

Engineering | India

IPO | 20 November 2023

Tata Technologies Limited

A Global Engineering Services Company



About the Company

Tata Technologies Limited (TTL) promoted by Tata Motors Limited 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 with a domain expertise in the automotive industry leveraging the expertise to serve clients in adjacent industries, such as in aerospace and transportation and construction heavy machinery ("TCHM"). TTL primarily focused on the automotive industry and they are currently engaged with 7 out of the Top-10 automotive ER&D spenders and 5 out of the 10 prominent new energy ER&D spenders in 2022. As of Sept'23, it had 12,451 employees, of which 11,608 were FTEs and the rest were contracted employees.

Strong parentage with differentiated capabilities

TTL being a subsidiary of Tata Motors Ltd benefits from long-term relationships with both TML and JLR and their long-standing engagements have enabled the incubation of skills and capabilities that has assisted them in pursuing opportunities outside of the Tata Group with its value proposition as a full spectrum of engineering and digital solutions. TTL has leveraged deep manufacturing domain knowledge to offer end-to-end solutions across value chain engaging the clients throughout the product journey like Product Lifecycle Management (PLM), Enterprise Resource Planning (ERP) and Manufacturing Execution System (MES).

Diversified global clients and adjacent verticals offerings

TTL has a marquee set of clients across anchor accounts, traditional OEMs (35+) and new energy vehicle companies (12+) working with significant growth opportunities, capabilities and processes to onboard new clients achieving the balanced mix of stability and growth. TTL has leveraged automotive expertise to serve clients in adjacent verticals like aerospace and transportation & construction heavy machinery (TCHM). The key trends in aerospace are focused towards narrow body aircraft, maintenance repair and overhaul and hybrid electric propulsion systems. The key trends in TCHM are electrification, connected equipment and reduced carbon footprint will drive the value chain in the coming years.

Strategic Partnerships and Outsourcing to drive growth

TTL has deepened engagements within existing client base globally and methodically target large spenders in their chosen industries, devoting substantial time and resources in cultivating relationships in select high priority verticals and key geographies with the top ER & D spenders which is expected to grow at 10% CAGR over the next few years. TTL has leveraged manufacturing expertise and long-standing experience to tap the large upskilling market aimed at enhancing the employability of graduate engineers, partnership with industrial associations and incubators, state and private partnerships for the phygital proposition of business in the education sector.

Financials in Brief

On the financial front, the company reported a turnover of Rs 2381 Crs, Rs3530 Crs and Rs4414 Crs for FY21, FY22 and FY23 respectively, on a consolidated basis. It posted net profit of Rs 239 Crs, Rs427 Crs and Rs 624 Crs respectively for the aforementioned period. Revenues registered a CAGR of ~36% while profit was higher FY21-23 at 60% with sharp improvement in net margins from 10% to 14%. TTL has 19 global delivery centers with 2 primary components of business – Service offerings (80%) and Technology Solutions offerings (20%) of revenues for FY23 deriving 29.8%, 22.9%, 21.6% and 25.9% of their revenue from operations from clients in India, Europe, North America, and the rest of the world, respectively.

Our View

TTL is a pure-play manufacturing focused ER&D Company, primarily focused on the automotive industry with additional growth drivers including a heightened focus on smart manufacturing, reducing product development time and cost, connecting the digital thread and enhancing customer experience. As a subsidiary of Tata Motors Ltd ("TML"), they benefit from long-term relationships with both TML and JLR which strengthens to tap the large opportunity in automotive ER&D markets, adjacent verticals to tap the wide business network. Considering the healthy business prospects, strong parentage, superior financials with improvement in margins and ratios provides a valuation comfort. **Therefore we recommend a SUBSCRIBE to the issue.**

IPO Details

Price Band (Rs)	475-500
Face Value (Rs)	2
Issue Open/Closing Date	22-Nov-23/24-Nov-23
Fresh Issues (Crs)	-
OFS (Crs)*	3,043.0
Total Issue (Crs)*	3,043.0
Minimum Bid Qty. (Nos)	30
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs Crs)*	20,283

*At higher band

Object of the Issue

- ▶ Achieve the benefits of listing of equity shares enhancing visibility and brand image.

Strengths

- ▶ Deep expertise in the automotive industry bolstered by proprietary accelerators.
- ▶ Well-recognized brand with experienced Promoter, board of directors and management team.
- ▶ Proprietary e-learning platform leveraging our manufacturing domain knowledge.
- ▶ Marquee set of clients across anchor accounts, traditional OEMs and new energy vehicle companies.

Key Risk

- ▶ Concentrated clients revenue share from automotive segment
- ▶ Group companies having similar lines of business.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	66.8	55.4
Others	33.2	44.6

Key Financials

(Rs Crs)	FY21	FY22	FY23
Revenues (Rs.)	2,381	3,530	4,414
EBITDA (Rs.)	386	646	821
EBITDA Margin (%)	16.2	18.3	18.6
PAT (Rs.)	239	437	624
PAT Margin (%)	10.0	12.4	14.1
EPS (Rs)	5.9	10.8	15.4
RoE (%)	11.2	19.2	20.9
NAV (Rs.)	52.8	56.2	73.7
Networth (Rs.)	2142	2280	2989
FCF (Rs.)	372	583	756

Source: RHP

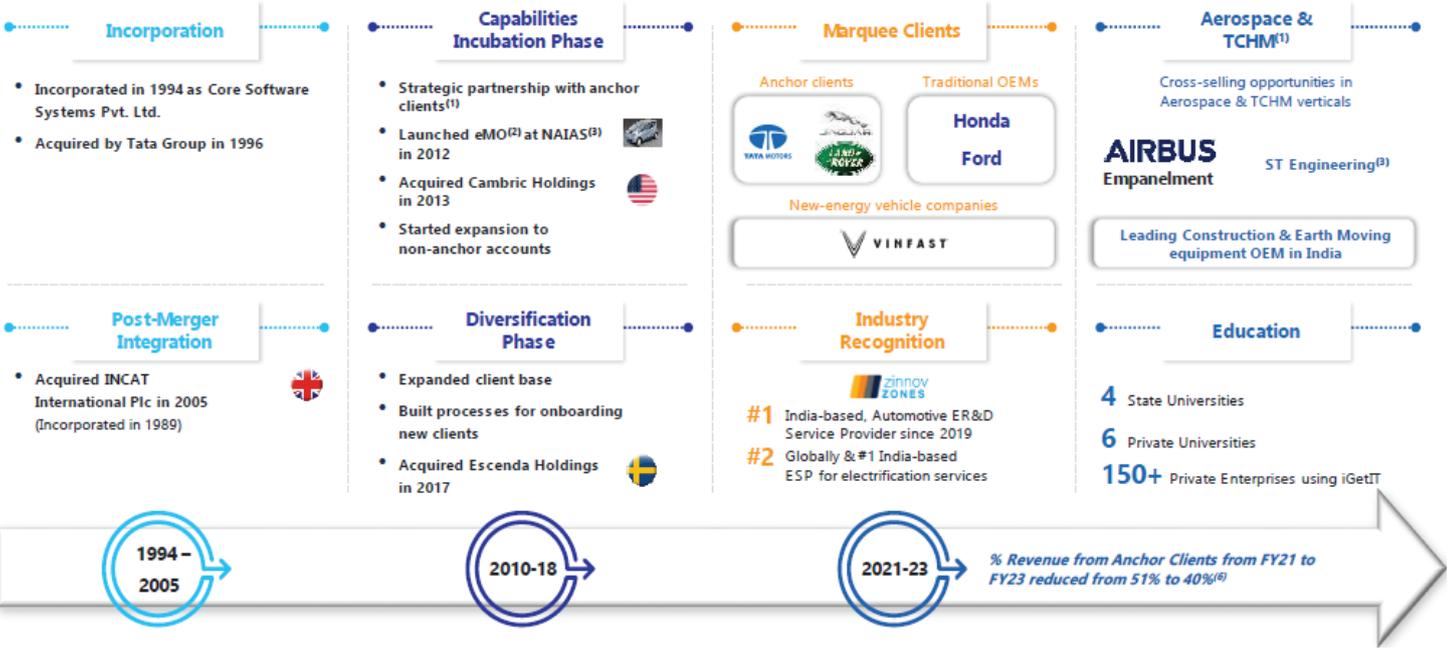
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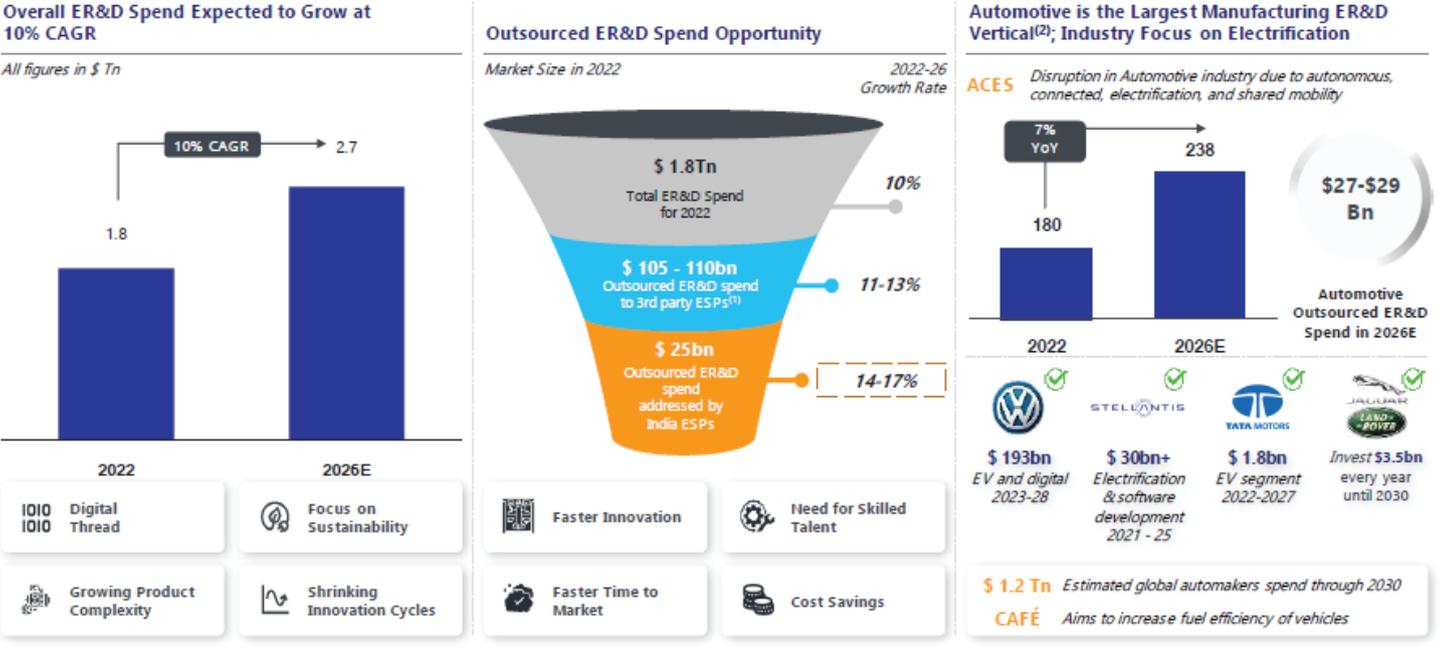
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Exhibit 1: 25+ Years of Building Capabilities, Processes and Strategic Partnerships



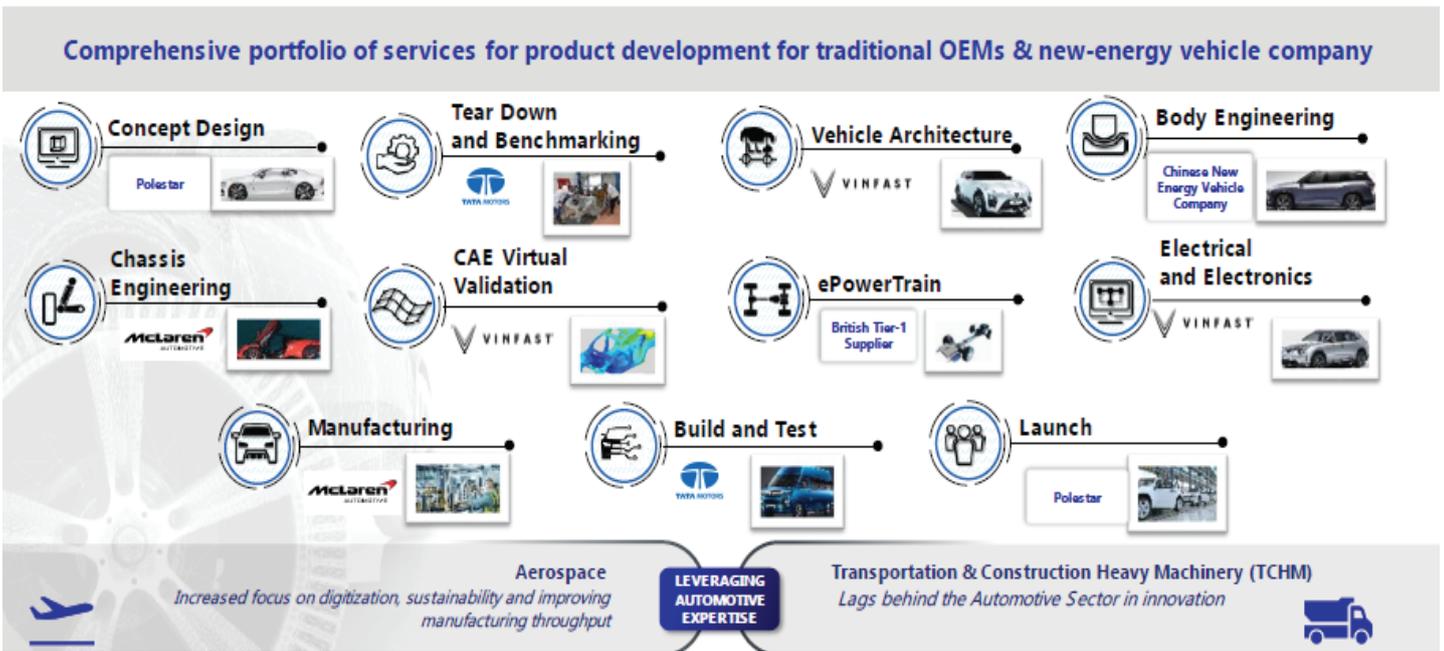
Source: RHP

Exhibit 2: \$1.8Tn Global ER&D Spend with Increasing Propensity to Outsource



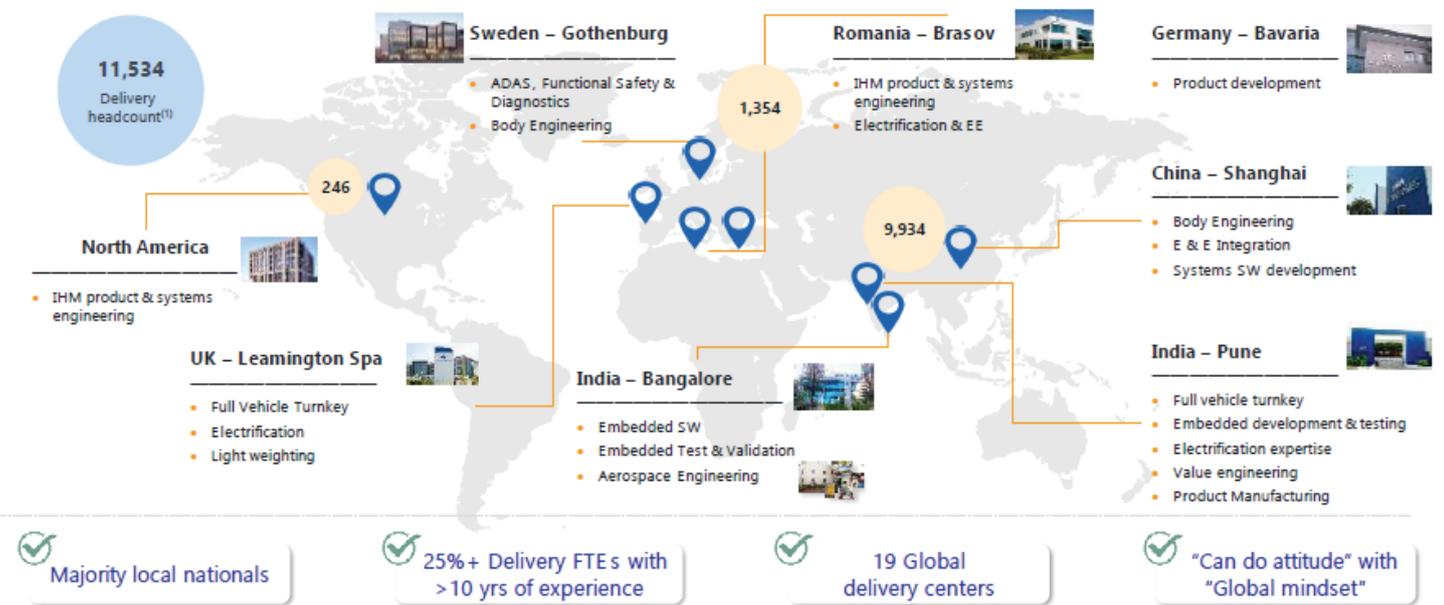
Source: RHP, Zinnov; (1) ES P: ER&D Service Provider (2) Largest Manufacturing ER&D vertical in terms of expenditure

Exhibit 3: Deep Automotive Expertise with Multiple Differentiated ER&D Capabilities



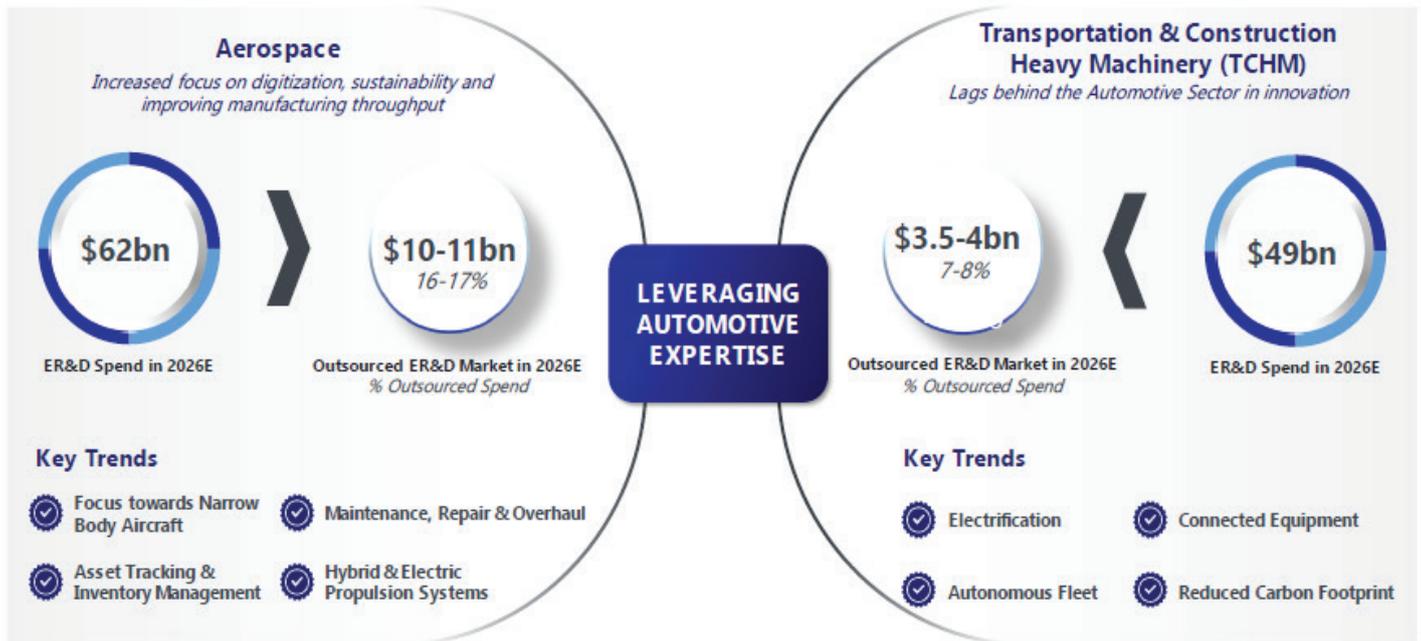
Source: RHP

Exhibit 4: Globally 5 Distributed Execution Model



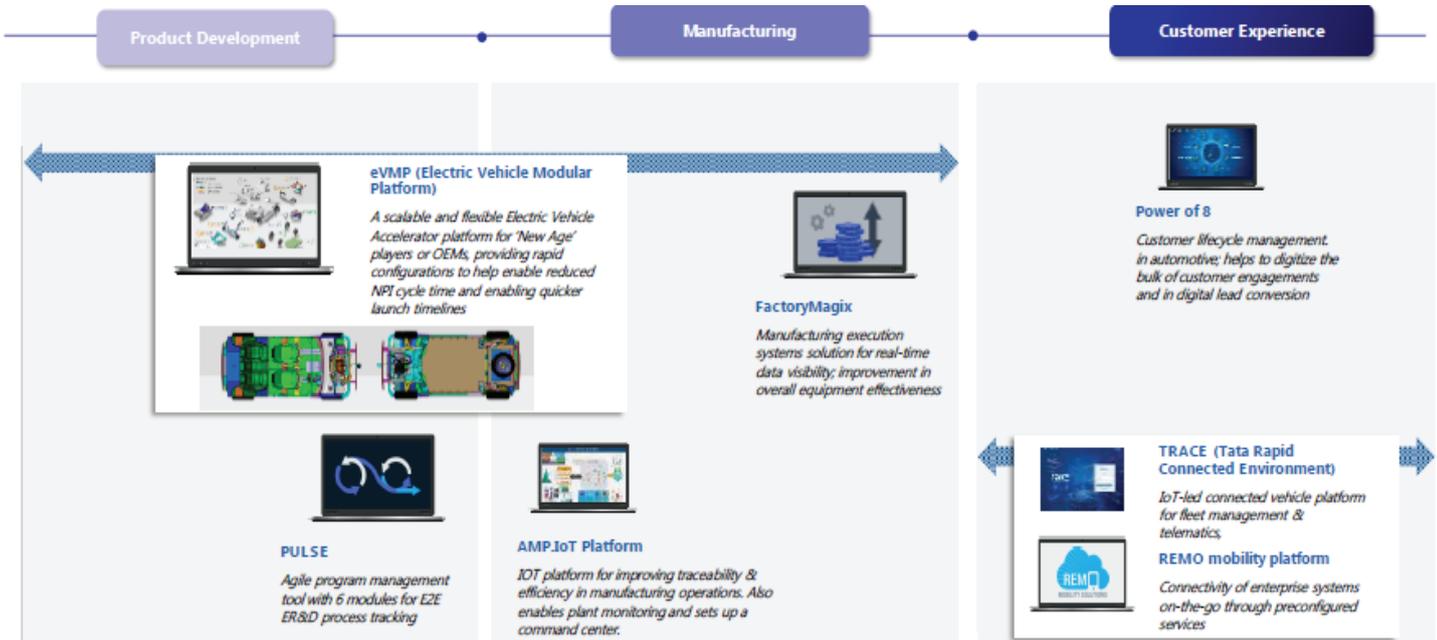
Source: RHP

Exhibit 5: Leveraged Automotive Expertise to Serve Clients in Adjacent Verticals



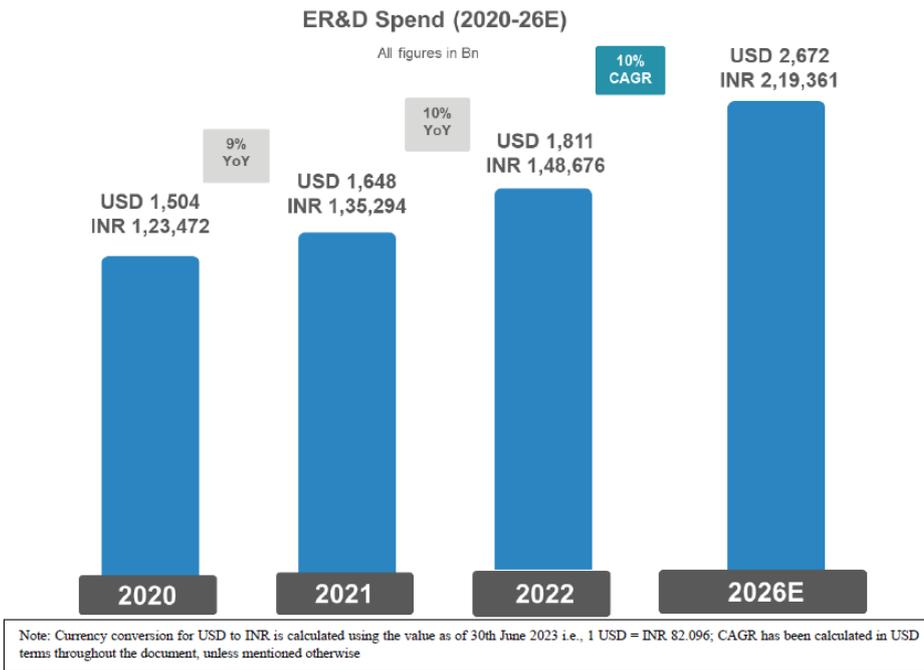
Source: RHP

Exhibit 6: Service Offerings are Well-Supported by Proprietary Platforms and Accelerators Across the Value Chain



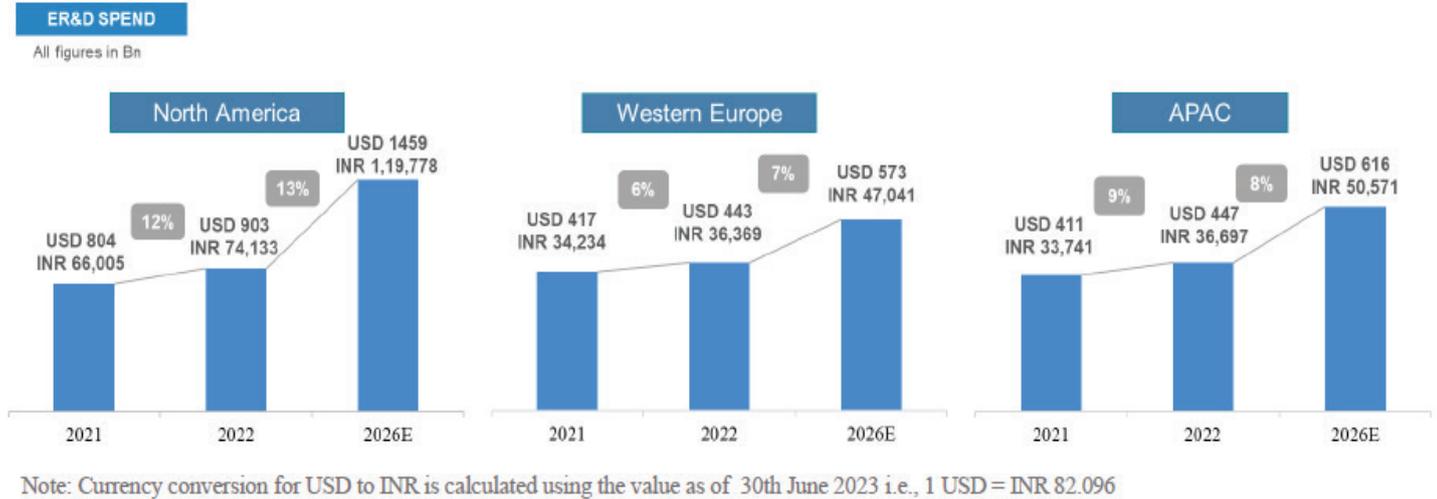
Source: RHP

Exhibit 7: Global ER&D Services Spend



Source: RHP

Exhibit 8: The chart below sets out the ER&D expenditure of North America, Western Europe and APAC:



Source: RHP

Exhibit 9: The chart below sets out the primary differences in outsourcing of IT services and ER&D services:

IT Services	Key Service Lines	ER&D Services
<ul style="list-style-type: none"> Application Services Infrastructure Services 		<ul style="list-style-type: none"> Product Development (Mechanical, Embedded, Software) Product Sustenance & Support Manufacturing Engineering, MRO and Network Engineering
Activities involving cost reduction and integration	Strategic Partnership	High trust, Mission Critical, Revenue generating partnership
Long duration with Time and Material or Fixed Price engagement models	Deal Structure & Size	Mid to Long-term strategic partnerships; Discrete work packages often involving integration with client teams
15% of the Global IT Spend is currently outsourced	Growth Headroom	Only 5.5% of the Global ER&D Spend is currently outsourced
Chief Information Officer; often low involvement, brought in later in the process	C-Suite Relationship	Chief Technology Officer/Product Owners/ Head of Engineering with often Day 0 involvement
Global Delivery Model, Competitive Rates	Win Factors	Knowledge Assets (IP/Solutions), R&D Infrastructure, Data Protection, Specialised Talent (Software, Embedded, Mechanical)
More replaceable, rate-card focused	Barriers to Entry	Deeply embedded projects with specific skillsets, high switching costs

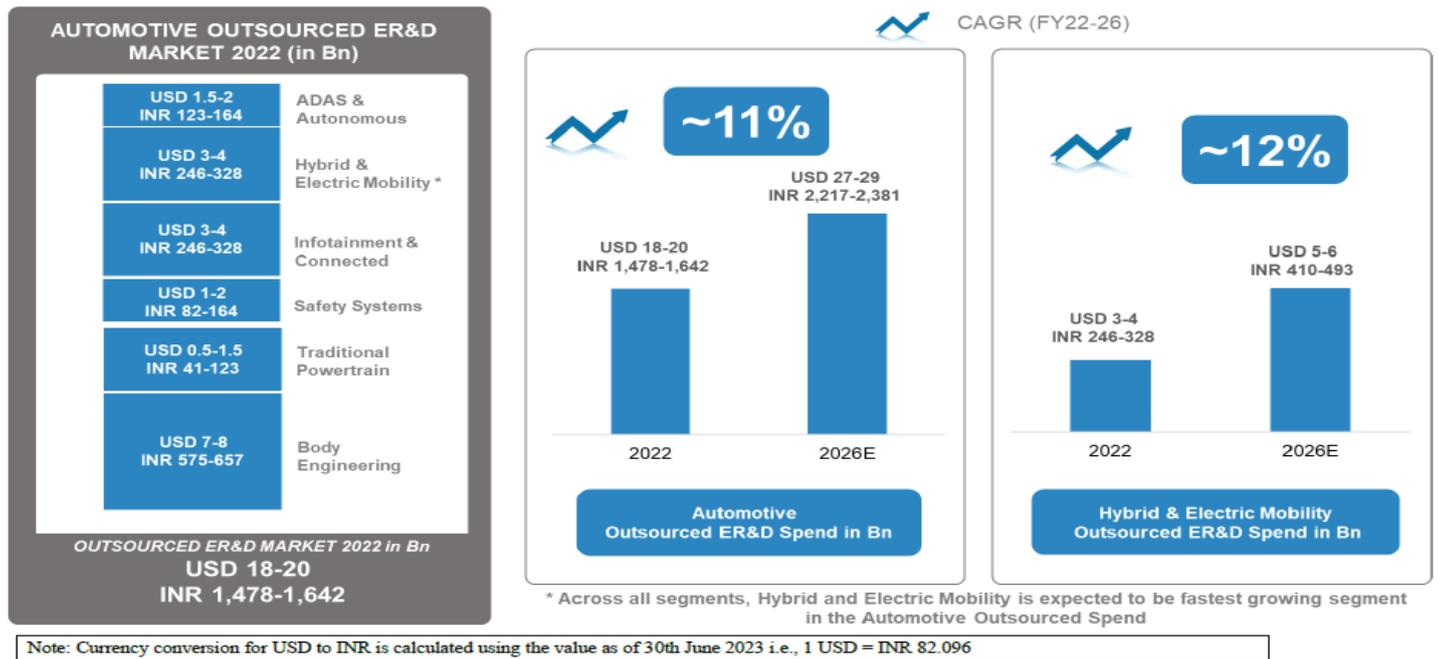
Source: RHP

Exhibit 10: The chart below sets out an indicative list of ER&D activities for the automotive industry:

ER&D in Automotive				
ADAS	Digital Manufacturing	Powertrain	Manufacturing Engg.	Testing/Simulation/ Analysis
Algorithm Development	Predictive Maintenance	Battery design and development	Operational Technology (OT)	Stress, Thermal and Noise Analysis
Sensor Fusion	IoT- Machine Connectivity	Battery frame Design	Process Engineering	Mould Design and Analysis
Computer Vision	Digital Twin	Brackets / Holder design	Assembly & Manufacturing	Stiffness & Bending Analysis
Inage Processing	Embedded Engg.	Modular e-Drive Platform	EPC, Project Engineering	
Body Engineering	ECU Software Development & Testing	Design of transmission System	MES, SCADA, PLM Systems	Digital Thread Initiatives
BIW & Closures	Model/ Function Dev. for ADAS, V2X, IVI	Engine / Motor design	PCD, PLC, DCS, ICS, SIG, BAS	Infotainment
CAD, CAM, CAE, FEA, FEM	Virtual ECU Testing	Powertrain Integration	Telematics & Connected	IVI Architecture Design
Bumper Design	AUTOSAR	Hybrid & Electric	Network Slicing	HMI Design & Development
Digital Twin powered Body Design	Virtual Environments	Powertrain Controller Software	V2X System Dev.	3 rd Party App. Integration
Cloud Engineering	Computer Vision	Battery Analytics	Remote Vehicle Diagnostics	Virtual Assistants Integration
Digital manufacturing - cloud based solutions	HV/ LV Simulations	HV-LV Simulations	Over the air (OTA)	
DevOps, SRE	Software for Diagnostics			
CI/CD				
Cloud Platforms				
XaaS				
Cloud Transformation				
PLM on cloud				

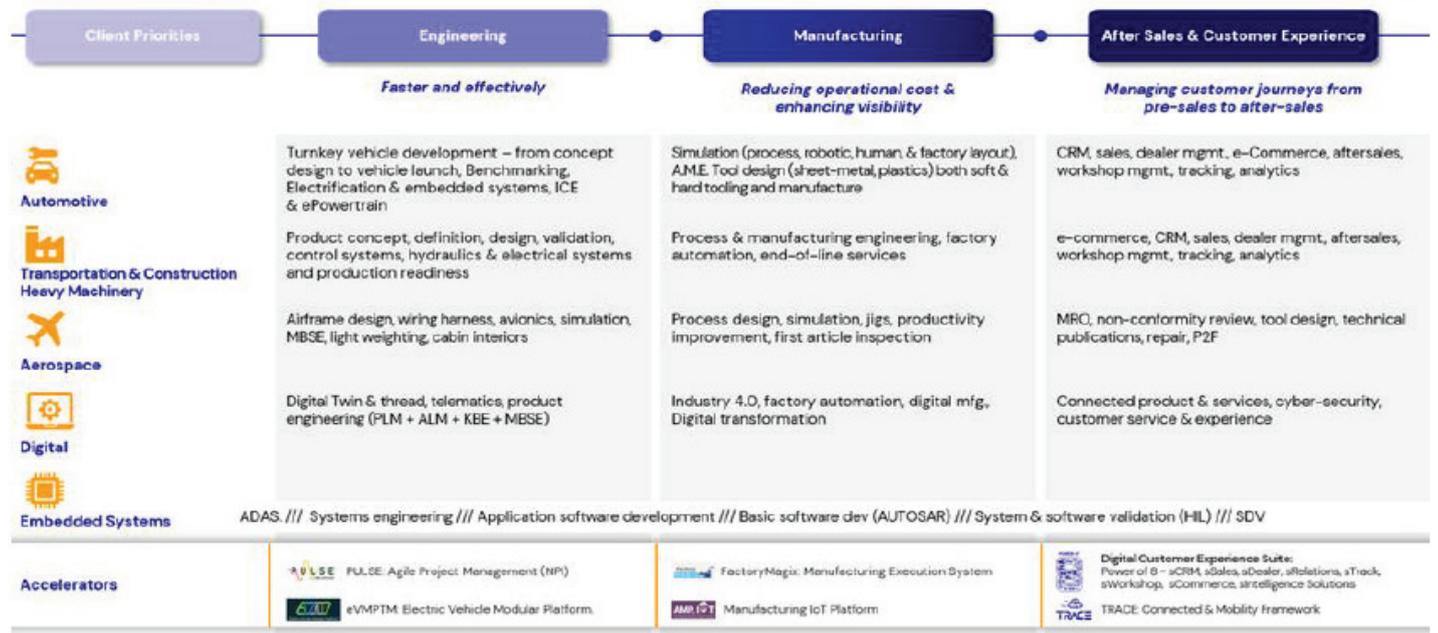
Source: RHP

Exhibit 11: The chart below sets out the automotive outsourced ER&D market spend for 2022:



Source: RHP

Exhibit 12: Our full service offerings are depicted below:



Source: RHP

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