in our conventional product with the customers or is that kind of saturated? The same question is for DynaPrime.

Syed Yaver Imam: As far as DynaPrime, overall, when we are looking at the mill market and the DynaPrime product, we were close to 5%-6% last year. So, we have grown by 1%. But still the growth prospect is very large. What we have been attacking with DynaPrime is close to a billion-dollar market and we have just started in the last 3 years. So there the scope of growth is as you can see from the revenue that we are clocking and the market potential which is there.

Nikhil Jain: Okay, Second question was with respect to the geographies. We are there in India, we are there in Chile, Australia but are there some key geographies that we actually want to expand into and that would be our focus let's say for FY24 and beyond?

Syed Yaver Imam: As of now we are very evenly balanced in the geographies with our revenue with Latin America and Africa being around 24%-25% each. But Latin America because of being the largest copper producer in the world will always be a focus in the next 2-3 years because DynaPrime is focused on those large customers.

Nikhil Jain: The third question was with respect to right now our focus is actually on gold and copper. But some of these metals which are coming up or which would be required in higher quantities when we talk about lithium or nickel or some of these things. Are our products suitable for those and is that a large enough market for you to actually address and kind of look for?

Syed Yaver Imam: See again on the mill liner market 75% of the liner market is in gold and copper. Now gold and copper are the bellwethers for all the others as far as the product usage is concerned, whether it's zinc, iron ore and other things. The idea of focusing on this area and getting a market share in gold and copper is that once we have this product fully established over here, other material will always follow on that. So our basic focus is in gold and copper because of the larger concentration of market there.

Nikhil Jain: But nickel and lithium and all, so they were not at this point of time not a big enough market. Basically, that would be a small fraction whatever less than 5%.

Syed Yaver Imam: Correct.

- Nikhil Jain:** One last question. We have another company in similar area like AIA Engineering which is 3 to 4 times your size. Is it like we are having different product range than them or is it like we are competing with them in certain markets? I think they are also supplying some mill consumables. I think they are having a little different but I just wanted to get your opinion on that.
- Syed Yaver Imam:** AIA, 90% of the business is in grinding media. I think what they say is 10% is coming from the mill liner and which includes cement mills and they are now foraying into the mining. In the mining sector where there will be the sector which we are trying to disrupt, there will be competition against them. But where we are competing is established steel liners changing to DynaPrime and they will be looking at established steel area to replace with their products which will be steel. So that's the difference.
- Moderator:** Our next question is from the line of Bhavin Vithlani with SBI Mutual Fund.
- Bhavin Vithlani:** Thank you for the opportunity. First if you could help me in nine month numbers for DynaPrime conventional mill liners and non-mill products.
- Manoj Kumar Agarwal:** So, nine months DynaPrime number is INR 1,652 million versus INR 1,358 million, non-DynaPrime mill is INR 4,245 million versus INR 3,593 million and non-mill is INR 1,926 million versus INR 1,436 million.
- Bhavin Vithlani:** Could you repeat the non-mill?
- Manoj Kumar Agarwal:** 1,926 million versus 1,436 million.
- Bhavin Vithlani:** The other question is we had renewed our focus on the non-mill by restructuring our distribution strategy. Could you help us understand the benefits that we are seeing on that path? How is the acceptance from the customer side?
- Syed Yaver Imam:** You're already seeing the numbers of the non-mill increasing. We are on year-to-date, non-mill close to 34% increase compared to what it was. So what we had said right in the beginning, I think the last 2 years we are saying the non-mill will follow on once the DynaPrime and other establishments are doing. So non-mill is doing also pretty good now.
- Bhavin Vithlani:** The other part is if you could help us with the utilization levels at the various key facilities. What is the update on the expansion that we were undertaking at Chile?
- Manoj Kumar Agarwal:** On Chile which I have said that land has been acquired by us registered in our name. We have made application to the local authorities for clearances. We are awaiting the approval for the same and we expect to get it by March and if so then the field work starts from April onwards. As of now we are on the track unless we have some delay on the approval side which we not foresee as of now.

- Bhavin Vithlani:** What is the utilization at the current facility, Chile, India, South Africa, so it will help us understand how much far you can go?
- Manoj Kumar Agarwal:** In Chile we are at about 72%, in South Africa about 68%, Kalyani is about 63%, let's say India altogether is about close to 55%, all three plants together.
- Bhavin Vithlani:** The new expansion that we are undertaking, what is the timelines that we are expecting? I believe there is a phase wise expansion that we are undertaking.
- Manoj Kumar Agarwal:** We are kind of as of now basis taking approval as of March, we're expecting the commercial production should come out in Quarter 1 of FY25, later Quarter 1.
- Bhavin Vithlani:** With this expansion if you could just help us the current capacity at Chile and what is the phase one expansion? So, the quantum increase in the capacity at Chile.
- Manoj Kumar Agarwal:** Currently the capacity is 5000 tons which will go up to close to about 10,000 tons by Quarter 1 FY25.
- Bhavin Vithlani:** The last question is if I look at your fourth quarter of previous years, there was a very significant seasonality that we have observed. Is that something one can expect the similar level of seasonality in the current year because if I look at last year Quarter 4 profit was equal to the nine months profit last year.
- Manoj Kumar Agarwal:** I can't talk about numbers but the fact that Quarter 4 always used to be better than first Quarter 3 historically. We expect the same trend and wait to see the number how it converts.
- Bhavin Vithlani:** Great, one last question. We were looking at converting our customers from CIF to FOB because of the significant volatility in the freight that we have seen. Now that freight rates are coming down, if you could give us a perspective on that and what's the kind of margin benefit that we could get once the full impact of rate decline gets in.
- Manoj Kumar Agarwal:** I'll just repeat that as you have joined later. On the freight side if you can remember last year full year, we lost about 1.5% to 1.6% as a part of our EBITDA and what we see now we have recovered close to about 1.2% as of now and we expect that the remaining portion also get normalized by Quarter 4 because it is still going down and not yet reached to the level what it was prior to COVID. We are not pushing too hard for the FOB conversion but we are softly kind of moving to that whatever customer when customer is agree for FOB we are just going to that aspect. So, we are not forcing too much what was doing until earlier. Freight is, it something coming into a very much expectable level to us where we've been able to kind of get back our margin what we've lost other than 25 basis points which we expect to get it in Quarter 4 also.

Moderator: Ladies and gentlemen that was the last question for today's conference. I would like to turn the floor back over to Mr. Nachiket Kale for closing comments. Over to you sir.

Nachiket Kale: Thanks everyone. I would like to thank the management for taking the time out for this conference call today and also thanks to all the participants. If you have any queries, please feel free to contact us. We are Orient Capital Investor Relations Advisor to Tega Industries. Thank you so much.

Manoj Kumar Agarwal : Thank you.

Moderator: Thank you. On behalf of PhillipCapital Private Client Group that concludes this conference. Thank you for joining us and you may now disconnect your lines.