

IPO Note: Tata Technologies Ltd.

Industry: Information Technologies

Date: November 20, 2023

Issue Snapshot		Issue Break up	
Company Name	Tata Technologies Ltd.	QIB ex Anchor	20% 1,05,47,382
Issue Opens	November 22, 2023 to November 24, 2023	Anchor Investor	30% 1,58,21,073
Price Band	Rs. 475 to Rs. 500	HNI<Rs. 10 Lakhs	5% 26,36,845
Bid Lot	30 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10% 52,73,691
The Offer	Public issue of 60,850,278 Equity shares of Face value Rs. 2 each, (Offer for Sale by Selling Shareholder).	RII	35% 1,84,57,918
Issue Size	Rs. 2890.4 – 3042.5 Crore	Total Public	100% 5,27,36,909
IPO Process	100% Book Building	Employee Reservation	20,28,342
Face Value	Rs. 2.00	TML Shareholders Reserv.	60,85,027
Exchanges	NSE & BSE	Total	6,08,50,278
BRLM	JM Financial Ltd., Citigroup Global Markets India Private Ltd., BofA Securities India Ltd.	Equity Share Pre Issue (Nos. Cr.)	40.6
Registrar	Link Intime India Private Ltd	OFS Share (Nos. Cr.)	6.1
		Equity Share Post Issue (Nos. Cr.)	40.6
		Market Cap (Rs. Cr.)	20,283.4
		Stake Sale by OFS	15.0%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 46,275,000 equity shares by Tata Motors Limited, up to 9,716,853 equity shares by Alpha TC Holdings Pte. Ltd., up to 4,858,425 equity shares by Tata Capital Growth Fund I)

Company Highlights

- Tata Technologies Ltd. (TTL) is a leading global engineering services company offering product development and digital solutions, including turnkey solutions, to global original equipment manufacturers ("OEMs") and their tier 1 suppliers (Source: Zinnov Report). The company endeavors to create value for clients by helping them develop products that are safer, cleaner and improve the quality of life for their end-customers. It has deep domain expertise in the automotive industry and leverage this expertise to serve clients in adjacent industries, such as in aerospace and transportation and construction heavy machinery ("TCHM"). As a global organization, it brings together diverse teams from different parts of the world with multiple skill sets to collaborate in real time and solve complex engineering problems for clients.
- In a world that is becoming increasingly complex, with shortening product innovation timelines and rapid technological change, TTL believes that its globally distributed onshore-offshore service delivery capability helps it to suitably address clients' requirements. The company leverages deep manufacturing domain knowledge to deliver value-added services to clients in support of their digital transformation initiatives including product development, manufacturing and customer experience management.
- Company's value proposition has 2 primary components. The first being the **Services offerings** which include providing outsourced engineering services for manufacturing clients and leveraging digital technology to optimize the way in which a manufacturing company conceives, develops, manufactures and services new products. The second component of the value proposition concerns the **Technology Solutions offering** which includes the Products business comprising of the reselling of specific software that manufacturing companies deploy to conceive, develop, build and service new products and the Education business to equip the next generation of engineers and technicians with relevant skills that are required by the global manufacturing industry.
- TTL is a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry and is currently engaged with seven out of the top 10 automotive ER&D spenders and five out of the 10 prominent new energy ER&D spenders in 2022 (Source: Zinnov Report). Its automotive revenue attributable to the Services segment for FY23 and H1FY24 was Rs. 3131.47 cr. and Rs. 1745.76 cr., respectively, comprising 88.68% and 87.89% of its revenue. Additionally, TTL's revenue attributable to the Services segment from verticals other than automotive for FY23 and H1FY24 was Rs. 399.69 cr. and Rs. 240.63 cr., respectively, comprising 11.32% and 12.11% of its revenue.

- TTL's domain expertise has also been recognized by industry bodies and external analysts. It is positioned in the "leadership zone" by Zinnov Zones for ER&D services ratings in 2023 for the seventh consecutive year. The company is also ranked first among all India-based ER&D service providers and are among the top two globally, in electrification. For automotive ER&D services, it is ranked first among India service providers and third globally among rated service providers by Zinnov.
- TTL has a diversified global client base and in H1FY24, the company derived 35.14%, 26.90%, 19.26% and 18.71% of the revenue from operations from clients in India, Europe, North America, and the rest of the world, respectively. The strength of the client relationships is also evidenced by the improving net promoter score ("NPS") where the company is positioned among the Top-20 percentile of technology services players and the 98.38% repeat rate (based on the percentage of revenue attributable to the Services segment in a period generated from existing clients) for FY23 as well as the 97.72% repeat rate for H1FY24.
- TTL's global delivery model leverages the skills and capabilities of the employees from the various regional centres, delivering value to the clients. As of September 30, 2023, the company has 19 global delivery centres spread across North America, Europe and Asia Pacific, with each centre staffed by a majority of local nationals enabling the company to provide uninterrupted service to the clients and tap into specialist skill sets in different geographies.

View

- Tata Technologies is a global engineering services company offering product development and digital solutions, including turnkey solutions, to global original equipment manufacturers (OEM) and their tier 1 suppliers. Backed by Tata Motors Ltd (TML), the company boasts extensive knowledge in the automotive sector and has expanded its expertise into aerospace and heavy construction machinery, enhancing its commercial opportunities.
- Zinnov has estimated the global engineering, research and development ("ER&D") spend to be approximately \$1.81 trillion as of 2022 and expects it to grow to approximately \$2.67 trillion by 2026. The ER&D spend outsourced to third party service providers reached \$105 billion to \$110 billion in 2022 and is anticipated to grow at a 11-13% CAGR between 2022 and 2026. Key drivers for growth within the ER&D market, particularly the automotive market, include an increasing propensity to outsource services (following the COVID-19 pandemic), increased regulatory interventions for safer and cleaner products, shrinking product innovation cycles and next-generation product technologies that underpin autonomous, connected, electrification and shared ("ACES") technologies.
- Additional growth drivers include a heightened focus on smart manufacturing, reducing product development time and cost, connecting the digital thread and enhancing customer experience. Typically, the TCHM industry lags behind the automotive industry by 3 to 5 years, but the demand for outsourced engineering services is driven by similar regulatory and technological challenges. While the aerospace industry has been disproportionately impacted by COVID-19, the sector has recently shown signs of recovery, largely driven by an increased focus on digitalization, sustainability and improving manufacturing throughput to meet increased demand. TTL intend to continue leveraging the strengths to address the opportunities in the ER&D industry generally and more specifically in the automotive, TCHM and aerospace industries.
- The first step in creating EVs is a compelling vehicle concept and engineering design. Company's end-to-end solutions for EV development, manufacturing and after-sales services are designed to help OEMs develop competitive EVs while maintaining a balance between cost, quality and timelines. TTL's suite of product engineering solutions including outsourced turnkey EV development, product benchmarking, electric vehicle modular platform ("eVMP") for accelerating product development timelines and their light-weighting framework can help OEMs develop products within competitive timelines.
- TTL endeavour to secure projects with the top ER&D spenders within the focus verticals of automotive, aerospace and TCHM. Automotive ER&D is highly concentrated among the Top-20 companies, in terms of ER&D spend for 2022, which account for 73% of the global spend. The company aim to strengthen the dedicated business development strategy to focus on high potential accounts with large annual ER&D spends and new energy vehicle companies. TTL has also recently been empanelled by Airbus which is expected to become a strong avenue of growth.
- On the financial front, over FY21-23, TTL's revenue/ EBITDA/ net profit grew at a CAGR of 36.2%/ 45.9%/ 61.5% to Rs. 4,414 cr/ Rs. 807 cr/ Rs. 624 cr, respectively, while EBITDA and net margins improved by 240bps (to 18.6%) and 409bps (to 14.1%). Return ratios – RoE and RoIC improved by 971bps (to 20.9%) and 308bps (to 36.3%) in FY23.
- In terms of the valuations, on the higher price band, TTL demands P/E multiple of 28.8x based on post issue fully diluted annualized FY24 EPS.

Revenue from Operations - Business Vertical

	FY21		FY22		FY23		H1FY23		H1FY24	
	Amount (Rs. Cr.)	% to Total								
Service	1,914.4	80.4%	2,651.4	75.1%	3,531.2	80.0%	1,640.9	86.9%	1,986.4	78.6%
Automotive	1,573.4		2,276.9		3,131.5		1,445.3		1,745.8	
Others	341.0		374.5		399.7		195.6		240.6	
Technology Solutions	466.5	19.6%	878.2	24.9%	883.0	20.0%	247.0	13.1%	540.3	21.4%
Technology Solutions	463.2		874.7		879.0		245.0		538.3	
Product Business Services	3.4		3.5		4.1		2.0		2.0	
Total	2,380.9	100.0%	3,529.6	100.0%	4,414.2	100.0%	1,887.9	100.0%	2,526.7	100.0%

Revenue by Geography

(In Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
India	690.0	1143.5	1313.8	462.4	887.8
UK	582.8	712.0	868.7	394.9	572.6
North Korea	758.6	792.2	946.5	423.2	486.7
Rest of Europe	154.3	147.1	138.9	68.0	107.0
Rest of World	195.2	734.9	1146.2	539.6	472.7
Vietnam	79.5	491.2	958.3	443.2	382.0
Others	115.7	243.6	187.9	96.4	90.7
Total	2380.9	3529.6	4414.2	1887.9	2526.7

Revenue from Anchor Clients

(In Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
Revenue from Anchor Clients attributable to the Services segment	984.0	1,069.7	1,421.0	641.9	913.0
% of revenue from Anchor Clients attributable to the Services segment	51.4%	40.3%	40.2%	39.1%	46.0%
Revenue attributable to Services Segment	1,914.4	2,651.4	3,531.2	1,640.9	1,986.4
Revenue from Anchor Clients attributable to the Technology Solutions segment	37.2	42.7	84.3	21.5	40.3
% of revenue from Anchor Clients attributable to the Technology Solutions segment	8.0%	4.9%	9.6%	8.7%	7.5%
Revenue attributable to Technology Solutions segment	466.5	878.2	883.0	247.0	540.3
Revenue from Anchor Clients attributable to Revenue from Operations	1,021.1	1,112.3	1,505.4	663.3	953.3
% of revenue from Anchor Clients attributable to Revenue from Operations	42.9%	31.5%	34.1%	35.1%	37.7%
Revenue from Operations	2,380.9	3,529.6	4,414.2	1,887.9	2,526.7

Financial Statement

(In Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
Share Capital	41.8	41.8	81.1	40.6	81.1
Net Worth	2142.2	2280.2	2989.5	2481.9	2853.1
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0
Other Long Term Liabilities	248.4	242.2	238.6	225.5	242.7
Short-term borrowings	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	1182.2	1695.7	1973.4	1465.6	2046.6
Fixed Assets	1089.9	1068.2	1098.1	1025.0	1123.5
Non Current Assets	1141.1	169.7	305.9	171.6	373.8
Current Assets	2387.5	2980.2	3797.5	2976.4	3645.0
Total Assets	3572.7	4218.0	5201.5	4173.0	5142.4
Revenue from Operations	2380.9	3529.6	4414.2	1887.9	2526.7
Revenue Growth (%)		48.2	25.1		33.8
EBITDA	385.7	645.7	820.9	372.5	464.8
EBITDA Margin (%)	16.2	18.3	18.6	19.7	18.4
Net Profit	239.2	437.0	624.0	259.1	351.9
Net Profit Margin (%)	10.0	12.4	14.1	13.7	13.9
Earnings Per Share (Rs.)	5.9	10.8	15.4	6.4	8.7
Return on Networth (%)	11.2	19.2	20.9	10.4	12.3
Net Asset Value per Share (Rs.)	52.8	56.2	73.7	61.2	70.3

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
Cash flow from Operations Activities	1112.9	(38.7)	401.4	168.4	(7.8)
Cash flow from Investing Activities	(673.6)	74.2	(487.4)	115.3	580.3
Cash flow from Financing Activities	(44.1)	(44.4)	(346.9)	(320.4)	(526.5)
Net increase/(decrease) in cash and cash equivalents	395.2	(8.9)	(432.9)	(36.6)	46.0
Cash and cash equivalents at the beginning of the year	781.3	768.3	382.8	713.3	428.6
Cash and cash equivalents at the end of the year	376.1	781.3	768.3	768.3	382.8

Source: RHP

Comparison with Listed Industry Peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Tata Technologies Ltd.	4414.2	18.6	0.0	35.4	24.7	28.8	7.1	23.8	4.6	20283.4
Tata Elxsi Ltd.	3144.7	32.9	0.0	51.8	41.0	65.9	24.7	45.5	15.3	51701.0
L&T Technology Services Ltd.	8013.6	23.9	0.0	37.0	26.1	38.0	9.8	22.8	5.3	47087.2
KPIT Technologies Ltd.	3365.0	20.0	0.0	35.1	26.6	86.4	22.6	48.3	10.0	42126.3

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