

Tata Technologies

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Key beneficiary of EV disruption

Summary

Tata Technologies Limited range of services includes IT Consultancy, SAP implementation, CAD/CAM engineering & design consultancy. It generates ~80% from services, 11% from products and 9% from Education as of FY23. Vertical wise the company generates majority of revenues from automotive (which is seeing healthy traction led by disruption). Apart from automotive, it will be key beneficiary of tailwinds in aerospace led by capacity expansion plans of aircraft manufacturers and MRO activities. Its revenue and PAT has grown at a CAGR of 36% & 62% over FY21-FY23. H1FY24 has seen 34% & 36% YoY revenue & PAT growth and we expect robust earnings growth going forward. It is valued at ~33x FY23 EPS vs peer average of ~63x FY23 EPS. Hence, we recommend SUBSCRIBE.

Key Investment Rationale

- Deep expertise in the automotive industry** – Company has comprehensive portfolio of services for the automotive industry that addresses the entire automotive value-chain from concept design to vehicle launch. It also offers turnkey full vehicle development solutions for traditional internal combustion engine powered vehicles, plug-in hybrids and battery electric vehicles which have been developed over a period of 10 years.
- Robust strategy and healthy margin expansion** – The company's strategy of increasing wallet share, adding new logos in priority verticals & geographies, improving mining, investing in software & embedded electronics and e learning platform will drive growth. The company has also expanded net margins (~388 bps over FY21-H1FY24) led by offshoring, pyramid, automation and operational efficiency.
- Balance mix of growth** - The combination of anchor clients, traditional OEMs and new energy vehicle companies provide a balanced mix of stability and growth.

Issuer	TATA TECHNOLOGIES LIMITED
Transaction Type	OFS of 60,850,278 eq shares
Issue Open / Close	November 22 nd 2023/November 24 th 2023
Type of Offering	OFS
Total Offer Size	Rs 30,425 mn
Price Band	Rs 475-500/sh
Bid Lot	30 Shares and in multiple thereof
Total Offer Size as % of Post Issue Capital	15%
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> QIB: 50% Retail: 35% NIB: 15%
Market Cap Post IPO	Rs2,02,830 mn at upper price band

Share holding pattern (%)

	Pre-Issue	Post-Issue
Promoter	66.79%	55.39%
Public	33.21%	44.61%
Total	100%	100%

Financial Snapshot

(Rs mn)	FY21	FY22	FY23	H1FY24*
Revenue	23,809	35,296	44,142	25,267
EBITDA	3,857	6,457	8,209	4,648
EBITDA Margin (%)	16	18	19	18
Adj.PAT	2,392	4,370	6,240	3519
EPS (Rs)	5.9	10.8	15.4	8.7
Dividend Yield (%)	-	-	2.4	-
PE(x)	84.8	46.4	32.5	-
RoE (%)	11	19	21	12
RoCE (%)	14	25	24	15

Source: RHP, Company, *H1FY24 RoE & RoCE not annualised

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About the Company

TATA Technologies Limited (TTL or the Company) was incorporated on August 22, 1994 as a Private Limited Company in the name of Core Software Systems Private Limited. The name of the Company was subsequently changed to Tata Technologies (India) Limited. On February 8, 2001, the Company changed its name from Tata Technologies (India) Limited to Tata Technologies Limited. The Company's range of services includes IT Consultancy, SAP implementation and maintenance, providing networking solutions, CAD/CAM engineering & design consultancy. The Company is headquartered in Pune, India. The Company has six offices located at Mumbai, Lucknow, Jamshedpur, Bangalore, Gurugram and one branch office located in Japan that enables it to provide high quality, cost-effective services to clients.

Service offerings provided by the Group include providing outsourced engineering and designing services and digital transformation services to global manufacturing clients. Company is also complement it service offerings with technology solution offerings containing academia upskilling and reskilling solutions and value added reselling of software applications and solutions. The offshore capabilities of the Group in the field of engineering automation services combined with the high-end onshore strengths of subsidiaries are expected to offer a strong and seamless onshore/offshore delivery capability to the international customers in the automotive, aerospace and engineering industries.

During October 2005, the Company incorporated a wholly owned subsidiary in Thailand to cater the need of automotive companies in Thailand and South East Asian countries. Also, during October 2005 the Company acquired, through its subsidiary, 100% equity of INCAT International Plc., UK which had various subsidiaries in US, Europe, Japan and Singapore. A reorganization of various entities under INCAT was undertaken, to have a single representative legal entity in each country in which the Company operates, to improve operational efficiency. The Company now has a global presence, through its subsidiaries, in US, UK, Germany, Canada, Singapore, South Korea, Netherlands, Thailand, China and Sweden.

Tata Technologies Limited is a subsidiary of Tata Motors Limited (which is the holding company).

Company has employed 12,451 employees who are spread across 3 active regions (North America, Asia Pacific and Europe) and 19 global delivery centers as of 30 September 2023.

The lines of business is primarily categorize into two segments:

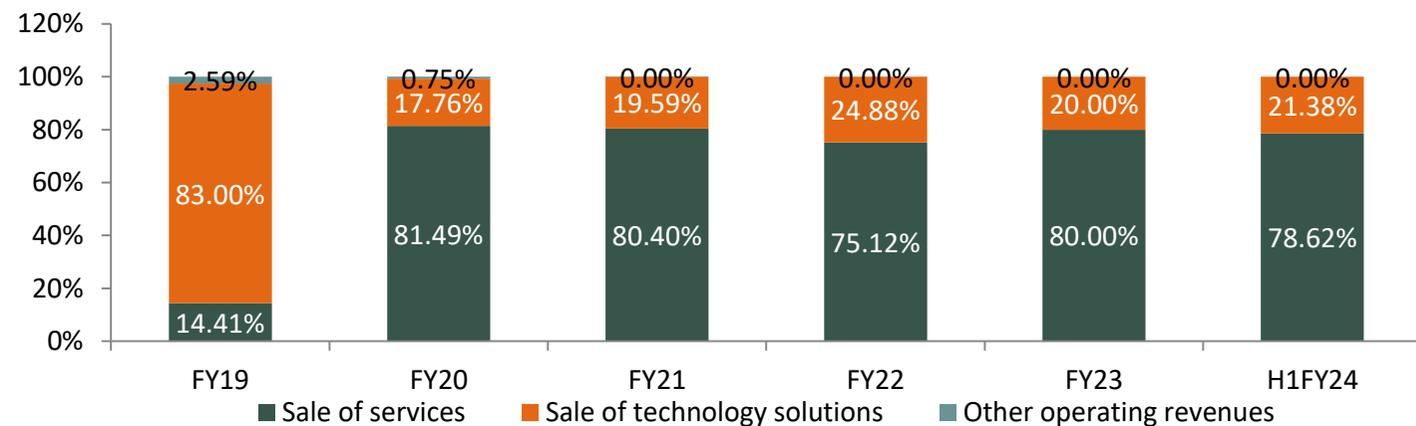
- **Services:** Services is the primary business line, which includes providing outsourced engineering services and digital transformation services to global manufacturing clients helping them conceive, design, develop and deliver better products. It contributed Rs 35,311.55mn and Rs 19,863.90mn to its revenue from operations in Fiscal 2023 and six-months period ended September 30, 2023, respectively, comprising 80% and 78.62.% of its revenue from operations for the respective periods.
- **Technology Solutions:** Company complement their service offerings with its Products and Education businesses (collectively, Technology Solutions). Through Products business they resell third-party software applications, primarily product lifecycle management (PLM) software and solutions and provide value added services such as consulting, implementation, systems integration and support. Their Education business provides phygital education solutions in manufacturing skills including upskilling and reskilling in relation to the latest engineering and manufacturing technologies to public sector institutions and private institutions and enterprises through curriculum development and competency center offerings through its proprietary iGetIT platform. In Fiscal 2023 and in the six-months period ended September 30, 2023, their Technology Solutions business contributed Rs 8,830.22mn and Rs 5,403.12mn to their revenue from operations, respectively, comprising 20.0% and 21.4% of their revenue from operations for the respective periods.

Exhibit 1: Revenue Segregation:

Revenue from Operations	FY21	FY22	FY23	H1FY24
Sale of services	19,177	26,548	35,352	19,863
Sale of technology solutions	4,632	8,736	8,774	5,403
Other operating revenues	0	11	16	1
Total	23,809	35,296	44,142	25,267

Source: RHP, IDBI Capital Research

Exhibit 2: Revenue from Operations as on 30th September 2023



Source: RHP, IDBI Capital Research

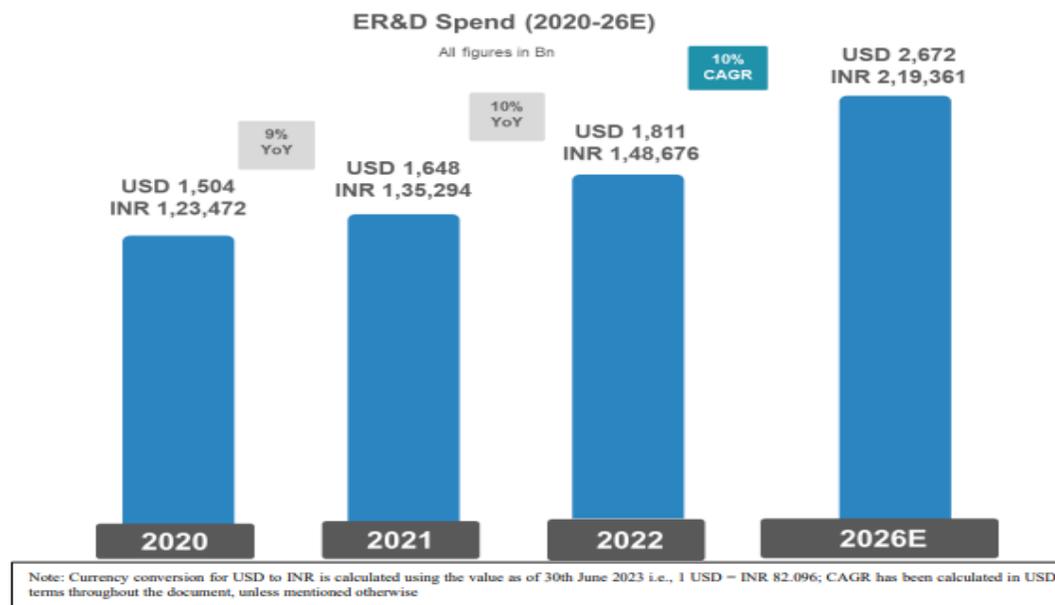
Industry Overview:

Global Engineering Research & Development (“ER&D”) Services Industry

Global ER&D Services Spend:

- For ER&D spending continued in 2022 was a remarkable year, marking another significant year of steady growth with enterprises increasingly looking to future-proof and transform themselves with increased focus on digital engineering. In 2022 global ER&D spend is estimated at \$1,811bn (Rs 1,48,676bn).
- Of the \$1,811bn (Rs 1,48,676bn) ER&D market in 2022, \$810bn (Rs 66,498bn) was attributed to digital engineering spend. This mainly comprised of spends on new age technologies like Internet of Things (“IoT”), blockchain, 5G, AR/VR, cloud engineering, digital thread initiatives, advanced analytics, embedded engineering, and AI/ML among others. Moreover, the digital engineering spend is expected to grow at a CAGR of approximately 16% from 2022 to 2026.

Exhibit 3: ER&D Spending (2020-2026E)



Source: RHP, IDBI Capital Research

ER&D Spend By Geographic Distribution:

- North America has the highest share of global ER&D spend and is expected to grow the fastest – due to the higher penetration of software and internet firms in the region. The APAC region led by increased ER&D spending by South-East Asian enterprises and high digital engineering spend from hi-tech enterprises is expected to overtake Western Europe.
- China accounts for more than a tenth of the global ER&D spending with automotive, semiconductor, telecom and software and internet accounting for approximately 50% of the region’s spend. China is also the largest market for battery electric vehicles (“BEVs”), with companies like BYD and Nio continuously increasing their R&D expenditure.

Exhibit 4: ER&D Spending – Geographic-wise

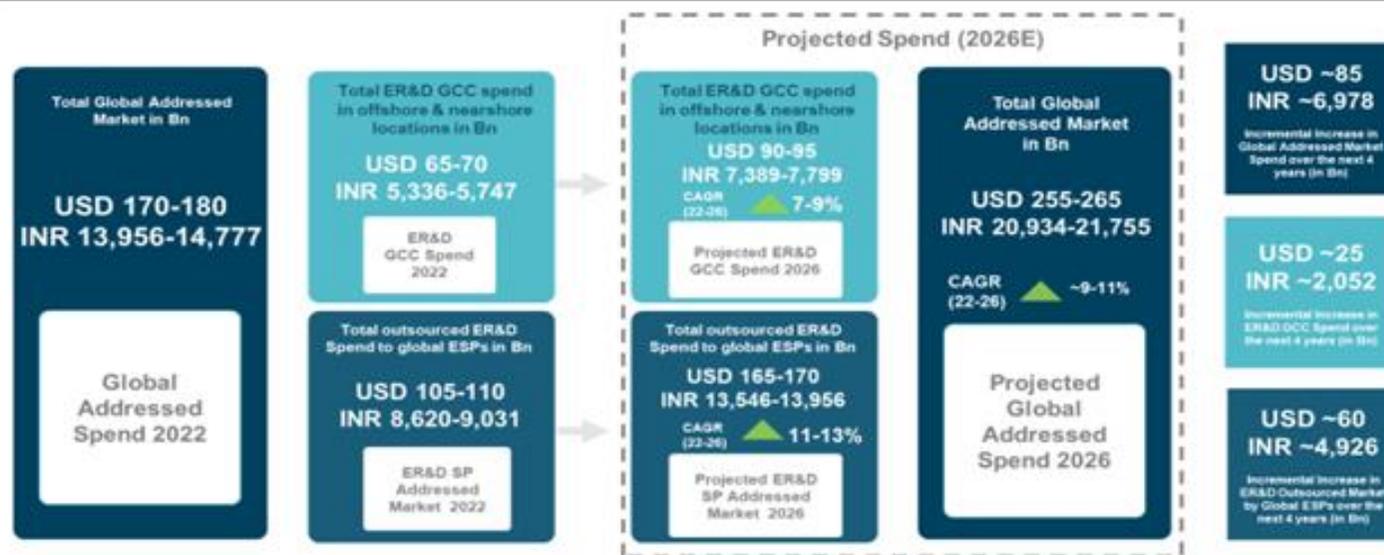


Source: RHP, IDBI Capital Research

Global ER&D Services Addressed Market:

- The ER&D services addressed market refers to the sum of the ER&D expenditure by global capability centers (GCCs) and the ER&D expenditure outsourced to third-party engineering service providers (ESPs).
- The global ER&D addressed market was pegged at \$170-180bn (Rs 13,956-14,777bn) in 2022. Of the \$170-180 billion (Rs 13,956-14,777bn), \$65-70bn (Rs 5,336-5,747bn) is accounted for by GCCs, and they are expected to witness a steady growth of 7-9% to reach \$90-95bn (Rs 7,389-7,799bn) by 2026.
- The outsourced ER&D spend to third-party ESPs was at \$105-110 billion (Rs 8,620-9,031bn) in 2022 and is poised to reach \$165-170 bn (Rs 13,546-13,956bn) in 2026, growing at a rate of 11-13%.

Exhibit 5: ER&D Spending – Addressed Market



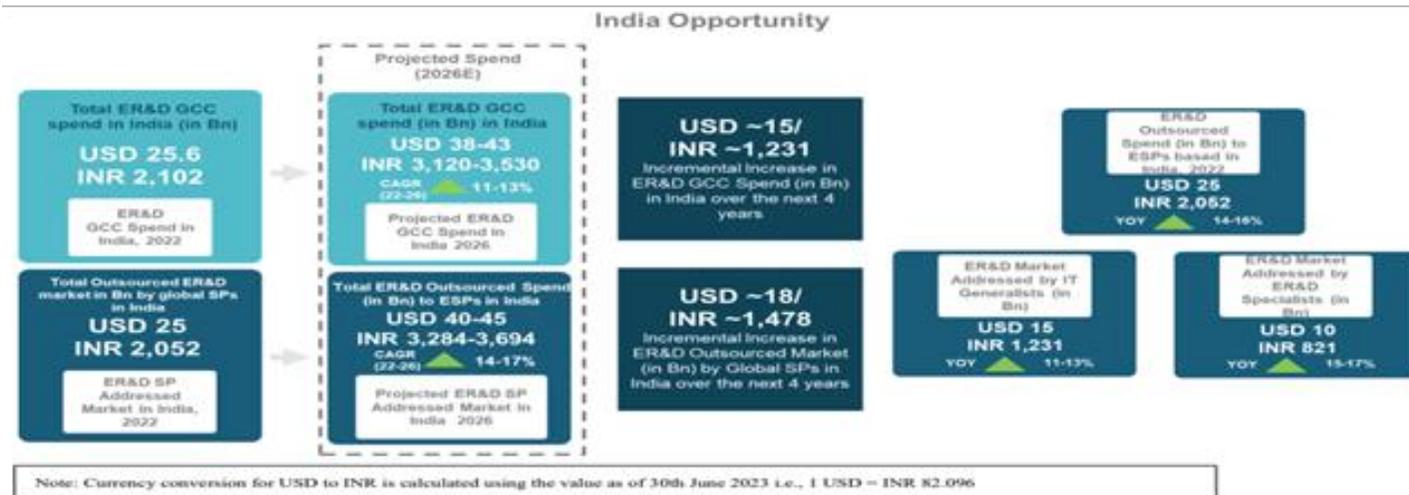
Note: Currency conversion for USD to INR is calculated using the value as of 30th June 2023 i.e., 1 USD = INR 82.096

Source: RHP, IDBI Capital Research

The India Opportunity:

- Indian ESPs are defined as Indian heritage players and do not include global players with Indian centers. They account for almost a fourth of the overall outsourced ER&D spend, while more than 85% of the top 50 R&D spenders have a GCC presence in India.
- India has emerged as a favorable destination for outsourced ER&D spend by global enterprises due to its large talent pool, innovation ecosystem, affordable costs, maturing in-house R&D centers landscape and geopolitical support.
- Indian ESPs have been growing faster than their Western European and North American counterparts owing to their ability to leverage the demographic advantage in India.
- The Indian ESP market is expected to grow at a CAGR of 14-17% (second only to Eastern Europe which has YOY rate of 18-20%) and accounted for \$25bn (Rs 2,052bn), equating to nearly one fourth of the overall outsourced ER&D spend of \$105-110bn (Rs 8,620-9,031bn) in 2022.

Exhibit 6: ER&D Spending – Addressed Market



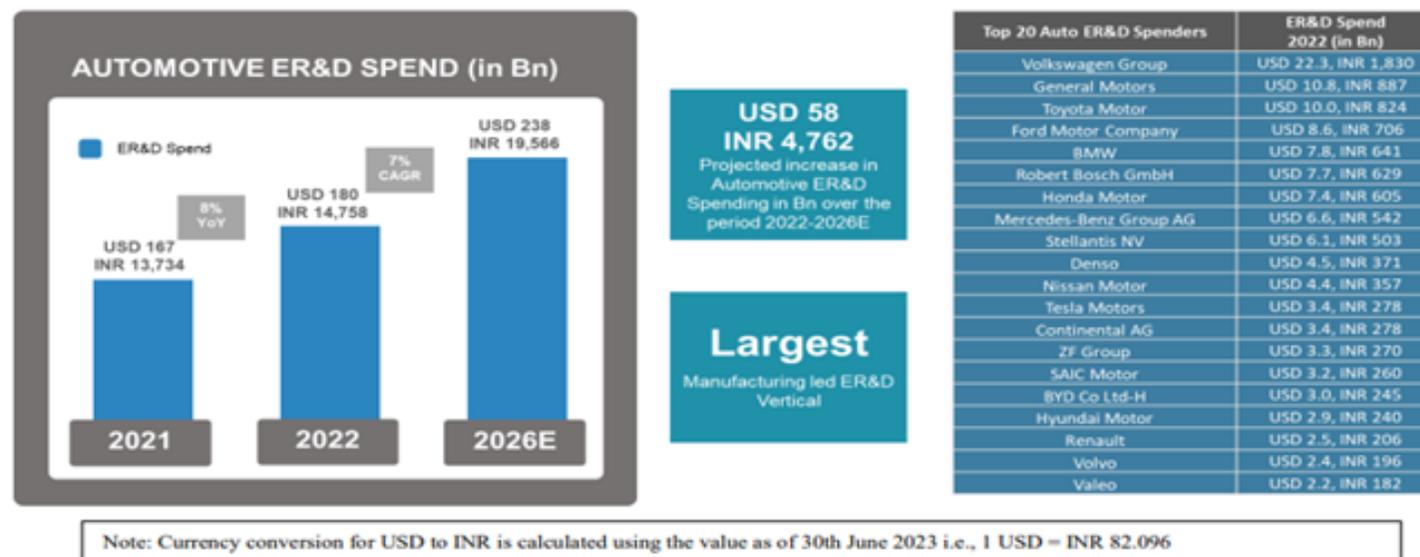
Source: RHP, IDBI Capital Research

Global ER&D Market across Verticals:

Automotive

- Original equipment manufacturers (such as Volkswagen, Mercedes and Toyota) are the original producers of a vehicle's components and are at the top of the automotive supply chain pyramid, whereas Tier-1 suppliers (such as Bosch, Denso and ZF) are direct suppliers of independent parts for OEMs and aftermarket.
- The global automotive ER&D spend is currently pegged at \$180bn (Rs 14,758bn) and is the largest contributor among the manufacturing verticals, amounting to approximately 10% to the overall ER&D spend. The automotive ER&D spend during 2022 was \$180bn (Rs 14,758bn) and is estimated to grow at approximately 7% CAGR to \$238bn (Rs 19,566bn) by 2025.
- The automotive ER&D is highly concentrated among the top 20 companies, which account for 73% of the overall spend. Digital engineering spend in 2022 amounted to \$46bn (Rs 3,776bn) and is expected to grow at 16% CAGR to \$85bn (Rs 6,978bn) by 2026.
- The automotive outsourced ER&D market is pegged at \$18-20bn (Rs 1,478-1,642bn) in 2022 (close 20% of the overall outsourced ER&D spend) and is expected to grow at a faster rate than overall automotive ER&D spending during 2022-2026.
- The automotive outsourced ER&D market spends is dominated by Europe, accounting for three-fourth of the total ER&D spend for the segment.

Exhibit 7: ER&D Spending – Automobile



Source: RHP, IDBI Capital Research

Aerospace & Defense-

- The aerospace and defense industry is regaining growth momentum with an increase in travel demand across the globe and has been adopting new digital technologies to improve services to its customers. The ER&D spend for the aerospace and defense industry for the year 2022 stood at \$52bn (Rs 4,269bn) and is estimated to grow by \$10bn (Rs 821bn) to reach Rs 62bn (Rs 5,090bn) in 2026.
- Currently the highest spend comes from Europe, accounting for nearly 48% of the overall spend, followed by North America. France is a key geography, accounting for more than 20% of the overall ER&D spend in this industry.
- The aerospace outsourced ER&D market currently stands at approximately \$9-10bn (Rs 739-821bn) for 2022 service providers being leveraged across the value chain. The outsourced ER&D opportunity for this industry is estimated to continue to grow at more than 10% over the period from 2022 to 2026.

Transportation & Construction Heavy Machinery (TCHM)

- The global TCHM ER&D spend was pegged at \$43bn (Rs 3,530bn) in 2022 and is estimated to grow to \$49 billion (Rs 4,023bn) by 2026. The TCHM service provider outsourced ER&D market is currently pegged at \$2.5 -3bn (Rs 205-246bn) and is expected to grow to \$3.5 -4bn (Rs 287-328bn) by 2026.

Exhibit 8: Peer Comparison

Particulars (in INR mn)	Tata Tech	KPIT	Tata Elxsi	LTTS	Cyient
	FY23	FY23	FY23	FY23	FY23
PAT	624	387	755	1174	514
Mcap	20,283	40,526	52,642	46,849	18,979
PE	33	105	70	40	37
Revenue growth (%)	25	38	27	22	33
PAT growth (%)	43	40	37	22	-2

Particulars	H1FY24	H1FY24	H1FY24	H1FY24	H1FY24
Revenue growth (%)	34	61	16	9	31
PAT growth (%)	35	61	22	9	59

Source: RHP, Company, IDBI Capital Research

Object of the Offer

Offer for Sale: Since the Offer is an offer for sale, the Company will not receive any proceeds from the Offer.

Competitive Strength

- **Deep expertise in the automotive industry** - Company's comprehensive portfolio of services for the automotive industry addresses the product development and enterprise optimization needs of traditional OEM's and new energy vehicle companies, together with their associated supply chains.
- **Differentiated capabilities in new age automotive trends electric vehicles (EVs)** - The company provides 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.
- **Marquee set of clients across anchor accounts, traditional OEMs and new energy vehicle companies** - The combination of Anchor Clients, traditional OEMs and new energy vehicle companies provide a balanced mix of stability and growth, with revenue stability and further growth opportunities from Anchor Clients and traditional OEMs and significant growth opportunities with new energy vehicle companies.
- **Global delivery model enabling intimate client engagement and scalability** - The Company have a global workforce of over 12,451 employees serving multiple global clients from 19 global delivery centers in Asia Pacific, Europe and North America, as of September 30, 2023. Their globally distributed execution model ensures balance between onshore client proximity and offshore efficiency. This efficiency is achieved through leveraging its low-cost offshore delivery model to move a greater portion of the work offshore to India and Romania.

Exhibit 9: Global delivery model



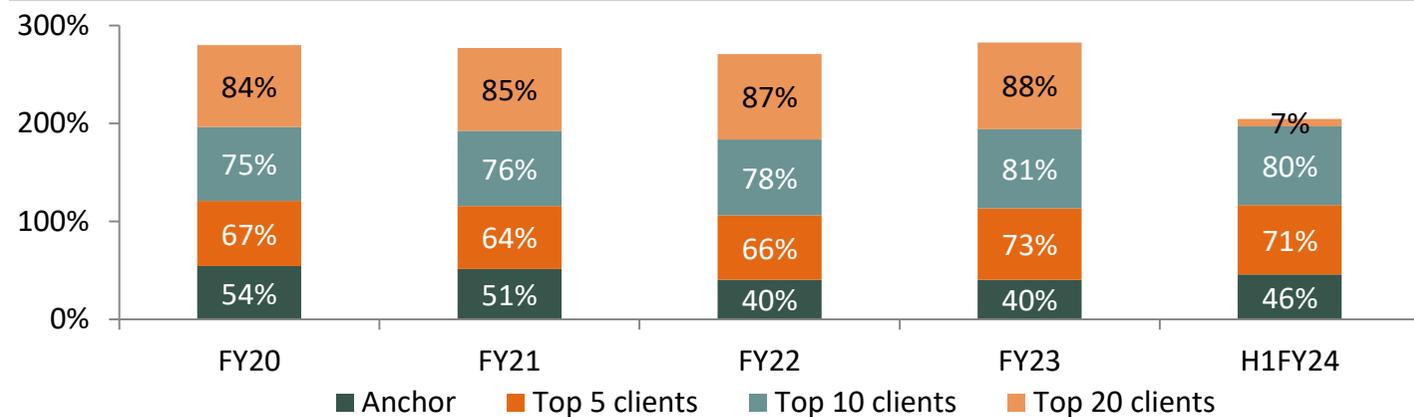
Source: RHP, IDBI Capital Research

- **Proprietary e-learning platform leveraging its manufacturing domain knowledge to tap into the large upskilling and reskilling market** - Technological innovations are driving change within the global manufacturing sector, resulting in an increase in demand for new age engineering skills and capabilities. Company’s digital and technology capabilities and long-standing manufacturing expertise coupled with many years of experience of providing skills training, initially through teacher led classroom training and subsequently through the proprietary iGetIT platform, has positioned them to help address the growing engineering upskilling needs.

Risk factors

- **A material portion of its revenues from their top 5 clients** – Company continue to derive a material portion of its revenues from their top 5 clients by revenue generated in Fiscal 2023. If any or all of the Top 5 Clients were to suffer a deterioration of their business, cease doing business with the company or substantially reduce their dealings, company’s revenues could decline, which may have a material adverse effect on company’s business, results of operations, cash flows and financial condition.

Exhibit 10: Revenue from Top clients



Source: RHP, IDBI Capital Research

Exhibit 11: Client concentration

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

Source: RHP, IDBI Capital Research

- **The revenues are highly dependent on clients concentrated in the automotive segment** – An economic slowdown or factors affecting this segment may have an adverse effect on company’s business, financial condition and results of operations. Auto vertical contributes 88% to the firm’s revenue from services.
- **A significant amount of future revenue to come from new energy vehicle companies, many of whom may be startup companies** – Company expects a major chunk of revenue to flow from new energy companies, many are startup companies. Uncertainties about their funding plans, future product roadmaps, ability to manage growth, creditworthiness and ownership changes may adversely affect company’s business, financial condition and results of operations
- **Fail to attract, retain, train and optimally utilize talent** – The success of the company depends in large part upon the strength of its skilled engineering professionals and management team. If they fail to attract, retain, train and optimally utilize talent, business may be unable to grow and revenue and profitability could decline.
- **Protection of intellectual property rights** – The Company is subject to client and/or third-party claims of intellectual property infringement. They may be unsuccessful in protecting its intellectual property rights.

Exhibit 12: Key Management

Management	Designation
Mr. Ajoyendra Mukherjee	Chairman, Independent Director
Mr. Warren Harris	CEO & Managing Director
Mrs. Savitha Balachandran	Chief Financial Officer

Source: RHP, IDBI Capital Research

Exhibit 13: Key Milestones

Year	Key Milestones
2005	In October company acquired, through its subsidiary, 100% equity in INCAT International UK.
2005	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
2013	The Group acquired US based engineering services company – Cambric Holdings Inc.
2017	The group acquired 100% stake in Tata Technologies Nordics AB (formerly known as Escenda Engineering AB upto November 01, 2020), a Sweden based Company.

Source: RHP, IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	H1FY24
Net sales	23,809	35,296	44,142	25,267
<i>Change (yoy, %)</i>		48	25	33.8
Operating expenses	-19,952	-28,839	-35,932	-20,620
EBITDA	3,857	6,457	8,209	4,648
<i>Change (yoy, %)</i>		67	27	25
<i>Margin (%)</i>	16	18	19	18
Depreciation	-922	-857	-946	-497
EBIT	2,935	5,600	7,264	4,150
Interest paid	-176.56	-218.98	-179.81	-94.77
Other income	448.27	488.02	877.52	607.22
Pre-tax profit	3,207	5,869	7,962	4,663
Tax	-761	-1499	-1721	-1144
<i>Effective tax rate (%)</i>	24	26	22	25
Minority Interest	-	-	-	-
Net profit	2,446	4,370	6,240	3,519
Exceptional items	54	-	-	-
Adjusted net profit	2,392	4,370	6,240	3,519
<i>Change (yoy, %)</i>		83	43	36
EPS	5.9	10.8	15.4	8.7
Dividend per sh	-	-	12	0
<i>Dividend Payout %</i>	-	-	80	0

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	H1FY24
Shareholders' funds	21,422	22,802	29,895	28,531
Share capital	418	418	811	811
Reserves & surplus	21,003	22,384	29,083	27,720
Total Debt	-	-	-	-
Other liabilities	2,332	2,235	2,153	2,136
Curr Liab & prov	11,974	17,143	19,967	20,757
Current liabilities	11,703	16,650	19,395	20,209
Provisions	271	493	572	548
Total liabilities	14,306	19,378	22,120	22,893
Total equity & liabilities	35,727	42,180	52,015	51,424
Net fixed assets	10,899	10,682	10,981	11,235
Investments	4,971	5,277	298	898
Other non-curr assets	3,549	9,383	14,780	17,691
Current assets	16,309	16,838	25,956	21,600
Inventories	-	-	-	-
Sundry Debtors	5,958	7,682	11,062	12,247
Cash and Bank	7,834	8,694	9,992	8,145
Loans and advances	2,517	462	4,902	1,208
Total assets	35,727	42,180	52,015	51,424

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	H1FY24
Cash flow from operations (a)	11,129	-387	4,014	-78
Cash flow from investing (b)	-6736	742	-4874	5,803
Cash flow from financing (c)	-441	-444	-3,469	-5,265
Net chg in cash (a+b+c)	3,952	-89	-4,329	460

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23
Book Value (Rs)	45.7	52.8	56.2	73.7
Adj EPS (Rs)	6.2	5.9	10.8	15.4
Adj EPS growth (%)	-28.7	-4.9	82.7	42.8
EBITDA margin (%)	16.5	16.2	18.3	18.6
Pre-tax margin (%)	14.0	13.5	16.6	18.0
Net Debt/Equity (x)	-0.2	-0.4	-0.4	-0.3
ROCE (%)	20.0	13.7	24.6	24.3
ROE (%)	13.6	11.2	19.2	20.9
DuPont Analysis				
Asset turnover (x)	2.4	1.2	1	1.1
Leverage factor (x)	-	-	-	-
Net margin (%)	9.1	10.3	12.4	14.1
Working Capital & Liquidity ratio				
Inventory days	-	-	-	-
Receivable days	83	101	71	77
Payable days	34	36	29	41

Source: RHP; IDBI Capital Research



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