

MTAR Technologies

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR1,739 TP: INR2,100 (+21%) Buy

Clean energy business drags down earnings

Bloomberg	MTARTECH IN
Equity Shares (m)	31
M.Cap.(INRb)/(USD\$)	53.5 / 0.6
52-Week Range (INR)	2920 / 1600
1, 6, 12 Rel. Per (%)	-11/-11/-46
12M Avg Val (INR M)	884

Financials & Valuations (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	5.8	7.6	10.3
EBITDA	1.1	1.6	2.5
Adj. PAT	0.6	0.9	1.6
EBITDA Margin (%)	19.4	21.0	24.0
Cons. Adj. EPS (INR)	18.2	29.7	52.1
EPS Gr. (%)	-45.7	62.7	75.4
BV/Sh. (INR)	219.9	249.6	301.6

Ratios

Net D:E	0.2	0.2	0.1
RoE (%)	8.7	12.6	18.9
RoCE (%)	9.0	11.8	17.3

Valuations

P/E (x)	95.3	58.6	33.4
EV/EBITDA (x)	48.7	34.2	22.1

Shareholding pattern (%)

As on	Jun-24	Mar-24	Jun-23
Promoter	36.4	37.3	39.1
DII	16.0	18.1	28.0
FII	7.8	10.6	4.5
Others	39.9	34.1	28.3

Note: FII includes depository receipts

- MTARTECH reported a weak operating performance in 1QFY25 as revenue was down 16% and EBITDA declined by 52% YoY. The 1Q performance was largely affected by adverse operating leverage due to lower revenue from the clean energy segment (fuel cells/nuclear power), higher employee expenses and high costs of first article products being developed for potential customers.
- The management expects a strong performance in 2QFY25, with revenue crossing INR2b (highest quarterly revenue) and margins recovering to ~20% on the back of strong visibility from orders in hand.
- Factoring in the weak 1Q performance, we cut our EPS estimates for FY25/FY26 by 7%/9%. We retain our BUY rating on the stock with a TP of INR2,100 (40x FY26E EPS).

Weak margins led by adverse operating leverage

- Consolidated revenue stood at INR1.3b (-16% YoY, -10% QoQ). EBITDA declined 52% YoY to INR166m (-9% QoQ).
- EBITDA margins contracted 970bp YoY to 12.9% (+20bp QoQ), due to a 200bp YoY drop in gross margins to 47.9% (+260bp QoQ) and increase in other expenses/employee expenses as % of sales by 600bp/170bp YoY to 13.1%/21.8%.
- Adj. PAT declined 78% YoY to INR44m (-9% QoQ).
- Clean energy/civil nuclear declined 18%/89% YoY to INR13m/INR861m, while revenue for space/product & others/defence grew 25%/16%/11% YoY to INR86m/INR283m/INR40m.
- The order book as of Jun'24 stood at INR8.9b, with inflows of ~INR1,049m in 1QFY25. The order book mix was ~52%/16%/18%/7%/6% for clean energy/nuclear/space/defense/product & others.
- NWC days for 1QFY25 increased to 277 vs. 252 in Mar'24, largely due to an increase in inventory days to 245 (vs. 219), followed by an increase in receivable days to 98 (vs. 93), partially offset by an increase in payable days to 52 (vs. 50).

Highlights from the management commentary

- **Guidance:** Despite weak operating performance, the management maintained its revenue growth guidance for FY25 at 30-35%, with EBITDA margins of ~22% (+/-100bp). The management expects the highest quarterly revenue of INR2b in 2Q, with margins of ~20% (+/-100bp). The order book as on Mar'25 will be ~INR15b.
- **Clean Energy –Fuel cells:** The management indicated strong ordering traction from Bloom Energy (BE) and expects normalcy in orders, with 990/3,300 hot boxes to be delivered in 2QFY25/FY25. MTARTECH recently received an export order worth INR1.4b from BE.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- **Space & Aerospace:** The management expects 3x growth in this segment in FY25, backed by strong traction from ISRO and MNC aerospace companies added recently. The company has also recently entered into a long-term contract with IAI and Thales and will be soon signing a long-term contract with UK Aerospace.

Valuation and view

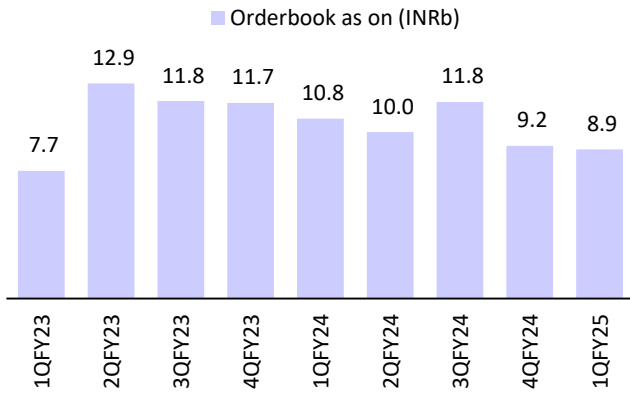
- MTARTECH witnessed a muted 1QFY25, largely due to the product transitioning impact from its key customer (BE) and muted nuclear execution. Going ahead, we expect the company to see a strong recovery in the remaining 9MFY25, led by recovery in order traction across verticals from existing and new clients. In the long term, we expect MTARTECH to witness strong broad-based growth across all business segments.
- We estimate a CAGR of 33%/48%/69% in revenue/EBITDA/adj. PAT over FY24-FY26, driven by a healthy order book growth trajectory across segments and improvement in margins.
- Factoring in the weak 1Q performance, we cut our EPS estimates for FY25/FY26 by 7%/9%. We retain our BUY rating on the stock with a TP of INR2,100 (40x FY26E EPS).

Consolidated - Quarterly Earning Model

Y/E March	(INR m)											
	FY24				FY25				FY24	FY25E	FY25	VAR
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	%
Gross Sales	1,526	1,668	1,184	1,430	1,283	1,969	2,013	2,359	5,808	7,623	1,297	-1%
YoY Change (%)	67.6	32.2	-26.1	-27.2	-15.9	18.0	70.0	65.0	1.2	31.3	-15.0	
Total Expenditure	1,180	1,307	945	1,247	1,117	1,584	1,549	1,771	4,681	6,020	1,064	
EBITDA	345	361	239	182	166	385	464	588	1,127	1,603	233	-29%
Margins (%)	22.6	21.6	20.2	12.7	12.9	19.6	23.0	24.9	19.4	21.0	18.0	
Depreciation	56	58	58	59	61	62	65	75	232	263	68	
Interest	57	55	56	55	48	50	52	55	223	205	52	
Other Income	41	8	5	4	5	25	28	30	58	88	24	
PBT before EO expense	273	257	129	72	62	298	375	488	730	1,223	137	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	273	257	129	72	62	298	375	488	730	1,223	137	
Tax	69	52	24	23	18	75	94	123	169	310	34	
Rate (%)	25.4	20.3	18.9	32.2	28.6	25.2	25.2	25.2	23.2	25.4	25.2	
MI & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	203	205	104	49	44	223	280	365	561	913	102	
Adj PAT	203	205	104	49	44	223	280	365	561	913	102	-57%
YoY Change (%)	25.4	-17.1	-66.8	-84.3	-78.2	9.0	168.5	649.5	-45.7	62.7	-49.7	
Margins (%)	13.3	12.3	8.8	3.4	3.5	11.3	13.9	15.5	9.7	12.0	7.9	

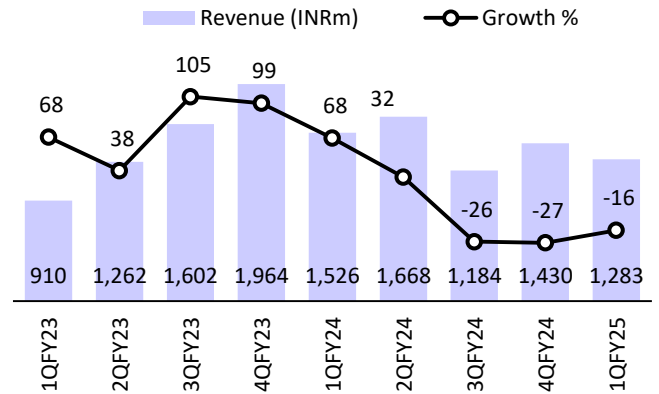
Key Exhibits

Exhibit 1: Consolidated order book trend



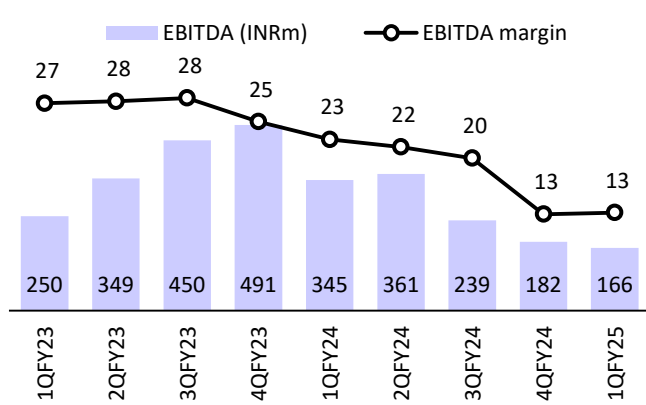
Source: Company, MOFSL

Exhibit 2: Consolidated revenue trend



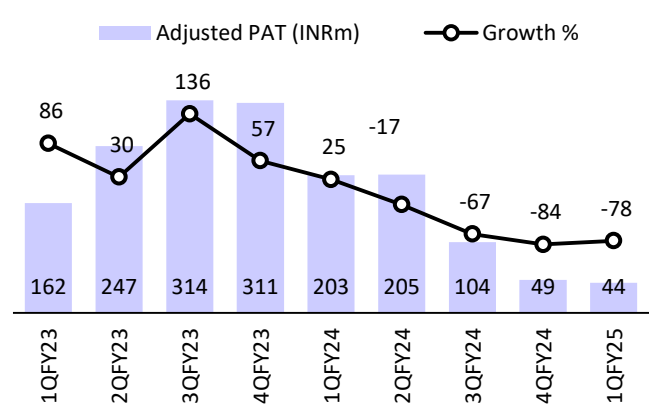
Source: Company, MOFSL

Exhibit 3: Consolidated EBITDA trend



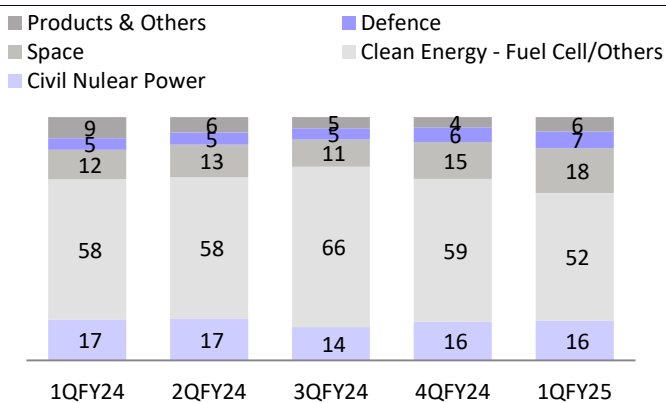
Source: Company, MOFSL

Exhibit 4: Consolidated Adj. PAT trend



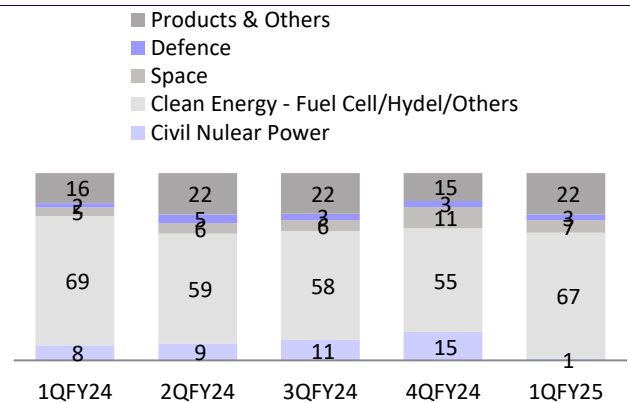
Source: Company, MOFSL

Exhibit 5: Segment-wise order book mix



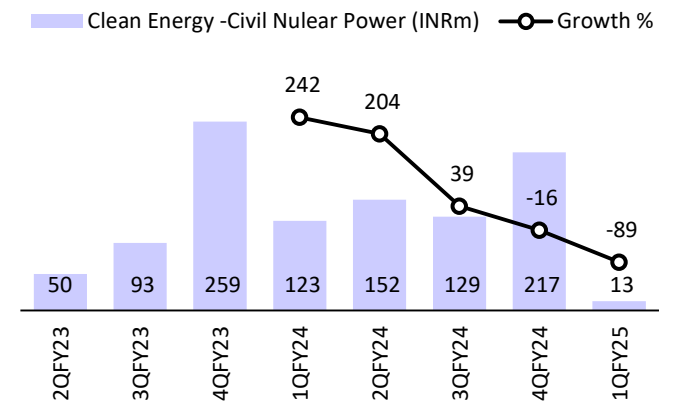
Source: Company, MOFSL

Exhibit 6: Segment-wise revenue mix



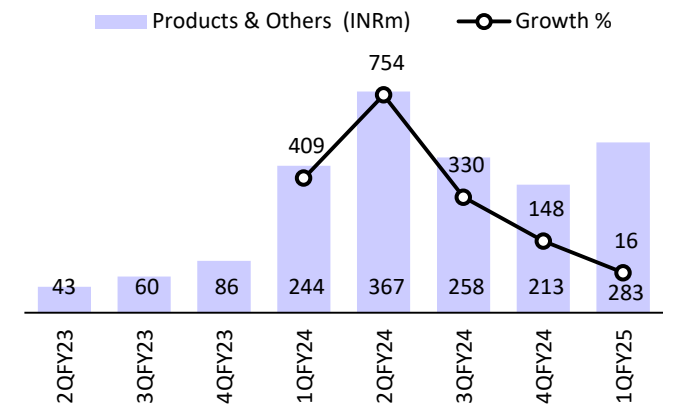
Source: Company, MOFSL

Exhibit 7: Civil Nuclear Power revenue trend



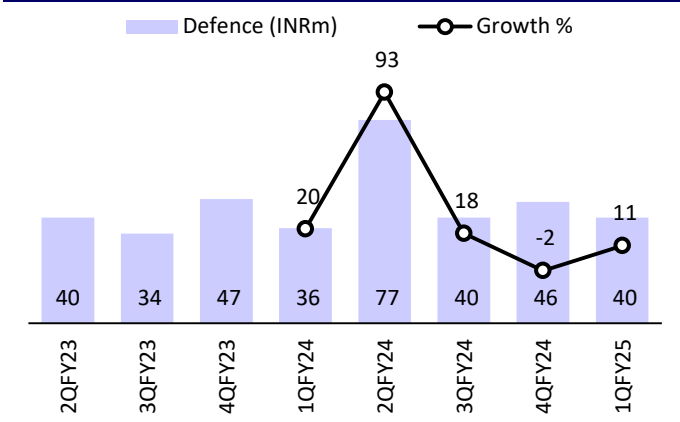
Source: Company, MOFSL

Exhibit 8: Products & Others revenue trend



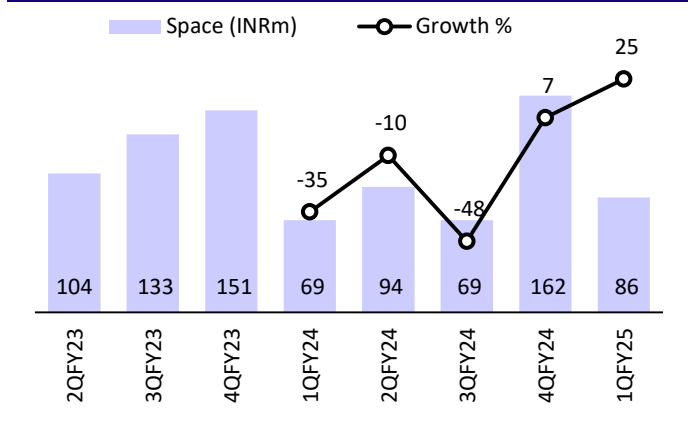
Source: Company, MOFSL

Exhibit 9: Defense revenue trend



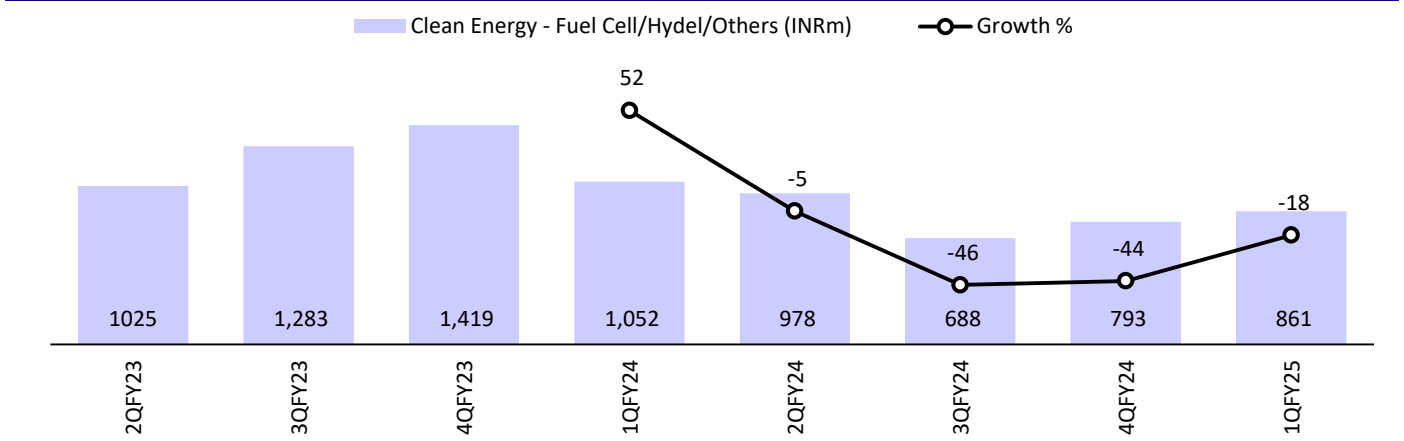
Source: Company, MOFSL

Exhibit 10: Space segment revenue trend



Source: Company, MOFSL

Exhibit 11: Clean Energy – Fuel Cells, Hydel and others revenue trend



Source: MOFSL, Company



Highlights from the management commentary

Operating Performance

- 1QFY25 performance was impacted by lower sales in clean energy (fuel cell/nuclear), leading to adverse operating leverage.
- Clean energy – nuclear lower revenue in Q1 was due to multiple products being under work in progress, which will be delivered in coming quarters, thereby compensating for lower sales in Q1.
- Also, employee expenses were higher this quarter, which will be normalized as revenue picks up in coming quarters. The management expects employee expenses to be ~16% of revenue in FY25.
- The company is building a base for a long-term sustainable growth by adding new products and clients. The management expects strong growth going ahead.

Guidance

- **Despite weak operating performance, the management maintained its revenue growth guidance for FY25 at 30-35%, with EBITDA margins of ~22% (+/-100bp).** Of total revenue, ~40% will be achieved in 1H and 60% in 2H.
- The management is guiding strong revenue of INR2b in 2Q (highest quarterly revenue), backed by strong visibility with orders in hand. Margins will be ~20% (+/-100bp), led by higher revenue and operating leverage.
- For 2QFY25, the management indicated ball park revenue for nuclear/space & aerospace/products & others/Hydel, wind & others/fuels cells to be ~INR160m/INR330m/INR370m/INR750m/INR1.07b.
- For FY25, revenue across products: Nuclear/Fuel Cell & others/space/defense/products & others to be INR620m/INR3,680/INR1,182/INR300m/INR1,300.
- The order book as on FY25 to be ~INR15b, with major orders from nuclear, aerospace, defense and new verticals. Most of the orders will flow in from 2HFY25.
- The company is expected to spend ~INR700-750m in FY25 as part of its ongoing capex plan (of which ~INR350m is for aerospace facility and the balance for maintenance). If the company gets any order in its new oil and gas vertical, then incremental capex will be ~INR400m in FY25.
- The management expects net working capital days to decline to 220 by FY25 vs. 266 in FY24.

Clean Energy – fuel cells, Hydel and other

- The company delivered 814 hot boxes in 1Q and 22 units of electrolyzers (executed all the existing order for electrolyzers). It expects to deliver 990 hot boxes in 2Q and total 3,300 hot boxes in FY25.
- Bloom pending orders as of Jun'24 was INR4.7b, excluding incremental INR1.4b orders received last week to be executed in FY25.
- Bloom is witnessing a rise in commercial demand primarily from data centers and it also posted strong growth in 2QCY25. Bloom revenue is projected to grow 18% p.a. for the next three years compared to 8% growth estimated for the US electrical industry.
- The company is back on track with Bloom and hoping to do much better going ahead with increasing its wallet share.

Clean Energy - Nuclear

- The company was building systems in 1Q to be dispatched in subsequent quarter, leading to marginal sales of INR13m.
- The management expects ~INR6b worth of orders from KAIGA 5 & 6 reactor to be received mostly in 2HFY25.
- The closing order book as of FY25 will be INR7b, including refurbishment orders for Tarapur and other reactors.

Space and Aerospace

- The company expects 3x revenue growth in FY25 vs. FY24, backed by strong client addition and order flows.
- The company expects to execute INR120m of ISRO orders and INR250m of MNC orders in 2Q, as the company has gone into production for various first articles done earlier.
- For FY25, the company will execute ~INR1.2-1.3b orders, of which ~INR500m will be for ISRO (including semicryo engines) and the balance (INR800-700m) for MNC aerospace companies.
- The company can expect further order inflows in this segment worth INR1.2b in coming quarters.
- MTAR also has entered into long-term contract with IAI and Thales and will soon sign long-term contract with UK Aerospace.

Products & Others

- The company's R&D team is developing new products such as valves for defense and space sectors which will be launched by end for FY25.
- MTAR's roller screws have been proven in defense and approved as import substitution. The government will be releasing the certification for the same by the end of this and with that, the government will not import roller screws (from Sweden) going ahead.
- MTAR will be the first company to have developed this product, which is useful in all the different areas and space sectors as of today. This product will start contributing to revenue from FY26.

Capacity and Capex

- The company is commissioning a new aerospace facility in Hyderabad by Sep'24, which will be operationalized in Dec'24. The company has already spent INR160m for the acquisition of land and building and another INR1-1.25b will be required for setting up plant and machinery (of which major part has already been spent and balance INR350m will be spent in balance FY25).
- Further, the company also plans to establish a facility for the **oil and gas segment**. MTAR will execute its first article this year and production is expected to start from next year.
- This will be more of fungible capacity, which will use exiting machinery's and facilities. The only capex will be for shifting these machineries (~INR350-400m), which can generate ~INR1.5b revenue from next year (if the company executes first article on time).
- The company is entering into a niche area in this segment and this will be in line with margins for the company.

Valuation and View

- MTARTECH witnessed a muted 1QFY25, largely due to the product transitioning impact from its key customer (BE) and muted nuclear execution. Going ahead, we expect the company to see a strong recovery in the remaining 9MFY25, led by a recovery in order traction across verticals from existing and new clients. In the long term, we expect MTARTECH to witness strong broad-based growth across all the business segments.
- We estimate a CAGR of 33%/48%/69% in revenue/EBITDA/Adj. PAT over FY24-FY26, driven by a healthy order book growth trajectory across segments and improvement in margins.
- Factoring in the weak 1Q performance, we cut our EPS estimates for FY25/FY26 by 7%/9%. We retain our BUY rating on the stock with a TP of INR2,100 (40x FY26E EPS).

Exhibit 12: Changes to our estimates

Earnings change (INR m)	Old		New		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	7,618	10,314	7,623	10,304	0%	0%
EBITDA	1,699	2,682	1,603	2,473	-6%	-8%
Adj. PAT	987	1,758	913	1,601	-7%	-9%

Financials and valuations

Consolidated - Income Statement							(INRm)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	1,837	2,138	2,464	3,220	5,738	5,808	7,623	10,304
Change (%)	15	16	15	31	78	1	31	35
RM Cost	708	835	912	1,163	2,695	3,024	3,922	5,152
Employees Cost	435	516	530	708	935	970	1,220	1,546
Other Expenses	157	208	192	406	568	687	878	1,133
Total Expenditure	1,300	1,558	1,634	2,276	4,198	4,681	6,020	7,831
EBITDA	537	580	831	944	1,540	1,127	1,603	2,473
Margin (%)	29.2	27.1	33.7	29.3	26.8	19.4	21.0	24.0
Depreciation	112	121	126	143	187	232	263	321
EBIT	425	459	705	801	1,353	895	1,340	2,151
Int. and Finance Charges	45	48	70	66	146	223	205	166
Other Income	35	44	13	88	195	58	88	155
PBT after EO Exp.	415	455	648	822	1,402	730	1,223	2,140
Total Tax	24	142	188	213	368	169	310	539
Tax Rate (%)	5.7	31.2	29.0	26.0	26.2	23.2	25.4	25.2
Reported PAT	392	313	461	609	1,034	561	913	1,601
Adjusted PAT	392	313	461	609	1,034	561	913	1,601
Change (%)	625.7	-20.1	47.1	32.2	69.9	-45.7	62.7	75.4
Margin (%)	21.3	14.6	18.7	18.9	18.0	9.7	12.0	15.5

Consolidated - Balance Sheet							(INRm)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	282	268	308	308	308	308	308	308
Total Reserves	2,068	1,983	4,460	4,890	5,894	6,456	7,369	8,970
Net Worth	2,350	2,251	4,768	5,197	6,201	6,763	7,676	9,278
Total Loans	287	291	170	959	1,434	1,909	1,709	1,309
Deferred Tax Liabilities	0	53	127	163	182	209	209	209
Capital Employed	2,638	2,595	5,064	6,319	7,817	8,881	9,594	10,795
Gross Block	1,978	2,028	2,273	2,710	3,842	4,569	5,527	6,144
Less: Accum. Deprn.	356	477	603	746	932	1,164	1,427	1,749
Net Fixed Assets	1,622	1,551	1,671	1,964	2,910	3,405	4,100	4,395
Capital WIP	56	117	105	438	644	729	521	304
Total Investments	0	0	0	623	275	0	0	0
Curr. Assets, Loans&Adv.	1,373	1,794	4,087	4,252	6,804	5,942	6,884	8,717
Inventory	411	755	1,025	1,703	3,866	3,476	3,968	5,081
Account Receivables	504	616	773	1,360	2,084	1,466	1,984	2,682
Cash and Bank Balance	108	233	1,909	669	312	508	322	130
Loans and Advances	351	191	380	520	543	492	610	824
Curr. Liability & Prov.	414	868	799	958	2,816	1,196	1,911	2,621
Account Payables	60	306	371	570	2,182	714	1,149	1,694
Other Current Liabilities	329	495	397	353	559	422	686	824
Provisions	26	67	32	35	75	59	76	103
Net Current Assets	959	927	3,288	3,294	3,989	4,747	4,973	6,096
Appl. of Funds	2,638	2,595	5,064	6,319	7,817	8,881	9,594	10,795

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	13.9	11.7	15.0	19.8	33.6	18.2	29.7	52.1
Cash EPS	17.9	16.2	19.1	24.4	39.7	25.8	38.2	62.5
BV/Share	83.3	84.1	155.0	169.0	201.6	219.9	249.6	301.6
Valuation (x)								
P/E	125.2	148.6	116.2	87.9	51.7	95.3	58.6	33.4
Cash P/E	97.3	107.3	91.3	71.1	43.8	67.5	45.5	27.8
P/BV	20.9	20.7	11.2	10.3	8.6	7.9	7.0	5.8
EV/Sales	26.8	21.8	21.0	16.5	9.5	9.5	7.2	5.3
EV/EBITDA	91.7	80.4	62.3	56.3	35.3	48.7	34.2	22.1
FCF per share	6.3	16.6	-4.6	-39.3	-32.6	-11.8	4.2	7.1
Return Ratios (%)								
RoE	17.8	13.6	13.1	12.2	18.1	8.7	12.6	18.9
RoCE	17.7	13.4	13.6	11.9	16.6	9.0	11.8	17.3
RoIC	17.0	13.4	18.9	15.5	17.9	9.7	12.2	16.8
Working Capital Ratios								
Fixed Asset Turnover (x)	0.9	1.1	1.1	1.2	1.5	1.3	1.4	1.7
Asset Turnover (x)	0.7	0.8	0.5	0.5	0.7	0.7	0.8	1.0
Inventory (Days)	82	129	152	193	246	218	190	180
Debtor (Days)	100	105	114	154	133	92	95	95
Creditor (Days)	12	52	55	65	139	45	55	60
Leverage Ratio (x)								
Current Ratio	3.3	2.1	5.1	4.4	2.4	5.0	3.6	3.3
Interest Cover Ratio	9.5	9.6	10.1	12.0	9.3	4.0	6.5	13.0
Net Debt/Equity	0.1	0.0	-0.4	-0.1	0.1	0.2	0.2	0.1

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	416	455	648	822	1,402	730	1,223	2,140
Depreciation	112	121	126	143	187	232	263	321
Interest & Finance Charges	38	38	57	66	146	165	117	11
Direct Taxes Paid	-94	-72	-117	-180	-323	-213	-310	-539
(Inc)/Dec in WC	-57	26	-617	-1,079	-1,291	-372	-413	-1,315
CF from Operations	415	567	97	-227	121	543	880	619
Others	7	-5	-11	-71	-47	31	0	0
CF from Operating incl EO	421	562	86	-298	74	574	880	619
(Inc)/Dec in FA	-243	-119	-228	-911	-1,078	-938	-750	-400
Free Cash Flow	178	443	-142	-1,209	-1,004	-364	130	219
(Pur)/Sale of Investments	0	0	0	-780	377	298	0	0
Others	-86	-2	8	241	-166	83	88	155
CF from Investments	-329	-121	-220	-1,450	-867	-556	-662	-245
Issue of Shares	0	0	2,127	0	0	0	0	0
Inc/(Dec) in Debt	90	-5	-122	789	457	476	-200	-400
Interest Paid	-62	-59	-64	0	-137	-223	-205	-166
Dividend Paid	-102	-170	-80	-185	0	0	0	0
Others	0	-179	-60	-64	0	0	0	0
CF from Fin. Activity	-75	-414	1,802	541	320	253	-405	-566
Inc/Dec of Cash	17	28	1,667	-1,207	-473	270	-186	-192
Opening Balance	91	108	233	1,909	670	312	508	322
Other cash & cash equivalent	0	97	9	-32	116	-74		
Closing Balance	108	233	1,909	670	312	508	322	130

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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