

India

Tata Technologies Limited

IPO – Subscribe

IPO Details

Issue Opens	22-Nov-23
Issue Closes	24-Nov-23
Total Issue Size (m shares)	Upto 60.8
OFS (m shares)	Upto 60.8
Employee reservation (m shares)	2.0
TAMO shareholder reservation (m shares)	6.1
Price Band	Rs 475-500
Face value	Rs 2
Implied market capitalisation	Rs 193-203 bn

- Upper end of the price band (Rs500/share) implies EV/revenue of ~3.8x, EV/EBITDA of 20.7x, and P/E of ~29x based on annualized 1HFY24 financials.
- The automotive vertical opportunity remains a key growth driver.
- Cash conversion could be more stable.

Company background

Tata Technologies (TTL) is a global product engineering and digital services company whose offerings include a) outsourced engineering services & digital transformation services (services, 78.6% of revenue), and b) reselling third party software applications, value-added services and education solutions (technology solutions, 21.4%). TTL caters to the automotive (~88% of services revenue), aerospace & industrial heavy machinery verticals with 19 global delivery centres, 12,451 employees (as of 1HFY24-end) and an onshore-offshore delivery mix of 49%:51%.

IPO details – OFS issue; m-cap at upper end is ~Rs203bn

The initial public offer or IPO price band of Rs475-500 per equity share having a face value of Rs2 implies a m-cap in the range of ~Rs193-203bn. At the upper band, the total issue size (60.85m shares) is estimated at Rs30.4bn comprising the offer for sale by Tata Motors (46.27m, Rs23.14bn), Alpha TC Holdings Pte Ltd (9.7m, Rs4.85bn) and Tata Capital Growth Fund I (4.9m, Rs2.42bn). Tata Motors' shareholder reservation portion is ~6.085m shares (~10% of total issue size) and the employee reservation portion is ~2.028m shares (~3.3%). Adjusted for the reservation portions, the net offer is 52.74m shares with up to 50% QIB (qualified institutional bidder) book.

Automotive vertical opportunity remains a key growth driver

Management commentary suggests the automotive outsourced ER&D market (~20% of overall outsourced ER&D spending and ~US\$18-20bn in 2022) is likely to grow at ~11% CAGR over 2022-26F and is a key tailwind in the medium term. Segregating further, ADAS & Autonomous (US\$1.5-2bn), Hybrid Electric Mobility (US\$3-4bn), Infotainment & Connected (US\$3-4bn), Safety Systems (US\$1-2bn), and Traditional Powertrain (US\$0.5-1.5bn) and Body Engineering (US\$7-8bn) represent a significant market opportunity. Tailwinds from ACES (autonomous, connected, electrification and shared mobility), long-standing client relationships, client diversification strategy (anchor client Tata Motors & JLR now contribute ~46% to 1HFY24 services revenue vs. ~54% in FY20), and deep domain expertise with multiple differentiated ER&D capabilities could continue to aid TTL's automotive vertical (~88% of services) growth.

Rationale to subscribe for the IPO

TTL's IPO price band implies 1) EV/revenue of ~2.8x, 2) EV/EBITDA of ~15x, and 3) a P/E of ~21.4x based on FY26F financials. TTL's peers (LTTS, TELX, KPIT and Cyient Ltd) trade at an average P/E of ~33x FY26F consensus EPS and ~23x average of LTTS & Cyient Ltd's. We expect US\$ revenue/EBITDA (Rsm)/PAT (Rsm) CAGR of 13.6%/16.1%/15%, respectively, over FY23-26F. We recommend subscribing to the IPO given the long term opportunities in the Er&d segments of automotive, aerospace, size and scale to participate in the same and scope to improve margins & cash flow going ahead. Downside: Client specific challenges in a high client concentration portfolio, significant growth in technology solutions which could limit potential margin expansion.

Research Analyst(s)



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Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	35,296	44,142	51,829	59,718	68,952
EBITDA (Rsm)	6,456	8,210	9,579	11,131	12,860
EBITDA margin	18.3%	18.6%	18.5%	18.6%	18.7%
Net Profit (Rsm)	4,370	6,241	6,972	8,126	9,488
Core EPS (Rs)	10.8	15.4	17.2	20.0	23.4
Core EPS growth	82.7%	42.7%	11.8%	16.6%	16.8%
P/E (x)	46.4	32.5	29.1	25.0	21.4
ROE (%)	19.2%	20.9%	20.5%	21.0%	21.5%

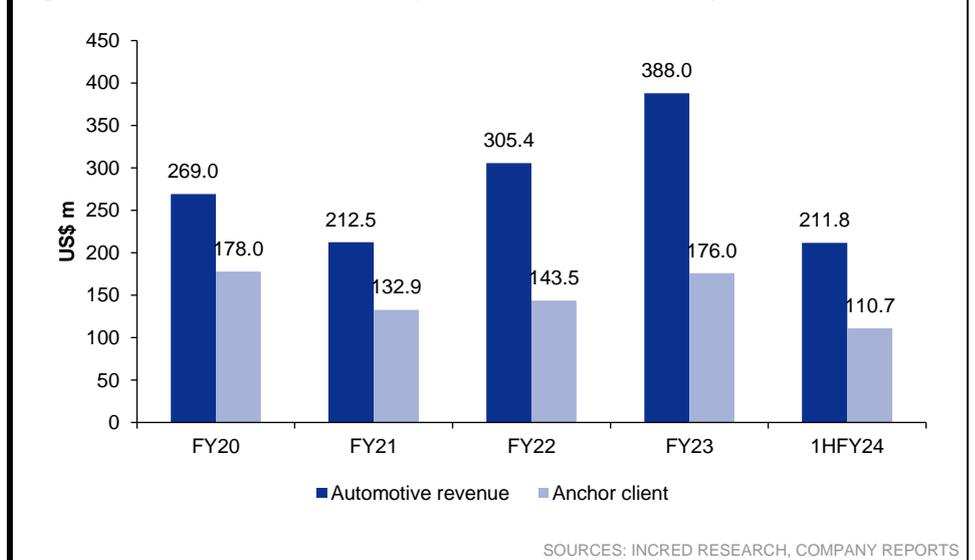
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Investment Arguments

Well positioned in the automotive segment

Automotive ER&D services span the entire automotive value-chain and include concept design and styling, tear down and benchmarking (“TDBM”), vehicle architecture, body engineering, chassis engineering, virtual validation, e-Powertrain, electrical and electronics, connected, manufacturing engineering, test and validation and vehicle launch. Long standing relationship with anchor clients (JLR since 2010 and TML) have helped TTL incubate and build skills and value proposition for the automotive sector like full vehicle proposition and light weight structures. Large market opportunity coupled with deep domain expertise and differentiated capabilities could continue to aid TTL’s automotive vertical growth.

Figure 1: Automotive revenue trend (~88% of Services business)



FY22 saw focus shift to a vertical structure and non-captive accounts

TTL moved to a vertical structure vs. regional earlier to capitalize on the opportunity in ACES (autonomous, connected, electrification and shared) across manufacturing clients. The Proprietary Electric Vehicle Modular Platform (eVMP) enabled TTL to secure multimillion-dollar orders in the electric vehicle battery space while investments in digital and embedded systems led to large deal wins in Europe, North America & Asia Pacific. Outside the automotive vertical, empanelment by Airbus in FY22 into its engineering, manufacturing engineering, and services strategic supplier (EMES3) program with collaboration across multiple domains & geographies could aid aerospace BU and drive TTL’s diversification strategy. The strategic move to capture new growth opportunities outside anchor relationships (Tata Motors & JLR) led to reduced dependence, with non-anchor accounts contributing ~60% in FY23 vs. ~46% in FY20.

Leveraging automotive learnings in aerospace

Aerospace business could witness growth over the next two years given the accreditation with a large aircraft manufacturer in FY22. TTL would work around engineering, manufacturing engineering, and services strategic supplier (EMES3) program with collaboration across multiple domains & geographies. TTL highlighted that it has been building order book post accreditation and that ramp-up could start from 2HFY24F with material growth in FY25F and FY26F.

TCHM could be alternate growth vector too

TTL highlighted that generally TCHM (Transportation & Construction Heavy Machinery) industry lags the automotive industry by three-four years in adopting

newer technology trends and expects that electrification adoption could be on the rise. Further, it also believes that it is well positioned to capture potential opportunities given their learnings from the automotive segment.

Technology solutions could complement Services business

TTL leverages its automotive domain experience and in-house training expertise to address lack of skills challenges in automotive sector. Company has collaborated with government backed ITI institutes and private firms to provide training solutions. Initially TTL signed MoU with Karnataka government for training solutions and subsequently with nine states and is likely to sign more in the medium term. Note the business is project based and lumpy in nature but is profitable. Technology solutions business which includes re-selling of 3rd party software & value-added services (~9% of revenue in 1HFY24) and Education (~12% of revenue in 1HFY24) margins could be lower than core services business.

Cash conversion could be more stable

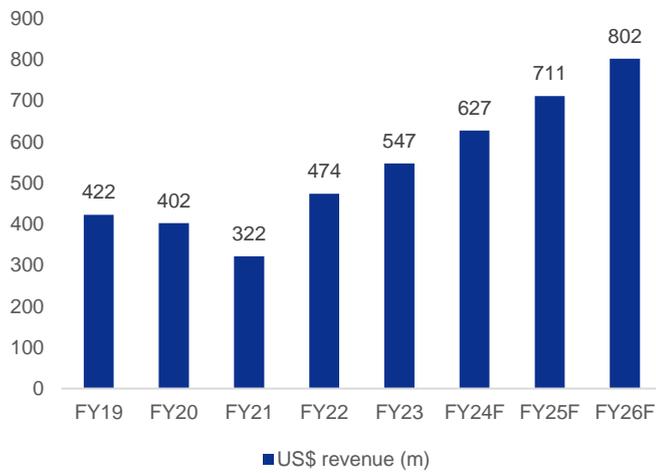
TTL's EBITDA margin rose ~600bp to 18.4% in 1HFY24 vs. 12.5% in FY18 driven by growth leverage and moderation in consultancy & miscellaneous expenses. Although cash conversion appears healthy with an average OCF/EBITDA of ~77% over FY18-1HFY24, it remains uneven and skewed (+289% in FY21 and -6% in FY22) driven by the swing in receivables. 1HFY24 operating cash flow was negative as well, impacted by the increased working capital requirement. TTL has net cash of ~Rs9bn (~Rs23 per share) as of 1HFY24-end.

Differentiated training could help employee retention

TTL acknowledge that supply constraints could continue to be a challenge given healthy demand (European investments in India vs. Eastern Europe and Japan earlier) and little or no differentiation across top talent in India vs. developed economies. However, it hopes that differentiated training (rotating graduates across parent's production facilities), investment in e-learning platform could help contain attrition and knowledge retention while improved profile post IPO could help attract top delivery and hunting talent.

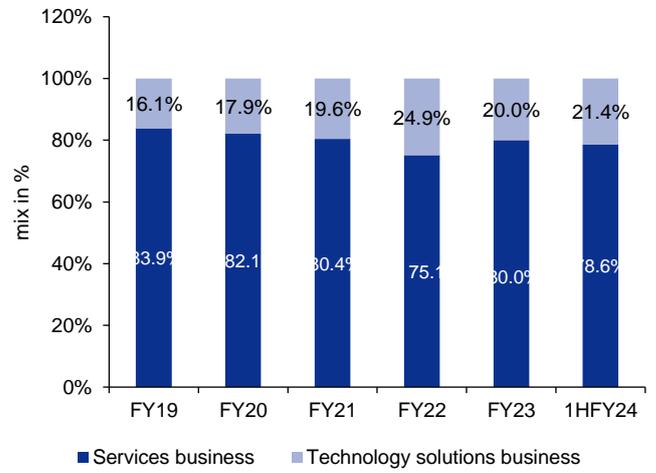
Key charts

Figure 2: US\$ revenue up 27.1% in 1HFY24 vs. 1HFY23...



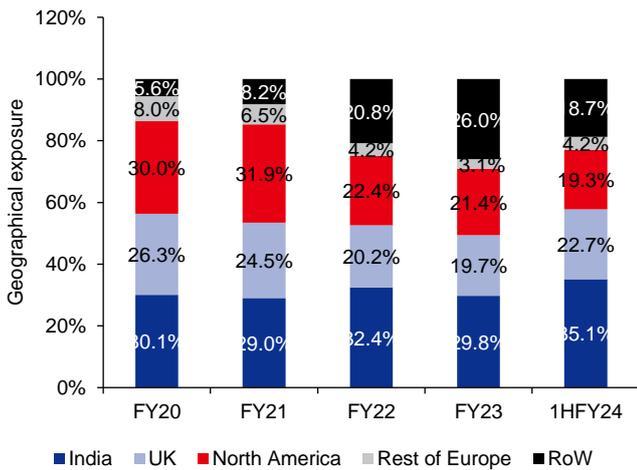
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: ...led by technology solutions (up ~108% in 1HFY24 vs. 1HFY23) and services business (up 15% in 1HFY24 vs. 1HFY23)



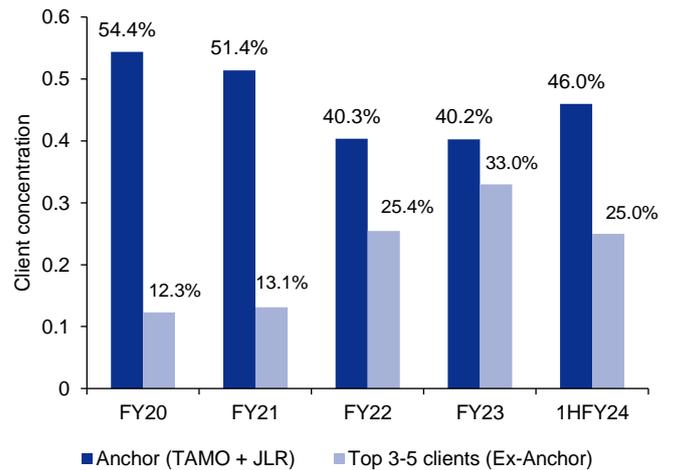
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Diversified portfolio across geographies



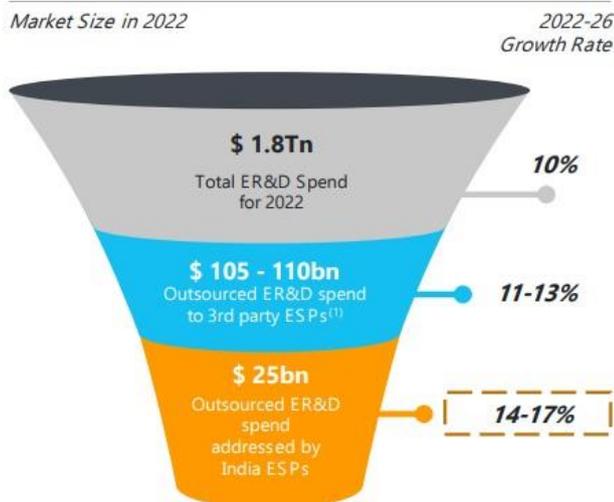
SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 5: Client concentration remains high



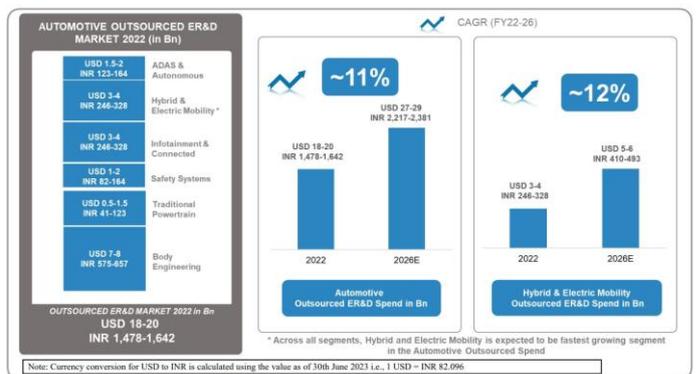
SOURCES: COMPANY REPORTS, INCRED RESEARCH, ANCHOR CLIENTS ARE PART OF TOP 5 CLIENTS

Figure 6: Overall outsourced ER&D spending opportunity



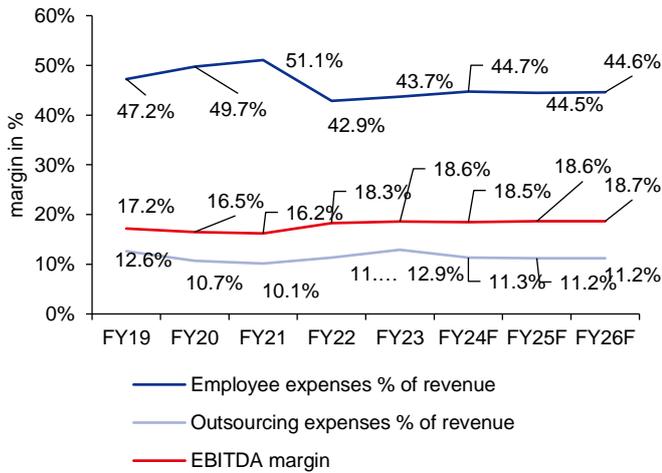
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Automotive outsourced ER&D opportunity



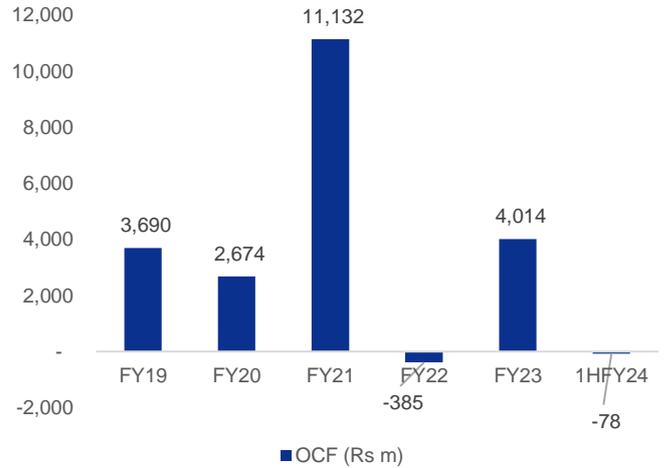
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: EBITDA margin comparable to peers



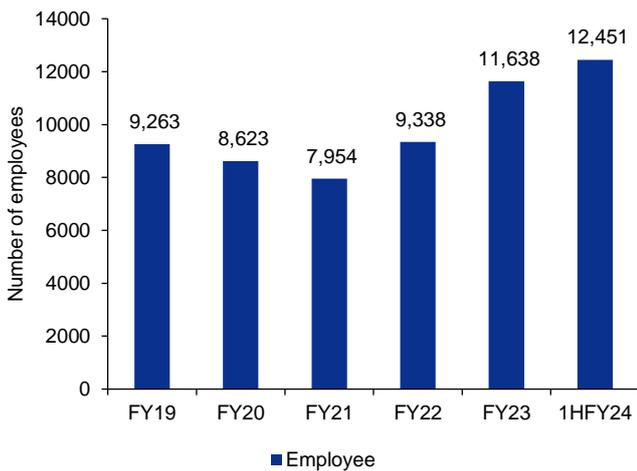
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: High working capital impacts 1HFY24 operating cash flow (OCF)



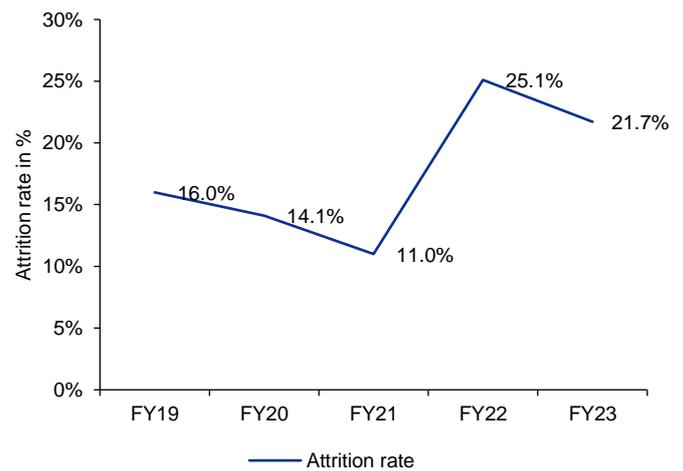
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Employee CAGR (5.9%) largely mirrors revenue CAGR over FY19-23



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 11: Attrition trend over FY19-23



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 12: Board of directors

Name	Designation
Ajoyendra Mukherjee	Chairman, Independent Director
Warren Harris	MD & CEO
Usha Sangwan	Independent Director
Nagaraj Ijari	Independent Director
Aarthi Sivanandh	Independent Director
P.B. Balaji	Non-Executive Director
Shailesh Chandra	Non-Executive Director

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Leadership team

Name	Designation
Warren Harris	MD & CEO
Pawan Bhageria	President Global HR, IT, Admin & Education
Savitha Balachandran	CFO
Nachiket Paranjpe	President - Automotive Sales
Aloke Paisikar	EVP & Head of Aerospace and Industrial Heavy Machinery sales
Sriram Lakshminarayanan	President & Chief Technology Officer
Anjali Balagopal	Executive VP and General Counsel
Shailesh Saraph	EVP and Global Head - Engineering and R&D
Geena Binoy	EVP and Global Head - Digital Enterprise Solutions

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Shareholding pattern as on date of the Draft Red Herring Prospectus

Categories	No of shares	% of shareholding
Promoter & promoter group	270,964,736	66.8%
Public	134,703,794	33.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Post-IPO likely shareholding pattern

Categories	No of shares	% of shareholding
Promoter & promoter group	224,689,736	55.4%
Public	180,978,794	44.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Top shareholders as on date of the Draft Red Herring Prospectus

More than 1% holders	No of shares	% of shareholding
Tata Motors	262,844,816	64.8%
TPG Rise Climate SF Pte Ltd	36,509,794	9.0%
Alpha TC Holdings Pte. Ltd	29,445,010	7.3%
Tata Capital Growth Fund I	14,722,500	3.6%
Tata Motors Finance	8,119,920	2.0%
Zedra Corporate Services (Guernsey)	5,766,720	1.4%
Patrick Raymon McGoldrick	5,000,000	1.2%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 17: Post-IPO likely shareholding pattern of more than 1% stake shareholders

More than 1% holders	No of shares	% of shareholding
Tata Motors	216,569,816	53.4%
TPG Rise Climate SF Pte Ltd	36,509,794	9.0%
Alpha TC Holdings Pte. Ltd	19,728,157	4.9%
Tata Capital Growth Fund I	9,864,075	2.4%
Tata Motors Finance	8,119,920	2.0%
Zedra Corporate Services (Guernsey)	5,766,720	1.4%
Patrick Raymon McGoldrick	5,000,000	1.2%

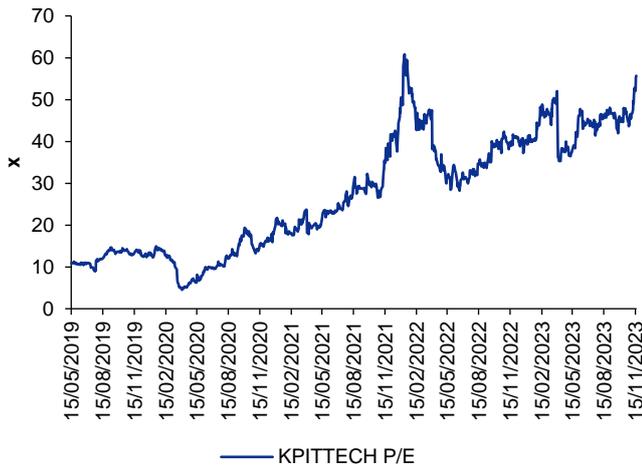
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 18: Peer comparison

Revenue - US\$ m	FY19	FY20	FY21	FY22	FY23
L&T Technology Services	723	786	737	880	990
Tata Technologies	422	402	322	474	547
Tata Elxsi	229	227	246	332	391
KPIT Technologies	-	304	275	328	418
Cyient Ltd	660	625	557	608	746
Revenue - Rs m					
L&T Technology Services	50,783	56,191	54,497	65,697	80,136
Tata Technologies	29,422	28,521	23,809	35,296	44,142
Tata Elxsi	15,969	16,099	18,262	24,708	31,450
KPIT Technologies	-	21,562	20,357	24,324	33,650
Cyient Ltd	46,175	44,274	41,324	45,344	60,159
EBITDA margin					
L&T Technology Services	18.0%	20.1%	18.5%	21.5%	21.3%
Tata Technologies	17.2%	16.5%	16.2%	18.3%	18.6%
Tata Elxsi	26.0%	21.3%	28.7%	31.0%	30.6%
KPIT Technologies	-	13.4%	15.1%	18.0%	18.5%
Cyient Ltd	13.7%	12.4%	13.9%	18.0%	16.7%
EBITDA - Rs m					
L&T Technology Services	9,157	11,288	10,074	14,149	17,069
Tata Technologies	5,049	4,704	3,857	6,456	8,210
Tata Elxsi	4,152	3,429	5,241	7,659	9,624
KPIT Technologies	-	2,889	3,074	4,378	6,225
Cyient Ltd	6,328	5,489	5,750	8,178	10,031
PAT - Rs m					
L&T Technology Services	7,656	8,186	6,633	9,570	11,699
Tata Technologies	3,527	2,516	2,392	4,370	6,241
Tata Elxsi	2,900	2,560	3,681	5,499	7,552
KPIT Technologies	-	1,466	1,461	2,742	3,810
Cyient Ltd	4,785	3,425	3,638	5,223	5,144
Employee count					
L&T Technology Services	15,140	16,883	16,452	20,861	22,233
Tata Technologies	9,263	8,623	7,954	9,338	11,638
Tata Elxsi	6,060	6,577	7,362	9,376	11,864
KPIT Technologies	-	7,125	6,366	8,245	11,013
Cyient Ltd	15,084	13,859	12,032	13,428	15,864
Revenue per employee (US\$)					
L&T Technology Services	47,762	46,573	44,773	42,194	44,528
Tata Technologies	45,558	46,596	40,420	50,707	46,990
Tata Elxsi	37,723	34,474	33,474	35,378	32,957
KPIT Technologies	-	42,639	43,167	39,830	37,955
Cyient Ltd	43,755	45,104	46,285	45,293	47,050
EBITDA per employee (Rs)					
L&T Technology Services	604,835	668,602	612,327	678,251	767,731
Tata Technologies	545,093	545,564	484,926	691,411	705,448
Tata Elxsi	685,139	521,376	711,925	816,924	811,168
KPIT Technologies	-	405,511	482,873	531,024	565,264
Cyient Ltd	419,517	396,060	477,892	609,026	632,312
OCF (Rs m)					
L&T Technology Services	8,062	6,381	13,325	10,062	13,051
Tata Technologies	3,690	2,674	11,132	-385	4,014
Tata Elxsi	2,149	2,558	4,374	4,830	4,869
KPIT Technologies	-	3,887	6,276	4,750	4,624
Cyient Ltd	3,701	5,824	8,558	6,345	5,539
OCF / EBITDA					
L&T Technology Services	88.0%	56.5%	132.3%	71.1%	76.5%
Tata Technologies	73.1%	56.8%	288.6%	-6.0%	48.9%
Tata Elxsi	51.8%	74.6%	83.5%	63.1%	50.6%
KPIT Technologies	-	134.5%	204.2%	108.5%	74.3%
Cyient Ltd	58.5%	106.1%	148.8%	77.6%	55.2%

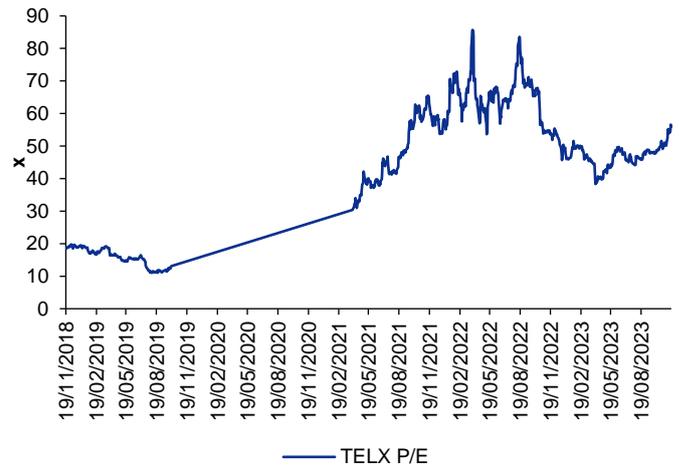
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: KPITTECH trades at a P/E of ~57x FY25F EPS



SOURCE: INCRED RESEARCH, BLOOMBERG

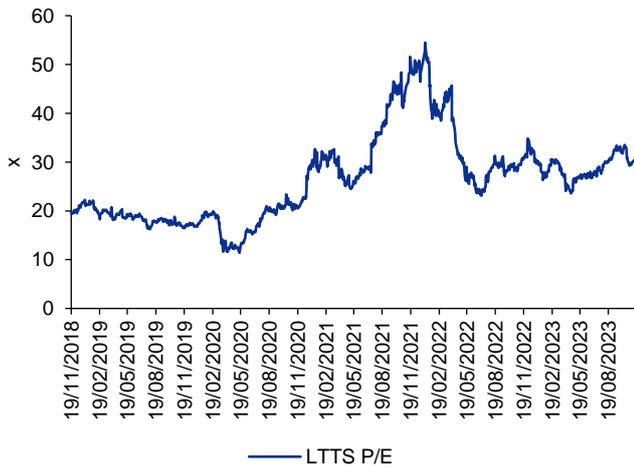
Figure 20: TELX trades at a P/E of ~49x FY25F EPS



SOURCE: INCRED RESEARCH, BLOOMBERG

NOTE: TELX IS TATA ELXSI

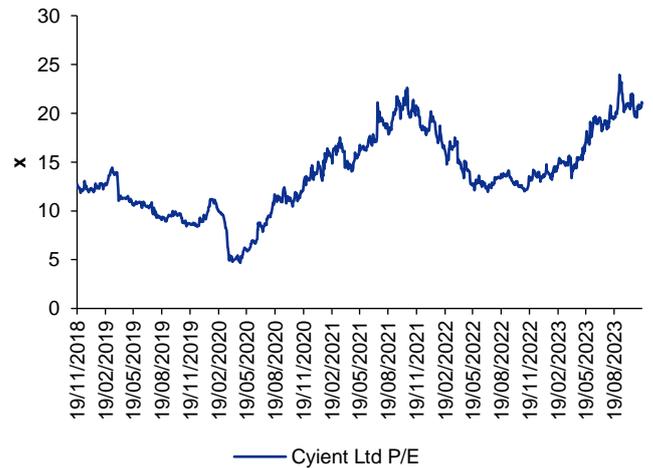
Figure 21: LTTS trades at a P/E of ~32x FY25F EPS



SOURCE: COMPANY REPORTS, BLOOMBERG

NOTE: LTTS IS L&T TECHNOLOGY SERVICES

Figure 22: Cyient Ltd trades at a P/E of ~21x FY25F EPS



SOURCE: COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	35,296	44,142	51,829	59,718	68,952
Gross Profit	13,283	18,023	19,808	22,845	26,331
Operating EBITDA	6,456	8,210	9,579	11,131	12,860
Depreciation And Amortisation	(857)	(946)	(985)	(1,075)	(1,241)
Operating EBIT	5,599	7,265	8,594	10,056	11,619
Financial Income/(Expense)	(219)	(180)	(190)	(190)	(190)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	488	877	829	896	1,138
Profit Before Tax (pre-EI)	5,868	7,962	9,234	10,763	12,567
Exceptional Items					
Pre-tax Profit	5,868	7,962	9,234	10,763	12,567
Taxation	(1,499)	(1,721)	(2,262)	(2,637)	(3,079)
Exceptional Income - post-tax					
Profit After Tax	4,370	6,241	6,972	8,126	9,488
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,370	6,241	6,972	8,126	9,488
Recurring Net Profit	4,370	6,241	6,972	8,126	9,488
Fully Diluted Recurring Net Profit	4,370	6,241	6,972	8,126	9,488

Cash Flow					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	6,456	8,210	9,579	11,131	12,860
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,800)	(2,191)	(4,171)	(1,915)	(1,290)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	237	425			
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,278)	(2,429)	(2,262)	(2,637)	(3,079)
Cashflow From Operations	(385)	4,014	3,145	6,580	8,491
Capex	(633.80)	(656.60)	(900.00)	(900.00)	(900.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,376	(4,218)	829	896	1,138
Cash Flow From Investing	(760)	(1,473)	(200)	(500)	(200)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	-	(2,959)	-	-	-
Dividends Paid	(3)	-	(2,841)	(3,450)	(4,059)
Preferred Dividends					
Other Financing Cashflow	(444)	(510)	(190)	(190)	(190)
Cash Flow From Financing	(447)	(3,469)	(3,031)	(3,640)	(4,248)
Total Cash Generated	(89)	(4,329)	44	2,936	4,480
Free Cashflow To Equity	(1,018)	3,357	2,245	5,680	7,591
Free Cashflow To Firm	357	(860)	3,075	6,576	8,729

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	13,971	10,290	10,334	15,070	19,550
Total Debtors	7,682	11,062	13,838	15,945	18,066
Inventories					
Total Other Current Assets	8,149	16,623	16,623	16,623	16,623
Total Current Assets	29,802	37,975	40,795	47,637	54,238
Fixed Assets	3,027	3,031	2,946	2,771	2,430
Total Investments					
Intangible Assets	7,655	7,950	7,950	7,950	7,950
Total Other Non-Current Assets	1,696	3,060	3,060	3,060	3,060
Total Non-current Assets	12,378	14,040	13,955	11,981	11,639
Short-term Debt	383	406	406	406	406
Current Portion of Long-Term Debt					
Total Creditors	3,366	6,578	5,183	5,375	6,206
Other Current Liabilities	13,208	12,750	12,750	12,750	12,750
Total Current Liabilities	16,957	19,734	18,339	18,531	19,362
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,422	2,386	2,386	2,386	2,386
Total Non-current Liabilities	2,422	2,386	2,386	2,386	2,386
Total Provisions					
Total Liabilities	19,379	22,120	20,725	20,917	21,748
Shareholders Equity	22,802	29,895	34,025	38,701	44,130
Minority Interests					
Total Equity	22,802	29,895	34,025	38,701	44,130

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	48.2%	25.1%	17.4%	15.2%	15.5%
Operating EBITDA Growth	67.4%	27.2%	16.7%	16.2%	15.5%
Operating EBITDA Margin	18.3%	18.6%	18.5%	18.6%	18.7%
Net Cash Per Share (Rs)	34	25	25	33	44
BVPS (Rs)	56	74	84	95	109
Gross Interest Cover	25.6	40.4	45.3	53.1	61.3
Effective Tax Rate	25.5%	21.6%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	0.1%	0.0%	40.8%	42.5%	42.8%
Accounts Receivables Days	70.5	77.5	87.7	91.0	90.0
Inventory Days	NA	NA	NA	NA	NA
Accounts Payables Days	0.74	0.69	0.91	0.84	0.73
ROIC (%)	36.5%	48.9%	29.0%	28.7%	31.1%
ROCE (%)	16.8%	19.7%	18.8%	19.5%	20.0%
Return On Average Assets	10.7%	12.1%	12.2%	13.3%	14.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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