

20 October 2022

MTAR Technologies – BUY

CMP : Rs.1,632.0
Target Price : Rs.1,992.0
Upside : 22%+
Stop Loss : Rs.1,392.0 (Closing basis)

Investment Thesis

Recently, the stock price of MTAR Technologies Ltd. (MTAR Technologies) corrected by ~36% from 52-week high of Rs.2,563.30 despite reporting good set of numbers in the recent quarters and strong order book giving good revenue visibility going ahead.

MTAR Technologies is a leading player in precision engineering industry engaged in the manufacture of mission critical precision components with close tolerances (5-10 microns) and in critical assemblies. It offers ~30 products catering to primarily 3 segments, viz., Clean Energy, Nuclear and Space & Defense. MTAR Technologies has developed seven manufacturing facilities in Hyderabad including an Export Oriented Unit (EOU). Clean Energy business is MTAR Technologies' biggest revenue generator segment. Under Clean Energy, it manufactures power units (hot boxes) and develops hydrogen boxes and electrolyzers to serve Bloom Energy Inc. In FY22, the company also started fabrication of specialized components for the hydel power sector. MTAR Technologies is currently focused on hot boxes for fuel cell technologies.

In the Clean Energy segment, MTAR Technologies primarily caters to Bloom Energy, a US-based manufacturer of solid oxide fuel cells (SOFC) producing electricity from natural gas with very low carbon emissions and option to be located close to the end consumer for the past nine-year. Further, Bloom has now expanded its capabilities to hydrogen boxes and electrolyzers (water to hydrogen) through a project in South Korea. MTAR Technologies supplies nearly 70–80% of the hot boxes required by Bloom Energy and has a very strong track record. Further, it is increasing its focus on higher energy density boxes (Keeylocko) and has set up a new sheet metal fabrication facility which will be used to cater to Bloom as well. Bloom has a revenue CAGR guidance of 33% over the next decade. In terms of profitability the company currently has gross margin of 20%+.

Financials

- During the past 4 years, revenue of MTAR Technologies grew at CAGR of 19.7% while PAT grew at CAGR of 75.5% in the same period.

Consol. (Rs.Mn.)	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,138	2,464	3,220	4,025	4,830
EBITDA	580	831	944	1,180	1,416
% growth	7.9	43.3	13.6	25.0	20.0
PAT	313	461	609	761	915
EPS (INR)	11.7	15.0	19.8	24.7	29.7
P/E (x)	139.4	108.9	82.5	66.0	54.9
RoE (%)	13.9%	9.7%	11.7%	13.4%	14.7%

- MTAR Technologies has reported 68.4% YoY growth in revenue in Q1FY23 to Rs.910mn led by 87% YoY growth in clean energy segment and 25% YoY growth in space & defence.

Stock Data

Market Cap (Rs. Mn)	50,287
Market Cap (\$ Mn)	604.4
Shares O/S (in Mn)	30.8
Avg. Volume (3 month)	199,000
52-Week Range (Rs.)	2,563.30 / 1,205.00

Shareholding Pattern

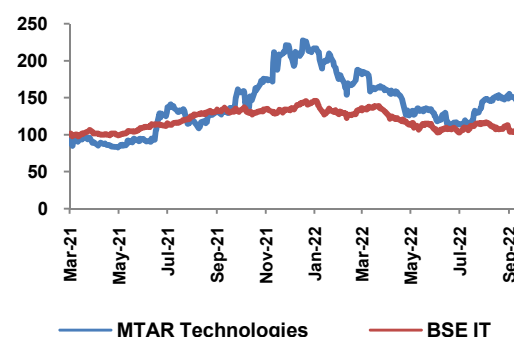
Promoters	47.47%
FII's	2.30%
Institutions	27.26%
Others (incl. body corporate)	22.97%

Key Ratios

Div Yield	0.2%
TTM PE	73.2x
ROE	12.5%
TTM EPS (Rs.)	22.3/-

Stock Performance

Performance (%)	1M	6M	1Yr
Absolute	-2.5%	-5.5%	-5.9%
BSE IT	3.2%	-11.8%	-21.9%



- MTAR Technologies' EBITDA improved by 72.4% YoY in Q1FY23 to Rs.250mn. However, EBITDA margin only improved by 60bps YoY to 27.4% in Q1FY23 mainly due to miss in nuclear segment revenue (-30% YoY), where deliveries are majorly scheduled in Q2-Q3FY23E.
- MTAR Technologies' order intake was Rs.2,030mn in 1QFY23 leading to total order book of Rs.7,660bn. Out of fresh order intake, Bloom Energy new order was Rs.1,750mn (i.e. ~86% of fresh order was from Bloom Energy alone).

Key Business Highlights

- MTAR Technologies is engaged in business of manufacturing various machine equipment, assemblies, sub-assemblies, and spare parts for Clean Energy (63% of FY22 revenue), Space & Defence (18%), Nuclear (14%) and other segments such as Oil & Gas (5%).
- Clean Energy business is MTAR Technologies' biggest revenue contributor by virtue of the long-standing relationship with its largest client, Bloom Energy (global leader in solid oxide fuel cell).
- Under Space & Defence, MTAR Technologies supplies components and assemblies such as liquid propulsion rocket engines, cryogenic engines, base shroud & fin assembly and various missile parts.

Valuation

- MTAR Technologies' space & defence segment is primarily focused on manufacturing and assembly of critical components like liquid propulsion engines, cryogenic engines, turbo pumps and electric modules to serve space launch vehicles as well as assembly of base shroud, SITVC and HFTC valves for DRDO and actuators for light combat aircrafts. In the space segment, ISRO is the main client of MTAR Technologies while in defence business it caters to companies like DRDO and HAL and international companies primarily from Israel like Rafael, Elbit, IAI, and Bental. Government initiatives such as NewSpace India (NSIL) and spacecom policy 2020 are aimed at enhancing the share of private players in the Indian space program with government looking to outsource end-to-end production of PSLVs and SSLVs to private players which will provide MTAR Technologies additional opportunities beyond ISRO.
- MTAR Technologies primarily imports raw materials (specialized alloys) from third-party suppliers based out of Brazil and the US. It follows a stringent vendor qualification process that enables it to periodically monitor its suppliers with regards to the quality of materials supplied and corresponding prices. MTAR Technologies does not have long-term contracts with any of its raw material suppliers, but it has maintained long-term relationships with its major suppliers. This enables it to derive better insights of the markets for its raw materials, leading to better management of the raw material supply chain and greater predictability of supply.
- With a leading player in precision engineering industry, developed 7 manufacturing facilities in Hyderabad including an EOU, supplies ~70–80% of the hot boxes required by Bloom Energy and NewSpace India & spacecom policy 2020 provide additional opportunities beyond ISRO, we value MTAR Technologies at 67.0x FY24E EPS of Rs.29.70 to arrive at target price of Rs.1,992.00, an upside of ~22%.

Risk & Concern

- MTAR Technologies is highly dependent on Bloom Energy as it accounts for over 60% of revenue. Any change in relationship with Bloom may materially impact the growth of the company.
- MTAR Technologies is highly dependent on technology, any inability to scale up to newer technologies may affect future order inflow.
- Any inordinate delays in order placement by client may have adverse impact on margins of MTAR Technologies.

Graphs & Charts

Figure 1: Net Sales Trend

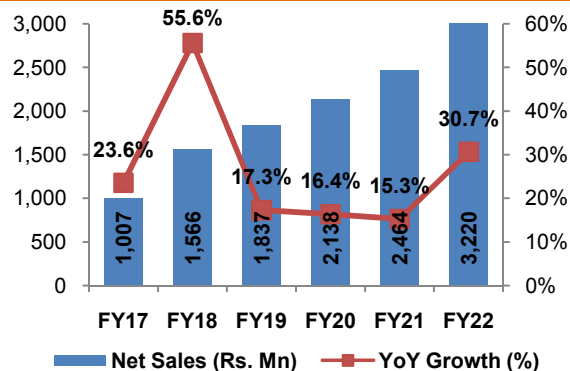


Figure 2: EBITDA & EBITDA Margin Trend

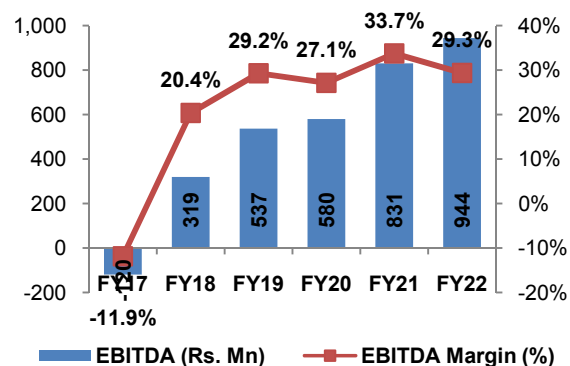


Figure 3: PAT Trend

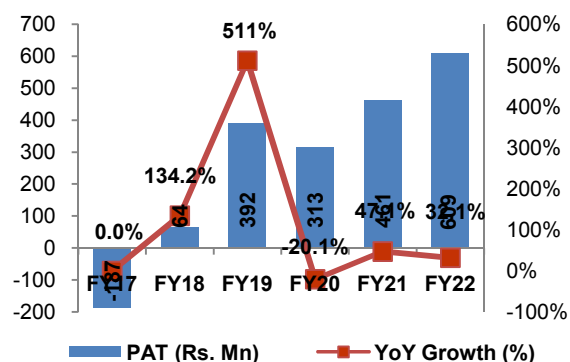
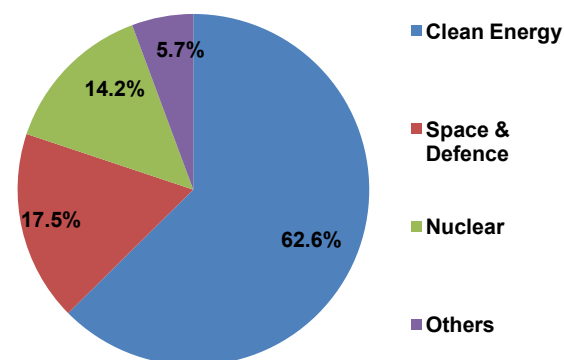


Figure 4: Segment-Wise Revenue (FY22)



Name
Rajesh Sinha

Designation
Sr. Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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