

## MTAR Technologies Ltd

### Subscribe for Long Term

Price Band: INR 574-575

#### ISSUE SUMMARY

Issue Opens	3-Mar-21
Issue Closes	5-Mar-21
Offer Price (INR per share)	574-575
Bid Lot	26 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	28.6
Offer for Sale (No of sh. mn)	8.2
Fresh Issue (No of sh. mn)	2.1
Post Issue shares o/s (mn)	30.8
^*Issue Size (INR bn)	6.0
QIB	=>50%
Non-institutional	<15%
Retail	<35%

^ Issue Size (@INR575)

#### POST ISSUE DETAILS

M.Cap @INR575/sh. (INR bn)	17.7
<b>Shareholding pattern</b>	
Promoters	50.3%
Non-Promoters	49.7%

MTAR Technologies Ltd (MTL) manufactures hi-precision indigenous components, subsystems, assemblies for projects of national importance.

**Complex product manufacturing capability with healthy order book:** MTL manufactures a wide range of critical engineered products and thus enjoys high entry barriers, increased customer dependency and long standing clients' relationship. Infact, MTL has been a sole supplier from India to US-based Bloom Energy (BE). Its revenue is well diversified: clean energy (49% of 9MFY21 sales), nuclear (27%), space and defence (21%) and others (3%). >50% of its revenue come from the export market. Its order book is healthy at INR3.4bn which is 1.6x FY20 revenues.

**New product launches and Indigenization to aid growth:** MTL is developing hydrogen boxes and electrolyzers to serve BE. Clean energy can be used in multiple sectors to generate power and is expected to grow at ~15% CAGR and thus MTL is in process to tap existing customers too. It is also building a sheet metal facility and plans to take up specialized fabrication jobs. India has 22 operational reactors and the Government has sanctioned 10 more which would double nuclear capacity to 11.5GW, thus presenting huge opportunity for MTL. Further indigenization in defence space opens plethora of opportunity for the MTL given its experience.

**Healthy Financials:** Over FY18-20, MTL's Revenue/EBITDA/PAT grew at a CAGR of 16%/35%/140% while EBITDA margins expanded 714bps to 27.1% due to rising export share (higher margin). In 9MFY21, Revenue/EBITDA/PAT grew 16%/22%/25% YoY, while EBITDA margin further improved to 29.9%. It has negligible debt on its books which post IPO will further reduce to zero. However it is working capital intensive (~180 days) and its asset turnover stands at ~0.8x, thus resulting in RoE of ~14% (FY20).

**Issue Size:** The INR6.0bn IPO consists of fresh issue of INR1.2bn and OFS of INR4.7bn which would result in promoter's stake reducing from 62.2% pre-IPO to 50.3% post-IPO. MTL also raised pre-IPO money worth INR1bn at INR540/share from SBI MF and Axis MF. The funds raised will be utilized to repay debt (INR630mn) and fund working capital (INR950mn).

**Valuation & View:** We like MTL given its complex/wide product portfolio, presence in niche space, strong client relationship and high entry barriers. The issue is valued at 47.3x FY21E P/E and 3.7x P/BV on an annualized and post issue basis. We believe MTL could benefit from the government impetus on the indigenization. Hence we recommend **Subscribe for Long Term**. Further given the current buoyant market and high interest for defence stocks, the issue could see **listing gains** as well. **Risk:** 49% of its revenues is derived from a single customer - Bloom Energy, US.

#### Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	9MFY21
Revenue	1,596	1,837	2,138	1,773
Growth (%)	-	15.1	16.4	16.5
Adj PAT	54	379	313	281
Growth (%)	-	598.9	-17.4	25.0
EPS (INR)	1.8	12.3	10.2	9.1
RoE (%)	2.6	17.2	13.6	10.6
P/E (x)	326.1	46.7	56.5	47.3

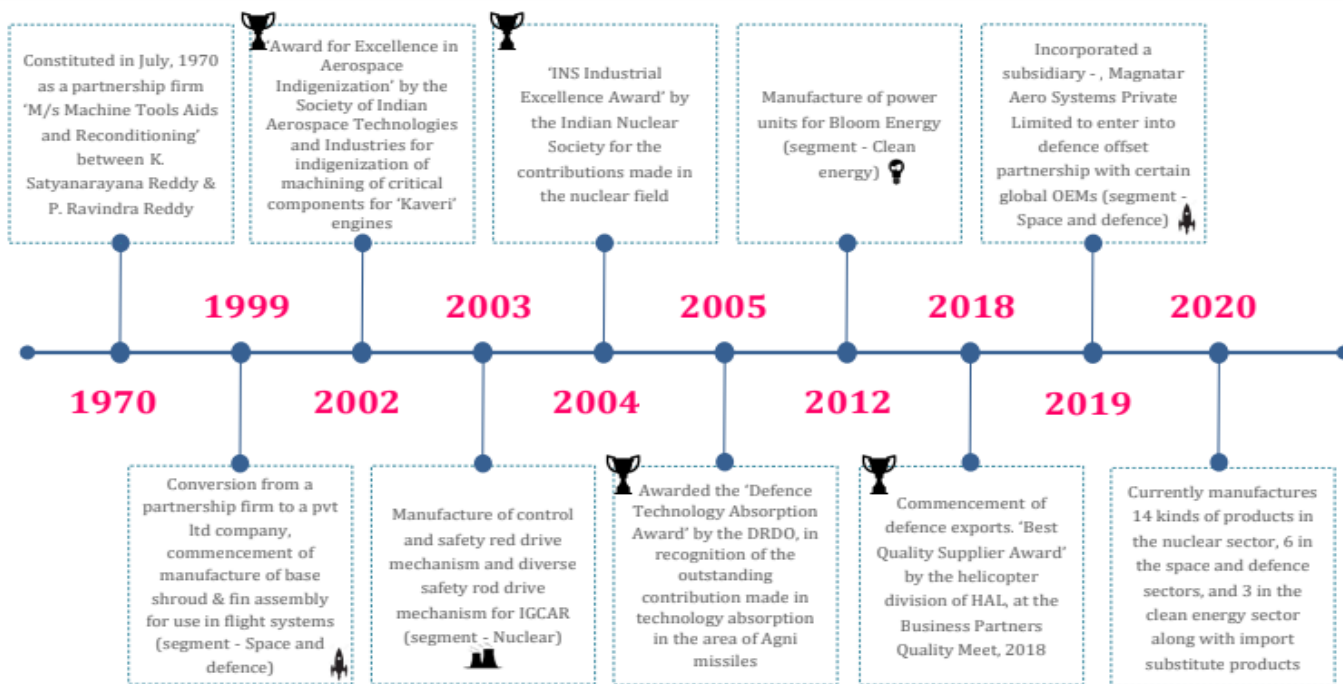
Source: RHP, MOFSL

\*Calculated on annualized & post issue basis, at the upper price band of INR575

## About the Company

MTAR Technologies Ltd (MTL) commenced operations as a partnership firm in 1970 and later incorporated as private limited company in Nov'99. It is a leading precision engineering solutions company engaged in the manufacture of (1) mission critical precision components with close tolerances (5-10 microns), and in (2) 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.

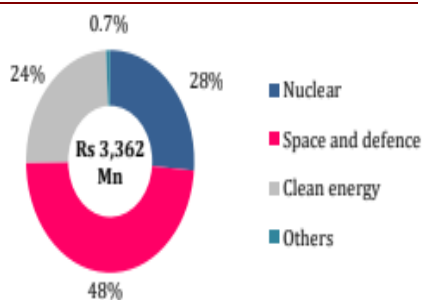
**Exhibit 2: Transformation into a leading precision engineering solutions company**



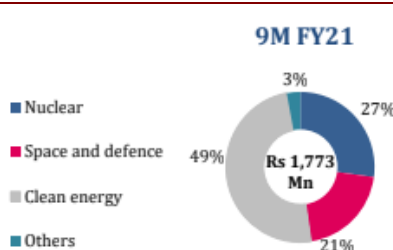
Source: RHP, MOFSL

MTL primarily serve customers in the nuclear, space and defence, and clean energy sectors. Since inception, MTL has strived to grow continually, contributing to the Indian civilian nuclear power programme, Indian space programme, Indian defence and aerospace sector, global defence and aerospace sector, as well as to the global clean energy 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 MTL caters to.

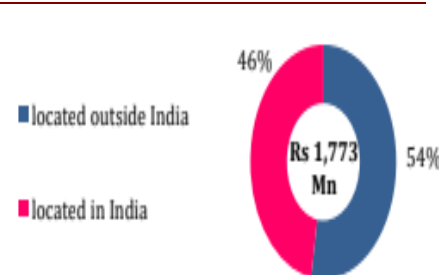
**Exhibit 3: 9MFY21 Order book breakup**



**Exhibit 4: 9MFY21 Revenue breakup sector wise**
















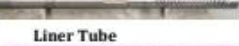




**Exhibit 5: 9MFY21 Revenue breakup geography wise**



Source: RHP, MOFSL

MTL’s engineering capabilities, evolved over decades, has enabled it to consistently offer quality complex precision manufactured components and assemblies, within stipulated timelines and at reasonable cost in most cases. 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. MTL’s past experience in the supply of its products, ability 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 not only strengthened MTL’s position in the market but also has enabled it to establish and maintain relationships with its customers.

**Exhibit 6: Product Portfolio**

Nuclear Sector Products		Space & Defence Sectors	
 <p><b>Fuel Machining Head</b> Comprises of 600 components; Used in loading &amp; unloading of fuel bundles in nuclear reactor</p>	 <p><b>Bridge &amp; Column</b> Moves fuel machining head in sideways and vertical directions to allow loading and unloading of various fuel bundles in the nuclear reactor</p>	 <p><b>Base shroud assembly and air frames</b> Used in Agni missiles such as A1, A2, A3, A4, A5, A1 P.</p>	<p><b>Components for Aircraft</b></p>  <p>Main Gear Box - Magnesium</p>  <p>Titanium Center Piece</p>  <p>Sukhoi - HPC Shaft Nickel Alloy</p>  <p>Control Manifold HAL Tejas</p>
 <p><b>Grid Plate</b> Used for resting the fuel sub-assemblies in prototype fast breeder reactor</p>	 <p><b>Coolant Channel assemblies - Sealing Plug, Shielding Plug, End Fittings</b> Used in the core of civilian reactor</p>	<p><b>Components for Geosynchronous Satellite Launch Vehicle (GSLV)</b></p>  <p>Cryogenic Engine - Turbo Pump, Injector Head, Gas Generator, Booster Pumps, Interfaces And Start Up Systems</p>  <p>POGD Command Module</p>  <p>Liquid Propulsion Rocket Engine (Vikas Engine)</p> <p>Stage 3</p> <p>Stage 4 - Inside Satellite</p> <p>Stage 2 - 4 Nos.</p> <p>Stage 1 - 4 Nos.</p>	
 <p>Shield Plug</p>  <p>Liner Tube</p>	 <p><b>Drive Mechanisms</b> Critical equipment used for regulating purpose and shutdown of nuclear reactors under normal and undesirable operating conditions</p>	 <p><b>Top hatch cover beams and deck plate assembly</b> Requires high positional and dimensional accuracies</p>	<p><b>Ball Screws</b></p>  <p><b>Ball screws and water lubricated bearings</b> Import substitutes used in actuators of nuclear reactors, space launch vehicles, missiles etc.</p>
<p><b>Fuel Cells Products</b></p>  <p><b>Hot boxes</b> use methane to generate power</p>			

Source: RHP, MOFSL

**Exhibit 7: Long standing relationship with customers**

**Large MNCs**

Bloomenergy

Elbit      Rafael

**Government Departments**

ISRO      DRDO      IGCAR


Aeronautical Development Agency      Liquid Propulsion Systems Centre

**Indian Companies**

NPCIL      BHEL      HAL

Godrej and Boyce      Bharat Dynamics

Long standing relationship with large MNC's, Government Departments and Large Indian Public and Private sector companies



16+ years NPCIL

30+ years ISRO

40+ years DRDO

9+ years Bloom

Source: RHP, MOFSL

## Clean Energy

MTL also focuses on clean energy as one of its key customer sectors and is thus 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., US with which, it has been associated with, for over 9 years. It is also in the process of establishing a sheet metal facility which will allow MTL to undertake sheet metal jobs for Bloom Energy, ISRO and certain other customers. It also intend to take up specialized fabrication jobs for multi-national companies and other leading Indian organizations. In addition to this, MTL is 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, MTL will be the first manufacturer of roller screws in India, while this product shall be used for application in the nuclear, and space and defence sectors.

In addition, 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 MTL currently supply hot boxes which use methane to generate power, it intend to supply the electrolyzers to its existing customers and have initiated the process of manufacturing the same. Infact, Bloom Energy has signed a MoU with a PSU, to deploy fuel cell technology in India by using natural gas as fuel. Further Bloom Energy has installed majority of the solid oxide fuel cell installation in the US is now targeting the South Korean market.

## Nuclear Energy

MTL has been serving customers in the nuclear sector for over 35 years, and has established relationships with NPCIL having served them for over 16 years. It manufactures and supplies specialized products not just for the new pressurised heavy water nuclear reactors, but also for refurbishment of the existing reactors. India has 22 operational reactors and the Government has sanctioned 10 more which would double nuclear capacity to 11.5GW, thus presenting huge opportunity for MTL as it has manufacturing facilities to undertake projects for four reactors at any given point of time.

## Defence & space

MTL is a key supplier of mission critical components to customers within the space and defence sectors. Through its long-standing relationships of over three decades and four decades with customers such as ISRO and DRDO, MTL has been able to supply specialized products to the Indian space programme and the Indian missile programme, respectively. In addition, MTL also supplied critical defence products such as aluminium weldments and other machined components to its international customers including, an Israeli defense technology company.

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 has also recently announced import ban on 101 defence based items. Further, India's defence spends have been rising continuously over the past five years and clocked a robust growth of 6.90%. 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, share similar goals with regards to development of domestic defence industry and given MTL’s prior experience and robust relationships with its customers, MTL has an advantage.

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. It is expected to provide an exponential growth to the Indian players operating in the space sector and accordingly, MTL expect that its Order Book shall grow significantly in the future.

**Manufacturing facilities**

MTL currently operates through 7 manufacturing facilities, including an export-oriented unit (all situated in Hyderabad) and is a one-stop solutions company for its customers. MTL lays special emphasis on R&D as it allows the company to evolve its own process technologies thereby enabling it to achieve design specifications with accuracy. It has also recently established an engineering cell that works on cycle time reductions to enhance cost-effective manufacturing solutions. MTL’s manufacturing facilities also employ extensive and stringent quality control mechanism at various stages to ensure that the finished product conforms to the quality requirements of the customers.

**Exhibit 8: Manufacturing facilities**

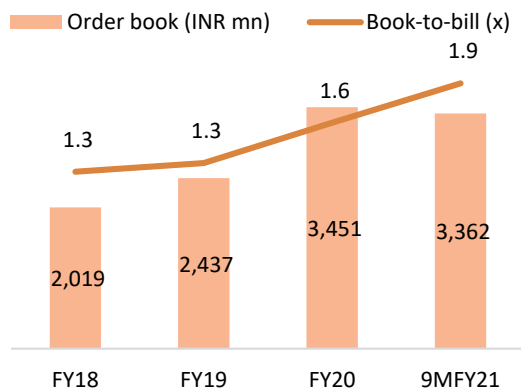
Units	Products manufactured	Sectors catered	Facilities offered
Unit 1	Complex nuclear assemblies & high end defence products such as base shroud assembly for Agni missiles	Nuclear, defence and aerospace	Advanced computerized numerical control, machining & QC
Unit 2	Liquid propulsion engines, cryogenic engines, semi cryo engine and electro pneumatic modules used in PSLV and GSLV and satellite valves	Space	Advanced CNC machining, assembly, specialized fabrication, QC and testing
Unit 3	High volume nuclear components such as end fittings, liner tubes, products such as ball screws and WLBs and other nuclear site orders	Nuclear, defence and aerospace	Advanced CNC machining and quality control
Unit 4	Supporting unit which undertakes rough machining	-	Rough machining
Unit 5	Supporting unit which undertakes surface treatment such as nitriding, anodization and heat treatment such as gas carbonizing	-	Surface treatment, heat treatment and special processes
Unit 6	Supporting unit with fabrication facility and large clean rooms	-	Assembly
EOU	Power units for supply to Bloom Energy and high end defence components to be supplied to an Israeli defense technology company	Clean energy and export defence	Advanced CNC machining, assembly, special processes, and QC

Source: RHP, MOFSL

Owing to the critical end applications of its products and such stringent quality requirements, it becomes very difficult for new players to get qualified for the projects MTL undertake. 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’ has been received by MTL in the past which bears testimony to the faith the customers have in the company and its ability to successfully serve and meet their requirements.

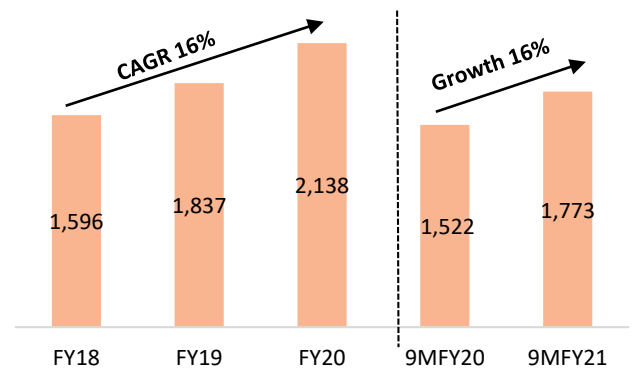
## Story in Charts

**Exhibit 9: Healthy Order book providing revenue visibility**



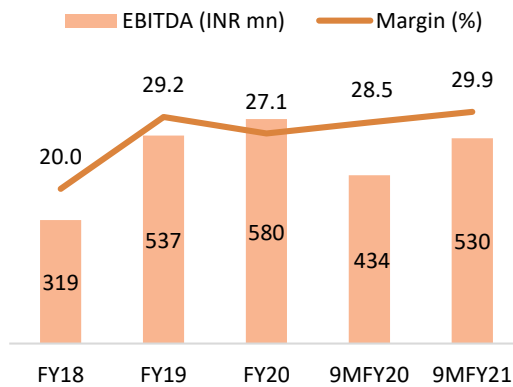
Source: RHP, MOFSL

**Exhibit 10: Revenue (INR mn) grew at a 16% CAGR over FY18-20**



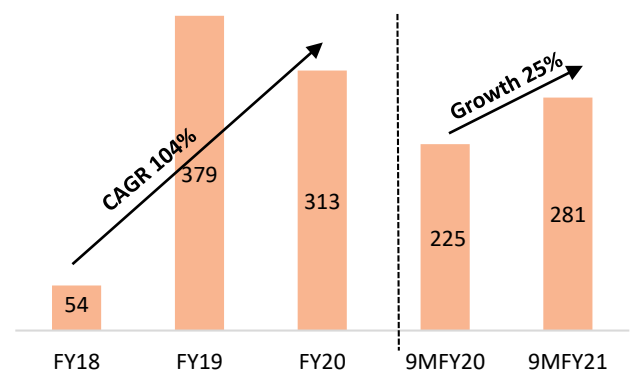
Source: RHP, MOFSL

**Exhibit 11: EBITDA grew at 35% CAGR over FY18-20 aided by margin expansion**



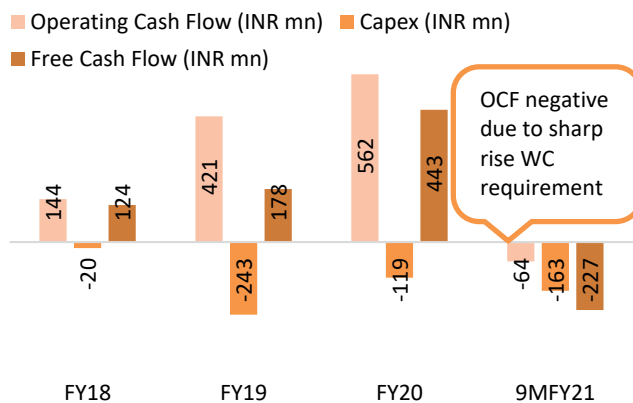
Source: RHP, MOFSL

**Exhibit 12: PAT (INR mn) grew at a 104% CAGR over FY18-20**



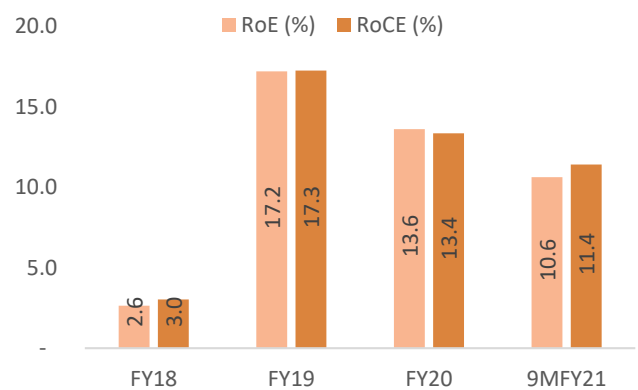
Source: RHP, MOFSL

**Exhibit 13: Has been generating FCF over last 3 years except for 9MFY21**



Source: RHP, MOFSL

**Exhibit 14: Return ratios**



Source: RHP, MOFSL

## Risk and concerns

- MTL faces customer concentration risk as it derived 49% of its revenues from a single customer, Bloom Energy. The company's revenues and margins would be adversely impacted in case of any decline in offtake from Bloom.
- MTL depends significantly on orders from the NPCIL, ISRO and DRDO. Any decline or reprioritization towards the respective Government departments under which these customers operate, could adversely affect MTL's ability to grow or maintain its profitability.
- MTL does not have long-term supply agreements with its customers. If the customers choose not to source their requirements from MTL, it could adversely affect MTL's operations.
- MTL's operations are working capital intensive in nature as indicated by high working capital cycle. The inventory days are high as it needs to maintain high raw material inventory to meet strict delivery timelines. The debtor days are higher as the bills raised are paid after the detailed testing.
- MTAR is exposed to exchanges rate fluctuations as exports are not completely offset by raw material imports.

## Financials

### Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	9MFY21
<b>Net Sales</b>	<b>1,596</b>	<b>1,837</b>	<b>2,138</b>	<b>1,773</b>
Change (%)	-	15.1	16.4	10.6
<b>Total Expenditure</b>	<b>1,277</b>	<b>1,300</b>	<b>1,558</b>	<b>1,243</b>
% of Sales	80.0	70.8	72.9	70.1
<b>EBITDA</b>	<b>319</b>	<b>537</b>	<b>580</b>	<b>530</b>
Margin (%)	20.0	29.2	27.1	29.9
Depreciation	112	112	120	93
<b>EBIT</b>	<b>207</b>	<b>425</b>	<b>459</b>	<b>437</b>
Int. and Finance Charges	45	45	48	48
Other Income	9	22	44	7
<b>PBT</b>	<b>172</b>	<b>416</b>	<b>455</b>	<b>396</b>
Tax	117	24	142	115
Tax Rate (%)	68.4	5.7	31.2	29.1
<b>Reported PAT</b>	<b>54</b>	<b>392</b>	<b>313</b>	<b>281</b>
<b>Adjusted PAT</b>	<b>54</b>	<b>379</b>	<b>313</b>	<b>281</b>
Change (%)	-	598.9	-17.4	19.4
Margin (%)	3.4	20.6	14.7	15.8

Source: Company RHP, MOFSL

### Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	9MFY21
Share Capital	282	282	268	268
Reserves	1,773	2,068	1,983	2,189
Instruments in the nature of equity	0	0	0	0
<b>Net Worth</b>	<b>2,055</b>	<b>2,350</b>	<b>2,251</b>	<b>2,456</b>
Debt	198	287	291	655
Deferred Tax (Net)	88	0	53	99
<b>Total Capital Employed</b>	<b>2,341</b>	<b>2,637</b>	<b>2,595</b>	<b>3,210</b>
<b>Net Fixed Assets</b>	<b>1,522</b>	<b>1,622</b>	<b>1,551</b>	<b>1,559</b>
Capital WIP	18	56	117	189
Investments	0	0	0	0
<b>Current Assets</b>	<b>1,269</b>	<b>1,373</b>	<b>1,794</b>	<b>2,071</b>
Inventory	419	411	755	791
Debtors	490	504	616	731
Cash and Bank Balance	91	108	232	216
Loans and Advances & OCA	270	351	191	333
<b>Curr. Liability &amp; Provisions</b>	<b>469</b>	<b>414</b>	<b>868</b>	<b>609</b>
Account Payables	136	60	306	145
Current Liabilities	290	341	504	405
Other Long Term Liab. & Provs.	43	14	58	59
<b>Net Current Assets</b>	<b>800</b>	<b>959</b>	<b>926</b>	<b>1,463</b>
Misc Expenditure	0	0	0	0
<b>Appl. of Funds</b>	<b>2,341</b>	<b>2,637</b>	<b>2,595</b>	<b>3,210</b>

Source: Company RHP, MOFSL



**Key Ratios**

Y/E March	FY18	FY19	FY20	9MFY21
<b>Basic (INR)</b>				
<b>EPS</b>	<b>1.8</b>	<b>12.3</b>	<b>10.2</b>	<b>9.1</b>
Cash EPS	5.4	16.0	14.1	12.2
BV/Share	66.8	76.4	73.2	155.6
DPS	0.0	2.8	4.6	2.6
<b>Valuation (x)</b>				
P/E	326.1	46.7	56.5	47.3
Cash P/E	106.4	36.0	40.8	35.5
P/BV	8.6	7.5	7.9	3.7
EV/Sales	11.1	9.7	8.3	6.7
EV/EBITDA	55.8	33.3	30.6	22.5
Dividend Yield (%)	0.0	0.5	0.8	0.5
<b>Return Ratios (%)</b>				
RoE	2.6	17.2	13.6	10.6
RoCE	3.0	17.3	13.4	11.4
<b>Working Capital Ratios</b>				
Asset Turnover (x)	0.7	0.7	0.8	0.5
Inventory (Days)	96	82	129	122
Debtor (Days)	112	100	105	113
Creditor (Days)	31	12	52	22
<b>Leverage Ratio (x)</b>				
Net Debt/Equity	0.1	0.1	0.0	-0.4

Source: Company RHP, MOFSL

\*All ratios calculated on annualized &amp; fully diluted basis at the upper price band of INR575

**Cash Flow Statement****(INR mn)**

Y/E March	FY18	FY19	FY20	9MFY21
OP/(Loss) before Tax	172	416	455	396
Depreciation	112	112	120	93
Interest paid	45	45	48	48
Income Taxes paid	-25	-94	-72	-89
(Inc)/Dec in WC	-161	-57	26	-505
<b>CF from Operations</b>	<b>142</b>	<b>421</b>	<b>577</b>	<b>-57</b>
Others	2	-0	-14	-8
<b>CF from Operating (Net)</b>	<b>144</b>	<b>421</b>	<b>562</b>	<b>-64</b>
(Pur)/Sale of FA	-20	-243	-119	-163
(Pur)/Sale of Investments	-0	-91	-11	-5
Interest Received	7	7	9	9
<b>CF from Investments</b>	<b>-13</b>	<b>-328</b>	<b>-121</b>	<b>-159</b>
Proceeds from borrowings	-93	89	-5	383
Amount paid on equity shares bought back	-	-	-179	-63
Interest Paid	-45	-62	-59	-42
Dividend paid	-	-102	-170	-80
<b>CF from Fin. Activity</b>	<b>-138</b>	<b>-75</b>	<b>-413</b>	<b>199</b>
<b>Net Inc/Dec of Cash</b>	<b>-7</b>	<b>19</b>	<b>28</b>	<b>-25</b>
Exchange differences	-0	-2	-	0
Opening Balance	98	91	108	136
<b>Closing Balance</b>	<b>91</b>	<b>108</b>	<b>136</b>	<b>111</b>

Source: Company RHP, MOFSL

Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< -10%
NEUTRAL	> -10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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