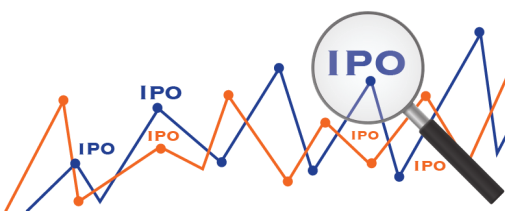




MTAR Technologies Limited

Issue Opens	Wednesday, March 03, 2021
Issue Closes	Friday, March 05, 2021
Price Band (in Rs)	574/575
Bid Lot	26 shares and multiples thereafter



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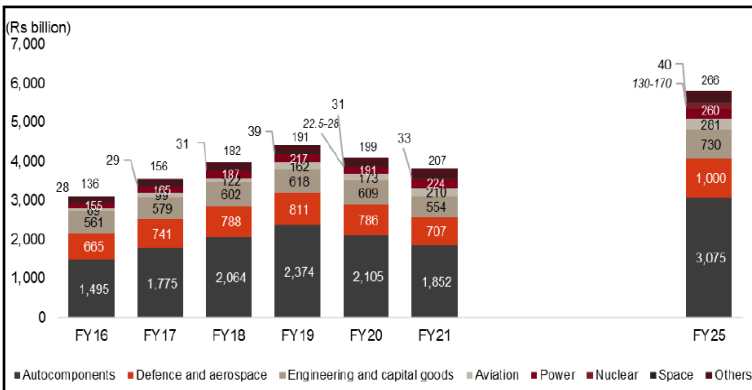
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Industry Overview:

The domestic precision engineering industry's turnover is estimated at Rs4,415bn for FY19, clocking a CAGR of 7.1% between FY16 and 2020. India's manufacturing GVA constitutes 17-18% of the total GVA; which increased from 17.4% in FY12 to 18.1% in FY20. The precision engineering industry will benefit from the supportive government policies for manufacturing and engineering sectors. It will also gain from growth in the machinery and equipment industry and rise in penetration of high technology machinery for manufacturing. Precision engineering is expected to log 6-7% CAGR between FY20 and FY25 to reach Rs5,550-6,550bn by FY25.

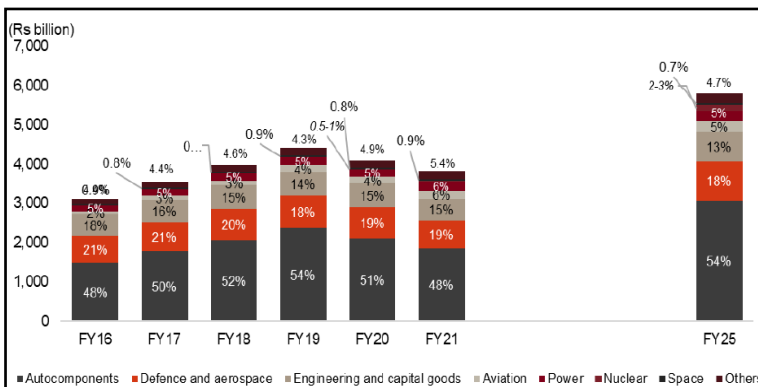
India's engineering sector is divided into two segments: heavy and light engineering. Precision engineering is a sub-discipline of engineering and is concerned with manufacturing and assembling items that have exceptionally low tolerance and are required to perform consistently over longer repeat cycles. Precision engineering products and components are especially important for critical applications such as aviation, aerospace, space, defence and nuclear power plants, control equipment for process plants, where errors can cause greater damage.

Exhibit 01: Growth in Precision Engineering End-user segments (Rs bn)



Source: Company RHP

Exhibit 02: Contribution from End-user Segments to Precision Engineering Industry (%)



Source: Company RHP

Auto components has the highest share in the precision engineering market, followed by defence and aerospace and aviation sectors. Defence and aerospace segment forms 18-20% of the precision engineering market and is valued at Rs786bn in FY20. It is the largest segment after auto components.

Please Turn Over

SNAPSHOT		
Issue Opens	Wednesday, March 03, 2021	
Issue Closes	Friday, March 05, 2021	
Price Band (Rs)	574/575	
Bid Lot	26 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Offer for Sale & Fresh Issue	
Offer Size (Rs Mn)	Fresh Issue	1,235
	OFS	4,729
	Total	5,964
*Implied Market Cap (Rs Mn)	17,687	
P/E (based on FY20 Earnings)*	56.5	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs575

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

Object of the Offer	
<ul style="list-style-type: none"> Repayment / prepayment in full or in part, of borrowings availed by the company Funding working capital requirements General corporate purposes 	

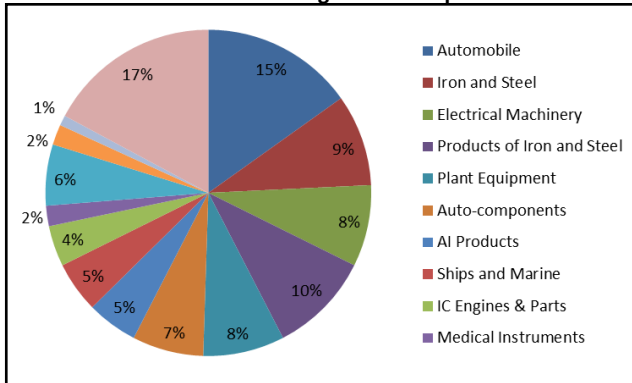


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Industry (contd) :

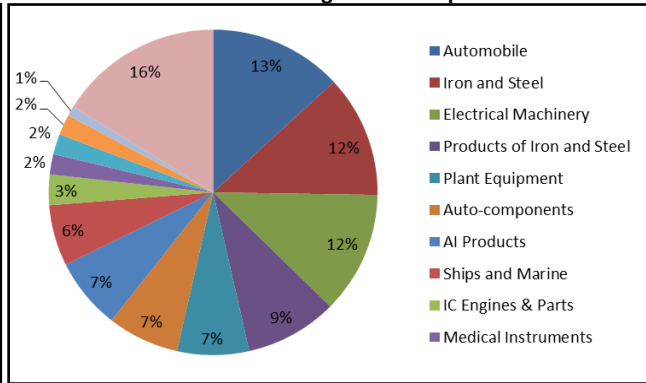
Exports contributed 19% of precision engineering turnover in FY20. Exports have been growing at par with domestic industry demand for precision engineering products as players have made huge investments in India for manufacturing.

Exhibit 03: Share of end-use segments in exports in FY16



Source: Company RHP, Progressive Research

Exhibit 04: Share of end-use segments in exports in FY20



Source: Company RHP, Progressive Research

Growth Drivers:

The precision engineering industry will continue to expand as India increases its focus on manufacturing. Government of India is aiming to raise the contribution of manufacturing to 25% of GDP by 2025 from current 17-18%. Technological advancements, foreign direct investment and strong government initiatives are the key growth drivers of the manufacturing sector. Demand for precision engineering components is expected to get a boost from end-use sector growth on account of improvement in ease of doing business, investments in infrastructure and supportive government policies, growth in the automotive and auto components industry and the government's focus on strategic sectors such as defence and aerospace. As precision engineering segment requires high accuracy in machining, positional and dimensions, technology investments in plant and machinery and past experience plays a very critical role. Especially in sectors such as defence, space, nuclear where accuracy and quality are extremely important. This creates entry barriers for new players in the precision engineering market and growth for new entrants is slow as compared to established players.

About the Company: MTAR Technologies Ltd (MTAR) 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 precision machining, assembly, testing, quality control and specialized fabrication competencies, some of which have been indigenously developed and manufactured. The company serves customers in the clean energy, nuclear and space and defence sectors.

The company was incorporated in 1999, however it commenced operations from 1970 only, through a partnership firm. The company manufactures critical and differentiated engineered products, customized to meet specific requirements. MTAR relies on its past experience in the supply of products, ability to meet specific technical requirements of customers, reputation for quality and safety features of its products, financial strength, and the price competitiveness to strengthen its market position and qualify for securing tenders in the nuclear and space and defence sectors. Bloom Energy Inc. (USA) is a major customer for the company to whom MTAR provides slew of products (power units, hot boxes, and MTAR is involved in the development and manufacture of hydrogen boxes and electrolyzers) in the clean energy. Within the nuclear sector, the company produces 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. MTAR also serves to Nuclear Power Corporation of India Limited. In the space and defence sector key customers for the company includes Indian Space Research Organisation and Defence Research and Development Organisation among others. The company provides wide variety of mission critical components and critical assemblies such as liquid propulsion engines, components and assemblies for cryogenic engines, etc. to ISRO, while MTAR provides base shroud assembly (for Agni missiles), and the assembly of secondary injection thrust vector control ("SITVC") valves and hydraulic fin tip control ("HFTC") valves etc.

Competitive Strengths:

- Precision engineering expertise with complex product manufacturing capability
- Wide product portfolio leading to long-standing relationships with its customers
- Modern technology at its state-of-the-art manufacturing facilities
- Strong and diversified supplier base for sourcing of raw materials
- Track record of growth in financial performance
- Experienced and qualified management team



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MTAR Technologies Limited

Business Strategies:

- Continue to strengthen the existing product portfolio and diversify into products with attractive growth and profitability prospects
- Capitalize on upward trend of nuclear sector in India, increasing indigenization and policy initiatives in the defence sector, and commercialization of Indian space sector
- Focus on deepening and strengthening relationships with existing customers as well as catering to new customers
- Expand international presence including through increase in exports
- Grow manufacturing capacity and increase market share through organic and inorganic routes
- Continue to strive for operational efficiencies, supply chain rationalisation and effective planning

Product Offerings:

Customer Sector	Product	Application
Clean energy sector	Power units	Acts as a reactor for fuel cells
Nuclear sector	Fuel machining head	Involves manufacture and assembly of 600 components. Used for loading and unloading of fuel bundles in nuclear reactors
	Bridge and column	Moves fuel machining head in sideways and vertical directions to allow loading and unloading of the various nuclear fuel bundles in the nuclear reactor
	Grid plate	Consists of 1,758 holes in top and bottom plate and is used for resting the fuel sub-assemblies in prototype fast breeder reactor
	Sealing plug, shielding plug, liner tubes and end fittings	Involves assembly of large number of components and used in the core of civilian reactor
	Drive Mechanisms	The drive mechanisms are critical and even a slight deviation in the end product is not acceptable as they are used for regulating purpose and shutdown of nuclear reactors under normal and undesirable operating conditions
	Top hatch cover beams and deck plate assembly	Requires high positional and dimensional accuracies
	CHAS	Used for inspection in fuel machining vault. CHAS is one of the few products where the detailed design is also developed by MTAR apart from manufacturing and assembly
	Ball screws and water lubricated bearings	Import substitutes used in various assemblies such as actuators etc. in the reactor
Space and Defence	Base shroud assembly and air frames	Used in Agni missiles such as A1, A2, A3, A4, A5, A1 P.
	Actuator assembly components	Used in space launch vehicles
	Components for LCA	Actuators used in landing gear and flaps of LCAs
	Various missile parts	Used in various missile programs undertaken by DRDO
	Valves	Used in satellites. Latchable series redundant valves (“LSRV”) is an example of an electro-pneumatic valve, manufactured by the company, which is used in satellites and weighs between 300 - 310 grams
	Electro-pneumatic modules	Used in space launch vehicles – PSLV and GSLV for various space missions such as Chandrayaan-II and Mangalyaan
	Liquid propulsion engines	
	Cryogenic engines (turbo, pumps, booster pumps, gas generators and injector heads for such engines)	
	Ball screws and water lubricated bearings	Import substitutes used in various assemblies such as actuators etc. in space launch vehicles, missiles etc.

Source: Company RHP, Progressive Research



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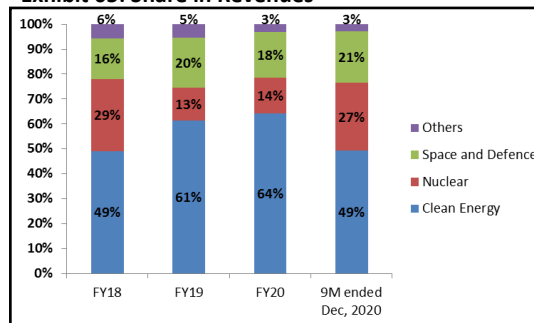
MTAR Technologies Limited

Risks and Concerns:

- The company depends on Bloom Energy Inc. and a limited number of other customers for a significant portion of revenues
- The company depends significantly on orders from the NPCIL, ISRO and DRDO
- MTAR relies on purchase orders to govern the volume and other terms of the sales of the products
- The Covid-19 pandemic and resulting deterioration of general economic conditions has impacted the business and results of operations
- Volatility in the supply of raw materials may have an adverse effect on its business
- Pricing pressure from customers may adversely affect the gross margin, profitability and ability to increase prices, which in turn may materially adversely affect business, results of operations and financial condition
- Negative cash flows may adversely affect its financial condition, results of operations and prospects
- Exchange rate fluctuations may adversely affect results of operations
- Some of the promoters are involved in certain legal proceedings any adverse developments related to which, could adversely affect reputation, business and cash flows
- The company is subject to risks arising from interest rate fluctuations, which could reduce the profitability of projects and adversely affect business, financial condition and results of operations

Financials: The company has shown robust performance over the years as revenue from operations grew Rs1,596mn in 2018 to Rs2,138mn in 2020 and Rs1,773mn for 9 month ending December 2020. Profit after tax grew by CAGR of 140.31% to Rs313mn in 2020 from Rs54mn in 2018. For 9 months ending December 2020, company has reported profit of Rs281mn. Ebitda margins have been stable at around 27%+ in the last 2 years. MTAR has a healthy order book of Rs3,361.91mn comprising of clean energy sector, the nuclear sector and the space and defence sectors of Rs801.86mn, Rs931.86mn and Rs1,606.10mn, respectively. The company has a strong balance sheet, Debt to Equity is at 0.13 in FY20 and return on capital for FY20 stood at 19.78%.

Exhibit 05: Share in Revenues



Source: Company RHP, Progressive Research

Exhibit 06: Financials Snapshot

Revenues (Rs mn)	FY18	FY19	FY20	9M ending Dec,2020
Sales	1,596	1,837	2,138	1,773
EBITDA	319	537	580	530
EBITDA Margin	20.0%	29.2%	27.1%	29.9%
Net Profit After Tax	54	392	313	281
Net Profit Margin	3.4%	21.3%	14.7%	15.8%
Earning Per Share	1.9	13.9	11.1	10.5
RoNW	2.6%	16.7%	13.9%	11.4%

Source: Company RHP, Progressive Research

Outlook and Recommendations: MTAR has precision engineering capabilities to build nuclear and pressurized water reactors, aerospace engines, missile systems, aircraft components and many such other critical components and assemblies. The company has 6 manufacturing units along with an export oriented unit and places huge emphasis on R&D. It's high value, niche products provide a competitive edge to the company. It has a healthy order book, competitive edge, superior profitability as compared to peers. MTAR not being a typical defence or capital goods company, has a healthy order book at 1.7x FY20 revenues and superior profitability ratios as compared to its peers. The company has grown at 16.5% CAGR over the last 3 years at the topline, 140% at PAT levels while its Ebitda margins were reported at 27.1% in FY20. It has a significant interest coverage ratio and the lowest gearing ratio in the industry. At the higher price band of Rs575, the stock is valued at 56.5x based on FY20 earnings. The company does not have listed peers and enjoys limited competition for its products. The company enjoys a reputed clientele which includes the likes of ISRO, Bloom Energy, DRDO, Rafael among others. The company actively pursues development of import substitutes and indigenous products and thus is aptly placed to benefit from the curb on import of 101 defence related products. Furthermore, betting on the positive sentiment hovering around the space and defence sector due to Make in India and Atmanirbhar Bharat missions we assign a '**SUBSCRIBE**' rating to the IPO with a long-term perspective.



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MTAR Technologies Limited

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