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Issue Summary

Price Band (INR)	475-500
Face Value (INR)	2
Implied Market Cap (INR Cr)	2,637
Market Lot	30
Issue Opens on	Nov, 22, 2023
Issue Close on	Nov, 24, 2023
No. of share pre-issue	405,668,530
No. of share post issue	405,668,530
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50%
NIB Portion	15%
Retail Portion	35%

Book Running Lead Managers

JM Financial

Bofa Securities India Ltd

Citigroup Global Markets

India Private Limited

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	64.79%	56.04%
Public & Others	35.21%	46.61%

Objects of the issue

- Achieve the benefits of listing the Equity Shares on the Stock Exchanges
- Conduct an Offer for Sale, selling up to 95,708,984 Equity Shares by the Selling Shareholders.

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Established in 1994, Tata Technologies Limited is a prominent global engineering services firm that provides product development and digital solutions, including turnkey solutions, to international OEMs and their tier-1 suppliers. Operating globally, Tata Technologies brings together diverse teams with varied skill sets from different parts of the world to collaboratively address complex engineering challenges in real time. With deep expertise in the automotive industry, the company extends its services to clients in related sectors such as aerospace, transportation, and construction heavy machinery (TCHM). Tata Technologies organizes its business into services and technology solutions, aiming to create value for clients by assisting in the development of cleaner, safer, and higher-quality products.

Investment Rationale

Prioritizing Top ER&D Spenders: Strategic Focus on Key Sectors and Geographies

The company is strategically targeting top ER&D spenders in automotive, aerospace, and TCHM, particularly focusing on the top 20 automotive companies that contribute to 73% of global spend. Recent accreditation by Airbus is expected to be a significant avenue for growth. The company employs a combination of organic growth, tuck-in acquisitions, and a commitment to exploring opportunities that align with its strategy. Additionally, efforts are underway to expand its presence in key manufacturing sectors in France, Germany, and China, utilizing tailored strategies for sustainable growth in each region. The global delivery model remains central, with region-specific services as needed.

Distinctive Proficiencies in Emerging Automotive Trends: EV, Connectivity, and Autonomous Technologies:

Providing comprehensive end-to-end solutions for EV development, manufacturing, and after-sales services, we specialize in creating compelling vehicle concepts and engineering designs. With a history dating back to 2010, expertise spans lightweight body structures, EV architectures, connected services, autonomous driver assistance systems, and more. Recognized as a leader in global engineering services and electrification, notable projects include collaborations with JLR, Polestar, VinFast, and other renowned OEMs, earning accolades and acknowledgments in the evolving automotive landscape.

Utilizing a Worldwide Delivery Framework for Enhanced Client Interaction and Scalability:

As of September 30, 2023, the global team comprises 12,451 professionals across 19 delivery centers in Asia Pacific, Europe, and North America. This strategic distribution ensures a synergy of onshore client proximity and offshore efficiency, capitalizing on the low-cost offshore model in India and Romania. With 1,717 employees strategically located onshore, company maintain a balanced engagement model, integrating the right skill set and ensuring proximity to clients, while optimizing costs through the offshore delivery centers.

Valuation and View: Tata Technologies Limited provides a diverse range of services encompassing IT consultancy, SAP implementation, and CAD/CAM engineering and design consultancy. The revenue breakdown as of FY23 indicates approximately 80% from services, 11% from products, and 9% from education. Strong partnerships, including with Dassault and Siemens, and utilization of Microsoft AZURE products enable global expansion. Recent empanelment by Airbus signals significant growth potential. The company's revenue and PAT demonstrated a CAGR of 36% and 62%, respectively, from FY21 to FY23. In H1FY24, there was a 34% and 36% YoY growth in revenue and PAT. Robust earnings growth is anticipated moving forward. Tata Technologies has outpaced Tata Elxsi, L&T Technologies, and KPIT Technologies in revenue CAGR over the last three years. At an upper band valuation of INR 500, the issue's valued at a PE ratio is 32.5x based on FY23 EPS. We recommend subscribing to the issue for both short-term listing gains as well as long-term investment prospects.

Plant Visit Concall Highlights

Margin trajectory

Margin Enhancement Achieved This Year Through Operational Efficiency: 18-19% Offshore Improvement, 50-60 bps Gain, and Increased Wallet Share from Existing Customers

Top ER&D Spend Targets in Priority Verticals and Geographies

Airbus partnership sets the stage for robust growth. The strategy combines organic targeting of ER&D leaders with acquisitions for accelerated client acquisition. Global expansion in key manufacturing hubs like France, Germany, and China, with tailored strategies, anticipates strong revenue growth, particularly in FY25.

Risks of Education Business Expansion: Potential Impact on Business, Operations, and Financial Condition

Strategic foray into Education with iGetIT platform for upskilling in engineering; challenges include third-party dependence, lower margins, and revenue fluctuations. Engagement with governments and universities involves complex negotiations, exposing them to policy changes and contract risks. Despite efforts for upfront fees, there's a risk of counterparty default with government institutions.

Enhancing Service Delivery: Capacity and Capability Building with Optimized Processes

As the company's expand globally, they are prioritizing the optimization of work systems and processes to boost service efficiency and increase margins. Focus includes talent supply chain enhancement, offshoring strategies, campus recruitment, and skill development initiatives to ensure a cost-effective and value-driven approach for sustained growth.

Defence

The company is actively engaged in defense government processes, having already undertaken substantial projects in this sector.

ER&D spends

North America Leads Global ER&D Spend, Asia Pacific Surpasses Western Europe. China, contributing over 10% of global ER&D spending, focuses on automotive, semiconductor, telecom, and software, particularly in the rapidly growing electric vehicle market.

The company controls the interface with its customers.

VINFAST: The company is actively involved in various full vehicle turnkey models such as VF 6 & VF 7, leveraging the eVMP platform to expedite development timelines. Notably, there has been a significant reduction in product development time for the first BEV, marking one of the fastest achievements in the industry

Conversion of existing ICE Vehicle to EV: Successfully converted existing ICE vehicles to EV with full control over design, packaging, and integration of EV components. Launched Tata Tigor EV in 2021 and Tata Tiago EV in 2023, meeting quality standards for remote collaborations. Engaged in a multi-year commitment to provide application maintenance and support

End-to-End Excellence

Significant achievements include a 35% improvement in traceability in engineering and manufacturing.

Digital Enterprise in Luxury Car Manufacturing

With three decades of experience, Tata Technology plays a pivotal role in the digital transformation of luxury car manufacturing. - Emphasis on customer experience is evident through direct-to-customer channels and a digital CX lab.

Diverse Manufacturing Landscape

Tata Technology's manufacturing operations range from factory-based volume initiatives to OpEx-driven projects. Airbus collaboration extends to digital design manufacturing in North America.

Medical Devices and Smart Manufacturing

The company extends its expertise to medical devices and smart manufacturing. A network of connectivity facilitates solutions for digital greenfield and brownfield projects.

European Presence and OEM Collaboration

In Europe, Tata Technology handles complete lines for OEMs like JLR. Easy-matic assembly parts and virtual showrooms with virtual test drives enhance customer engagement.

Global Clientele and Industry Collaborations

Tata Technology serves 35 existing clients globally in various capacities. Collaborations with industry giants like Polestar and NIO underscore its position in the automotive sector.

Focus on ECUs and Cybersecurity

The company addresses the evolving automotive landscape by integrating ECUs into today's cars. Noteworthy contributions include cybersecurity solutions for British luxury vehicles.

Localization and Value Engineering

Tata Technology emphasizes localization for cost and weight reduction. Value engineering optimizes product weight and cost through end-to-end design solutions, Tera Down, and benchmarking.

Global Supplier Network and Cost Benchmarks

The company's global reach includes partnerships with suppliers like Arai in India. Cost benchmarks in Europe and proposals for 5% weight saving and 6% cost reduction highlight customer-centric initiatives.

Airbus's involvement is set to escalate in the second half (H2), with a significant ramp-up anticipated in FY25

Tata Technology's multifaceted engagements across industries showcase its commitment to innovation, customer-centric solutions, and a sustainable future in the ever-evolving technological landscape.

Exhibit 1: Comparison with listed industry peers

Company	Revenue (INR Mn)	EBITDA	EBITDA Margin(%)	PAT	EPS	RONW	NAV
Tata Technologies Limited	44142	8209	18.6%	3519	15.38	20.87%	73.65
Listed peers							
KPIT Technologies Limited	33650	6757	20.1%	3869	14.1	22.91%	61.58
L&T Technology Services Limited	80136	19187	23.9%	11698	110.8	23.54%	470.66
Tata Elxsi Limited	31447	10349	32.9%	7552	121.26	36.21%	334.92

Exhibit 2: Comparison with listed industry peers

Revenue break-up				
Particulars	FY23	FY22	FY21	FY20
Services Segment	80.0%	75.1%	80.4%	82.2%
Automotive	70.9%	64.5%	66.1%	66.9%
Others	9.1%	10.6%	14.3%	15.2%
Technology Solutions	20.0%	24.9%	19.6%	17.8%
Geography wise				
Particulars	FY23	FY22	FY21	FY20
India	29.8%	32.4%	29.0%	30.1%
Europe	22.8%	24.3%	31.0%	34.3%
North America	21.4%	22.4%	31.9%	30.0%
Rest of World	26.0%	20.8%	8.2%	5.6%

Exhibit 3: Comparison with listed industry peers

Employees	H1FY23	FY23	FY22	FY21
Attrition Rates	17.20%	21.70%	25.10%	11.50%
Total as of the end of the period/yea	12451	11616	9338	7954

Exhibit 4: Global delivery model enabling intimate client engagement and scalability

Source: Arianth Research, Company Filings,

Risk Factors

Competition from Group Companies: The company faces competition from certain Group Companies in a similar business line, potentially resulting in a loss of business opportunities.

Exchange Rate Fluctuations: The business is susceptible to adverse impacts from fluctuations in exchange rates for various currencies in which the company operates, affecting its financial condition and results.

Dependence on Top 5 Clients: With 72.75% of revenue coming from the Top 5 Clients, including Tata Motors Limited and subsidiaries, any negative changes in their business could significantly impact the company's financial health.

Vulnerability to Automotive Segment Cyclicalities: The company's revenue heavily depends on clients in the automotive segment, making it vulnerable to economic downturns or issues affecting this industry, potentially harming its overall business and financial performance.

Exhibit 5: Client concentration

	FY20	FY21	FY22	FY23	H1FY24
\$50 million +	2	2	3	3	3
\$20 million +	2	2	3	3	3
\$10million +	5	6	6	6	6
\$5 million +	5	8	11	7	10
\$1 million +	33	27	31	34	38

The company anticipates revenue growth by expanding outsourcing with existing clients. Diversification is underway, evidenced by acquiring new clients generating over \$1 million, increasing from 27 to 38 between Fiscal 2021 and September 2023. The success is attributed to the engagement model, global delivery approach, and robust NPS scores (58 for September 2023), fostering high client satisfaction and loyalty. This is reflected in a repeat rate of over 97.72% for the six-month period ending September 30, 2023, and 98.38% for Fiscal 2023 in the Services business

Exhibit 6: Client concentration

Management	Designation
Mr. Ajoyendra Mukherjee (w.e.f March 29, 2021)	Chairman, Independent Director
Mr. Warren Harris	CEO & Managing Director
Mrs. Savitha Balachandran	Chief Financial Officer

Exhibit 7: Client concentration

Year	Key Milestones
2005	Acquired 100% equity in INCAT International UK
	In December company acquired 100% stake in Tata Technologies Pte Ltd. a Singapore based Company
2006	The company sold its 100% equity stake in Tata Technologies (Thailand) Ltd. to its wholly owned subsidiary viz. Tata Technologies Pte Ltd., Singapore
2011	Secured funding through Alpha TC Holdings Pte. Ltd. and Tata Capital Growth Fund I
2013	Acquired Cambric Holdings Inc
2017	Acquisition of Escenda Engineering AB by Tata Technologies Europe Limited

Financial Statements

Income Statement (INR Mn)

Year End-March	FY21	FY22	FY23	H1FY24
Revenues	23,809	35,296	44,142	25,267
<i>Change (%)</i>	0.0%	148.2%	125.1%	57.2%
Material	3,383	6,885	6,825	4,235
Employee costs	14,574	19,125	24,991	14,224
Other expenses	1,995	2,829	4,116	2,160
Total Expenses	19,952	28,839	35,932	20,620
EBITDA	3,857	6,457	8,209	4,648
Margin (%)	16.2%	18.3%	18.6%	18.4%
Depreciation	922	857	946	497
EBIT	2935	5600	7264	4150
Margin (%)	12.3%	15.9%	16.5%	16.4%
Interest	177	219	180	95
Other Income	448	488	878	607
PBT	3,207	5,869	7,962	4,663
Exceptional Items	54.15	-	-	-
PBT after exceptional Items	3,153	5,869	7,962	4,663
Tax	761	1,499	1,721	1,144
<i>Rate (%)</i>	24.1%	25.5%	21.6%	24.5%
PAT	2,392	4,370	6,240	3,519
<i>Change (%)</i>	10.0%	12.4%	14.1%	13.9%

Cash Flow Statement (INR Mn)

Year End-March	FY21	FY22	FY23	H1FY24
PBT	2,392	4,370	6,240	3,519
Cash From Operating Activities	12,231	891	6,443	749
Tax	(1,102)	(1,278)	(2,429)	(827)
Net Cash From Operations	11,128	(387)	4,014	(78)
Cash From Investing Activities	(6,736)	742	(4,874)	5,803
Cash From Financing	(441)	(444)	(3,469)	(5,265)
Net Increase/ Decrease in Cash	3952	-89	-4329	460
Cash at the beginning of the year	7,813	7,683	3,828	4,286
Cash at the end of the year	3,760	7,813	7,683	3,828

Balance Sheet (INR Mn)

Year End-March	FY21	FY22	FY23	H1FY24
Financial Assets				
Cash and cash equivalents	7,813	7,683	3,828	4286
Bank Balance	21	1,011	6,164	3859.54
Loans	2,517	462	4,902	1,208
Other Financial Assets	268	328	744	875
Trade receivables	5957	7682	11062	12247
Investments	4971	5277	298	898
Others	2,328	7,359	10,976	13,078
Total Financial Assets	23,875	29,802	37,975	36,450
Non-Financial Assets				
Plant Property & CWIP	873	1,148	1,228	1318
Other Non-Financial Assets	950	1,696	3,059	875
Goodwill	7,259	7,293	7,629	7662
Righ of use assets	2,326	1,879	1,803	1848
Others	444	363	320	3,072
Total Non-Financial Assets	11,852	12,378	14,039	14,775
Total Assets	35,727	42,180	52,014	51,225
Equity Share	418.07	418.07	811.34	811.34
Reserves & Surplus	21,003	22,383	29,083	27,720
Networth	21,422	22,801	29,895	28,531
Financial Liabilities				
Lease Liabilities	2,327	2232	2148	2128
Other financial liabilities	4.7	4	5	7
Provisions	152.02	186	233	292
Total Non-Financial Liabilities	2,484	2,422	2,386	2,427
Current liabilities				
Trade payables	2,237	3,366	6,578	4795.57
Other Financial Liabilities	31	2,259	46	36.99
Lease Liabilities	334.73	382.79	405.95	470.43
Provisions	119	307	339	256
Current tax liabilities (net)	9,101	10,342	12,365	14906.44
Total Current Liabilities	11,822	16,957	19,734	20,466
Total Liabilities	14,306	19,378	22,120	22,893
Total Equity & Liabilities	35,727	42,180	52,015	51,424

Key Ratios

Year End-March	FY21	FY22	FY23	H1FY24
Per share (INR)				
EPS	5.9	10.8	15.4	8.7
Valuation (x)				
P/E	84.9	46.4	32.5	57.7
Return ratio (%)				
EBIDTA Margin	16.20%	18.29%	18.60%	18.39%
PAT Margin	10.05%	12.38%	14.14%	13.93%
ROE	11.17%	19.17%	20.87%	12.33%
ROCE	20.52%	28.90%	32.84%	18.13%
Turnover Ratios				
Receivable Days	70	67	79	73

Source: Arianth Research, Company Filings,

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Stock Rating Scale

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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