

Tata Technologies Ltd – IPO Note

Industry: Information Technology (IT)

Rating: SUBSCRIBE

Date: 21st Nov, 2023

ISSUE HIGHLIGHTS

- ❖ Tata Technologies IPO is a book-built issue of Rs. 3043 Crores. The issue is entirely an offer for sale.
- ❖ The Offer for Sale consists of 60,850,278 (~6.09 Cr) shares of Rs. 2 face value, aggregating up to Rs. 3043 Crores, at the upper end of the price band at Rs. 500 per share. As per the company's plan, the issue will consist of an offer-for-sale by the investors and promoters.
 - Promoter Tata Motors will offload 4.62 crore equity shares, which is worth Rs 2,314 crore in the offer-for-sale.
 - Investor Alpha TC Holdings Pte Ltd will be selling 97.17 lakh shares worth Rs 486 crore.
 - Investor Tata Capital Growth Fund I will sell 49 lakh shares, which is worth Rs 243 crore.
- ❖ Tata Tech has reserved 20.28 lakh shares for its employees and 60.85 lakh shares for the shareholders of Tata Motors.
- ❖ **Objects of the Offer are:**
 - Achieve the benefits of listing the Equity Shares on the Stock Exchanges.
 - Carry out the Offer for Sale of by the Selling Shareholders.

OUTLOOK

- ❖ Tata Tech showcases impressive revenue CAGR of 36% and PAT CAGR of 62% from FY21 to FY23, surpassing peers like KPIT Tech and LTTS.
- ❖ In Q2FY24, the company posted an EBIT margin of 18.44%, over 100 basis points higher than industry competitors.
- ❖ Witnessing substantial traction in the Electric Vehicle (EV) segment from global Multinational Corporations (MNCs), a high-margin business opportunity.
- ❖ Successfully mitigating client concentration risks with a decline in the share of revenue from top 5 clients, reducing from 64% in Q2FY23 to 57.4% in Q2FY24.
- ❖ Demonstrated strong product performance showcased through Tata Motors' EV, indicating technological prowess and innovation capability.

KEY INDICATORS & METRICS

Market Cap (Rs. Crores) – Post Issue	20,283
PE Ratio – Post Issue	32.50
EPS – Post Issue	15.38
ROE% (FY23)	20.87%
ROCE% (FY23)	25.22%

ISSUE DETAILS

Price Band	Rs. 475 to Rs. 500 per share
Face Value	Rs. 2 per share
Total Offer Size	60,850,278 shares (aggregating up to Rs. 3,043 Cr)
Offer for Sale	60,850,278 shares (aggregating up to Rs. 3,043 Cr)
Issue Type	Book Built Issue IPO
Minimum lot	30 shares
Issue Opens	Wednesday, Nov 22, 2023
Issue Closes	Friday, Nov 24, 2023
Listing on	NSE and BSE

Indicative Timeline

On or before

Finalization of Basis of Allotment	Thursday, November 30, 2023
Unblocking of Funds	Friday, December 1, 2023
Credit of shares to Demat Account	Monday, December 4, 2023
Listing on exchange	Tuesday, December 5, 2023

Tata Tech Ltd IPO Reservation

QIB Shares	Not more than 50% of Net Issue
HNI Shares	Not less than 15% of Net Issue
Retail Shares	Not less than 35% of Net Issue

LOT SIZE

Application	Lots	Shares	Amount
Retail (Min)	1	30	Rs. 15,000
Retail (Max)	13	390	Rs. 1,95,000
S-HNI (Min)	14	420	Rs. 2,10,000
S-HNI (Max)	66	1,980	Rs. 9,90,000
B-HNI (Min)	67	2,010	Rs. 10,05,000

COMPANY OVERVIEW

- 🚩 **Corporate History and Overview:** Founded in 1994, Tata Technologies Limited is a global engineering services company under the umbrella of Tata Motors. Specializing in product development and digital solutions, the company serves global original equipment manufacturers (OEMs) and tier-1 suppliers across industries, primarily focusing on automotive, aerospace, and heavy machinery sectors.
- 🚩 **Core Services Offered:**
 - **Engineering Services & Digital Solutions:** Representing approximately 78.6% of the revenue, Tata Technologies provides outsourced engineering services and digital transformation solutions. These services assist global manufacturing clients in the conception, design, development, and delivery of superior products. This segment has seen consistent growth and plays a pivotal role in the company's revenue streams.
 - **Technology Solutions:** Comprising about 21.4% of the revenue, this segment has a dual focus:
 - **Product Sales:** Tata Technologies sells third-party software applications, predominantly product lifecycle management software. It also offers value-added services such as consulting, implementation, system integration, and support.
 - **Education Solutions:** Through the iGetIT platform, the company offers "phygital" education solutions, catering to upskilling and reskilling employees in the latest engineering and manufacturing technologies.
- 🚩 **Market Presence and Operations:** Tata Technologies operates globally, boasting 19 delivery centres and a workforce of almost 12,500 employees across the world. Its delivery model balances onshore client proximity and offshore efficiency, leveraging the diverse skills and capabilities of its global workforce. This approach aids in real-time collaboration and problem-solving for complex engineering challenges.
- 🚩 **Industry Focus and Revenue Breakdown:** The company predominantly caters to the automotive industry (~88% of services revenue), actively engaging with major players and consistently expanding its offerings. Additionally, its involvement in aerospace and industrial heavy machinery industries highlights its diversified portfolio.
- 🚩 **Market Opportunities and Growth Prospects:** Tata Technologies identifies significant market potential in areas like ADAS & Autonomous systems, Hybrid Electric Mobility, Infotainment & Connected platforms, Safety Systems, and Traditional Powertrain and Body Engineering. Leveraging long-standing client relationships and deep domain expertise, the company is poised to capitalize on emerging trends like ACES (autonomous, connected, electrification, and shared mobility).
- 🚩 **Clientele and Brand Recognition:** The company's strong clientele includes leading industry players such as Tata Motors and its subsidiaries like JLR. Tata Technologies maintains enduring relationships with its clients, evident from an impressive customer repeat rate of over 97%. The brand recognition and customer loyalty within the services segment highlight its robust market presence and reliability.

RISKS

- 1) **Client Concentration Risk:** Over 57.36% of revenue in the last six months stemmed from the top 5 clients, notably Tata Motors and subsidiaries. A disruption in their business or the termination of their contract with them will adversely affect the company's revenue.
- 2) **Business Concentration Risk and Cyclicalities:** Revenues from the automotive sector accounted for 71% of FY23 revenues, further the cyclicalities of this sector exposes the company to macroeconomic volatilities.
- 3) **Competitive Landscape:** Increased competition from ER&D firms and potential insourcing by OEMs might significantly impact Tata Technologies' financials and operations.

FINANCIALS

Income Statement Extract

Particulars (Rs. Cr)	As on 31 st March 23	As on 31 st March 22	As on 31 st March 21
Revenue from Operations	4,414	3,530	2,381
Other Income	88	49	45
Total Income	4,502	3,578	2,426
Expenses	3,688	2,970	2,087
EBIT	814	609	338
Finance Cost	18	22	18
PBT	796	587	321
Tax	172	150	76
PAT	624	437	239
EPS (In Rs.)	15.38	10.77	5.89

Balance Sheet

Particulars (Rs. Cr)	As on 31 st March 23	As on 31 st March 22	As on 31 st March 21
Share Capital	81	42	42
Reserves & Surplus	2,908	2,238	2,100
Total Equity	2,989	2,280	2,142
Fixed Assets including CWIP	1,098	1,068	1,090
Current Assets	3,797	2,980	2,388
Other Liabilities	1,952	1,420	1,161
Borrowings	260	518	270
Capital Employed	3,228	2,522	2,391

Notable Ratios & Metrics

Particulars	As on 31 st March 23	As on 31 st March 22	As on 31 st March 21
EBIT Margin (%)	18.44%	17.25%	14.21%
Net Profit Margin (%)	14.14%	12.38%	10.05%
Return on Capital Employed (ROCE%)	25.22%	24.13%	14.15%
Return on Equity (ROE%)	20.87%	19.16%	11.17%

PEER COMPARISON

Company	Market Cap (Rs. Cr)	PE Ratio	ROE% (ttm)	ROCE% (ttm)	EBIT Margin % (Q2FY24)	2 Yr Rev cagr (%)	2 Yr PAT cagr (%)
Tata Technologies	20,283	32.50	25.13%	30.38%	18.44%	36%	62%
KPIT Technologies	42,091	86.1	25.70%	30.20%	16.00%	29%	62%
L&T Technology Services	48,362	38.1	25.00%	32.60%	17.09%	21%	33%

INDUSTRY OUTLOOK

The global engineering, research, and development (ER&D) services industry, encompassing automotive, aerospace, and transportation and heavy construction machinery (TCHM) verticals, witnessed significant growth, with a 2022 spend of \$1.81 trillion expected to surge to \$2.67 trillion by 2026. This sector is propelled by increasing outsourcing trends, regulatory imperatives for safer and eco-friendly products, and rapid technology advancements, fostering innovation and shortening product life cycles. Notably, digital engineering spending reached \$810 billion in 2022, projected to grow at a robust 16% CAGR till 2026, driven by emerging technologies like IoT, blockchain, 5G, and AI. The automotive segment, contributing \$180 billion, represents 10% of the ER&D spend, experiencing a digital transformation across the value chain. The top 20 automotive companies account for 73% of this spend, investing heavily in digital technologies like ADAS, infotainment, and hybrid/electric technologies, underscoring the industry's resilience and strategic investment focus even amid challenging economic environments.

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