

IPO note: MTAR Technologies Limited - "SUBSCRIBE for listing gains"

March 03, 2021

MTAR Technologies Limited ("MTAR Technologies") was incorporated on November 11, 1999. 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 like rocket engines and satellites, gearboxes for fighter aircraft, complex assemblies for nuclear power reactors and hydrogen box used in fuel cells, through their precision machining, assembly, testing, quality control, and specialized fabrication competencies, some of which have been indigenously developed and manufactured. The Company owns seven manufacturing facilities in Hyderabad, including an export-oriented unit.

Serves strategically important sectors

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.

Clean Energy (49.33% of topline): MTAR is 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. Around 50 percent of its revenue derived from export to Bloom Energy, which is a major global player in fuel cell technology. MTAR Technologies is a sole supplier from the Indian market to Bloom Energy as of Fiscal 2020. In FY20 and 9MFY21, revenue from customers in the clean energy sector accounted for 64.34 percent and 49.33 percent, respectively, of total revenue from operations.

Nuclear Sector (27.13% of topline): MTAR has been serving customers in the nuclear sector for over 35 years, and has established relationships with the Nuclear Power Corporation of India Ltd. ("NPCIL") having served them for over 16 years. They manufacture and supply specialized products such as fuel machining head, drive mechanisms, bridge and column and coolant channel assemblies, among others, not just for the new pressurised heavy water nuclear reactors, but also for refurbishment of the existing reactors. They have also supplied critical products such as grid plate, control plug and inclined fuel transfer machine for the prototype fast breeder reactor.

Space and Defence (20.59% of topline): MTAR Technologies is also a key supplier of mission critical components to customers within the space and defence sectors for their programs of national importance. Through their long-standing relationships of over three decades and 4 decades with customers such as the Indian Space Research Organisation ("ISRO") and the Defence Research and Development Organisation ("DRDO"), they have been able to supply specialized products to the Indian space programme and the Indian missile programme, respectively. For instance, their offerings to ISRO comprised a wide variety of mission critical components and critical assemblies such as liquid propulsion engines, components and assemblies for cryogenic engines, specifically turbo pumps, booster pumps, gas generators and injector heads for such engines, and electro-pneumatic modules to serve its space launch vehicles. Within the defence sector, they undertook complex assemblies for the DRDO, including such as the base shroud assembly (for Agni missiles), and the assembly of secondary injection thrust vector control ("SITVC") valves and hydraulic fin tip control ("HFTC") valves. In addition, they also supplied critical defence products such as aluminium weldments and other machined components to their international customers including, an Israeli defense technology company.

Strong order book

The Order Book as on Dec. 31, 2020 was Rs. 336.19 crore, comprising of order book in the clean energy sector of Rs. 80.19 crore, the nuclear sector of Rs. 93.19 crore and the space and defence sectors of Rs. 160.61 crore respectively.

Issue date	March 03 - March 05, 2021
Listing date	March 16, 2021
Price Band	Rs. 574 - Rs. 575 (Face value: Rs.10)
Bid lot	26 equity shares and in multiples thereof
Issue size & type	Issue size: Rs. 596.41 crores Fresh issue: Rs. 123.51 crores Offer for sale: Rs. 472.89 crores by promoter group
Issue structure	QIB – 50 %, NIB – 15%, Retail – 35%
Post issue shares	3.07 crore equity shares
Promoter holding	Pre issue: 62.24%/Post issue:50.25%
Post issue market cap	Rs. 1,769 crores
BRLM	JM Financial, IIFL Securities
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (Rs. crores)	9MFY21	FY20	FY19	FY18
Topline	177	214	184	160
EBITDA	54	62	56	33
EBITDA (%)	30.2	28.57	30.10	20.44
Profit after tax	28	31	39	5.4
PAT margin (%)	15.8	14.65	21.34	3.40
Equity share cap.	26.76	26.76	28.21	28.21
Networth	246	225	235	206
Debt/Equity (x)	0.27	0.13	0.12	0.10
Post IPO EPS (Rs.)	12.16#	10.09	12.70	1.76
P/E (x)	47	57	45	326
RoE (%)	11.43	13.91	16.68	2.64

Source: RHP, # denotes P/E and ROE on annualised H1FY21 numbers

Marquee clients

The Company's key customers include NPCIL, Indira Gandhi Centre for Atomic Research, ISRO, and the DRDO, among others. In addition, they also supply their products to international companies such as Bloom Energy and an Israeli defense technology company.

Investment recommendation and rationale

At the upper end of the price band of Rs. 575, the Company's IPO is valued at P/E of 47x on 9MFY21 annualised EPS and is expected EV/EBITDA multiple of over 20x which is very expensive. The Company will always enjoy scarcity premium post listing as it operates in a specialized niche segment with strong entry barriers or moat it enjoys owing to its technological expertise built over the years with no major listed peers. We recommend "SUBSCRIBE for listing gains" to the issue due to the following factors: a) Company strongly positioned to tap opportunities in the clean energy, defence and space programmes, b) major beneficiary of increasing thrust by Government of India on sectors like Defence, clean energy and space research, c) precision engineering expertise with complex product manufacturing capability, d) wide product portfolio leading to long-standing relationships with marquee customers, e) modern technology at state-of-the-art manufacturing facilities, f) strong and diversified supplier base for sourcing of raw materials, g) capitalize on upward trend of nuclear sector in India, increasing indigenization and policy initiatives in the defence sector, and commercialization of Indian space sector, h) decent return ratios and low debt/equity of 0.27x as 9MFY21.

Background

The company was incorporated as 'MTAR Technologies Private Limited' on November 11, 1999. The company was initially constituted on July 23, 1970 as a partnership firm under the name 'M/s Machine Tools Aids and Reconditioning' (the "Partnership Firm") between K. Satyanarayana Reddy and P. Ravindra Reddy. As on the date, the Promoters of the company are Parvat Srinivas Reddy, P. Leelavathi, K. Shalini, D. Anitha Reddy, C. Usha Reddy, G. Kavitha Reddy, Anushman Reddy, P. Kalpana Reddy, Saranya Loka Reddy, A. Manogna and M. Madhavi and the Promoters hold 14,287,337 Equity Shares in aggregate, representing 53.39% of the issued, subscribed and paid-up Equity Share capital of the company. The company has undertaken a Pre-IPO Placement of 1,851,851 Equity Shares at a price of Rs.540/- per share, aggregating to Rs. 100 crore as under:

Name	No. of equity shares	Amount (Rs. in crores)
SBI Magnum Global Fund	425,926	23
SBI Contra Fund	425,926	23
SBI Small Cap Fund	444,444	24
Axis Regular Saver Fund	12,963	1
Axis Small Cap Fund	444,444	24
Axis Children's Gift Fund	98,148	5
	1,851,851	100

Source: RHP

Competition Mapping

There is no direct comparable on apple to apple to basis which operates in all the segments like MTAR Technologies. However, the following matrix suggests some players in different segments in which MTAR operates. The Company has an edge over its peers owing to Company's past experience in the supply of their products, ability to meet specific technical requirements of their customers, reputation for quality and safety features present in their products, financial strength, and the price competitiveness of their offerings, has not only strengthened their position in the market but also has enabled them to establish and maintain relationships with their customers.

Nuclear sector	Space and defence sectors
Larsen & Toubro Heavy Engineering	Larsen & Toubro
Godrej & Boyce Manufacturing Co. Ltd.	Godrej & Boyce Manufacturing Co. Ltd
	Hindustan Aeronautics Ltd.
	Walchandnagar Industries

Source: RHP

Financial performance of peers (Rs. in crores)

Company	Year	Operating income	OPBDIT	PAT	OPM (%)	PAT margin (%)	ROCE (%)	Gearing (x)	Current ratio
Mahindra Defence	FY20	307	42	19	13.7	6.2	16.3	-	2.2
Alpha Design Technologies	FY19	233	30	7	12.9	2.8	2.8	0.2	1.9
Vem Technologies	FY19	156	36	9	22.8	5.5	5.5	0.9	1.1
CIM Tools	FY19	152	34	15	22.1	10.1	10.1	1.7	1.2
MTAR Technologies	FY20	214	61	30	28.5	14.0	14.0	0.1	1.5
Schaeffler India	FY19	4,367	641	368	14.7	8.4	8.4	-	3.6
SKF India	FY20	2,849	357	289	12.5	10.1	10.1	-	3.4
Timken India	FY20	1,622	373	246	23.0	15.2	15.2	-	3.7
Godrej & Boyce	FY20	11,408	844	224	7.4	2.0	2.0	0.4	1.2
L&T	FY20	1,46,307	23,654	10,894	16.2	7.5	7.5	2.2	1.2

Source: RHP, Note: L&T and Godrej & Boyce are diversified businesses with several other business units. The financials of these companies represent all the business units under the company.

Objects of the issue

- 1) Fresh issue:
 - a) Repayment or prepayment in full or part borrowings availed by the Company - Rs. 63 crores
 - b) Funding working capital requirements - Rs. 95 crores
- 2) Offer for sale: Rs. 472.89 crores by Promoter group

Key concern

- 1) Expensive valuation - High P/E multiple of 47x and expected EV/EBITDA multiple of over 20x which is expensive



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