

Accumulate

Key Data

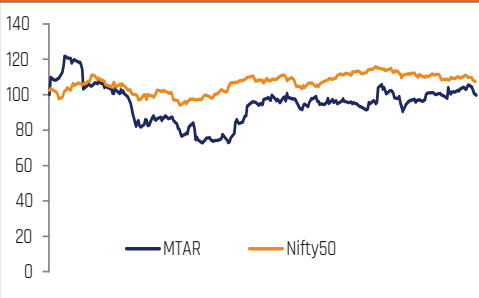
Date	27/02/2023
Reco Price	1,650 - 1,700
Target	2,080
Sector	Aerospace & Defence
BSE Code	543270
NSE Code	MTARTECH
EPS (FY22)	19.77
Face Value (Rs.)	10.00
Market Cap (Cr)	5,282.07
52-week High/Low (Rs)	2,160.95 / 1,211.85

Source : NSE, BSE

Shareholding pattern (Dec-2022)	%
Promoters	47.18
DIIs	28.31
FIIIs	3.79
Public	20.72
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

MTAR Technologies Limited

Company Background

MTAR Technologies Limited (MTARTECH) is an India-based precision engineering company. The Company is 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. Its segments include Civilian Nuclear Power, Space, Defence & Aerospace, Clean Energy, Ball Screws & Roller Screws, and Other Segments-Marine. Civilian Nuclear Power segment has a product portfolio, which includes complex assemblies, such as fuel machining head, drive mechanisms, bridge and column and coolant channel assemblies and others. Space segment provides a range of mission critical assemblies to ISRO for its various missions. The segment includes ISRO Geosynchronous Satellite Launch Vehicle and ISRO Polar Satellite Launch Vehicle.

Outlook and Valuation

MTAR Technologies engaged in the business of manufacturing various machine equipment, assemblies, sub-assemblies, and spare parts for energy, nuclear, space, aerospace, defense and other engineering industries. Company witnessed strong order book, robust growth outlook of Bloom Energy and increased product portfolio to drive growth momentum going forward, we believe MTAR Technologies is well placed to capitalize on these opportunities. Going ahead, we expect the company's revenue to grow at a CAGR of ~50% over FY22-FY25E. Hence, we recommend MTAR Technologies with a target price of Rs 2,080 based on FY25E EPS of Rs 73.28; it's available at PE of 28x. Hence, we recommend **ACCUMULATE** rating for the long term.

Financial Snapshot

Particular (Rs Cr)	FY20	FY21	FY22	FY23	FY24	FY25
Net Sales	213.77	246.43	322.01	579.62	840.45	1,092.58
EBITDA	57.96	83.09	94.44	168.09	247.93	333.24
EBITDA Margin	27.11%	33.72%	29.33%	29.00%	29.50%	30.50%
PAT	31.32	46.08	60.88	109.00	167.39	225.70
PAT Margin	14.65%	18.70%	18.91%	18.81%	19.92%	20.66%
EPS (Rs)	11.69	14.96	19.77	35.39	54.35	73.28
Debt to Equity Ratio	0.13	0.04	0.18	0.24	0.20	0.17
ROE (%)	13.92%	9.67%	11.71%	17.34%	21.03%	22.09%

Source : Company, ACMIIL Research

Company Business And Products

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 their precision machining, assembly, testing, quality control, and specialized fabrication competencies, some of which have been indigenously developed and manufactured.

MTAR Technologies limited primarily serves customers in the nuclear, space and defence, and clean energy sectors. Since inception, they have 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. In addition, they also focus on clean energy as one of their 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 ("Bloom Energy") with which, they have been associated with, for over 9 years.

The company currently operates through 7 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 them being a one-stop solutions company for their customers. Over the years, they have made investments in processes, infrastructure and systems, and in specialized training to their technical team to become a leading player in nuclear and space and defence sectors. They have also implemented various information technology solutions including for assisting in their designing and manufacturing operations, and enterprise resource planning ("ERP") solutions to integrate key areas of their operations.

Company's Product Offerings

Clean Energy Sector : Power Units

Nuclear Sector : Fuel machining head, Bridge and column, Grid plate, Sealing plug, shielding plug, liner tubes and end fittings, Drive Mechanisms, Top hatch cover beams and deck plate assembly, CHAS, Ball screws and water lubricated bearings.

Space and Defense Sectors : Base shroud assembly and air Frames, Actuator assembly Components, Components for LCA, Various missile parts, Valves, Electro-pneumatic modules, Liquid propulsion engines, Cryogenic engines, Ball screws and water lubricated bearings.

Surface treatment, Heat treatment and Special processes facilities : Various surface treatment activities such as nitriding, anodization, hard chrome plating, nickel plating, induction hardening, electro polishing, pickling, passivation, zinc plating and painting, among others and Heat treatment such as gas carbonizing, through their various furnaces. Special processes facilities such as painting and plating are also available in-house.

Investment Rationale

Product portfolio expansion and new capabilities to attract customers

MTAR continues to focus on product portfolio expansion with products such as valves, semicryo Engine in the defence and space segments respectively, are under development. It is also developing Bellows and Heaters for Bloom Energy in the clean energy space. Management expects new capabilities and products to attract lot more customers going forward. Also the company has signed a MoU with Indian National Space Promotion and Authorization Centre (IN-SPACe) for design and development of a two-stage to lowearth orbit all-liquid small satellite launch vehicle powered by semi cryogenic technology with a payload capacity of 500 kilogram.

Healthy operating efficiency

MTAR caters to multiple segments like clean energy (67.0% of revenues), space & defence (17.0%) and nuclear (15.0%). Healthy unexecuted order book of Rs. 1,183 crore as on December 31, 2022, across these segments provides ample revenue visibility over the medium term. New clients and capability additions in terms of sheet metal manufacturing and fabrication are expected to start contributing to revenue from next fiscal onwards. Increased focus on indigenization in defence, space and nuclear power sectors along with strong new product pipeline of MTAR will support the company to further expand its revenue profile.

Established market position with long standing relationship with customers and extensive experience of promoters

Company's has a long established relationship with most of its customers like Defense Research & Development Organization (DRDO), Nuclear Power Corporation of India (NPCI), Liquid Propulsion Systems Centre (LPSC) and Indian Space Research Organization (ISRO). Benefits from the promoter's experience and their strong understanding of market dynamics, should continue to support business risk profile. Furthermore, established relationship with its key customer and improving prospects of clean energy will support sustaining healthy growth in the medium.

Precision engineering expertise with complex product manufacturing capability

The Company is having a legacy of over 50 years of manufacturing wide range of mission critical precision components and assemblies with currently over 145 engineers on roll. Ability to manufacture within 5-10 micron tolerance product through precision machining, assembly, specialized fabrication, heat treatment, surface treatment & others. MTAR is having extensive and stringent testing & quality control mechanism undertaken at each stage through high precision quality inspection equipment.

Modern technology and state-of-the-art manufacturing facilities

MTAR operates through seven state-of-the-art manufacturing facilities, including one EOU, each of which is situated in Hyderabad, Telangana and is one of the key centers for defense research and development in the country. The presence of major defense organizations in Hyderabad not only provides them access to the critical R&D and high-volume projects, but also allows for ease

Investment Idea

of coordination, specifically in terms of collaborative R&D efforts, as well as for subsequent close monitoring of manufacture and quality control processes, thereby giving them an advantage over the other players located in other regions.

Strong and diversified supplier base for sourcing of raw materials

MTAR 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. These 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. This enables MTAR to negotiate favorable terms and even avail better discounts. Additionally, we believe that diversified supplier base helps them in minimizing supplier risk on account of low supplier dependency.

Expand international presence including through increase in exports

Company's primary objective is to strengthen its international activities in order to expand its current clientele's global footprint. Growth in support for Hydrogen based clean energy solution along with expansion plans of Bloom Energy outside of US in South Korea, providing significant opportunity. MTAR is in line with the view the strategy to cater defense offset partnerships with certain global OEMs and have incorporated a Subsidiary, Magnatar Aero Systems Private Ltd.

Diversified Order Book (Segment Wise):

Segments	477.6 crs as on 31st Dec 2021	1,183 crs as on 31st Dec 2022
Clean Energy - Civil Nuclear Power	21.20%	17.80%
Clean Energy - Fuel Cell, Hydel & Others	49.00%	64.80%
Space & Defence	28.70%	16.30%
Products & Others	1.00%	1.10%
Others	0.10%	0.00%

Source : Company, ACMIIL Research

Industry Overview

Clean Energy Civil Nuclear

- India has a largest indigenous nuclear programme where GOI has set ambitious targets to grow nuclear capacity in the country. The Indian government is committed to growing the nuclear power capacity as part of its massive infrastructure development programme.
- One of the major growth drivers for India's nuclear programme is the consistently increasing demand for electricity. Capitalize on the fleet reactors opportunity; MTAR is one of the few companies capable of handling the complex products for the core of the reactor.
- GOI has started floating tenders for the upcoming reactors and MTAR has been declared L1 for tenders worth Rs. 135 Cr approx.
- The government plans to increase nuclear capacity from 6.7 GWe to 22.4 GWe by 2031 on the progressive completion of projects under construction and accorded sanction.

Clean Energy Fuel Cells

- India has set a target to produce 5 million tonnes (mt) of green hydrogen by 2030.
- The government plans to add 175 GWe of green hydrogen-based energy, over the next decade.
- The Company intends to collaborate with customers in Clean Energy for the production of green hydrogen and contribute to Nation's hydrogen mission.
- Growth will be driven by the demand from transportation application and stationary application in niche areas for power backup and distributed reliable power generation.

Space

- The Indian Space Research Organisation (ISRO) has conducted a total of 112 spacecraft missions and 82 launch missions.
- The budget for Department of Space in FY 22 is Rs 134.8 billion. It is estimated that the space budget will attain a value of Rs 185-190 billion by FY25 on account of planned and proposed missions.
- Exponential growth expected for Indian players in Space sector given ISRO's plan to commercialise the Indian space sector.
- The Company aims to increase their wallet share with ISRO by addressing opportunities including thrust chambers, light alloy structures, motor casings etc.
- Start-ups are emerging in the space domain with significant technological prowess.

Investment Idea

Defence

- The Indian defence sector is currently focused on indigenisation of various defence technologies in view of the recent GoI announcements made on the indigenisation of 108 systems and sub-systems.
- Defence sector is expected to grow further because the emphasis on national security amidst geo-political tensions like Russia-Ukraine crisis. There is a high need for self reliance under the current geo-political scenario.
- Government of India is emphasising on import substitution.
- Contribution to the 'Atma-Nirbhar Bharat' initiative by developing imports substitutes and new products such as roller screws, actuation systems, valves etc. will drive the segment.

Financial performance

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EBITDA Margin	27.11%	33.72%	29.33%	29.00%	29.50%	30.50%
Depreciation	12.05	12.56	14.31	17.39	16.81	21.85
EBIT	45.91	70.53	80.13	150.70	231.12	311.39
Interest	4.75	7.00	6.65	13.91	20.17	26.22
Add: Other Income/(exceptional item)	4.37	1.31	8.75	10.43	15.13	19.67
PBT	45.53	64.84	82.23	147.22	226.08	304.83
Tax	14.22	18.77	21.35	38.22	58.69	79.13
PAT	31.32	46.08	60.88	109.00	167.39	225.70
PAT Margin	14.65%	18.70%	18.91%	18.81%	19.92%	20.66%
EPS (Rs)	11.69	14.96	19.77	35.39	54.35	73.28
Share Capital	26.76	30.76	30.76	30.76	30.76	30.76
Reserves & Surplus	198.31	445.98	488.98	597.98	765.37	991.07
Networth	225.07	476.74	519.74	628.74	796.13	1,021.83
Book Value Per Share	73.07	154.79	168.75	204.14	258.48	331.76
Total Debt	29.13	16.98	95.89	148.25	156.78	171.88
Debt to Equity Ratio	0.13	0.04	0.18	0.24	0.20	0.17
ROE (%)	13.92%	9.67%	11.71%	17.34%	21.03%	22.09%

Source : Company, ACMIL Research

Risks and concerns

1. Failure or Delay of supply of raw materials from suppliers could adversely affect business, financial condition and results of operations.
2. Equipment costs leads to increased fixed costs, which would affect cash flows adversely and impact operations.
3. Global uncertainties may cause increased volatility in Indian Financial Markets.
4. Any regulatory, economic, social and political uncertainties and other factors are not under control.

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