

CMP: INR 1,807

Outlook: Positive

Stock Info

BSE	543270
NSE	MTARTECH
Bloomberg	MTARTECH:IN
Reuters	MTAR.NS
Sector	Aerospace & Defence
Face Value (INR)	10
Equity Cap (INR Mn)	307.6
Mkt Cap (INR Mn)	55,582
52w H/L (INR)	2920 / 1601
Avg Yearly Volume (in 000')	357

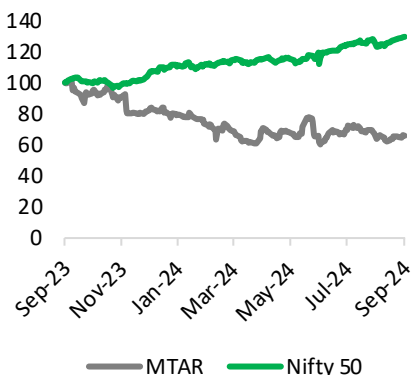
Shareholding Pattern %

(As on June, 2024)

Promoters	36.42
FII	7.74
DII	15.96
Public & Others	39.88

Stock Performance (%)	1m	3m	12m
MTAR Technologies	-3.7	0.1	-34.1
Nifty 50	1.1	8.7	29.4

MTAR Vs Nifty 50



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

MTAR Technologies, established in 1969, is a leading precision engineering company in India, catering to critical sectors such as nuclear power, aerospace, defence, and clean energy. With over five decades of expertise, MTAR has developed a diversified product portfolio, supplying complex, built-to-print precision systems that meet the specialized needs of its customers, including the Department of Atomic Energy and ISRO. The company's state-of-the-art facilities and commitment to quality have made it a trusted partner in executing mission-critical projects, enabling long-standing relationships with both Indian and international clients.

Investment Rationale

Positioning for expansion in the nuclear power sector: MTAR Technologies has been a significant contributor to India's civil nuclear power sector since 1969, specializing in indigenizing technologies for CANDU reactors. The company has developed expertise in both nuclear and turbine islands, offering over 15 complex products for the nuclear island alone. With the Indian government's plan to construct 40 new reactors, MTAR is poised for substantial growth. They anticipate orders worth INR 5,000 Mn from the KAIGA 5 and 6 reactors, plus additional orders for reactor refurbishment in FY25. Currently holding an order book of INR 1,400 Mn in the civil nuclear power sector, they aim to execute INR 620 Mn in FY25 and projects executing INR 6,000 Mn over the next 4-5 years. The company expects to maintain an average annual execution rate of INR 1,200 Mn starting next year. With potential orders of INR 15,000 to 20,000 Mn over the next 6-7 years from upcoming reactor projects, the company is well-positioned for further future expansion in the nuclear power sector.

Leading supplier in the Fuel Cell industry with growth potential: MTAR has established itself as a key player in the fuel cell sector, particularly in solid oxide fuel cells (SOFC) for Bloom Energy. The company supplies hot boxes for two versions, Yuma and Santa Cruz, with the latter being 30% more efficient and now the primary focus. Despite experiencing a significant product transition that led to deferred shipments last year, MTAR expects to supply around 3,300 Santa Cruz units this year. The company's portfolio extends to power units for electrolyzers, sheet metal assemblies, and enclosures. MTAR executed approximately INR 3,400-3,500 Mn in the clean energy segment last year and projects 10-15% growth for FY25. While Bloom Energy remains their primary client, MTAR is exploring opportunities with other fuel cell companies, including Ohmium for PEM electrolyzers. With no exclusive agreement limiting their clientele, MTAR has the capacity to produce 10,000 hot boxes for Bloom Energy and can expand to accommodate other clients as well.

Specialized provider in high-margin Defence sector: MTAR operates in niche areas of the defence sector, focusing on specialized components and systems for critical military programs. The company's portfolio includes aero structures for missile programs, magnesium gearboxes for HAL's helicopter projects, and previously supplied actuators for the Light Combat Aircraft program. With projected revenues of INR 400 Mn for FY25 and an anticipated growth rate of 15-20%, MTAR's defence segment shows promising expansion. The company's strategic positioning is further strengthened by recent developments, such as being declared the lowest bidder for high-margin scramjet engines, potentially leading to future production orders. Their overall strategy in defence focuses on maintaining good margins, with an average operating margin of around 25% in this segment.

Exhibit 1: Financial overview

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	5,738	5,808	7,607	9,877	12,596
EBITDA	1,540	1,127	1,600	2,370	3,249
EBITDA Margins (%)	26.8	19.4	21.0	24.0	26.0
PAT	1,034	561	910	1,520	2,230
EPS	33.6	18.2	29.6	49.4	72.5

Growing presence in Hydel to drive future growth: MTAR has been steadily expanding its footprint in the hydel power sector, a crucial component of its clean energy segment. The company's success in this area is evident from its execution of INR 200 Mn worth of orders in FY24, serving major clients like GE Power and Voith Hydro. Building on these established relationships, MTAR aims to double its revenues in this segment to ~INR 450 Mn in FY25. The company's new fabrication vertical, which became fully operational in FY24, is instrumental in fulfilling hydel power orders, with projections of executing INR 600-700 Mn from this vertical in FY26. As MTAR continues to enhance its capabilities and broaden its customer base in the hydel power sector, this segment is poised to become a significant growth engine for the company's future expansion and success.

Ambitious growth plans for Space vertical: MTAR serves both ISRO and MNCs. Since producing its first Vikas engine for ISRO in 1989, MTAR has expanded its portfolio to include cryogenic upper stage systems, electro-pneumatic modules, and components for various space missions. The company's products are integral to ISRO's PSLV and GSLV programs. MTAR's space sector revenue has shown significant growth, with plans to more than double its order execution from INR 400-450 Mn in FY24 to INR 1,200 Mn in FY25, split between ISRO (41.67%) and MNC Aerospace clients (58.33%). The development of a new semi-cryogenic engine for ISRO, enhancing GSLV capacity from 4 to 6 tons, showcases MTAR's innovative capabilities. Projected annual growth rate is around 15-20% for ISRO-related work and 45-50% for MNCs. Overall cumulative growth in the space vertical is expected to be ~20-25% which positions the company for substantial expansion in this high-tech sector over the next 3-4 years.

Rapid expansion and bright future in Aerospace: MTAR entered the aerospace industry in 2018. Starting with small orders to build credibility, the company has quickly expanded its customer base to include major OEMs like GKN Aerospace, Thales, and Collins Aerospace. A landmark long-term contract with Israel Aerospace Industries, valued at up to USD 120 Mn, underscores MTAR's growing prominence. The company's aerospace vertical has shown impressive growth, with plans to execute INR 700 Mn of MNC orders in FY25, up from INR 80 Mn in first articles last year. MTAR projects a robust 45-50% YoY growth rate in this sector over the next five years, with the execution of orders expected to start contributing significantly from FY27 onwards. This growth is supported by MTAR's comprehensive manufacturing capabilities and ongoing capacity expansion, including a new dedicated aerospace unit set to be operational by December 2024. With a diverse product portfolio ranging from ammunition boxes to aero structures, and the ability to handle advanced manufacturing processes in-house, the company is set for continued growth in the aerospace sector.

Diverse and expanding revenue stream from Products and Others: MTAR's product division is a versatile contributor to the company's growth strategy, serving multiple sectors including civil nuclear power, space, and defence. The division's diverse portfolio includes specialized components like water-lubricated bearings, ball screws, and roller screws, catering to both established and emerging markets. Their most recent success is the development of ASP assemblies for Bloom Energy in the clean energy sector, which generated substantial revenue in its first year. The product division is poised for impressive growth in its projected near-doubling of revenue from INR 700 Mn in FY24 to an expected INR 1,300 Mn in FY25. MTAR has also collaborated with Medha Overdrives in the locomotive sector, expect to receive around INR 800 Mn in orders in FY25. With a projected annual growth rate of 35-40% and ambitious targets for the coming years, including a significant contribution to MTAR's overall revenue goal of ~INR 9,500-10,000 Mn in FY26, the product division is poised to become a key driver of MTAR's exponential growth and diversification strategy.

New Oil & Gas vertical: MTAR is entering the oil & gas sector, targeting revenues of INR 1,500 Mn in FY26. The company sees strong long-term potential in this vertical, potentially rivalling its clean energy business in size. Plans to invest INR 400-450 Mn to establish dedicated manufacturing capabilities for oil & gas products.

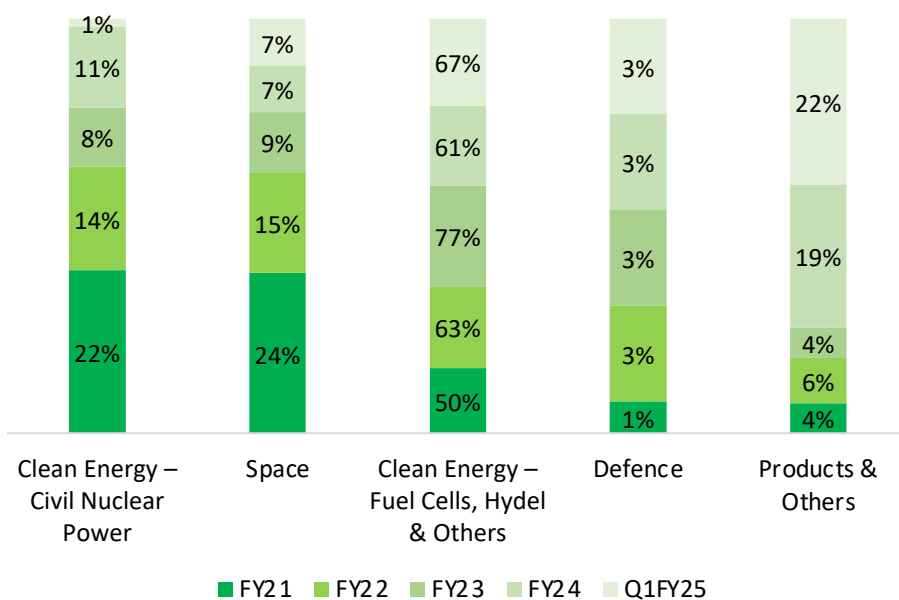
Outlook and View

MTAR Technologies is targeting order executions worth INR 9,500-10,000 Mn in FY26. This target includes contributions from various sectors, including clean energy, space, aerospace, defence, and products. The company is projecting revenue of INR 7,500 Mn for FY25, up from INR 5,808 Mn in FY24 (30% growth) and plans to invest around INR 800 Mn in capex each year. The company expects to maintain a 22% operating margin this year, with a target to increase this margin to 24% next year. By FY27, MTAR aims to bounce back to operating margins of 26-28%, depending on the establishment and streamlining of newer verticals. The company is also focusing on increasing domestic growth, aiming to double their growth in the domestic sector over the next 2-3 years, though this may not significantly alter the export-to-domestic mix due to strong growth in exports. While working capital remains high at 252 days, they aim to reduce this to 220 days this year. **The company's focus on high-tech, precision manufacturing in critical sectors like nuclear, space, and clean energy, combined with its growing order book and expansion into new areas like oil & gas, suggest a positive outlook. We believe the company has the potential to achieve an EBITDA of INR 3,300 Mn by FY27E. However, its long-term success hinges on its ability to manage working capital, execute large orders, and effectively scale new verticals, which are essential for achieving its growth aspirations. We remain optimistic about the company's prospects and foresee significant growth opportunities. We are working on detailed projections.**

Exhibit 2: Order Book

Particular	FY22	FY23	FY24	Q1FY25
Clean Energy- Civil Nuclear Power	1,628	1,935	1,464	1,467
Clean Energy- Fuel Cell, Hydel & Others	2,965	6,873	4,630	4,686
Space	1,797	1,314	1,382	1,636
Defence	0	504	549	617
Products & Others	97	1,103	393	528

Exhibit 3: Revenue mix across segments



Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House 6, Lad Colony Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880