

MTAR Technologies | BUY



Disruption appears temporary; maintain positive stance

MTAR Technologies' 2QFY24 results were sharply below estimates. PAT declined by 17%YoY to INR205mn (JMFe: INR 330mn) due to lower revenue/gross margins. Outlook for FY24 has been cut sharply due to deferment of supplies of c1200 units (25% cut) of hot boxes to FY25 and lower gross margins due to adverse revenue mix in 1H. This deferment is led by efforts to correct inventories by Bloom given reduced shipping times as also complete switch over to the 65kw Santacruz variant from 50kw Yuma variant. As a result, we downgrade FY24 EPS steeply by 34%. That said, Bloom has maintained its CY23 revenue and margin guidance and remains positive on CY24 outlook. MTAR is set to achieve greater diversification with likely addition of Fluence in clean energy and finalisation of +INR 5bn nuclear orders. We maintain our positive view on MTAR as the current set back appears temporary and estimate 36% EPS CAGR over FY23-26E. Maintain BUY with revised TP of INR2,575.

- Revenue deferment, adverse revenue mix impacts performance:** Net sales grew 32% YoY to INR1.7bn driven by the nuclear segment (+204% YoY; INR152mn) and ramp up in the product segment to INR367mn vs INR43mn in 2Q23. Clean energy revenue declined 5% YoY to INR978mn due to deferment of supplies to Bloom, while ex-clean energy basis revenue grew 191% YoY to INR690mn. Gross margins contracted substantially by 610bps YoY (430bp QoQ) to 45.6% due to adverse revenue mix (some older nuclear orders and lower proportion of domestic sales). EBITDA grew 3% YoY to INR361mn with EBITDA margin at 21.6% vs 27.7% in 2Q23. PAT declined by 17%YoY to INR205mn. Order book declined 23% YoY to INR10bn with order inflow at INR 1.3bn in 1HFY24.
- FY24 guidance cut but growth outlook beyond remains intact:** Revenue guidance for FY24 has been lowered to INR 6.7-7bn (INR 8.3-8.6bn earlier) with EBITDA margin at 26% +/- 100bp (28% +/- 100bp earlier). Cut in the guidance is due to deferment of supply of c1200 units of hot boxes to Bloom given inventory correction measures by Bloom due to reduced transit times and transition to Santacruz variant (65kw) from Yuma hot boxes (50kw). MTAR maintains that the volume reduction in FY24 is a deferment to FY25 and production schedules to become clearer in next 1-2 quarters. We also note that Bloom in its recent earnings commentary has maintained its CY23 guidance on all fronts.
- To achieve greater diversification in business mix:** MTAR is in the final stages of negotiations for adding Fluence Energy as a customer in the clean energy business (INR 1.2-1.3bn business initially) and expects +INR 5bn orders for Kaiga 5 & 6 Nuclear reactors by Mar-24. These should lead to diversification of order book and customers. MTAR also continues to make progress in scaling up its import substitution products business like roller screws, water lubricated bearings, ball screws and electromechanical actuators.
- Maintain BUY with a revised TP of INR2,575:** We like MTAR for its strong credentials in the precision engineering space. While the outlook for supplies to Bloom remains positive beyond the immediate disruption, addition of new customers and scale up in nuclear and import substitution products should increase diversification. We expect 36% EPS CAGR over FY23-26. Maintain BUY with revised TP of INR2,575, based on 35x Sept'25E EPS.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,575
Upside/(Downside)	16.1%
Previous Price Target	2,770
Change	-7.0%

Key Data – MTARTECH IN

Current Market Price	INR2,218
Market cap (bn)	INR68.2/US\$0.8
Free Float	61%
Shares in issue (mn)	30.8
Diluted share (mn)	30.8
3-mon avg daily val (mn)	INR1,653.4/US\$19.8
52-week range	2,920/1,472
Sensex/Nifty	64,905/19,425
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-12.9	17.0	38.9
Relative*	-11.1	11.8	32.3

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	3,220	5,738	6,769	10,575	14,370
Sales Growth (%)	30.7	78.2	18.0	56.2	35.9
EBITDA	944	1,539	1,727	2,893	3,977
EBITDA Margin (%)	29.3	26.8	25.5	27.4	27.7
Adjusted Net Profit	609	1,034	1,052	1,899	2,626
Diluted EPS (INR)	19.8	33.6	34.2	61.7	85.4
Diluted EPS Growth (%)	32.1	69.8	1.7	80.6	38.3
ROIC (%)	15.1	16.8	15.1	21.6	23.4
ROE (%)	12.2	18.1	15.6	23.2	25.1
P/E (x)	80.4	46.7	64.9	35.9	26.0
P/B (x)	9.4	7.8	9.4	7.5	5.8
EV/EBITDA (x)	52.1	52.1	40.3	24.3	17.7
Dividend Yield (%)	0.1	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 10/Nov/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Change in estimates

Y/E March (INR mn)	Actual	Revised Estimates			Previous Estimates			% chg			YoY %		
Particulars	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Sales	5,738	6,769	10,575	14,370	8,504	11,233	15,027	-20.4	-5.9	-4.4	18.0	56.2	35.9
EBITDA	1,539	1,727	2,893	3,977	2,352	3,106	4,163	-26.5	-6.9	-4.5	12.2	67.5	37.5
EBITDA Margin (%)	26.8	25.5	27.4	27.7	27.7	27.7	27.7	-210bps	-30bps	0bps	-130bps	180bps	30bps
Adj PAT	1,034	1,052	1,899	2,626	1,587	2,069	2,796	-33.7	-8.2	-6.1	1.7	80.6	38.3
Adj EPS (INR)	33.6	34.2	61.7	85.4	51.6	67.3	90.9	-33.7	-8.2	-6.1	1.7	80.6	38.3
RoIC (%)	15.2	14.2	20.6	22.5	19.4	21.6	24.0	-510bps	-100bps	-140bps			
RoE (%)	18.1	15.6	23.2	25.1	23.2	24.9	27.3	-760bps	-180bps	-220bps			

Source: Company, JM Financial

Exhibit 1. Quarterly performance

Y/E March (INR mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var (%)	1HFY23	1HFY24	YoY (%)
Net Sales	1,262	1,668	32.2	1,526	9.4	1,835	-9.1	2,172	3,194	47.1
Expenditure	913	1,307	43.3	1,180	10.8	1,328	-1.5	1,573	2,488	58.1
EBITDA	349	361	3.4	345	4.6	507	-28.8	599	706	17.9
EBITDA (%)	27.7	21.6	-600bps	22.6	-100bps	27.6	0bps	27.6	22.1	-550bps
Other income	54	8	-84.3	41	-79.4	52	-83.8	92	49	-46.1
Depreciation	46	58	25.1	56	3.0	55	5.2	88	114	29.9
EBIT	357	312	-12.7	330	-5.6	504	-38.2	603	642	6.5
Interest	27	55	104.4	57	-4.5	63	-13.2	51	112	121.0
PBT	330	257	-22.1	273	-5.8	441	-41.8	552	530	-4.1
Tax	83	52	-37.1	69	-24.7	111	-53.0	143	122	-14.9
Tax rate (%)	25.2	20.3		25.4		25.2		25.9	23.0	
Adj PAT	247	205	-17.1	203	0.6	330	-38.0	409	408	-0.3
Adj EPS (INR)	8.0	6.7	-16.5	6.6	0.6	10.7	-38.0	13.3	13.3	-0.3

Source: Company, JM Financial

Exhibit 2. Cost break-up

Y/E March (INR mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var (%)	1HFY23	1HFY24	YoY (%)
COGS	580	908	56.6	764	18.8	872	4.2	927	1,337	44.2
as a % of sales	45.9	54.4	850bps	50.1	430bps	47.5	690bps	42.7	41.9	-80bps
Staff Cost	210	234	11.8	242	-3.3	245	-4.5	397	476	20.0
as a % of sales	16.6	14.0	-260bps	15.9	-180bps	13.4	70bps	18.3	14.9	-340bps
Other Expenditure	123	165	33.9	174	-5.1	211	-21.8	249	339	36.2
as a % of sales	9.8	9.9	10bps	11.4	-150bps	11.5	-160bps	11.5	10.6	-80bps

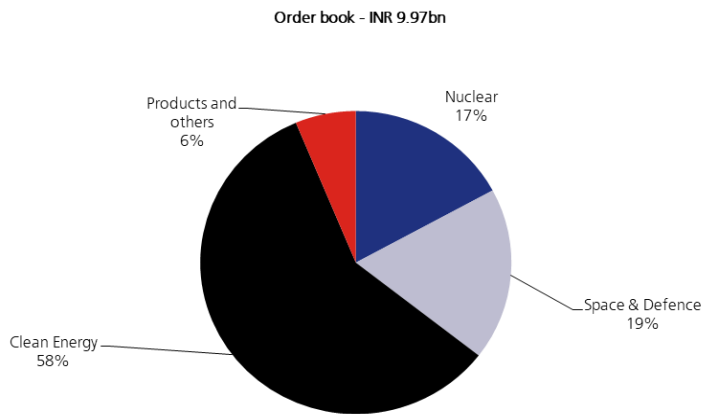
Source: Company, JM Financial

Exhibit 3. Segmental revenue break-up

Y/E March (INR mn)	2QFY23	2QFY24	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var (%)	1HFY23	1HFY24	YoY (%)
Clean Energy	1,025	978	-4.6	1,052	-7.0	1,384	-29.3	1,715	2,030	18.4
Nuclear	50	152	204.0	123	23.6	160	-5.0	86	275	219.4
Space and Defence	144	171	18.8	105	62.9	192	-10.7	280	276	-1.5
Others	43	367	754.3	246	49.6	100	267.4	91	613	572.9

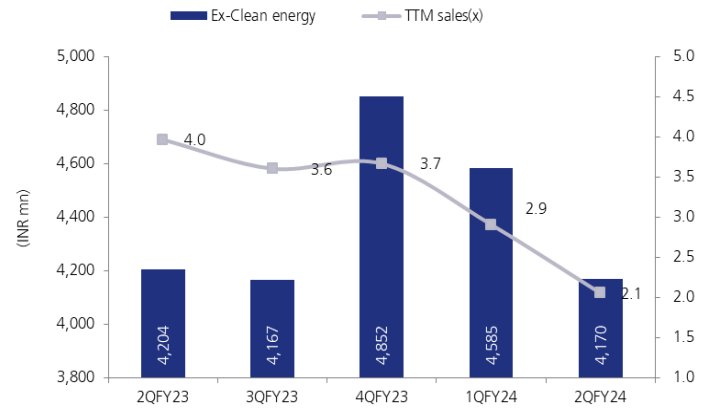
Source: Company, JM Financial

Exhibit 4. Order book as on Sept-23



Source: Company, JM Financial

Exhibit 5. Order book ex-clean energy and TTM sales (x)



Source: Company, JM Financial

Key concall highlights

- Guidance cut due to deferment of Bloom orders:** Revenue guidance lowered to INR 6.7-7bn from INR 8.3-8.6bn earlier (lowered by 20%) on the back of temporary deferment caused by switch to new Santacruz (65kW) boxes vs Yuma boxes of 50 kW earlier. Also, with transit times coming down Bloom has also revised its schedule. Management expects that beyond the immediate impact the outlook going into FY25 remains strong. Of the schedule of 4600 boxes for FY24 about 1200 have been deferred.
- Firm production schedule** to be available on qtrly basis initially and then on annual basis once the new product stabilises.
- Margins guidance lowered to 26% +/- 100bp from 28% +/- 100bp earlier** due to adverse revenue mix in 1H (lower domestic sales). In the 2H as more domestic orders get shipped (INR 1.5bn in 2H from INR 750mn in 1H) gross margins should improve materially. The company maintained its directional outlook of 28% EBITDA margin as it ramps up import substitution products in nuclear and defence.
- Order inflow remains muted in 1H24:** Order inflows were modest at INR 1.3bn in 1HFY24. Expects acceleration of in 2HFY24. Target order book of INR14-15bn by Mar-24.
- The bulk of order would be from clean energy for new variants of hotboxes, nuclear segment where INR5bn of inflows are likely to get finalised, orders from Fluence for (500-1000 units) likely to get finalised.
- Delivery in 2H24:** a) Expect delivery of 500+ hotboxes in 3Q24 with expected increase in 4Q24 b) 44 electrolyser in 3Q and 66 in 4Q. Product has been approved and expects more orders in FY25 c) product segment to ramp up at a healthy pace with delivery of products like electro mechanical actuators, roller screws etc.
- Import substitution products to scale up in the coming years:** Foresee INR700-800mn of opportunity from roller screws with high margins b) electromechanical actuators with market potential of INR3-4bn.
- Net working capital** increased to 281 days vs 247 days in 1HFY23 due to lower payable to 47 days vs 87 days in previous year given payment to vendors even as incremental orders to them are lower due to sufficient stock of inventory to meet the revised production schedule. Debtors reduced to 101 days from 161 days in Sept-22 while inventories were at 207 days against 225 days in Sept-22. The company anticipates reduction in working capital with better inventory and receivables management with better credit period from suppliers.

Commentary from Bloom Energy Corporation for 3QCY23:

3Q result performance:

- Revenue of USD 400mn (+37% YoY). YTD gross margin of 25% (+680bp YoY).
- Product costs are down 18% YoY and opex down 20% from 1Q levels.
- Lower material costs coupled with automation and increased power output are driving down product costs
- Lowered operating headcount by 10% without impacting technical or commercial capabilities

Other highlights:

- Maintain CY23 annual guidance for revenue, margins and profitability.
- Rise in power demand amid sluggish pace of greenfield capacity addition. 66GW of greenfield capacity projects delayed in the US
- Only 14% of the capacity requesting interconnection from years 2000 to 2017 reach commercial operations by end 2022
- Bloom's products can operate in an islanded mode where necessary and offer clean and reliable power.
- Energy demand from data centres to increase exponentially over the next decade
- Historically most bookings close in 4Q, looking to convert pipeline to orders in next couple of months.
- Built inventories to reduce cycle time of delivery to customers.
- **Electrolysers:** As we move into 2025 we will begin to see electrolyser shipments that will impact revenue and we expect this market to scale very quickly

Exhibit 6. Outlook remains intact for CY23

Outlook by Bloom Energy	4Q22	1Q23	2Q23	3Q23
Total Revenue	\$1.4-1.5B	\$1.4-1.5B	\$1.4-1.5B	\$1.4-1.5B
Product & Service Revenue	\$1.25-1.35B	\$1.25-1.35B	\$1.25-1.35B	\$1.25-1.35B
Non-GAAP Gross Margin	~25%	~25%	~25%	~25%
Non-GAAP Operating Margin	Positive	Positive	Positive	Positive

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	3,220	5,738	6,769	10,575	14,370	
Sales Growth	30.7%	78.2%	18.0%	56.2%	35.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	3,220	5,738	6,769	10,575	14,370	
Cost of Goods Sold/Op. Exp	1,163	2,695	3,283	5,182	7,041	
Personnel Cost	708	935	1,061	1,337	1,685	
Other Expenses	406	568	697	1,163	1,667	
EBITDA	944	1,539	1,727	2,893	3,977	
EBITDA Margin	29.3%	26.8%	25.5%	27.4%	27.7%	
EBITDA Growth	13.7%	63.0%	12.2%	67.5%	37.5%	
Deprn. & Amort.	143	187	232	263	300	
EBIT	801	1,353	1,495	2,629	3,676	
Other Income	88	195	148	228	193	
Finance Cost	66	146	238	318	358	
PBT before Excep. & Forex	822	1,402	1,406	2,539	3,511	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	822	1,402	1,406	2,539	3,511	
Taxes	213	368	354	640	885	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	609	1,034	1,052	1,899	2,626	
Adjusted Net Profit	609	1,034	1,052	1,899	2,626	
Net Margin	18.9%	18.0%	15.5%	18.0%	18.3%	
Diluted Share Cap. (mn)	30.8	30.8	30.8	30.8	30.8	
Diluted EPS (INR)	19.8	33.6	34.2	61.7	85.4	
Diluted EPS Growth	32.1%	69.8%	1.7%	80.6%	38.3%	
Total Dividend + Tax	92	0	0	0	0	
Dividend Per Share (INR)	3.0	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	822	1,402	1,406	2,539	3,511	
Deprn. & Amort.	143	187	232	263	300	
Net Interest Exp. / Inc. (-)	32	131	89	90	165	
Inc (-) / Dec in WCap.	-1,079	-1,097	-403	-2,294	-2,287	
Others	-36	-226	0	0	0	
Taxes Paid	-180	-323	-354	-640	-885	
Operating Cash Flow	-298	74	970	-42	805	
Capex	-911	-1,077	-551	-600	-700	
Free Cash Flow	-1,209	-1,003	419	-642	105	
Inc (-) / Dec in Investments	-539	210	0	0	0	
Others	0	0	0	0	0	
Investing Cash Flow	-1,450	-867	-551	-600	-700	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-185	0	0	0	0	
Inc / Dec (-) in Loans	788	457	800	200	0	
Others	10	-21	-89	-90	-165	
Financing Cash Flow	614	436	711	110	-165	
Inc / Dec (-) in Cash	-1,134	-357	1,130	-532	-61	
Opening Cash Balance	1,803	669	312	1,442	911	
Closing Cash Balance	669	312	1,442	911	850	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	5,198	6,201	7,253	9,152	11,779	
Share Capital	308	308	308	308	308	
Reserves & Surplus	4,890	5,894	6,945	8,845	11,471	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	959	1,434	2,234	2,434	2,434	
Def. Tax Liab. / Assets (-)	163	182	182	182	182	
Total - Equity & Liab.	6,319	7,817	9,669	11,768	14,394	
Net Fixed Assets	2,402	3,553	3,872	4,209	4,608	
Gross Fixed Assets	2,679	3,769	4,319	4,919	5,619	
Intangible Assets	0	0	0	0	0	
Less: Deprn. & Amort.	715	859	1,091	1,354	1,655	
Capital WIP	438	644	644	644	644	
Investments	623	275	275	275	275	
Current Assets	4,252	6,804	8,304	11,920	15,810	
Inventories	1,703	3,866	3,523	5,505	7,480	
Sundry Debtors	1,360	2,084	2,596	4,346	5,905	
Cash & Bank Balances	669	312	1,442	911	850	
Loans & Advances	89	75	0	0	0	
Other Current Assets	431	468	742	1,159	1,575	
Current Liab. & Prov.	958	2,815	2,782	4,636	6,299	
Current Liabilities	570	2,182	1,484	2,318	3,150	
Provisions & Others	388	633	1,298	2,318	3,150	
Net Current Assets	3,294	3,989	5,522	7,285	9,511	
Total - Assets	6,319	7,817	9,669	11,768	14,394	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	18.9%	18.0%	15.5%	18.0%	18.3%	
Asset Turnover (x)	0.6	0.8	0.8	1.0	1.1	
Leverage Factor (x)	1.1	1.2	1.3	1.3	1.2	
RoE	12.2%	18.1%	15.6%	23.2%	25.1%	

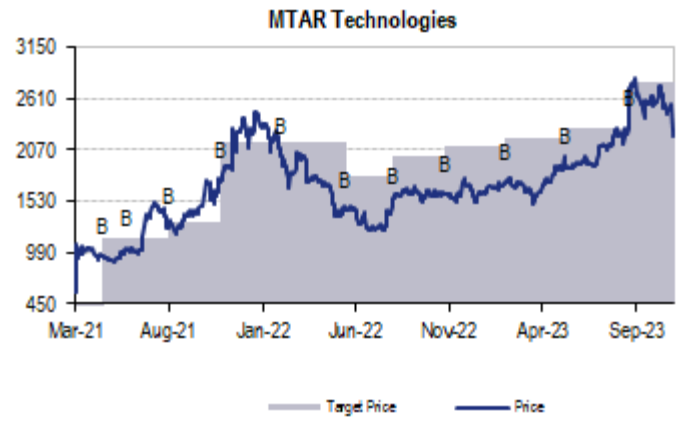
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	169.0	201.6	235.8	297.5	382.9	
ROIC	15.1%	16.8%	15.1%	21.6%	23.4%	
ROE	12.2%	18.1%	15.6%	23.2%	25.1%	
Net Debt/Equity (x)	0.1	0.2	0.1	0.2	0.1	
P/E (x)	80.4	46.7	64.9	35.9	26.0	
P/B (x)	9.4	7.8	9.4	7.5	5.8	
EV/EBITDA (x)	52.1	52.1	40.3	24.3	17.7	
EV/Sales (x)	21.4	12.2	10.3	6.6	4.9	
Debtor days	154	133	140	150	150	
Inventory days	193	246	190	190	190	
Creditor days	91	190	107	110	111	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
27-Apr-21	Buy	1,150	
3-Jun-21	Buy	1,150	0.0
10-Aug-21	Buy	1,300	13.0
3-Nov-21	Buy	2,150	65.4
11-Feb-22	Buy	2,150	0.0
25-May-22	Buy	1,800	-16.3
10-Aug-22	Buy	2,000	11.1
3-Nov-22	Buy	2,100	5.0
10-Feb-23	Buy	2,200	4.8
18-May-23	Buy	2,300	4.5
30-Aug-23	Buy	2,770	20.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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