MTAR Technologies Ltd.

2-Mar-21

Subscribe

Ronak Kotecha
ronakkotecha@rathi.com

Issue Details

Issue Details	
Issue Size (Value in Rs. Crores, Upper Band)	596.4
Fresh Issue (No. of Shares in Lakhs)	21.5
Offer for Sale (No. of Shares in Lakhs)	82.2
Bid/Issue opens on	03-Mar-21
Bid/Issue closes on	05-Mar-21
Face Value	Rs. 10
Price Band	574-575
Minimum Lot	26

Objects of the Issue

Fresh Issue: ₹123.5 Crores

The company proposes to utilize the Net Proceeds towards funding the following:

- Repayment/Prepayment in full or in part, of borrowings availed by the company.
- Funding working capital requirements.
- General corporate purposes.

Offer for Sale: ₹472.9 Crores

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
JM Financial Ltd.
IIFL Securities Ltd.
Registrar to the Offer
Kfin Technologies Pvt. Ltd.

Capital Structure (₹ Crores)	Aggregate Value
Authorized share capital	66
Subscribed paid up capital (Pre-Offer)	28.61
Paid up capital (Post - Offer)	30.76

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	62.2	50.3
Public	37.8	49.7
Total	**100**	**100**

Financials

Particulars (Rs. In Million)	6M-FY21	6M-FY20	FY20	FY19	FY18
Revenue from Operations	1773	1522	2138	1837	1596
Other Income	7	11	43	22	9
Total Income	**1780**	**1533**	**2181**	**1859**	**1605**
Expenses	1243	1088	1558	1299	1277
Finance Cost	48	27	48	45	45
Depreciation	93	91	120	112	112
Total Expenses	**1384**	**1206**	**1726**	**1456**	**1434**
Exceptional Item	-	-	-	13	-
Profit before Tax	396	327	455	416	171
Tax	115	103	142	24	117
Profit after Tax	**281**	**224**	**313**	**392**	**54**
EPS (Rs.)	10.49	7.96	11.11	13.89	1.92

Company Description

The company is a leading precision engineering solutions company engaged in the manufacture of mission critical precision components with close tolerances (5-10 microns), and in critical assemblies, to serve projects of high national importance, through its precision machining, assembly, testing, quality control, and specialized fabrication competencies, some of which have been indigenously developed and manufactured. It primarily serves customers in the clean energy, nuclear and space and defence sectors.

The company has strived to grow continually, contributing to the Indian civilian nuclear power programme, Indian space programme, Indian defence and aerospace sector, as well as to the global clean energy sector and the global defence and aerospace sector. Over the years, it has also developed import substitutes such as ball screws and water lubricated bearings that are specialized and used in the sectors it caters to. The company believes its engineering capability, evolved over decades and has enabled it to consistently offer quality complex precision manufactured components and assemblies, within stipulated timelines and at reasonable cost in most cases, allowing it to forge a robust relationship with its customers.

The company commenced operations as a partnership firm in 1970, it Company was incorporated on November 11, 1999 upon the conversion of the erstwhile partnership firm into a private limited company. Its offerings are served in the clean energy, nuclear and space and defence sectors where we manufacture critical and differentiated engineered products with a healthy mix of developmental and volume-based production, customized to meet the specific requirements of its customers. While the bids for the projects in the nuclear and space and defence sectors are invited by issuing tender enquiries, the qualification process for securing such tenders is extremely stringent as there is no scope for faults in such sectors. Its ability to supply products to meet specific technical requirements of its customers, reputation for quality and safety features present in its products, financial strength, and the price competitiveness of its offerings, has enabled it to establish and maintain relationships with its customers.

The company's focus on clean energy as one of its key customer sectors and are accordingly, involved in the manufacture of power units, specifically hot boxes, and in the development and manufacture of hydrogen boxes and electrolyzers, to serve Bloom Energy Inc., United States with which, it has been associated with for over nine years. While hot boxes use methane to generate power, hydrogen boxes shall use methane to generate hydrogen that shall in-turn, be used to generate power. In addition, electrolysers will produce methane-free hydrogen that shall be used to produce power. During the Fiscals ended 2018, 2019 and 2020, and for the nine months ended December 31, 2019 and for the nine months ended December 31, 2020, its revenue from customers in the clean energy sector accounted for 49.14%, 61.42%, 64.34%, 71.01% and 49.33%, respectively, of its revenue from operations.

In addition, the company has been serving customers in the nuclear sector for over 35 years, and has established relationships with the Nuclear Power Corporation of India Limited ("NPCIL") having served them for over 16 years. It manufactures and supply specialized products such as fuel machining head, drive mechanisms, bridge and column and coolant channel assemblies, among others, not just for the new pressurised heavy water nuclear reactors, but also for refurbishment of the existing reactors.
(Continued in Page 2)

Valuation

At the upper end of the IPO price band, it is offered at 45.32x its TTM earnings, with a market cap of Rs. 1769 crores. The company operates in an industry with high entry barrier especially given the steep learning curve, investment in advanced manufacturing facilities, precision requirements and past track record.

Considering the company's expertise in providing wide range of precision engineering products with complex manufacturing capability, high entry barrier, strong balance sheet & management; we give this IPO a **"Subscribe"** rating.

The company has also supplied critical products such as grid plate, control plug and inclined fuel transfer machine for the prototype fast breeder reactor. During the Fiscals ended 2018, 2019 and 2020, and for the nine months ended December 31, 2019 and for the nine months ended December 31, 2020, its revenue from customers belonging to the nuclear sector accounted for 28.89%, 13.05%, 14.27%, 7.33% and 27.13%, respectively, of its revenue from operations.

The company is also a key supplier of mission critical assemblies and components to customers within the space and defence sectors for their programs of national importance. Through its long-standing relationships of over three decades and four decades with customers such as the Indian Space Research Organisation ("**ISRO**") and the Defence Research and Development Organisation ("**DRDO**"), it has been able to supply specialized products to the Indian space programme and the Indian missile programme, respectively. For instance, the company's offerings to ISRO comprised a wide variety of mission critical components and critical assemblies such as liquid propulsion engines, components and assemblies for cryogenic engines, specifically turbo pumps, booster pumps, gas generators and injector heads for such engines, and electro-pneumatic modules to serve space launch vehicles. Within the defence sector, the company undertook complex assemblies for the DRDO, including such as the base shroud assembly (for Agni missiles), and the assembly of secondary injection thrust vector control ("**SITVC**") valves and hydraulic fin tip control ("**HFTC**") valves. In addition, the company also supplied critical defence products such as aluminium weldments and other machined components to its international customers including, an Israeli defense technology company. During the Fiscals ended 2018, 2019 and 2020, and for the nine months ended December 31, 2019 and for the nine months ended December 31, 2020, its revenue from customers in the space and defence sectors accounted for 16.39%, 20.06%, 18.40%, 18.56% and 20.59%, respectively, of its revenue from operations.

The company currently operates through seven manufacturing facilities, including an export-oriented unit ("**EOU**"). These manufacturing facilities, each of which is situated in Hyderabad, Telangana, employ advanced equipment to undertake precision machining, assembly, testing and quality control, specialized fabrication, brazing and heat treatment, and other specialized processes, leading to it being a one-stop solutions company for its customers. Over the years, it has made investments in processes, infrastructure and systems, and in specialized training to it technical team to become a leading player in nuclear and space and defence sectors. It has also implemented various information technology solutions including for assisting in its designing and manufacturing operations, and enterprise resource planning ("**ERP**") solutions to integrate key areas of its operations.

The company lays special emphasis on research and development ("**R&D**") of its manufacturing processes as it believe, R&D allows it to evolve its own process technologies thereby enabling it to achieve design specifications with accuracy irrespective of the size of the products. It has also recently established an engineering cell that works on cycle time reductions to enhance cost-effective manufacturing solutions in niche engineering segment. Given its operations are specialized, its manufacturing facilities also employ extensive and stringent quality control mechanism at various stages including that of material issue and manufacturing process, to ensure that its finished product conforms to the quality and traceability requirements of its customers. Owing to the critical end applications of its products and such stringent quality requirements, the company believes it becomes very difficult for new players to get qualified for the projects it undertakes. Various awards such as the 'Best Quality Supplier Award', 'Defence Technology Absorption Award', 'INS Industrial Excellence Award' and the 'Award for Excellence in Aerospace Indigenization' received by it in the past bear testimony to the faith its customers have in them and their ability to successfully serve and meet their requirements.

The Company was originally promoted by Late P. Ravinder Reddy, Late K. Satyanarayana Reddy and P. Jayaprakash Reddy. It is now led by one of its Promoters, and its Managing Director, Parvat Srinivas Reddy, who has over 29 years of work experience. Through his experience, he has been able to establish relationships with not just the domestic customers but also the global customers. In addition, the company also has an experienced management team which has brought in organizational and operational changes in the Company over the past few years. This team is backed by a core technical team that has substantial experience in manufacturing and the technical know-how to manufacture niche engineering products. The commitment and the level of engagement of its employees to create complex manufacturing technologies is further demonstrated by the current average employee tenure with its Company, which is approximately 15 years, with a low attrition rate of about 6% in the last three years.

Strengths:

- ***Precision engineering expertise with complex product manufacturing capability:*** The company develops and manufactures a wide range of mission critical assemblies and precision components with close tolerances (5-10 microns), through its precision machining, assembly, and specialized fabrication facilities, for onward usage by its customers in the clean energy, nuclear, and space and defence sectors in India, and abroad. These capabilities are further supported by an extensive and stringent testing and quality control mechanism undertaken at each stage of the production process to ensure that its finished product conforms to the exact requirement of its customers and successfully passes all validations and quality checks. Towards this end, it uses high precision quality inspection equipment such as 3D co-ordinate measuring machines ("**CMM**"), laser measuring, optical alignment instruments, non-contact measuring, and other such non-destructive testing equipment to ensure ideal quality, as requested by its customers. It also have experienced personnel who undertake procedures and inspections such as radiography, ultrasonic, magnetic particle and dye penetrant at its non-destructive testing ("**NDT**") facilities. Its capability in measuring and maintaining quality and measurement records at each level of the process is a key enabler. In addition, its facilities are equipped with requisite equipment for dimensional and geometrical inspection to establish micron level adherence to specifications as set by its customers. Most of its manufacturing facilities, including its EOU have accreditations such as the ISO 9001:2015 certification and AS9100D certification (technically equivalent to the EN 9100:2018 and JISQ 9100:2016 certifications) for quality management systems. It has also initiated the process for receiving ISO 14001:2015, ISO 45001:2018, ISO 27001:2013 and applying for NADCAP certifications for some of its units.

  In order to enhance its product offerings, it has leveraged its adaptability and manufacturing agility by continually investing in its manufacturing facilities including in R&D, over the years. Its operations are supplemented by R&D, a critical part of our business capability, that is undertaken primarily for its manufacturing processes. It believe that its R&D capabilities have enabled it to keep abreast of technological developments in the precision manufacturing industry thereby allowing it to have a focused approach on consistently upgrading the technology and the processes used in the manufacture of its products. Its R&D efforts include technologies and solutions that

not only allow for manufacture cycle time reduction and development of manufacturing processes and choice of tools and accessories, but also enable it to achieve design specifications with accuracy irrespective of the size of the products. Its recently established engineering cell also works on cycle time reductions to enhance cost-effective manufacturing solutions in niche engineering segment.

Its process planning and methods team plays a crucial role in optimizing manufacturing technology through R&D activities. This team enables company to provide solutions to improve manufacturing efficiency on the existing products, reduce production costs and introduce innovative solutions to meet the varied requirements of its customers thereby allowing it to achieve time efficiency in development of new products and technologies. As of December 31, 2020, we employed 14 engineers, 6 designers, and 4 technicians in its process planning and methods team.

- ***Wide product portfolio leading to long-standing relationships with its customers:*** The company's Our Company has, over the years, developed a wide product portfolio catering to customers in diverse segments as a result of which, we have been able to establish trusted and long-standing relationships with these customers. As on December 31, 2020, its major product portfolio includes three kinds of products in the clean energy sector, 14 kinds of products in the nuclear sector and six kinds of products in the space and defence sectors. We strive to understand our customers' specific business needs and provide products to meet their requirements and accordingly, believe that, its ability to provide quality products as per the customer specification, and its consistent customer servicing standards, have enabled it to increase its customers' dependence on it. For instance, it caters to customers in the clean energy sector through its supply of power units, specifically, hot boxes to Bloom Energy.

  Within the nuclear sector, its long standing relationship of over 16 years with NPCIL bears testimony to its Company's ability to manufacture and supply specialized products such as fuel machining head, bridge and column and coolant channel assemblies, among others, not just for the new pressurized heavy water nuclear reactors, but also for refurbishment of the existing reactors. As these products require high positional and dimensional accuracy, the experience in manufacturing these, has not only been acquired by us over a period of time, but also has, in the process, created entry barriers for other players.

  Within the space sector, it has established relationship with ISRO to whom it has been supplying a wide variety of mission critical components and critical assemblies for its various missions, for over three decades. Specifically, it manufactures liquid propulsion engines, cryogenic engines (turbo pumps, booster pumps, gas generators and injector heads for such engines) and electro-pneumatic modules to serve space launch vehicles. The engine for the PSLV-C25, which launched the Mars Orbiter Mission Spacecraft, as part of the Mangalyaan mission, was supplied to ISRO by the Company. Further, the engine for the PSLV-C49, which recently injected the EOS-01, an earth observation satellite, was also supplied to ISRO by the Company. The Company was also integral for the GSLV Mark III engine for the Chandrayaan II mission. In addition, while catering to organizations such as the DRDO, among others, the Company not only undertook complex assemblies such as the base shroud assembly (for Agni missiles) and the assembly of SITVC valves and HFTC valves, but also manufactured actuators for light combat aircrafts ("**LCAs**"). The company also supplied critical defence products such as aluminium weldments and other machined components to its international customers including an Israeli defense technology company.

  The company has also invested in the development of roller screws, which is an import substitute, and are involved indeveloping the associated technology. Once this development has been completed, according to Company Commissioned, it will, in India, be the first manufacturer of roller screws, while this product shall be used for a wide variety of applications in the nuclear, space and defence sectors.

- ***Modern technology at its state-of-the-art manufacturing facilities:*** The company operates through its seven state-of-the-art manufacturing facilities, including one EOU, each of which, is situated in Hyderabad, Telangana. Hyderabad, Telangana, is one of the key centres for defence research and development in the country. The presence of major defense organizations in Hyderabad not only provides it access to the critical R&D and high-volume projects, but also allows for ease of coordination, specifically in terms of its collaborative R&D efforts, as well as for subsequent close monitoring of manufacture and quality control processes, thereby giving it an advantage over the other players located in other regions.

  We have consistently undertaken expansion of its manufacturing facilities through internal accruals, in the past with a view to capture increasing demand in the future. It believes that its manufacturing facilities enable it to expand its operations with ease to meet future demand at minimized cost of expansion.

  The company have also designed and built, with in house expertise, certain sophisticated special purpose machines instead of importing comparable machines. For instance, the Company has built machines such as SPM 99, gantry special purpose machines ("SPM"), deep hole boring machines, and vertical honing machines, among others, that are used for special purpose operations. These facilities enable it to produce build to print products of high dimensional accuracies precisely in line with the specifications provided by its customers. In addition, its facilities also consist of machining abilities that can manufacture products ranging from few kilograms to several tonnes in weight. The Company does not have dedicated production lines to manufacture identified products as a result of which, it believe it has a greater flexibility in terms of utilization of its capacity. Accordingly, it manufactures quality customised products through use of its machining capabilities at one or more of its facilities which allows it to deliver products as per the process plans that results in the optimal utilization of its capacities.

  Over the years, the company has made investments in its processes, infrastructure and systems to develop sophisticated and modern manufacturing technology and become a leading player in the nuclear and space and defence sectors. For instance, it invested in equipment such as the 5 axis VMC and 3D CNC CMM, among others, over the past few years. It believes that through the continued investments in its facilities, it has been able to develop an efficient, technology driven manufacturing process that has helped it to manufacture its products in accordance with the requirements and specifications of its customers in a cost-effective manner. It uses modern technology along with its entire manufacturing and production process as it serves customers such as NPCIL, ISRO and DRDO, among others, and accordingly, ensuring that its products conform to the specific requirement, becomes extremely essential. In Fiscals 2018, 2019 and 2020, and in the nine months ended December 31, 2019 and in the nine months ended December 31, 2020, our capital expenditure towards additions to

property, plant and equipment and intangible assets was ₹ 80.01 million, ₹ 227.30 million, ₹ 49.60 million, ₹ 47.20 million and ₹ 101.25 million, respectively.

- ***Strong and diversified supplier base for sourcing of raw materials:*** The company has, over the years, developed a robust supply chain for the sourcing of a wide variety of specialized raw materials used in the manufacture of mission critical precision products. The essential raw materials used in its manufacturing facilities are various kinds of alloys steels and bought out items. The raw materials used for manufacture of products catered to customers in the clean energy sector are inconel sheets of various grades, to customers in the nuclear sector are specialised steels such as 17-4 PH, SS 410, 13-8 MO PH and to customers in the space and defence sectors are alloy steels and aluminium including bearing and seals. While it sources materials from third party suppliers depending upon the requirement of a project that it undertakes, in certain instances, especially involving the critical and sensitive raw material and bought out items for the manufacture of certain products are directly procured and supplied by its customers, mostly belonging to the space and defence sectors. The materials utilized for products catered to the clean energy and nuclear sectors, and other consumables and bought-outs are mostly sourced from third party suppliers, both domestic and global. For instance, in addition to procuring certain grades of specialised steels from its domestic suppliers, it also has been procuring raw materials such as 17-4 PH, SS 410 and inconel sheets from our global suppliers, including, from suppliers located in Brazil and United States, among others. Given that raw material expenses constitute a significant portion of its overall cost, it benefits majorly from a strong, spread out and diversified supplier base. This enables it to negotiate favourable terms and even avail better discounts. Additionally, it believes that its diversified supplier base helps it in minimizing supplier risk on account of low supplier dependency.

  The cost of materials consumed, for the Fiscals ended 2018, 2019 and 2020, for the nine months ended December 31, 2019 and for the nine months ended December 31, 2020 was ₹ 659.77 million, ₹ 655.32 million, ₹ 872.55 million, ₹ 638.54 million and ₹ 748.07 million, which represented 41.34%, 35.68%, 40.82%, 41.96% and 42.20%, of its revenue from operations, respectively. The aggregate amount spent for the procurement of raw materials towards its top five suppliers as a percentage of its total purchases, was 57.24%, in the nine months ended December 31, 2020. It does not have any long-term contracts with any of its raw material suppliers, however, it has maintained long term relationships with its major suppliers. It believes its strong relationships with its raw material suppliers enable it to obtain good quality raw materials within the prescribed timelines. It continually strives to maintain strong relationships with its suppliers in order to derive better insight into the markets for its raw materials, which helps it to manage its raw material supply chain, resulting in greater predictability of supply and, consequently, a greater ability to meet production schedules and achieve on-time delivery for its customers.

  Its raw material prices vary from market to market, and its buying team accordingly analyses the arbitrage in different markets to take possible advantages of such variations by purchasing more from the cheaper source. The final cost of its offerings is dependent on its ability to source raw materials at acceptable prices and to maintain a stable and sufficient supply of its raw materials. To this effect, it also maintains a robust database of its suppliers. It has a stringent vendor qualification process which enables it to keep a periodic check on its suppliers with regard to the quality of materials supplied and the corresponding prices. It uses these details for negotiating purchases in the future and for quality claims, which it believes is a very important aspect of its business operations.

- ***Track record of growth in financial performance:*** The company has been able to increase its total income at a CAGR of 16.56% during the last three Fiscals, from ₹ 1,605.45 million in Fiscal 2018 to ₹ 2,181.42 million in Fiscal 2020. Its total income in the nine months ended December 31, 2020 was ₹ 1,779.91 million. Its revenue from operations in Fiscals ended 2018, 2019, 2020, and in the nine months ended December 31, 2019 and in the nine months ended December 31, 2020, was ₹ 1,595.97 million, ₹ 1,836.71 million, ₹ 2,137.74 million, ₹ 1,521.76 million and ₹ 1,772.68 million, respectively. In the Fiscals ended 2018, 2019 and 2020, and in the nine months ended December 31, 2019 and in the nine months ended December 31, 2020, it reported EBITDA of ₹ 328.23 million, ₹ 559.55 million, ₹ 623.34 million, ₹ 445.89 million and ₹ 537.50 million, respectively. Its EBITDA has grown at a CAGR of 37.80% from Fiscal 2018 to Fiscal 2020. In the Fiscals ended 2018, 2019 and 2020, and in the nine months ended December 31, 2019 and in the nine months ended December 31, 2020, its return on capital employed was for 9.59%, 16.96%, 19.78%, 13.90% and 14.20%, respectively. Further, as on March 31, 2020 and as on December 31, 2020, its debt equity ratio was 0.13 and 0.27, respectively, as compared to 0.07 as on December 31, 2019, 0.12 as on Fiscal 2019 and 0.10 as on Fiscal 2018.

- ***Experienced and qualified management team:*** The Company is primarily led by Parvat Srinivas Reddy who has over 29 years of work experience. In addition, the technical and corporate management team has substantial experience in the sectors which we serve, which enables it to capture market opportunities, formulate and execute business strategies, manage client expectations as well as proactively respond to changes in the market conditions.

  The business growth is also attributable to a strong management culture fostered by an entrepreneurial spirit, each business vertical being managed by experienced and hands-on segment heads having in-depth technical and industry knowledge of the segments that it caters to. These business heads are instrumental in establishing and maintaining relationships with its customers. Its mid-level management is supported by its trained personnel and skilled workers who benefit from our regular in-house training initiatives. Special emphasis is laid on such training and guidance so as to enable such workers to perform with utmost efficiency and with minimum failures. Further, its personnel policies are aimed towards recruiting talented individuals, facilitating their integration, and promoting the development of their skills.

  As on December 31, 2020, it had 891 permanent employees, including 150 engineers comprising 16.84% of its total employees, and 248 contractual workmen. The current average employee tenure with its Company is approximately 15 years, with a low attrition rate of about 6% in the last three years, which further demonstrates the level of engagement of its workforce.

Key Strategies:

- ***Continue to strengthen its existing product portfolio and diversify into products with attractive growth and profitability prospects***: The company seeks to leverage its capabilities, including its manufacturing facilities and quality control practices, to not only expand its product portfolio in the existing segments but also enter new business segments. As on December 31, 2020, its major product portfolio

includes three kinds of products in the clean energy sector, 14 kinds of products in the nuclear sector and six kinds of products in the space and defence sectors. It intend to enhance its capabilities and hence grow value chains to supply critical and differentiated engineered products with a healthy mix of developmental and volume-based production. Its developmental based production has in the past, and shall in the future be focused towards customers in the nuclear and space and defence sectors whereas its volume based production typically caters to its customers in the clean energy, nuclear, space and defence sectors. This, we believe, will be possible through acquisition of new customers for existing product lines / capabilities as well as through establishment of new capabilities such as sheet metal facility and enhancement of existing specialized fabrication capabilities that could be used to cater to existing and new customers. The establishment of a sheet metal facility will allow it to undertake sheet metal jobs for Bloom Energy, ISRO and certain other customers. It also intends to take up specialized fabrication jobs for multi-national companies and other leading Indian organizations. In addition to this, it is also in the process of developing roller screws as well as the associated technology. Roller screws is currently, an import substitute and once the development has been completed, it will, in India, be the first manufacturer of roller screws, while this product shall be used for application in the nuclear, and space and defence sectors.

In addition, the company believes that the demand for clean energy is going to rise significantly and have accordingly, commenced manufacturing electrolyzers to produce methane-free hydrogen which can be used in multiple sectors to generate power. While it currently supplies hot boxes which use methane to generate power, it intend to supply the electrolyzers to its existing customers and has initiated the process of manufacturing the same. Fuel cells, which use the chemical energy of hydrogen or another fuel to produce electricity, is one of the evolving distributed sources of electricity. Applications of the fuel cell technology have increased over the past five years as electricity wattage installation logged 30 - 40% CAGR to reach 1,130 MW in 2019 from 300 MW in 2015. Further, the Company Commissioned CRISIL Report states that increasing public-private partnerships will also result in faster adoption of hydrogen-based applications. For instance, Bloom Energy signed a memorandum of understanding ("**MoU**") with a central public sector undertaking, to deploy fuel cell technology in India by using natural gas as fuel. Furthermore, the Company Commissioned CRISIL Report states that Bloom Energy has installed majority of the solid oxide fuel cell installation in the United States is now targeting the South Korean market.

Further, it is also currently deliberating on enquiries received and in the event a suitable opportunity arises, it shall look to establish a new facility for the manufacture of high precision large and medium sized gears that would cater to customers in defence, aerospace and clean energy.

The company intends to draw on its experience, market position and ability to timely deliver quality products to successfully foray into other sectors as well as to foreign geographies and establish a robust relationship with customers in the clean energy, nuclear, and space and defence sectors.

- ***Capitalize on upward trend of nuclear sector in India, increasing indigenization and policy initiatives in the defence sector, and commercialization of Indian space sector*:** The Government of India has sanctioned manufacture of 10 fleet reactors with a combined generation capacity of 7,000 MWe. This presents an opportunity for the Company and while its competitors have, from time to time, forayed into manufacturing products for the nuclear sector, it believes they have not been able to sustain in the market owing to the complexities involved in the manufacturing operations, quality assurance, and production capabilities. As it is one of the few companies to have secured orders from the NPCIL in the past, and have been able to deliver successfully on these mandates, it believes that it is well positioned to not only capitalize on this opportunity, especially in view of the fact that it has manufacturing facilities to undertake projects for four reactors at any given point of time, but also take advantage of future orders placed by the NPCIL and other Indian public sector undertakings. It has partnered NPCIL in the past and intend to continue to be one of the preferred suppliers by manufacturing equipment used in the nuclear reactors. Its clients have valued its ability to develop manufacturing technologies using end-to-end engineering capabilities under one roof which, in its opinion, positions us better than its peers.

  Further, the Indian defence sector is currently focused on indigenization of various defence technologies in view of the recent announcement made on the indigenization of 108 systems and sub-systems. The Government of India has also recently announced import ban on 101 defence based items which will allow a wide spread manufacturing base, introduce global best practices and aide job creation. Further, the Company Commissioned CRISIL Report states that India's defence spends have been rising continuously over the past five years and clocked a robust growth of 6.90% over the same period (the highest amongst peers). The intensifying tensions and conflicts with Pakistan and China are the key contributors to India's rising military expenditure. The Indian defence sector is at an inflection point and several policies are being laid out by the Government of India to promote the Indian manufacturing sector. Further, indigenization of defence has always been a core agenda of the Indian Government. The 'Make in India' campaign introduced in 2014 and the 'Atma-Nirbhar Bharat' initiative, according to the Company Commissioned CRISIL Report, share similar goals with regards to development of domestic defence industry and it believes that owing to its prior experience and robust relationships with its customers, it ha an advantage over certain of the other private defence companies in securing any potential orders. The objective behind these programs is to attain strategic independence by reducing import dependence. In addition, in terms of the Defence Acquisition Procedure, 2020, issued by the Ministry of Defence, Government of India, any order released by the government shall mandatorily require 50% of indigenous content. Further, in terms of Press Note No.4 (2020 Series) in relation to the 'Review of Foreign Direct Investment ("FDI") Policy in Defence Sector' dated September 17, 2020, the foreign direct investment limit in the Indian defence sector was increased to 74% from 49% under the automatic route, and this is expected to attract global players to India. The company believe that the Company is well-poised to capitalize on these opportunities and thereby contribute to the 'Atma-Nirbhar Bharat' initiatives by the Government of India, creating value for all of the stakeholders involved, in the process.

  Further, the global space market opportunity amounts to USD 360 billion. Increased use of space launch vehicles for satellites and testing probe applications, introduction of space tourism and development of satellite internet system have propelled the growth globally. In addition, ISRO intends to commercialise the Indian space sector and offer its products and services to other countries. Further, ISRO has also announced the manufacture of a small satellite launch vehicle ("SSLV") that shall be able to lift satellites up to 500 kilograms in the lower Earth orbit thereby making the space launches of ISRO, even more competitive for lower payloads. ISRO is also working on certain major missions such as Gaganyaan, Aditya-1 and Shukrayaan-1, among others These activities are expected to provide an exponential growth to the Indian players operating in the space sector and accordingly, it expects that its Order Book shall grow significantly in the future.

- ***Focus on deepening and strengthening its relationships with its existing customers as well as catering to new customers:*** The company has over the years established long-term relationships with its customers leading to recurrent business engagements with them. It plans to continue to focus on customers with whom we have long-standing relationships in order to develop and supply more sophisticated, higher margin products.

  The Company has, along with its customers, been playing a key role in the co-development of quality products for key national programs such as Chandrayaan and Mangalyaan missions. In addition, the Company, along with a nuclear research facility is engaged in developing Channel Health Assessment System ("CHAS") and the detailed design, engineering, manufacturing and assembly is under process at one of its manufacturing facilities. As a result of this, the company believes it may be difficult to replace it, especially given the steep learning curve and its investment in advanced manufacturing facilities and precision requirements. It also believe that given its relationship with its international customers, it shall be the one of the preferred suppliers in any potential defence offset transaction that such customer may be a part of. It believes that its customer retention levels reflect its ability to provide high quality products, and its consistent customer servicing standards have enabled it to increase its customer dependence on it. It continues to strive to understand tis customers' business requirements and provide products that maximize their returns. It anticipate that its product offerings, the quality thereof and leadership in key product segments will help it in increasing its share of business amongst its existing customers as well as increase its customer base.

  The company's global delivery model to one of its customers, Bloom Energy, has demonstrated its ability to deliver quality products under strict quality norms and delivery timelines, and yet achieve cost reduction and profitability. Further, Bloom Energy has installed majority of the solid oxide fuel cell installation in the United States is now targeting the South Korean market. The company intends to draw on its experience, niche market position and ability to timely deliver quality products not only to supply products to Bloom Energy, but also to develop new relationships with customers, both in India and abroad, in order to capture lucrative opportunities in the clean energy, nuclear and space and defence sectors, thereby creating a favorable environment that fosters a sustainable growth. It have also, in the past, participated in various seminars and international expos so as to build and develop our network with the leading foreign multi-national companies, and shall continue to do so in the future.

- ***Expand international presence including through increase in exports:*** A certain portion of its business operations are focused on exports to international customers. For instance, it is currently involved in the manufacture of power units, specifically hot boxes, and in the development and manufacture of hydrogen boxes and electrolyzers, to serve Bloom Energy. Further, the Company has recently acquired a new international customer operating in the clean energy sector. In addition, it also supplied critical defence products such as aluminium weldments and other machined components to its international customers including, an Israeli defense technology company. For the year ended March 31, 2020 and the nine months ended December 31, 2020, the revenue from contracts with customers located outside India amounted to ₹ 1,408.82 million and ₹ 937.71 million, reflecting 67.58% and 53.82% of our revenue from contracts with customers, respectively. It intend to continue to expand its international operations to enhance its global presence in the sectors it cater to. It seeks to identify markets where it believes it can provide cost and operational advantages to its clients and distinguish ourselves from other competitors.

  The government targets for clean energy, budgets allocations, and incentives are the strongest driver for fuel cell market development. Various governments globally are taking steps to establish hydrogen fueling infrastructure and Europe, United States and Japan are regions with the strongest government support in the field of fuel cells. With growing concerns over climate change, hydrogen is emerging as a clean solution that can help curb carbon emissions globally and while support for hydrogen is steadily increasing within the United States, many other nations are taking an active approach by implementing hydrogen-focused strategies and investments. Further, Bloom Energy, which is one of the major players in solid oxide fuel cell space, has installed majority of the solid oxide fuel cell space installation in the United States, and is now targeting the South Korean market. These, either individually or combined, it believes, provide an opportunity for a significant revenue stream to the Company.

  In addition, the company intends to reach out to global OEMs who either currently have defence deals with India or have their business operations in India. It is also looking to enter into defence offset partnership with certain global OEMs and have incorporated its Subsidiary, Magnatar Aero Systems Private Limited in this regard. It has also jointly, with a global partner, bid for the first of a two-part tender, for design, development, preparation of design documents and analysis report, procurement of raw material, manufacture, fabrication, assembly, inspection, testing, qualification, quality surveillance, supply to site and supervision during installation of spent fuel storage racks, for away from reactor spent fuel storage facility at site, and have separately entered into a collaboration agreement with such partner.

  In order to support its exports and international presence, the Company has a dedicated business development team of professionals who focus on the clean energy, nuclear and space and defence sectors to source both domestic and global customers for us. Further, it entered into an agreement dated March 15, 2017, with a marketing agency based in the United States, pursuant to which the agency is required to make efforts to source global customers to the Company and in return, it shall be entitled to commission of 5.00% upon the realization of orders from such new customers. It has also, in the past, participated in various seminars and international expos and shall continue to do so in the future as it believes such initiatives allow it to build and develop its network with the leading foreign multi-national companies.

- ***Grow its manufacturing capacity and increase market share through organic and inorganic routes.:*** The company intends to strengthen its leading market position in niche manufacturing segment in India and achieve better economies of scale by establishing and acquiring additional facilities and expanding its existing production capacities. Over the years, it has consistently grown its manufacturing and production infrastructure through internal accruals. Consistent with past practice, it will look to add capacity in a phased manner to ensure that it utilize its capacity at optimal levels.

  The Company is in the process of establishing an additional manufacturing facility at Adibatla in Hyderabad which is expected to become operational in Fiscal 2022. This establishment shall be a sheet metal facility which shall allow it to undertake sheet metal jobs for Bloom Energy, ISRO and certain other customers. The Company is also planning to construct an additional shed for specialized fabrication to supply products to its domestic as well as our international customers. By establishing these facilities at Adibatla, it intends to cater to

multiple customer segments. In addition, it also intends to continue to increase its machining, fabrication and assembly capacities in its existing facilities by (i) upgrading its existing manufacturing facilities by implementing new technology; and (ii) releasing bottlenecks in its production capacity by reducing cycle time of various operations.

In order to diversify into new markets, the company also aims to selectively acquire capabilities such as electrical and electronics that are complementary to its operations. For instance, it entered into a MoU with an entity pursuant to which, such entity has agreed to cooperate with its Company to the extent of offering services in the field of electronics for all elector-mechanical systems manufacture and development to be undertaken by the Company. In addition, any potential acquisition will revolve around enhancing its engineering competence, increasing its market share, achieving operating leverage in key markets and strengthening cost competitiveness in the market. The company believes its expansion plans and strategy will allow it to meet the anticipated increase in the demand for its products in the future, enable it to supply growing markets more efficiently and drive profitability.

- ***Continue to strive for operational efficiencies, supply chain rationalisation and effective planning:*** The company intends to continue to maintain or improve upon its benchmarks for cost structure. This cost structure sustainability shall be achieved over the years through emphasis on economies of scale, employment of learnings acquired in manufacturing end components, and in assemblies, and a robust supply chain developed for sourcing of specialised raw materials. For instance, owing to its consistent supply of products to Bloom Energy, the Company has been able to achieve cost reduction over the years. This has been possible through adoption of lean practices including in respect of supply chain and design as well as through reduction of operational costs.

  In addition, the Company shall also focus on cycle time reduction by adopting advanced technologies that will also result in process optimisation, thereby increasing the Company's capacity to undertake more number of projects. It has in the past, strived to maintain a healthy mix of developmental and volume-based production and intend to continue to do so in the future by enhancing its technological capabilities. One of the strategies it has adopted in the past and shall continue to adopt in the future, is flexibility in manufacturing lines for different product verticals. It believes that this gives it higher utilisation levels while also helping us in attaining cost advantage.

  Further, the company intends to leverage technology for effective utilization of its machinery through digital solutions which would enable effective monitoring of the machine status and study of various shop floor patterns thereby allowing it to address the bottlenecks and to improve its output efficiency.

Industry Snapshot*:*

Overview of India's precision engineering industry

India's engineering sector is divided into two segments: heavy and light engineering. The classification is based on the nature of the product and the technology used for processing. Heavy engineering includes manufacturing and assembly of industrial machinery and plant equipment for various end-use sectors. Equipment are designed and manufactured to suit end-use applications for process industries such as fertiliser, textile, chemical, refinery, petrochemical, and oil & gas, as well as for the thermal and nuclear power sector. On the other hand, light engineering includes sub-sectors, manufacturing everything from basic to sophisticated equipment. Light engineering products (components, parts and small equipment) find application in automobiles, industrial machinery, power, oil and gas, fertilisers, steel, refineries, petrochemicals, cement, and railways sectors; and also serve as inputs for the heavy engineering and capital goods sectors.

Precision engineering: subdiscipline of manufacturing with high accuracy, stress on low tolerance for error

Precision engineering is a sub-discipline of engineering and is concerned with manufacturing and assembling items that have exceptionally low tolerance and are required to perform consistently over longer repeat cycles. The American Society for Precision Engineering defines precision engineering as research and development, design, manufacture and measurement of high accuracy components and systems. It includes manufacturing and assembly and covers materials, machining and fabrication processes, to produce machinery and equipment of perfect dimension and size.

Accuracy and margin of error are extremely important parameters for engineering and production. Any deviation in dimensions can lead to loss of performance or even catastrophic failure of the system. Engineering components are fitted and welded together to form equipment and machinery to perform critical tasks and precision movements. Any error in fitting can lead to leakage issues, material chipping and failure, or loss of desired precision for machine movement. Thus, accuracy not only in machining, but also surface finish and heat treatment for metal structure are important.

Precision engineering is more critical in sectors such as nuclear, defence, space

Precision engineering products and components are especially important for critical applications such as aviation, aerospace, space, defence and nuclear power plants, control equipment for process plants, where errors can cause greater damage. In nuclear sector a failure of small fitting components may led to catastrophic long term effect, so component tolerance and fit is very critical from safety and operational point of view. Even in space sector, the quantum of investments and length of projects are very large and long, receptively, making it critical for to have high quality error-proof products. Otherwise a small fit error may render years of effort and R&D cost to not achieve the desired output because of improper machining. To avoid such mishaps and error, precision engineering is very critical for strategic sectors such as Defence, nuclear, space, aviation and others.

Typical tolerance in dimension for various engineering products ranges from millimeters (10-3 meter) to microns (10-6 meter). Precision engineering products have tolerance in the range of less than 10 microns. Low tolerance is important for precise fit, accuracy and efficiency in performance along with consistency over several repeat cycles.

Catering to several industries, heavy engineering is the predominant sector in the entire capital goods industry, which includes machine tools, industrial machinery, process plant equipment, construction and mining equipment, electrical equipment, textile machinery, printing and packaging machinery.

Precision engineering players cater to select end-use sectors and have developed expertise in that space. The value chain comprises three broad segments of suppliers – automotive, industrial and niche applications (defence, nuclear, aviation, and marine). Players exclusively cater to automobile sector's requirements due to the scale of volume and location preference near the assembly or automobile plant/ cluster. Applications such as defence and aerospace, nuclear, aviation and marine that have requirements of high material performance and special material properties are serviced by suppliers who have developed expertise for these niche applications. Other industrial end-use segments are catered to by technology providers and respective suppliers.

Precision engineering industry is projected to log 6-7% CAGR between fiscals 2020 and 2025

The precision engineering industry will benefit from supportive government policies for manufacturing and engineering sectors. It will also gain from growth in the machinery and equipment industry and rise in penetration of high technology machinery for manufacturing. Precision engineering is expected to log 6-7% CAGR between fiscals 2020 and 2025 to reach Rs 5,550-6,550 billion by fiscal 2025. The growth in the industry will be driven by growth in auto-components domestic as well as export demand, and indigenous manufacturing in defence segment.

Key Players

The company's competitors in nuclear sector are Larsen & Toubro Heavy Engineering and Godrej & Boyce Manufacturing Company Limited and in the space and defence sectors are Larsen & Toubro, Godrej & Boyce Manufacturing Company Limited, Hindustan Aeronautics Limited, and Walchandnagar Industries.

Key Risk:

- The company depends on Bloom Energy Inc. ("Bloom Energy") and a limited number of other customers for a significant portion of its revenue. The loss of one or more of its top three customers or a significant reduction in demand for our products from such top three customers, its failure to succeed in tendering for projects for them in the future despite its previous track record, or a decline in their business performance may adversely affect its business, financial condition, result of operations and cash flows.

- The company depends significantly on orders from the NPCIL, ISRO and DRDO. A decline or reprioritisation of funding in the Indian budget towards the respective departments of the Government of India under which these customers operate, or delays in the budget process could adversely affect its ability to grow or maintain our sales, earnings, and cash flow. Further, the liberalisation of the defence or space sectors to allow the entry of private and foreign companies may increase the level of competition it faces, and there is no assurance that it shall be able to compete effectively.

- The company primarily rely on purchase orders to govern the volume and other terms of the sales of its products. It does not have long-term supply agreements with its customers. If its customers choose not to source their requirements from it or manufacture such products in-house, its business and results of operations may be adversely affected.

- The company operates in a competitive environment and it expect to face greater competition from existing competitors located both in India and globally, and in particular from companies in United States and Germany. It competes on the basis of its ability to fulfil its contractual obligations including the timely delivery of complex products manufactured by it and the price and quality of such products. Some of its competitors have more resources than it, while certain competitors may have lower cost of operations. In addition, certain competitors may have competitive advantages in manufacturing certain types of precision products compared to it. However, the company believes it has a competitive edge with its precision engineered components and assemblies catered to the nuclear sector and given that some of the products manufactured by it are on a single tender basis.

Valuation:

At the upper end of the IPO price band, it is offered at 45.32x its TTM earnings, with a market cap of Rs. 1769 crores. The company operates in an industry with high entry barrier especially given the steep learning curve, investment in advanced manufacturing facilities, precision requirements and past track record.

Considering the company's expertise in providing wide range of precision engineering products with complex manufacturing capability, high entry barrier, strong balance sheet & management; we give this IPO a **"Subscribe"** rating.

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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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