November 21, 2024

To,

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

BSE Scrip Code: 543413

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

NSE Symbol: TEGA

<u>Sub</u>: Transcript of the Earnings Conference Call for the Quarter and Half Year ended September 30, 2024

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 November 14, 2024 at 5:00 PM IST for the Quarter and Half Year ended September 30, 2024. 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
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Manjuree Rai
Company Secretary & Compliance Officer

Enclosed: As stated above

"Tega Industries Limited

Q2 and H1 FY '25 Earnings Conference Call"

November 14, 2024

MANAGEMENT: **MR. MEHUL MOHANKA – MANAGING DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER, TEGA INDUSTRIES LIMITED**
MR. SYED YAVER IMAM, NON-EXECUTIVE NON-INDEPENDENT DIRECTOR, TEGA INDUSTRIES LIMITED
MR. PRATIK BASU ROY – PRESIDENT - PRODUCT MANAGEMENT, GLOBAL SALES AND MARKETING, TEGA INDUSTRIES LIMITED
MR. SHARAD KUMAR KHAITAN – CHIEF FINANCIAL OFFICER, TEGA INDUSTRIES LIMITED

MODERATOR: **MR. HITESH AGARWAL – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Tega Industries Limited Q2 and H1 FY '25 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 conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Hitesh Agarwal from Orient Capital. Thank you, and over to you, sir.

Hitesh Agarwal: Thank you, Manav. Good evening, and welcome to the Q2 and H1 FY '25 Earnings Conference Call of Tega Industries Limited. Today, on this call, we have with us Mr. Mehul Mohanka, Managing Director and Group CEO; Mr. Pratik Basu Roy, Product Management, Global Sales and Marketing and Mr. Sharad Kumar Khaitan, who is the CFO.

Before we proceed with this call, I would like to give a small disclaimer that this conference call may contain certain forward-looking statements, which are based on beliefs, opinion and expectations of the company as of date. A detailed statement has also been given on the company investor presentation, which has been uploaded on the stock exchange. I hope everybody had a chance to go through the results.

Now I would like to hand over the call to the Mr. Mehul Mohanka for his opening remarks. Over to you, sir.

Mehul Mohanka: Thank you, Hitesh. Good evening, and a warm welcome to all the participants on the call. I'm joined this evening by Mr. Imam, who is our Director on the Board; Mr. Pratik Basu Roy, President, Product Group & Sales; and Mr. Sharad Kumar Khaitan, our CFO.

I'm delighted to inform you that the Board has appointed Mr. Anand Sen, as an Additional Director of Tega Industries Limited designated as an Independent Director of the Company with effect from 14th November, 2024. A strategic visionary with a keen understanding of international markets, Mr. Anand Sen brings extensive experience in driving growth, fostering innovation and optimizing operations, recognized for building high-performance teams and implementing transformative strategies that enhance profitability and shareholder value.

Mr. Sen is a dynamic and results-driven leader with a proven track record of driving global organizations to unprecedented success. He has been associated with the Tata Group for about four decades and has held several key leadership positions within the group. He holds a bachelor's degree in metallurgical and mineral engineering from IIT Kharagpur and has also completed postgraduate diploma in Business Management from IIM Kolkata.

The total group revenues for the half year ended 30th September, 2024 stood at INR 718 crores with an EBITDA of INR 124 crores i.e. EBITDA margin of 17%. On a half yearly basis, the revenues have been higher by INR 61 crores than the same period last year, that is half year ended 30th September, 2023.

The total revenues of the consumable business segment grew by INR 58 crores over the same period last year, whereas the equipment business segment moderated to INR 82 crores from INR 91 crores same period last year. For the second quarter of FY '25, the total group revenue stood at INR 367 crores with an EBITDA of INR 48 crores vis-a-vis total group revenue of INR 380 crores with an EBITDA of INR 85 crores during the same period last year.

There have been certain delays in shipments and deferment of orders by customers, which we are confident of recouping in the next few quarters. Please note that we are holding on to our year end estimates and guidance as given earlier. In Q1 as well as Q2 of FY '25, we have continued to progress our strategy while navigating challenges, including the macroeconomic and geopolitical landscape and the supply chain disruption.

Our progress has all been made possible by the hard work and dedication of our people, and I'm proud of the continued resilience that they have shown, which helps us in customer satisfaction and creating value for all our stakeholders. We have a firm order book at a group level of INR 605 crores as at September 2024 end vis-a-vis an order without considering the long-term orders like the NMDC order in ML.

Focusing on leading environmental, social and governance practices as a core part of Tega's business, sustainability and safety are integrated into the business at all levels of the organization through our policies, standards, strategies and business plans. We are committed to being a sustainable business as we believe it is not only a commercial and moral imperative, but also a tremendous opportunity.

As we work towards our net zero goals, our technologies and products are helping our customers on their own sustainability journey by enabling significant reductions in power consumption and reduction of their carbon footprint. A significant portion of our products and solutions are customized for the gold and copper mines. We believe that the copper demand shall be increasing due to a combination of three key themes that is traditional economic growth and the newer themes of energy transition and digital, that is primarily the data centers.

While the traditional demand provides a solid foundation, the rapid acceleration of growth expected in the decades to come shall be driven by the energy transition and digital trends. By energy transition, copper demand, I refer to the additional copper required to achieve that level of electrification. As the most industrial material metal, copper is a key enabler of low GHG emissions, energy resources, such as wind, solar and hydro as well as electric vehicles and batteries.

Similarly, we are also very bullish on gold prices driven by safe stable status amid global economic challenges, fuelled by geopolitical tensions, inflation and economic slowdown concerns. I would like to express our sincere gratitude to all our investors for their unwavering faith in our company. Thank you for your continued support.

And now I would like to hand over to Sharad to take you through the financial performance of the company for the period under review.

Sharad Kumar Khaitan: Thank you, Mehul. A very warm welcome to everyone, and thank you once again for joining the earnings call for the quarter two of financial year '25 performance and results. The total group revenue for H1 of FY '25 stood at INR 718 crores with an EBITDA of INR124 crores, which results in an EBITDA margin of 17%. For the similar period last year, that is H1 of FY '24, the total group revenues were at INR 657 crores with an EBITDA of INR 130 crores with a margin of 20%-odd. On a year-on-year basis, the total revenues have grown by 9%.

The group revenues for the second quarter of FY '25 stood at INR 367 crores with an EBITDA of INR 48 crores, that is an EBITDA margin of 13%. For the similar period last year, that is second quarter of FY '24, the total group revenues were at INR 380 crores with an EBITDA of INR 85 crores, resulting in an EBITDA margin of 22%. On a quarter-on-quarter basis, the total revenues have declined by 4%. In our business, generally H2 is always better than H1 in terms of our performance, both in revenue and profitability margin.

Apart from delays in shipments and deferment of the orders by the customers, the group sales were also impacted in the current quarter due to delay in receipt of payments, receipt, inspection report and dispatch clearance certificate from a few of our customers. The EBITDA margin has been muted due to the contract accounting, leading to a onetime expense in Q2, which has been charged off in the current quarter and shall lead performance in the subsequent period. The order book for both the business segments, that is consumable business segment and the equipment business segment remains strong.

Thank you very much for your time and the forum is now open to your questions, if any. Over to the moderator, please.

Moderator: Thank you very much. We will now begin the question and answer session. We have a first question from the line of Abhishek Agarwal from Prithvi Finmart Private Limited. Please go ahead.

Abhishek Agarwal: Hello. I want to understand why our gross margin declined. And EBITDA margin also impacted because of one of the reasons, okay, but gross margin has also been declined. So what is the reason for that? And you said one of the items is there for decline in EBITDA margin. Just to reiterate that, I could not hear properly?

Sharad Kumar Khaitan: There have been certain delays in shipments and the deferment of orders by certain customers, which we are confident of recouping in the next 2 quarters. Apart from the delay, there has been -- these have been impacted in delaying receipt of payments as the inspection report and certain certificates, which we didn't receive from our customers.

The EBITDA margin was muted due to certain contract accounting, which led to recognition of onetime expenses in quarter two, which has been charged off in the current quarter and which shall be the performance in the subsequent quarters. That is one of the reasons why you see a decline in the margin.

Abhishek Agarwal: Okay, sir. Understood. Thank you.

Sharad Kumar Khaitan: Thank you.

Moderator: Thank you. We have our next question from the line of Chirag Muchhala from Centrum Broking. Please go ahead.

Chirag Muchhala: So sir, is it possible to quantify this onetime impact that you are talking about?

Sharad Kumar Khaitan: The onetime impact will be close to about INR 17 crores to INR 20 crores.

Chirag Muchhala: Okay. And this is charged off in Q2, but this pertains only to Q2 or this pertains to a longer period. So I'm still -- sorry for repeating this, sir, but I'm still not exactly clear what this onetime impact is regarding?

Sharad Kumar Khaitan: Yes. For certain projects, Chirag, we had to incur certain inventory actually. So these have been charged off as consumables or inventory into the current quarter. So the charge is there certain installation expenses and certain inventory, the benefit of which we are going to realize over a longer period of time.

Chirag Muchhala: Okay. So sir, from Q3 onwards, our normalized EBITDA margin that we have been reporting in consumables, which is 21%, 22%. So that margin should be revert back to from Q3 onwards?

Sharad Kumar Khaitan: Yes, we are confident, both our revenue estimate and the EBITDA margin estimate what we did, we shall be able to have those things going forward from Q3 onwards.

Chirag Muchhala: Okay. And sir, regarding the Chile project, sir, any update as to any change in time lines from commissioning, etc.?

Sharad Kumar Khaitan: We have started the construction there, and we shall keep you posted on the progress as and when it happens in the subsequent call.

Chirag Muchhala: Okay. So as of now, I think Q1 or Q2 FY '26 is when we were planning to commercialize that project. So as of now, those time lines are intact.

Sharad Kumar Khaitan: Yes. So as of now, earlier we had given an estimate of June, July of the next financial year. So we currently think we should be able to have the construction complete. So we'll keep you posted of any changes if any subsequent call.

Chirag Muchhala: Okay. And sir, since we have seen some of the shipment delays, as was mentioned in the opening comments because of deferment of orders from customers, etc. So I mean, is it any customer-specific issue and we see this to completely normalize from Q3? Or this is more of a kind of a geopolitical led, let's say, Red Sea or etc., supply chain issue, which -- whose impact might continue for one or two quarters?

Sharad Kumar Khaitan: These are mainly due to geopolitical issues, Chirag. And we would like these to get over ASAP, but we'll not be able to tell when. What we have done, in fact, we have made our teams much more agile and flexible to address these issues and address them as soon as these crop up.

Chirag Muchhala: Okay. So for last question, on consumable business for FY '25, is it possible to qualitatively say what type of growth is possible now considering this new shipment issues that have come up -- normally, we aspire for 15% sustainable growth. Is it still possible in FY '25, considering our H1 performance?

Sharad Kumar Khaitan: Yes, that is what Mehul gave in his opening remarks as well. We hold on to our guidance of 15% growth year-on-year. That is - We have a good H2 actually.

Chirag Muchhala: Okay, sir. Yes. That's it from my side. Thank you.

Sharad Kumar Khaitan: Thank you, Chirag.

Moderator: We have our next question from the line of Nilesh Soni from JM Financial. Please go ahead.

Nilesh Soni: Sir, I wanted a clarification. What can be -- what was the amount of the amount impacted due to the deferment of the revenue during the quarter one? And secondly, in last quarter also, we had seen some revenue impact in equipment business that was expected to be booked in 2Q. But if we see in 2Q still Y-o-Y growth has been declined for equipment business. So is there any further delay or impact in equipment business also? So if you can clarify on that front?

Sharad Kumar Khaitan: See, these spillovers will continue to happen until the geopolitical issues are not sorted out.

Nilesh Soni: Yes -- but our equipment business mostly caters to domestic...

Sharad Kumar Khaitan: As far as the equipment business is concerned, it's just about the deferment of the orders and there have been certain delays from the end of -- from the customer bill, which shall catch up to this in H2.

Nilesh Soni: Okay. In second half, right? And what can be the impact for Q1 plus Q2 because there was some deferment in Q1 also. So is it the same? Or is it like...

Sharad Kumar Khaitan: It comes to our yearly guidance of 15% both for the consumer business and the equipment business.

Nilesh Soni: So we are confident to meet that, right? Okay.

Sharad Kumar Khaitan: Yes.

Nilesh Soni: Okay. That's it from my side. I joint back in queue if there is any question.

Moderator: The next question is from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: My first question is on order book number. I'm not sure if I heard it right, you said INR 605 crores, is it?

Sharad Kumar Khaitan: INR 605 crores is what we have mentioned, Salil, INR 605 crores.

Salil Desai: The presentation mentioned INR 545 crores, so do you still wanted between the two?

Sharad Kumar Khaitan: So there are certain long-term projects. So in the presentation, what we are seeing, we have given the orders without any of the projects which are crystallized in the next 6 to 7 months. So INR 605 crores is the right number in which we take all the orders which are going to happen in the next 6 to 7 months for the project.

Salil Desai: So, that's what revenue we'll recognize all in the mix?

Sharad Kumar Khaitan: Yes.

Salil Desai: Is it INR 605 crores in mix. Got it. Second is the -- what customer disposable order, which they have already placed.

Sharad Kumar Khaitan: Salil, we are not able to hear you properly?

Moderator: Sir, the participant got disconnected. We will move on to the next participant. The next question is from the line of Deepak from Sundaram Mutual Fund. Please go ahead.

Deepak: Yes. Thanks. Sir, I understand this order deferment and our guidance of this 15%, but are we confident that we can maintain the same margin that we guided earlier that of 23% in consumables and 10% to 11% in equipment. Do you still maintain that for FY '25?

Sharad Kumar Khaitan: Yes. Generally, we have been able to have a consumables EBITDA margin of close to anything in the range of 20% to 22%. And then in equipment, we have set our expectation of 10% to 12%. On a blended rate, we see any EBITDA margin for the group at around 20%, 21%, and we are confident of these numbers.

Deepak: Okay. For FY '25, right?

Sharad Kumar Khaitan: Yes.

Deepak: Okay. And sir, second question revolves around order book. So even if I take your INR 605 crores order book and try to back calculate, the new order inflows based on the revenue booked, there is a Y-o-Y decline of around 10% of the new order inflow. Are we seeing any slowdown in new order inflow?

Syed Yaver Imam: You are looking at the order book, the agreement…

Deepak: Sorry, sir, I'm not able to hear, your voice is getting muffled actually.

Syed Yaver Imam: Can you hear now?

Deepak: Yes, sir, it is much more clear.

Syed Yaver Imam: In the consumables, what we look at order which comes up to December, okay? So, because our delivery cycle is 3 months. And we already have INR 605 crores without -- so what we have today will all be executed till March, plus what we are going to get consumable orders in -- up to December, both in the Equipment Division and Consumables of the equipment division also. So by the time December comes, our total order book will be more than what our 15% growth in that.

Sharad Kumar Khaitan: And just to add on to that, we even have an increase in the overall inventory levels, if you see as at 30th September, because of these delays what we have been speaking -- talking about. So all of this, inventory turns into revenue in the subsequent period.

Deepak: Okay. Sir, I'm not exactly clear on your explanation, but can you just quantify what was the new order inflow for this quarter number?

Sharad Kumar Khaitan: We don't give this breakup of quarter-on-quarter this thing, because what happens is we have a closing order book that is what we give. New orders coming during the quarter, they also get serviced and that is how we get the closing order book balance as of the end of the quarter.

Deepak: Got it, sir. That's the way I calculated it, based on your closing order book and the revenue which you have booked, how much could be the new order inflow. But you are saying that you're not seeing any delay in the new order inflow, but it was mostly to do with order deferment.

Sharad Kumar Khaitan: It's an order deferment and increase in my inventory levels as well.

Deepak: Okay. Okay. And sir, my last question would be, regarding competition. I was just reading somewhere in this Mining Expo, which was recently held that we are seeing a lot of Chinese participation in the tenders. So are we seeing that Chinese players are also kind of participating more in our line of business? I know they are not very good with services at par at our level, but do you feel that Chinese can be a competition going forward for our business?

Syed Yaver Imam: Chinese competitors in the mining, have not been able to sustain products from overseas because in the mining and the consumables that we have there, there is a very large component of service and we have sales and service team all over the world. So, even some of the orders we have got from Peru are from Chinese online. They have not been able to unload the Chinese supply. so I don’t think in the…

Moderator: Sorry to interrupt sir, but your voice is a bit muffled. Can you please get closer to the device?

Syed Yaver Imam: Yeah. Okay. So what I'm saying is Chinese people, because Chinese product are more on the product selling, while the consumable is a combination of product and services, okay? And because of that, Chinese are not being considered as a serious supplier over there. In Las Vegas also, we did not find any major Chinese supplier, okay? In fact, some of the Chinese own mines have also place order on us, okay? So they are -- I don't think Chinese will be very important in this segment.

Deepak: Okay. Sir, if you allow -- I have one last question. Sir, looking at your -- yes, looking at your balance sheet, your capital work in progress as of March, it was around INR 11 crores. And as of September, it is around INR 25 crores. And we are looking to spend around $20 million, right, on this Chile project. So I just want to understand, as there is no movement in the capital work in progress, are we confident that we can commercialize the Chile operation by July, August next year?

Sharad Kumar Khaitan: This number -- this July, August, what we are seeing, as of now, we are keeping that timeline. In case any changes happen, I'll let you know in the subsequent calls. But as of today, we think we should be able to have it complete.

Deepak: And then sir, what would be our capex number for 2025 and 2026, FY 2025, FY 2026?

Sharad Kumar Khaitan: You see, we have gone into a major capex drive of about $35 million to $40 million, which includes this capex of Chile as well as the Dahej plant. So apart from a routine capex, which will be there and these are the bulk spends, which I'm doing in the current financial -- these are the capex what we have identified. A lot of cash flows will happen in FY 2024 - 2025 as well as in FY 2025 - 2026. And apart from that, we'll have a routine expenses and routine capex as and when required.

Deepak: Got it. Sir, can you quantify what would be the capex, a broad range in FY 2025 and FY 2026?

Sharad Kumar Khaitan: In the current year, we have already identified about $35 million to $40 million. So you can add up another $10 million is the capex, what we'll add on to this in these two years together.

Deepak: Okay. Thank you so much, sir.

Moderator: Thank you. We have our next question from the line of Mayank from Asian Market Securities. Please go ahead.

Mayank: Thanks for the opportunity. Sir, just wanted to understand what was the reason you gave for the gross margin dip? Sorry, if I'm repeating the question.

Sharad Kumar Khaitan: No, no, no worries. What has happened is there are certain projects what we are executing. And in these projects, certain consumables have been charged off in the current quarter. So, basically, these inventories, when we are issuing it to the site, we charge it off. And hence, my raw material cost has gone up. So, these consumables, though charged off in the immediate quarter, give me a benefit in the subsequent period over a few quarters more than this quarter in which I have incurred these expenses.

Going forward, since these one-time expenses have been done at the site, we don't expect these to be repetitive in Q3, Q4. And that is how you will find these one-time adjustments or expenses giving the benefit in the subsequent period.

Mayank: And that is how much one-time expenses?

Sharad Kumar Khaitan: One-time expenses together is about INR 17 crores to INR 20 crores is what we are seeing.

Mayank: INR 17 crores to INR 20 crores.

Sharad Kumar Khaitan: Yes.

Mayank: And sir, the depreciation for this quarter is almost INR 26 crores. This is almost doubled Y-o-Y.

Sharad Kumar Khaitan: Yes.

Mayank: What would be the full year number we should assume INR 26 crores is the annual number we should assume per quarter going forward?

Sharad Kumar Khaitan: Yes. So, these are the quarterly numbers. And for -- you should consider these are the quarterly numbers, which will be reflected in the subsequent quarters as well. And these numbers will increase subject to the capex as and when we incur -- the capitalizations as and when they happen. But this is a base you should consider for the -- going forward quarters.

Mayank: Okay. And one more thing, sir. Just checking, as you're kind of now delivering to the large order that you had won in the Europe, INR 600 crores order and I'm just curious to know whether the execution of those -- that order is kind of related to the margin dip that we are seeing, not the whole margin dip, but maybe that order is probably at a low margin the execution of that order?

Sharad Kumar Khaitan: No. The order which you are referring to is not a low EBITDA margin order. It's a high EBITDA margin order. And this dip what we are talking about is just because of that onetime adjustment. And overall, this particular contract has got a much better EBITDA margin than the overall scheme of things if you see the entire project.

Mayank: Okay sir. Thank you.

Sharad Kumar Khaitan: Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that would be the last question for today. And I would now like to hand the conference over to the management for closing comments.

Sharad Kumar Khaitan: Thank you, everyone. Thank you for taking out your time and coming to our investor call. We'll keep you posted of any subsequent developments. Happy to interact and take any subsequent questions, etcetera you have. You can reach us our Investor Department, and we'll be happy to answer all of that. Thank you so much.

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