

Rating: Subscribe for Long Term

Issue Offer

Issue size: INR 595.38 – 596.41 Cr
No. of shares : 10,372,419 Equity Shares
Face value: INR 10

Issue Summary

Price Band (INR)	574-575
Face Value (INR)	10
Implied Market Cap (INR Cr)	1769 cr
Market Lot	26
Issue Opens on	March,03, 2021
Issue Close on	March 05, 2021
No. of share pre-issue	28,611,442
No. of share post issue	30,759,591
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

JM FINANCIAL
IIFL Securities

Registrar

Link In Time India Pvt Ltd.

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	62.24%	50.25%
Public & Others	37.76%	49.75%

Objects of the issue

Repayment or prepayment in full or part of borrowings availed by the company INR 63 cr

Funding working capital requirements INR 95

General Corporate Purposes

MTAR Technologies (“MTAR Technologies”): Incorporated in 1999, MTAR Technologies is a leading national player in the precision engineering industry. The company is primarily engaged in the manufacturing of mission-critical precision components with close tolerance and in critical assemblies through its precision machining, assembly, specialized fabrication, testing, and quality control processes. Since its inception, MTAR Technologies has significantly expanded its product portfolio including critical assemblies i.e. Liquid propulsion engines to GSLV Mark III, Base Shroud Assembly & Airframes for Agni Programs, Actuators for LCA, power units for fuel cells, Fuel machining head, Bridge & Column, Drive Mechanisms, Thimble Package, etc. A wide range of complex product portfolios meets the varied requirements of the Indian nuclear, Defence, and Space sector. ISRO, NPCIL, DRDO, Bloom Energy, Rafael, Elbit, etc. are some of the esteem clients. Currently, the firm has 7 state-of-the-art manufacturing facilities in Hyderabad, Telangana that undertake precision machining, assembly, specialized fabrication, brazing and heat treatment, testing and quality control, and other specialized processes.

Key Highlights

- The company primarily serve 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.
- MTAR Technologies lays special emphasis on research and development (“R&D”) of their manufacturing processes as it allows them to evolve their own process technologies thereby enabling them to achieve design specifications with accuracy irrespective of the size of the products.
- 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 aggregate Order Book as on December 31, 2020 was INR 336.19 crore, comprising Order Book in the clean energy sector of INR 80.19 crore, the nuclear sector of INR 93.19 crore and the space and defence sectors of INR 160.61 crore respectively.

Valuation and View:

At the upper price band of INR 575, issue has been offered at a PE of 52 (x) to its FY20 EPS of INR 11 Company is trading at premium to peer PE of 21(x). The company is aggressively priced, but considering its last two fiscals earnings, orders on hands worth INR. 336.2 cr. and its plan for more critical and high margin products with its niche play for space, security and defence segment. As a niche player with a virtual monopoly. We assign a **“SUBSCRIBE FOR LONG TERM”** perspective, it has the potential to generate **decent listing gains**. MTAR has been a key partner to Indian Space Research Organization (ISRO), Defense Research and Development Organization, Nuclear Power Corporation of India Limited (NPCIL) and the US-based Bloom Energy, besides catering to several large Indian entities such as Bharat Dynamics and Hindustan Aeronautics in aerospace and defence. The company is also working with Israel- based Rafael Advanced Defense Systems and Elbit Systems on the exports front.

Business Operation of the 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 their precision machining, assembly, testing, quality control, and specialized fabrication competencies, some of which have been indigenously developed and manufactured, for onward usage by customers in the nuclear, space and defence, and clean energy sectors in India, and abroad.

In view of the various projects that they undertake and the different kinds of products that they manufacture, the manufacturing lifecycle of such projects and products may be different.

The aggregate Order Book as on December 31, 2020 was INR 336.19 crore, comprising Order Book in the clean energy sector, the nuclear sector and the space and defence sectors of INR 80.19 crore, INR 93.19 crore and INR 160.61 crore, respectively. Historically, their Order Book was INR 201.86 crore, INR 243.74 crore and INR 345.13 crore, as on March 31, 2018, March 31, 2019 and March 31, 2020, respectively.

Peer Comparison

Company (in Cr.)	CMP	Revenue	EBITDA	EBITDA M (%)	PAT	D/E	EPS	ROCE (%)	P/E
MTAR Technologies FY20	575	214	62	29%	46	0.13	11	20%	52
L&T (consolidated) FY20	1442	151019	16776	19%	10822	2	68	13%	21
*Godrej & Boyce Mfg. Co. Ltd. FY19	-	11232	575	7%	204	0.32	-	4%	-

*Godrej & Boyce Mfg. Co. Ltd. is not trading last 30 days

*Godrej & Boyce Mfg. Co. Ltd. Financial as of FY19

Key Competitors	
Sector	Key Players
Nuclear	Larsen & Toubro Heavy Engineering
	Godrej & Boyce Manufacturing Company Limited
Space and defence	Larsen & Toubro
	Godrej & Boyce Manufacturing Company Limited
	Hindustan Aeronautics Limited
	Walchandnagar Industries
Clean Energy	Sole supplier from Indian Market to Bloom Energy

Financial Performance

Particulars (in Cr.)	As at Dec' 31		As at Mar' 31		
	2020(09)	2019(09)	2020(12)	2019(12)	2018(12)
Share Capital	26.76	28.21	26.76	28.21	28.21
Reserves as stated	218.86	211.04	198.32	206.77	177.31
Net worth as stated	245.62	239.26	225.08	234.98	205.52
Revenue from Operations	177.27	152.18	213.77	183.67	159.6
EBITDA	53.75	44.59	62.33	55.96	32.82
PAT	28.07	22.45	45.53	41.56	17.16
PATM(%)	15.83%	14.75%	14.65%	21.34%	3.40%
EPS	10.49	7.96	11.11	13.89	1.92
Debt Equity Ratio	0.27	0.07	0.13	0.12	0.1
ROCE (%)	14.20%	13.90%	19.78%	16.96%	9.59%

Source: RHP *Unconsolidated Summary, EBITDA % to Total Revenue. Ratios calculated for Dec'31, 2020 and Dec'31, 2019 are not annualized.

Management

Board of Directors	Description
Subbu Venkata Rama Behara	Subbu Venkata is the Chairman of the Board, and an Independent Director of the company. Apart from his association with the company, he is a director on the boards of Ola Electric Mobility Pvt. Ltd., Greaves Cotton Ltd. and Ampere Vehicles Pvt. Ltd., amongst others.
Parvat Srinivas Reddy	Parvat Srinivas Reddy is the Managing Director of the company. He has been a director on the Board since March 11, 2015 and was appointed as the Managing Director on September 1, 2020. He has been entrusted with the overall responsibility of management of the company and its affairs. He has over 29 years of work experience.
Devesh Dhar Dwivedi	Devesh Dhar Dwivedi is the EOO on the Board of the company. Before his association with the Company, he has previously served as the chief financial officer of High Radius Technologies Private Limited, an assistant vice president with Bharat Forge Limited, a deputy general manager with Punj Lloyd Limited and a scientist with the Defence Research and Development Organization

Covid-19 Impact on Company's Business

On account of the nationwide lockdown, the company experienced operational disruptions as a result of the following:

- A temporary shutdown of their manufacturing facilities due to government restrictions or illness in connection with COVID-19;
- A decrease in demand for their products as a result of COVID-19 on account of government restrictions imposed and additionally on account of cost control measures implemented by their customers;
- Supply chain disruptions for them and their customers
- A significant percentage of their workforce being unable to work, including because of travel or government restrictions in connection with COVID-19, including stay at home orders;
- Delays in orders or delivery of orders, which will negatively impact their cash conversion cycle and ability to convert their backlog into cash;
- Company's strategic projects getting postponed or their planned deliveries being delayed; and inability to collect full or partial payments from some customers due to deterioration in customer liquidity.
- The company has monitored and considered the impact of known events arising from the COVID-19 pandemic, including with respect to their liquidity and going concern and recoverable values of assets. While they have not experienced significant financial losses in the past, they cannot predict the impact that the COVID-19 pandemic will have on their customers, suppliers and other business partners, and each of their financial conditions, however, any material effect on these parties could adversely impact the company.
- In addition, in the event the number of space launches undertaken by ISRO is reduced due to reasons including COVID-19, there would be a delay in the provision of the free issue materials to the company by their customers and consequently, the business would be adversely impacted. In view of such challenges faced by them, there is no guarantee that their customers will continue to place orders at the same levels as they have in the past or if at all in the future

Key Risks

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

Competitive 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 their customers in the clean energy, nuclear, and space and defence sectors in India, and abroad.
- **Wide product portfolio leading to long-standing relationships with the customers:** As on December 31, 2020, company's major product portfolio includes 3 kinds of products in the clean energy sector, 14 kinds of products in the nuclear sector and 6 kinds of products in the space and defence sectors.
- **Modern technology at state-of-the-art manufacturing facilities:** The company operates through their 7 state-of-the-art manufacturing facilities, including 1 EOU, situated in Hyderabad, Telangana which is one of the key centres for defence research and development in the country.
- **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.
- **Track record of growth in financial performance:** The company has able to increase their total income at a CAGR of 16.56% during the last 3 Fiscals, from INR 160.55 crore in Fiscal 2018 to INR 218.14 crore in Fiscal 2020. The EBITDA has grown at a CAGR of 37.80% from Fiscal 2018 to Fiscal 2020.

Manufacturing Facilities

Description and Location of the facility	Products manufactured	Sectors catered to	Facilities offered
Unit 1, Balanagar, Hyderabad	Complex nuclear assemblies manufacturing such as fuel machining head, thimble package, top hatch beam, bridge and column and high end defence products such as air frames, base shroud assembly for Agni missiles, among others	Nuclear, defence and aerospace	Advanced computerized numerical control (“CNC”) machining and quality control
Unit 2, Gandhinagar, Hyderabad	Liquid propulsion engines such as Vikas engine, cryogenic engines, semi cryo engine, electro pneumatic modules for use in polar satellite launch vehicle (“PSLV”) and geosynchronous satellite launch vehicle (“GSLV”) launch vehicles and satellite valve	Space	Advanced CNC machining, assembly, Specialised fabrication, quality control and testing
Unit 3, Gandhinagar, Hyderabad	High volume nuclear assemblies and 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
EOU Unit, Gandhinagar, Balanagar, Hyderabad	Power units for supply to Bloom Energy and high end defence components to be supplied to an Israeli defence technology company	Clean energy and export defence	Advanced CNC machining, assembly, special processes, and quality control
Unit 4, Balanagar, Hyderabad	This is a supporting unit and undertakes rough machining		Rough machining
Unit 5, Jeedmetla, Hyderabad	This is a supporting unit and undertakes surface and heat treatment		Surface treatment, heat treatment and special processes
Unit 6, Gandhinagar, Hyderabad	This is a supporting unit with fabrication facility and large clean rooms		Assembly

Most of their manufacturing facilities, including the 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. They have also initiated the process for receiving ISO 14001:2015, ISO 45001:2018, ISO 27001:2013 and applying for NADCAP certifications for some of their units.

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 E-5 Ratlam Kothi 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