



Building Nation with Exceptional Engineering

SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Precision Engineering
Offer for sale (Shares)	8,224,270
Fresh Issue (Shares)	2,148,149
Total Offer	10,372,419
Issue Size (Rs. Cr.)	595-597
Price Band (Rs.)	574-575
Offer Date	3-Mar-21
Close Date	5-Mar-21
Face Value	10
Lot Size	26

Issue Composition

	In shares
Total Issue for Sale	10,372,419
QIB	5,186,210
NIB	1,555,863
Retail	3,630,347

About the Company

Incorporated in 1999, MTAR Technologies is a leading national player in the precision engineering industry. The company primarily serves customers in the nuclear, space and defence, and clean energy sectors. 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. Some of its esteem clients are ISRO, NPCIL, DRDO, Bloom Energy, Rafael, Elbit, etc. 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.

Strength

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 its customers in the clean energy, nuclear, and space and defence sectors in India, and abroad. It also has experienced personnel who undertake procedures and inspections such as radiography, ultrasonic, magnetic particle and dye penetrant at its non-destructive testing (“NDT”) facilities. In order to enhance its product offerings, it has leveraged its adaptability and manufacturing agility by continually investing in their manufacturing facilities including in R&D, over the years. Its operations are supplemented by R&D, a critical part of its business capability that is undertaken primarily for its manufacturing processes. As of December 31, 2020, the company employed 14 engineers, 6 designers, and 4 technicians in their process planning and methods team.

Wide product portfolio leading to long-standing relationships with 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. The aggregate Order Book as on December 31, 2020 was Rs.336.19 crore, comprising 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.

Modern technology at state-of-the-art manufacturing facilities:

The company operates through its 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. It believes that through the continued investments in its facilities, it has been able to develop an efficient, technology driven manufacturing process that has helped it to manufacture its products in accordance with the requirements and specifications of its customers in a cost-effective manner. It uses modern technology along with its entire manufacturing and production process as it serves customers such as NPCIL, ISRO and DRDO, among others, and accordingly, ensuring that its products conform to the specific requirement, becomes extremely essential.

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. The materials utilized for products catered to the clean energy and nuclear sectors, and

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	62.24%	50.25%
QIB	37.76%	32.89%
NIB	0.00%	5.06%
Retail		11.80%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To partly or fully repay company’s borrowings.
- To finance company’s working capital requirements.
- To meet general corporate purposes.

Book Running Lead Manager

- JM Financial Limited
- IIFL Securities Limited

Name of the registrar

- KFin Technologies Private Limited

other consumables and bought-outs are mostly sourced from third party suppliers, both domestic and global. The company believes its strong relationships with its raw material suppliers enable it to obtain good quality raw materials within the prescribed timelines. It continually strives to maintain strong relationships with its suppliers in order to derive better insight into the markets for its raw materials, which helps it to manage its raw material supply chain, resulting in greater predictability of supply and, consequently, a greater ability to meet production schedules and achieve on-time delivery for its customers.

Track record of growth in financial performance: The company has able to increase its total income at a CAGR of 16.56% during the last 3 Fiscals, from Rs.160.55 crore in Fiscal 2018 to Rs.218.14 crore in Fiscal 2020. The EBITDA has grown at a CAGR of 37.80% from Fiscal 2018 to Fiscal 2020. In the Fiscals ended 2018, 2019 and 2020, and in the 9 months ended December 31, 2019 and December 31, 2020, the return on capital employed was for 9.59%, 16.96%, 19.78%, 13.90% and 14.20%, respectively. Further, as on March 31, 2020 and as on December 31, 2020, the debt equity ratio was 0.13 and 0.27, respectively, as compared to 0.07 as on December 31, 2019, 0.12 as on Fiscal 2019 and 0.10 as on Fiscal 2018. The strong financial position and results of operations have enabled it to invest in key machining, assembly, fabrication and quality control infrastructure, and in R&D.

Strategy

Continue to strengthen its existing product portfolio and diversify into products with attractive growth and profitability prospects: The company seeks to leverage its capabilities, including its manufacturing facilities and quality control practices, to not only expand its product portfolio in the existing segments but also enter new business segments. As on December 31, 2020, its major product portfolio includes three kinds of products in the clean energy sector, 14 kinds of products in the nuclear sector and six kinds of products in the space and defence sectors. It intends to enhance its capabilities and hence grow value chains to supply critical and differentiated engineered products with a healthy mix of developmental and volume-based production. It intends to draw on its experience, market position and ability to timely deliver quality products to successfully foray into other sectors as well as to foreign geographies and establish a robust relationship with customers in the clean energy, nuclear, and space and defence sectors.

Capitalize on upward trend of nuclear sector in India, increasing indigenization and policy initiatives in the defence sector, and commercialization of Indian space sector: As it is one of the few companies to have secured orders from the NPCIL in the past, and has been able to deliver successfully on these mandates, it believes that it is well positioned to not only capitalize on this opportunity, especially in view of the fact that it has manufacturing facilities to undertake projects for fits reactors at any given point of time, but also take advantage of future orders placed by the NPCIL and other Indian public sector undertakings. It believes that the Company is well-poised to capitalize on the opportunities and thereby contribute to the 'Atma-Nirbhar Bharat' initiatives by the Government of India, creating value for all of the stakeholders involved, in the process.

Focus on deepening and strengthening its relationships with its existing customers as well as catering to new Customers: The company has over the years established long-term relationships with its customers leading to recurrent business engagements with them. It plans to continue to focus on customers with whom it has long-standing relationships in order to develop and supply more sophisticated, higher margin products. Its Company has, along with its customers, been playing a key role in the co-development of quality products for key national programs such as Chandrayaan and Mangalyaan missions. In addition, its Company, along with a nuclear research facility is engaged in developing Channel Health Assessment System ("CHAS") and the detailed design, engineering, manufacturing and assembly is under process at one of its manufacturing facilities. As a result of this, it believes it may be difficult to replace it, especially given the steep learning curve and its investment in advanced manufacturing facilities and precision requirements. It also believes that given its relationship with its international customers, it shall be the one of the preferred suppliers in any potential defence offset transaction that such customer may be a part of. It believes that its customer retention levels reflect its ability to provide high quality products, and its consistent customer servicing standards have enabled it to increase its customer dependence on the company. It continues to strive

to understand its customers' business requirements and provide products that maximize their returns. It anticipates that its product offerings, the quality thereof and leadership in key product segments will help the company in increasing its share of business amongst its existing customers as well as increase its customer base.

Expand international presence including through increase in exports: A certain portion of its business operations are focused on exports to international customers. Further, its Company has recently acquired a new international customer operating in the clean energy sector. In addition, it also supplied critical defence products such as aluminium weldments and other machined components to its international customers including, an Israeli defense technology company. It intends to continue to expand its international operations to enhance its global presence in the sectors it caters to. It seeks to identify markets where it believes it can provide cost and operational advantages to its clients and distinguish itself from other competitors. In addition, it intends to reach out to global OEMs who either currently have defence deals with India or have their business operations in India. It is also looking to enter into defence offset partnership with certain global OEMs and have incorporated its Subsidiary, Magnatar Aero Systems Private Limited in this regard.

Grow its manufacturing capacity and increase market share through organic and inorganic routes: The Company intends to strengthen its leading market position in niche manufacturing segment in India and achieve better economies of scale by establishing and acquiring additional facilities and expanding its existing production capacities. Over the years, it has consistently grown its manufacturing and production infrastructure through internal accruals. Consistent with past practice, it will look to add capacity in a phased manner to ensure that it utilizes its capacity at optimal levels.

Continue to strive for operational efficiencies, supply chain rationalisation and effective planning: It intends to continue to maintain or improve upon its benchmarks for cost structure. This cost structure sustainability shall be achieved over the years through emphasis on economies of scale, employment of learnings acquired in manufacturing end components, and in assemblies, and a robust supply chain developed for sitcing of specialised raw materials. For instance, owing to its consistent supply of products to Bloom Energy, its Company has been able to achieve cost reduction over the years. This has been possible through adoption of lean practices including in respect of supply chain and design as well as through reduction of operational costs.

Risk Factor

- The company depends on Bloom Energy and limited number of customers for significant portion of its revenue. Loss of any such customers may adversely affect its business, financial condition, result of operations and cash flows.
- The company depends significantly on orders from NPCIL, ISRO and DRDO. If there is any decline or prioritization of funding by Indian budget towards other departments, company would adversely impact.
- The company primarily relies on purchase orders to govern the volume and other terms of sales of its products. It does not have long term supply agreements with its customers.
- The company could make investments and acquisitions in the future and it involves integration costs. If the benefits are not realized as expected, it would have impact on the business.

Peer comparison

According to RHP, there are no listed entities in India whose business portfolio is comparable with that of MTAR business.

Valuation

Considering the P/E valuation of expected annualised FY21, on the upper end of the price band of Rs. 575, the stock is priced at pre issue P/E of 43.98x on its FY21 EPS of Rs. 13.07. Post issue, the stock is priced at a P/E of 47.28x on its EPS of Rs. 12.16. On the upper end of the price band of Rs. 575, the stock is priced at pre issue P/Bv of 6.70x on its FY21 BVPS of Rs. 85.84. Post issue, the stock is priced at a P/Bv of 4.67x on its BVPS of Rs. 123.04.

Considering the P/E valuation of expected annualised FY21, on the lower end of the price band of Rs. 574, the stock is priced at pre issue P/E of 43.90x on its FY21 EPS of Rs. 13.07. Post issue, the stock is priced at a P/E of 47.20x on its EPS of Rs. 12.16. on the lower end of the price band of Rs. 574, the stock is priced at pre issue P/Bv of 6.69x on its FY21 BVPS of Rs. 85.84. Post issue, the stock is priced at a P/Bv of 4.66x on its BVPS of Rs. 123.04.

Industry overview

The Rs 4,098 billion precision engineering industry (CRISIL Research's estimate for fiscal 2020), as defined by the products listed above, mainly caters to automobile components and industrial plant and equipment segments. The industry is estimated to contribute 3-4% of overall manufacturing output. India's manufacturing output increased at a CAGR of 4.9% in nominal terms between fiscals 2015 and 2020. Manufacturing gross value added (GVA) accounts for 14-15% of India's gross domestic product (GDP). The domestic precision engineering industry's turnover is estimated at Rs 4,415 billion for fiscal 2019, clocking a CAGR of 7.1% between fiscals 2016 and 2020. India's manufacturing GVA constitutes 17-18% of the total GVA; it increased from 17.4% in fiscal 2012 to 18.1% in fiscal 2020. Within manufacturing GVA, machinery and equipment (capital goods and engineering) GVA has grown faster than other segments. GVA at basic current prices from the manufacturing sector in India logged a CAGR of 9.8% (current prices) and 6.5% (constant fiscal 2012 prices) during fiscals 2016-2020. This growth was supported by the Make in India initiative and sectorspecific initiatives to boost manufacturing. The precision engineering industry will benefit from 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 fiscals 2020 and 2025 to reach Rs 5,550-6,550 billion by fiscal 2025. The growth in the industry will be driven by growth in auto-components domestic as well as export demand, and indigenous manufacturing in defence segment.

Outlook

MTAR Technologies is also a key supplier of mission-critical assemblies and components to customers within space and defence sectors for their programs of national importance to ISRO and DRDO. Its order book as on 3QFY21 stood at Rs3.36bn, comprising Rs801mn from clean energy, Rs932mn from nuclear sector and Rs1.6bn from the space and defence sectors. The management is confident of healthy double-digit growth in subsequent fiscals on the back of healthy opportunity in clean energy and defence segment. However, the issue looks very expensive.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 03, 2021
Bid/Offer Closing Date	March 05, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about March 10, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about March 12, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about March 15, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about March 16, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-20 (9 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from operations	177.27	213.77	183.67
Total expenditure	124.25	155.81	129.96
Operating Profit	53.02	57.97	53.71
OPM%	29.91	27.12	29.24
Other Income	0.72	4.37	2.24
PBDIT	53.74	62.33	55.95
Depreciation	9.33	12.05	11.23
PBIT	44.41	50.29	44.72
Interest	4.83	4.75	4.46
PBT	39.58	45.53	40.26
Exceptional item	0.00	0.00	1.29
Tax	11.53	14.22	2.36
Profit After Tax	28.06	31.32	39.19

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	155.03	154.96	162.04
Capital Work-in-Progress	18.86	11.74	5.61
Intangible assets	0.87	0.14	0.14
Financial assets			
Investments	0.01	0.01	0.01
Others	7.20	3.30	22.66
Non-current tax assets (net)	1.47	0.619	1.58
Other non-current assets	4.63	3.99	4.14
Total non-current assets	188.07	174.75	196.18
Current assets			
Inventories	79.15	75.46	41.07
Trade Receivables	73.12	61.64	50.42
Cash and cash equivalents	11.03	13.53	10.77
Bank balances other than cash and cash equivalents as above	10.52	9.70	0.00
Others	2.81	1.67	2.37
Other current assets	17.22	9.51	4.34
Total current assets	193.84	171.50	108.97
Total Assets	381.91	346.25	305.15
Non-current liabilities			
Borrowings	7.17	0.00	0.00
Provisions	3.30	2.38	0.56
Deferred tax liabilities (net)	9.95	5.31	0.03
Total Non-Current Liabilities	20.42	7.69	0.59
Current liabilities			
Borrowings	58.30	29.13	28.73
Total outstanding dues of micro enterprises and small enterprises	0.00	0.00	0.00
Total outstanding dues of creditors other than micro enterprises and small enterprises	14.53	30.56	5.98
Other Financial Liabilities	2.37	0.21	0.00
Provisions	2.57	3.43	0.83
Current tax liabilities (net)	0.00	0.92	1.17
Other current liabilities	38.11	49.25	32.88
Total current liabilities	115.88	113.51	69.59
Total Liabilities	136.30	121.20	70.18
Networth	245.61	225.06	234.97
Net worth represented by:			
Share capital	26.76	26.76	28.21
Other equity	218.85	198.32	206.76
NET Worth	245.61	225.08	234.97

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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