

## India

## ADD (no change)

Consensus ratings\*: Buy 4 Hold 1 Sell 1

Current price:	Rs1,739
Target price:	Rs2,644
Previous target:	Rs2,644
Up/downside:	52.0%
InCred Research / Consensus:	52.1%

Reuters:	
Bloomberg:	MTARTECH IN
Market cap:	US\$637m
	Rs53,476m
Average daily turnover:	US\$9.6m
	Rs802.9m
Current shares o/s:	30.8m
Free float:	63.0%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.7)	(6.4)	(21.6)
Relative (%)	(8.9)	(13.6)	(35.2)

Major shareholders	% held
Promoter Group	37.0
Nippon Life	5.4
ABSL	2.3

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## MTAR Technologies Limited

## It's right time to buy the stock

- 1QFY25 numbers were a disaster with a decline in revenue/EBITDA/PAT. However, growth looks imminent in the coming quarters.
- MTAR Technologies' main client Bloom Energy is witnessing higher demand for its fuel cells due to data centres and rising grid power costs in the US.
- We remain bullish on MTAR's growth prospects. Retain our earnings estimates and value the stock at 45x FY26F EPS to arrive at a target price of Rs2,644.

## Bloom Energy's fuel cells have a clear cost advantage over its peers

As we had stated in our initiating coverage report: [MTAR- Dawn of the Fuel Cell Revolution](#), the US power grid is in a precarious situation owing to the rising usage of solar and wind energy in power generation. These renewable sources of energy are intermittent and spiky and hence, are not reliable. Consequently, we need a back-up system alongside solar and wind power, which results in rising costs. Bloom Energy has a clear cost advantage over the US grid as its power costs are around 10-11 cents per kwh compared to 15-16 cents per kwh for the US grid. Secondly, it is a primary source of power and doesn't require any back-up, compared to solar and wind energy. While Bloom Energy is generating sales from brownfield data centres currently, which have a relatively shorter sales cycle, incremental demand will come from greenfield data centres which have a longer sales cycle. Bloom Energy has roughly 0.5GW incremental demand from data centres in the pipeline currently. As and when these data centres trickle in, Bloom Energy and MTAR Technologies will stand to benefit.

## Management sees highest revenue in 2Q, likely ramp-up from 2H

MTAR's management has given the highest revenue guidance in the company's history for 2QFY25F. It has maintained the annual guidance of 30-35% revenue growth coupled with a 22% EBITDA margin. We concur with this, as Bloom Energy has also maintained its yearly guidance during the quarterly results announced a couple of days ago. As Bloom Energy's business ramps up, this will result in revenue growth and operating leverage for MTAR Technologies, leading to an 80% PAT CAGR over FY24-27F.

## We value the stock at 45x FY26F EPS; retain ADD rating

MTAR Technologies is likely to register a 41% topline growth over FY24-26F, with improvement in margins by roughly 500bp due to the operating leverage kicking in. Moreover, as Bloom Energy's ramp-up is imminent, this will act as the main growth trigger. MTAR Technologies' other revenue segments like nuclear and space are also bound to do well as the government has increased allocation for nuclear energy in the recent budget. The company has L1 status from Nuclear Power Corporation of India and is expecting Rs6,000m of order inflow from the nuclear power segment in FY25F. MTAR Technologies is expected to register an 80% PAT CAGR over FY24-26F. We value the stock at 45x FY26F EPS of Rs59 to arrive at our target price of Rs2,644. Key downside risk is the company's exposure to a single client (Bloom Energy) for almost 60% of its revenue.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	5,738	5,808	7,724	11,586	18,480
Operating EBITDA (Rsm)	1,540	1,127	1,694	2,855	4,546
Net Profit (Rsm)	1,034	561	963	1,810	3,059
Core EPS (Rs)	33.6	18.2	31.3	58.8	99.3
Core EPS Growth	69.9%	(45.7%)	71.6%	88.0%	69.0%
FD Core P/E (x)	51.78	95.42	55.62	29.58	17.50
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	35.51	48.75	32.58	19.41	12.20
P/FCFE (x)	(159.32)	108.60	679.38	480.61	206.67
Net Gearing	18.1%	20.7%	21.4%	19.6%	15.4%
P/BV (x)	8.63	7.92	6.93	5.61	4.25
ROE	18.1%	8.7%	13.3%	21.0%	27.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 1QFY25 conference-call highlights

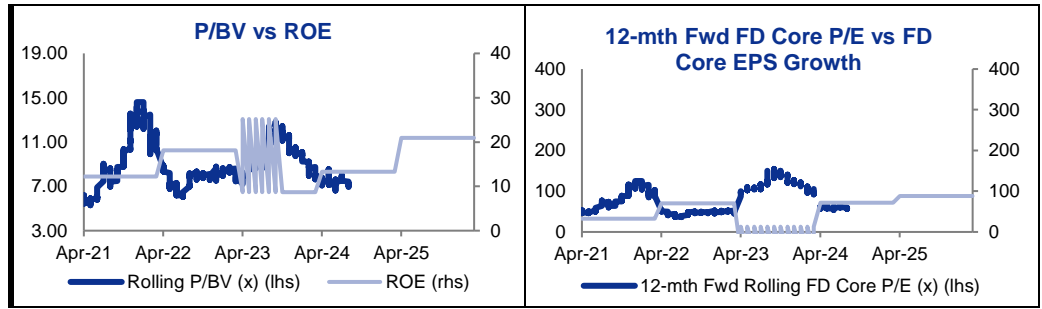
- **Overview:** MTAR Technologies reported a revenue decline of 16% YoY to Rs1.3bn in 1QFY25, with an EBITDA margin of 12.8%. PAT fell significantly by 78% YoY to Rs45m. Employee expenses increased to 22% in 1Q, but management expects this to decrease to around 16% as revenue grows in the coming quarters.
- **Guidance:** Management maintains target EBITDA margin of 22% for FY25F, with a likely revenue growth of 30% to 35% for the fiscal year. Management is optimistic about garnering a record revenue of over Rs2bn in 2QFY25F. The focus on diversifying revenue streams across clean energy, aerospace, and nuclear sectors, coupled with operational improvements and strategic investments, positions the company for a strong performance in FY25F.
- **Orders:** Management stated the company is on track to execute orders, primarily from the nuclear sector, with additional orders expected from the aerospace and clean energy sectors. Management stated that the company is actively bidding for new projects in the nuclear sector, particularly in the areas of fast breeder reactors and small modular reactors.
- **Segments:**
  - **Clean energy:** Sales in the segment touched Rs860m, with 814 hot boxes and 22 electrolyzers dispatched. The order book of Bloom Energy stands at Rs4.7bn, with an order inflow of Rs1.4bn likely. Management expects Rs1bn in sales in 2QFY25F and Rs3.2bn in FY25F from this segment. Management stated that there is an increase in demand for hot boxes and electrolyzers and hopes to deliver 990 hot boxes in 2QFY25F. Management noted that Bloom Energy is aggressively pursuing new projects in electrolyzers. As regards the impact of rising steel prices on margins, management stated that the company has been able to pass on the increase in costs to its customers, thus ensuring a minimal impact on profitability.
  - **Nuclear power:** The company is preparing the systems for dispatch in the coming quarters. It plans to deliver around Rs160m of such systems in 2QFY25F and Rs620m in FY25F. The company expects Rs6bn of orders from the Tiger 5 and 6 reactors in 2HFY25F.
  - **Aerospace:** MTAR Technologies expects a three-fold increase in the aerospace segment revenue in FY25F, compared to FY24, with significant orders from MNCs in the pipeline. The company is set to execute Rs120m of orders from Israel Aerospace Industries (IAI) and Rs250m from other MNCs in 2QFY25F. The new aerospace unit will focus on producing components for various agencies, including the Indian Space Research Organization (ISRO) and MNCs. Revenue from this segment is expected to rise significantly compared to the previous years. Management highlighted that the company is well positioned to capitalize on rising demand from the aerospace sector, with a strong order pipeline and enhanced production capabilities. On an annual basis, the company expects Rs1.2-1.3bn of orders in this segment.
  - **Defence:** Revenue from the defence sector stood at Rs40m in 1QFY25, with expectations to execute Rs50-60m of orders in 2QFY25F. Annual revenue from this sector is estimated at around Rs300m.
- **New facilities:** A new aerospace facility in Hyderabad is expected to be operational by Dec 2024F, which will enhance production capability.
- **Debt:** MTAR Technologies has reduced its long-term debt from Rs1,425m to Rs1,274m in 1QFY25, with plans to repay another Rs419m during the year.
- **Geopolitical tensions:** Management stated that the company has not witnessed any significant disruption so far. MTAR Technologies has a well-diversified customer base and supply chain which helps mitigate the risks associated with global uncertainties.

**Figure 1: 1QFY25 earnings highlights**

(Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)
<b>Net sales</b>	<b>1,283</b>	<b>1,526</b>	<b>(15.9)</b>	<b>1,429</b>	<b>(10.3)</b>
Raw material costs	669	764	(12.5)	779	(14.1)
Employee costs	280	242	15.7	249	12.7
Other operating expenses	168	174	(3.6)	221	(24.0)
Total expenditure	1,117	1,180	(5.4)	1,248	(10.5)
<b>EBITDA</b>	<b>166</b>	<b>345</b>	<b>(51.9)</b>	<b>181</b>	<b>(8.5)</b>
Other income	5	41	(87.2)	6	(6.2)
Interest	48	57	(16.4)	55	(13.1)
Depreciation	61	56	9.3	58	6.1
EOI	-	-	-	-	-
PBT	62	273	(77.2)	74	(16.2)
Tax	18	69	(74.4)	23	(24.1)
<i>Tax rate (%)</i>	29%	25%		32%	(9.4)
<b>Adj. PAT</b>	<b>44</b>	<b>203</b>	<b>(78.2)</b>	<b>51</b>	<b>(12.6)</b>
<b>Reported PAT</b>	<b>44</b>	<b>203</b>	<b>(78.2)</b>	<b>51</b>	<b>(12.6)</b>
EPS (Rs)	1.4	6.6	(78.2)	1.6	(12.6)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	5,738	5,808	7,724	11,586	18,480
<b>Gross Profit</b>	3,042	2,784	4,016	5,909	9,425
<b>Operating EBITDA</b>	1,540	1,127	1,694	2,855	4,546
Depreciation And Amortisation	(187)	(232)	(264)	(284)	(299)
<b>Operating EBIT</b>	1,353	895	1,431	2,571	4,247
Financial Income/(Expense)	(146)	(223)	(204)	(215)	(225)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	195	58	57	57	57
<b>Profit Before Tax (pre-EI)</b>	1,402	730	1,284	2,413	4,079
Exceptional Items					
<b>Pre-tax Profit</b>	1,402	730	1,284	2,413	4,079
Taxation	(368)	(169)	(321)	(603)	(1,020)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	1,034	561	963	1,810	3,059
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	1,034	561	963	1,810	3,059
Recurring Net Profit	1,034	561	963	1,810	3,059
<b>Fully Diluted Recurring Net Profit</b>	1,034	561	963	1,810	3,059

**Cash Flow**

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	1,735	1,185	1,751	2,912	4,603
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,291)	(372)	(846)	(2,021)	(3,238)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(33)	(18)			
Other Operating Cashflow					
Net Interest (Paid)/Received	(14)	(9)	57	57	57
Tax Paid	(323)	(213)	(321)	(603)	(1,020)
<b>Cashflow From Operations</b>	74	574	641	345	402
Capex	(1,084)	(942)	(750)	(400)	(300)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	217	385	57	57	57
<b>Cash Flow From Investing</b>	(867)	(556)	(693)	(343)	(243)
Debt Raised/(repaid)	457	476	131	110	100
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(137)	(223)	(204)	(215)	(225)
<b>Cash Flow From Financing</b>	320	253	(73)	(105)	(125)
Total Cash Generated	(473)	270	(125)	(104)	34
<b>Free Cashflow To Equity</b>	(336)	493	79	111	259
<b>Free Cashflow To Firm</b>	(793)	17	(52)	1	159

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	312	508	383	280	314
Total Debtors	2,084	1,466	2,222	3,238	5,114
Inventories	3,866	3,476	3,809	5,396	7,797
Total Other Current Assets	430	198	234	308	440
<b>Total Current Assets</b>	<b>6,692</b>	<b>5,648</b>	<b>6,648</b>	<b>9,221</b>	<b>13,664</b>
Fixed Assets	3,546	4,127	4,235	4,251	4,252
Total Investments					
Intangible Assets	8	7	7	7	7
Total Other Non-Current Assets	113	294	529	529	529
<b>Total Non-current Assets</b>	<b>3,666</b>	<b>4,428</b>	<b>4,771</b>	<b>4,787</b>	<b>4,788</b>
Short-term Debt	656	939	940	950	950
Current Portion of Long-Term Debt					
Total Creditors	2,183	714	889	1,333	2,126
Other Current Liabilities	577	425	529	741	1,119
<b>Total Current Liabilities</b>	<b>3,416</b>	<b>2,078</b>	<b>2,358</b>	<b>3,024</b>	<b>4,195</b>
Total Long-term Debt	777	970	1,100	1,200	1,300
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>777</b>	<b>970</b>	<b>1,100</b>	<b>1,200</b>	<b>1,300</b>
Total Provisions	239	265	107	57	57
<b>Total Liabilities</b>	<b>4,432</b>	<b>3,313</b>	<b>3,565</b>	<b>4,281</b>	<b>5,552</b>
Shareholders Equity	6,201	6,763	7,726	9,536	12,596
Minority Interests					
<b>Total Equity</b>	<b>6,201</b>	<b>6,763</b>	<b>7,726</b>	<b>9,536</b>	<b>12,596</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	78.2%	1.2%	33.0%	50.0%	59.5%
Operating EBITDA Growth	63.1%	(26.8%)	50.3%	68.5%	59.2%
Operating EBITDA Margin	26.8%	19.4%	21.9%	24.6%	24.6%
Net Cash Per Share (Rs)	(36.41)	(45.48)	(53.79)	(60.73)	(62.87)
BVPS (Rs)	201.34	219.59	250.86	309.62	408.96
Gross Interest Cover	9.29	4.01	7.01	11.96	18.88
Effective Tax Rate	26.3%	23.2%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	109.54	111.56	87.14	86.00	82.47
Inventory Days	377.09	443.11	358.62	295.92	265.90
Accounts Payables Days	186.41	174.82	78.90	71.43	69.73
ROIC (%)	13.9%	7.9%	11.1%	16.5%	21.3%
ROCE (%)	19.1%	10.7%	15.3%	23.9%	32.0%
Return On Average Assets	13.4%	7.1%	10.4%	15.5%	19.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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