

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: IT/ITES (ER&amp;D)</b>	<b>Price Band (Rs): 475 - 500</b>
<b>20<sup>th</sup> November 2023</b>	<b>Recommendation: Subscribe</b>

## Tata Technologies Limited

### Company Overview:

TATA Technologies 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. The company endeavors to create value for the clients by helping them develop products that are safer, cleaner and improve the quality of life for their end-customers. The company has deep domain expertise in the automotive industry and leverages this expertise to serve clients in adjacent industries, such as Aerospace and Transportation and Construction Heavy Machinery (TCHM).

### Key Highlights:

#### 1. Business segments:

**Services:** The company's primary business line is Services, which includes providing outsourced engineering services and digital transformation services to global manufacturing clients helping them conceive, design, develop and deliver better products.

**Technology solutions:** The company complements the service offerings with products and education businesses (collectively, Technology solutions).

a) Through their products business, the company resells 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.

b) The company's education business provides **phygital** education solutions in manufacturing skills including upskilling and reskilling in relation to the latest engineering and manufacturing technologies.

**2. Marquee customer base:** As of 1HFY24, the company caters to marquee customer base and comprises of more than 35 traditional automotive OEMs and tier 1 suppliers and more than 12 new energy vehicle companies. The client portfolio includes anchor clients, Tata Motors Limited (TML) and JLR, leading traditional OEMs and tier 1 suppliers such as Airbus, McLaren, Honda, Ford, and Cooper Standard as well as new energy vehicle companies such as VinFast, among others such as Cabin Interiors and Engineering Solutions, ST Engineering Aerospace. The company has developed a strong client Net Promoter Score (NPS) globally, achieving an NPS of 58 for the period ended 30th Sep'23.

**3. Global delivery model:** As of Sep'23, the company has a global workforce of 12,451 employees serving multiple global clients from 19 global delivery centers in Asia Pacific, Europe, and North America, as of Sep'23. The company's globally distributed execution model ensures a balance between onshore client proximity and offshore efficiency. During 1HFY24, Onshore:Offshore delivery mix was 49%:51%.

**Valuation:** At the upper price band of Rs 500, Tata Technologies is trading at 32.5x FY23 P/E multiple. Its peers are trading at a relatively expensive valuation with FY23 P/E multiple of 108.9x for KPIT, 68.5x for Tata Elxsi and 40.1x for LTTTS. We believe, Tata Technologies is well placed to encash on the growth opportunities in ER&D space and looking at the relatively cheaper valuations, we recommend investors to SUBSCRIBE to the issue.

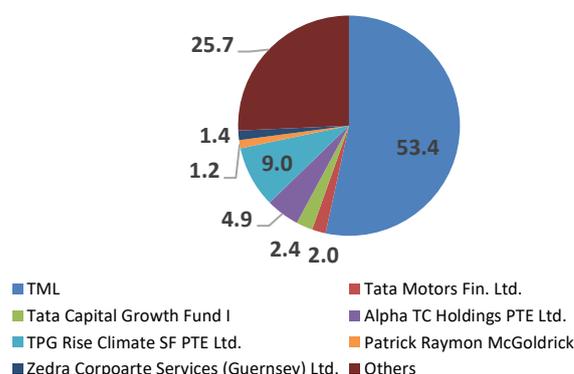
Issue Details	
Date of Opening	22 <sup>nd</sup> November 23
Date of Closing	24 <sup>th</sup> November 23
Price Band (Rs)	475 – 500
Issue Size (Rs cr)	2,890 – 3,043
No. of shares	6,08,50,278 (100% OFS)
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	19,269 – 20,283
BRLMs	JM Financial, Citigroup Global Markets, BofA Securities
Registrar	Link Intime India Private Limited
Bid Lot	30 shares and in multiple thereof
Employee reservation portion	Up to 20,28,342 Equity Shares
TML shareholders reservation portion	Up to 60,85,027 Equity Shares
QIB shares	50%
Retail shares	35%
NIB shares	15%

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	27,09,64,736	66.8
Public & Others	13,47,03,794	33.2
<b>Total</b>	<b>40,56,68,530</b>	<b>100.0</b>

Post Issue @Lower and Upper Price Band	No. of Shares	%
Promoter & Promoter Group	22,46,89,736	55.4
Public & Others	18,09,78,794	44.6
<b>Total</b>	<b>40,56,68,530</b>	<b>100.0</b>

Source: RHP, SSL Research

Shareholding Structure Post IPO (%)



## Key Financials

	FY21	FY22	FY23	1HFY23	1HFY24
Revenue from operations (Rs cr)	2,381	3,530	4,414	1,888	2,527
EBITDA (Rs cr)	386	646	821	373	465
Profit (Rs cr)	239	437	624	259	352
EBITDA Margin (%)	16.2	18.3	18.6	19.7	18.4
PAT Margin (%)	10.0	12.4	14.1	13.7	13.9
EPS (Rs)	5.9	10.8	15.4	6.4*	8.7*
PE (x)**	84.8	46.4	32.5	78.3*	57.6*
P/BV (x)***	9.5	8.9	6.8	8.2*	7.1*
ROE (%)	11.2	19.2	20.9	10.4*	12.3*
ROCE (%)	15.8	26.7	27.2	14.1*	16.7*
Debt / Equity (x)	-	-	-	-	-

\* Not Annualized

\*\* PE(x) is calculated on upper price band

\*\*\* P/BV (x) is calculated on upper price band

Source: RHP, SSL Research

## Risk Factors

- **Revenue concentration:** The company's revenues are highly dependent on clients concentrated in the automotive segment (69% of total revenue). An economic slowdown or factors affecting this segment may have an adverse effect on the business, financial condition and results of operations. Revenue from top five clients which includes JLR, TAMO and VinFast, stands at 57.4% of total revenue and 70.9% of the services segment revenue.
- **New energy vehicle:** The company expects a significant amount of future revenue to come from new energy vehicle companies, many of whom may be startup companies. Uncertainties about the funding plans, future product roadmaps, ability to manage growth, creditworthiness and ownership changes may adversely affect the business, financial condition and results of operations.
- **Exchange rate fluctuation:** Exchange rate fluctuations in various currencies in which the company do business could materially and adversely impact business, financial condition and results of operations.
- **Group companies (TCS, Tata Elxsi):** Group companies like TCS and Tata Elxsi operate in a similar line of business, which may lead to competition with these entities and could potentially result in a loss of business opportunity for the Tata Technologies.
- **Foray into education business:** The education business has lower margins compared to the other businesses and has also recently been particularly exposed to fluctuations in revenue due to the nature and frequency of the projects and the payments involved in the contracts.

## Growth Strategy

- **Existing client base:** Deepen engagements within existing client base.
- **ER&D spenders:** Target top ER&D spenders in select high-priority verticals and key geographies.
- **Expanding capabilities:** Expanding capabilities in digital engineering and embedded systems.
- **Service delivery:** Strengthening service delivery through capacity and capability building and optimizing delivery processes.
- **Education sector:** Expanding capabilities and enterprise client base in the education sector.

## Revenue Split – Geography and Segment-wise

Region	FY23		1HFY24	
	Revenue from operations (Rs cr)	% of revenue from operations	Revenue from operations (Rs cr)	% of revenue from operations
India	1,314	29.8	888	35.1
Europe	1,008	22.8	680	26.9
North America	947	21.4	487	19.3
Rest of the world	1,146	26.0	473	18.7
Revenue from operations	4,414	100.0	2,527	100.0

Source: RHP, SSL Research

Particulars	FY21		FY22		FY23		1HFY23		1HFY24	
	Revenue from operations (Rs cr)	% of revenue from operations	Revenue from operations (Rs cr)	% of revenue from operations	Revenue from operations (Rs cr)	% of revenue from operations	Revenue from operations (Rs cr)	% of revenue from operations	Revenue from operations (Rs cr)	% of revenue from operations
Services Segment	1,914	80.4	2,651	75.1	3,531	80.0	1,641	86.9	1,986	78.6
Automotive	1,573	66.1	2,277	64.5	3,131	70.9	1,445	76.6	1,746	69.1
Others	341	14.3	374	10.6	400	9.1	196	10.4	241	9.5
Technology Solutions Segment	467	19.6	878	24.9	883	20.0	247	13.1	540	21.4
Revenue from Operations	2,381	100.0	3,530	100.0	4,414	100.0	1,888	100.0	2,527	100.0

Source: RHP, SSL Research

## Attrition Rate & Utilisation Rate

	FY21	FY22	FY23	1HFY23	1HFY24
Onshore employees	1,351	1,664	1,754	1,676	1,717
Offshore employees	6,603	7,674	9,862	9,013	10,734
Total number of employees at end of the period	7,954	9,338	11,616	10,689	12,451
Global Attrition rate *	11.5%	25.1%	21.7%	24.8%	17.2%

\*Total number of FTEs who left the company voluntarily during a period divided by average number of FTEs during the period.

	FY21	FY22	FY23	1HFY23	1HFY24
Global Utilisation rate	75.8%	86.8%	87.1%	88.4%	87.6%

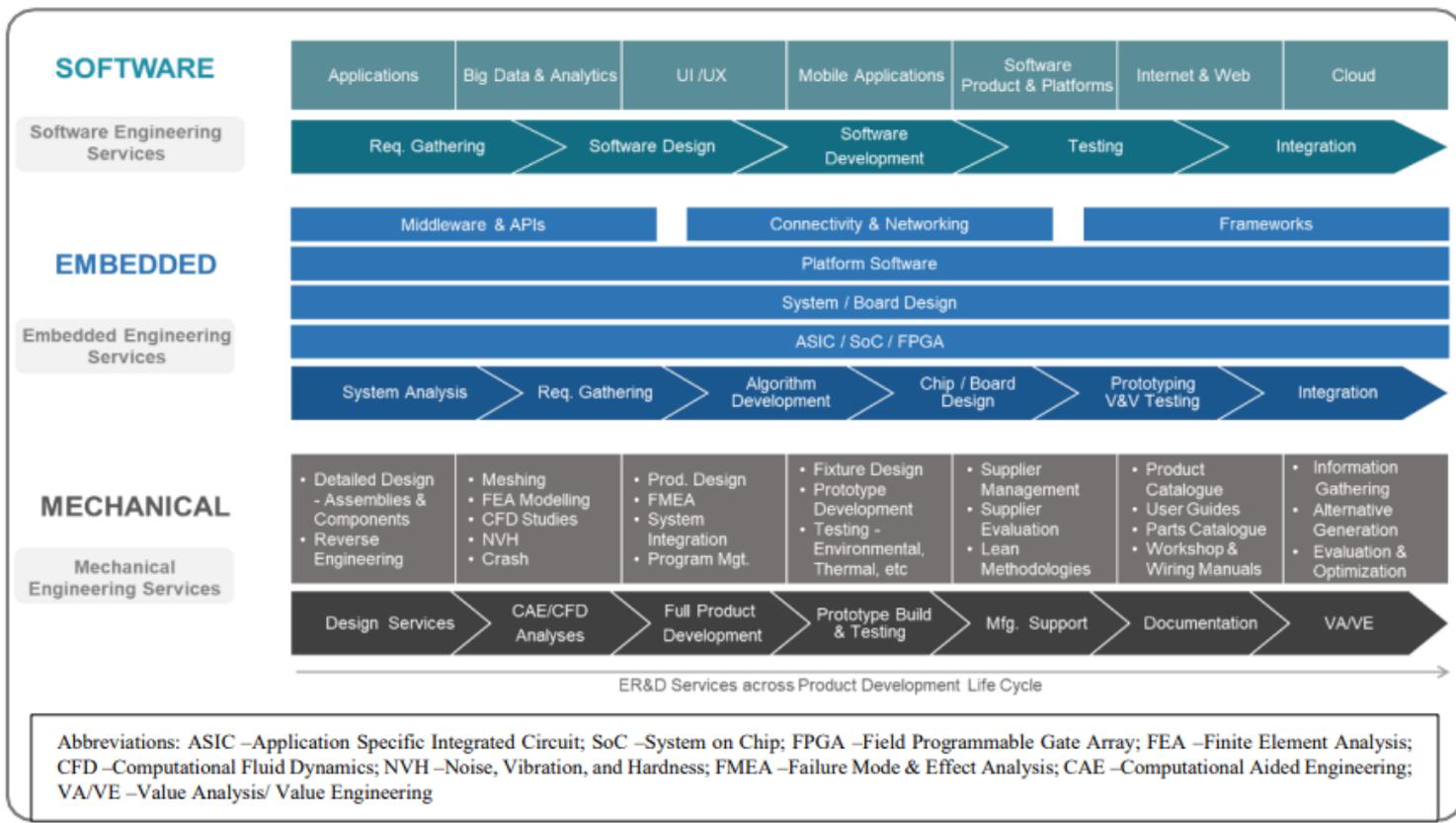
Source: RHP, SSL Research

## Industry Overview

**Global Engineering Research & Development (ER&D) Services Industry**

**Introduction to ER&D:** ER&D services is defined as the set of services offered to enterprises on activities which involve the process of designing and developing a device, equipment, assembly, platform, or application such that it may be produced as a product for sale through software development or a manufacturing process.

The ER&D services are broadly broken down into software, embedded, and mechanical engineering services as shown below:

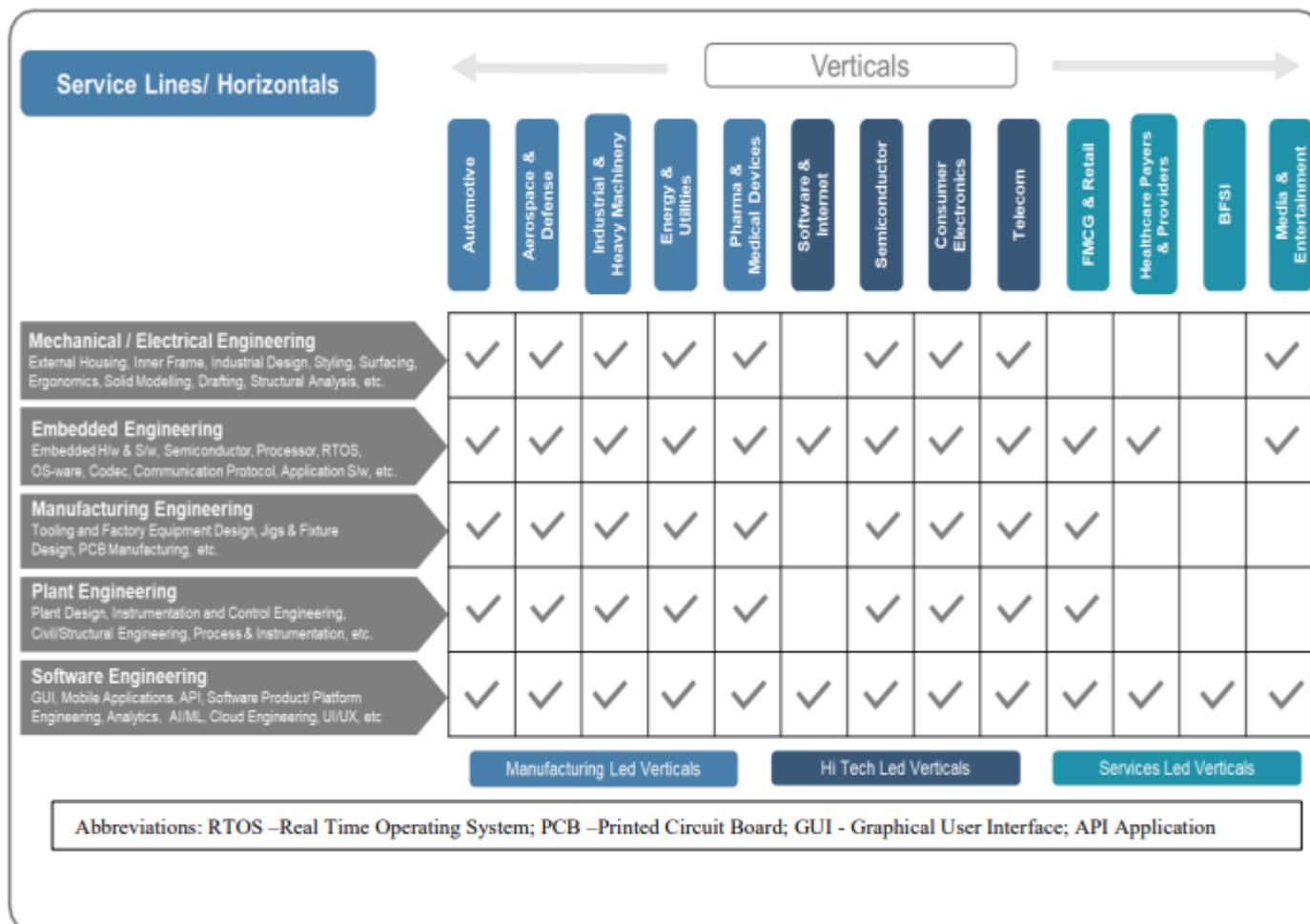


Source: RHP, SSL Research

The ER&D services market is comprised of:

- (1) **Product engineering services:** Address the product development lifecycle for companies.
- (2) **Process engineering services:** Involve services to assist in the production of facilities and processes that produce value-added outputs and components through plant design engineering, manufacturing engineering, industrial engineering, and process control systems.

The ER&D services provided across the various industry verticals are set out below:



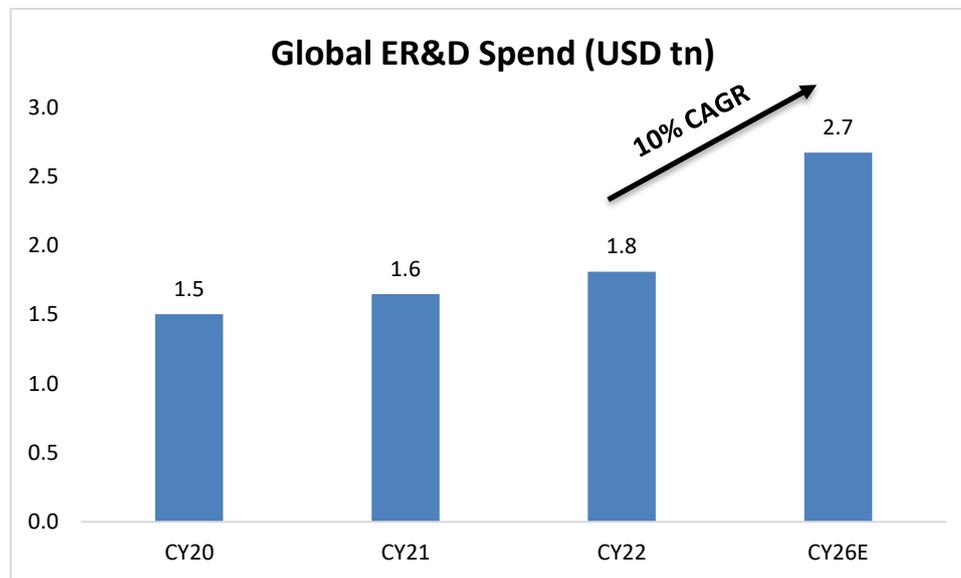
Source: RHP, SSL Research

**The spectrum of ER&D services is set out below:**

ER&D Services					
<b>Mechanical Engg.</b> Prototyping, Simulation CAD, CAM, CAE, FEA, FEM Value Engineering	<b>Embedded Engg.</b> Silicon, VLSI & System Design Embedded Systems Fabrication, OSAT testing	<b>Design &amp; Development</b> Product Arch. & Roadmap Human Design Factor Consulting & Advisory	<b>Software Engg.</b> Legacy Product Maintenance Legacy Product Testing Legacy Product Development	<b>Testing/Simulation</b> Field Testing, EMC Testing Virtual Testing Drive Tests Stress Testing	<b>Technical Support</b> Network Operating Center Technical Support EoL Product Management
<b>MRO</b> Aircraft – Line, A, B, C, D checks Repair/ Modify/Repurposing Spare Parts Management	<b>Manufacturing Engg.</b> Operational Technology (OT) Process Engineering Assembly & Manufacturing EPC, Project Engineering MES, SCADA, PLM Systems PCD, PLC, DCS, ICS, SIS, BAS	<b>Network Engg.</b> Planning & Layout Installation & Verification Network Conformance	<b>Regulatory/Certificate</b> FAA/FDA/CEE Regulations Regulatory filings	<b>IOT</b> Advisory & Consulting Sensors & Device Engg. IoT Platform & Application IoT Communication Engg.	<b>Blockchain</b> Cryptography Smart Contracts
<b>AR/VR</b> 3D Modelling	<b>Analytics</b>	<b>Cloud Engineering</b> DevOps, SRE	<b>Embedded Engg.</b> ECU Software Development & Testing Virtual ECU Testing	<b>5G</b>	<b>5G</b> Network Slicing V2X
<b>UI/UX</b>	<b>Data Visualization</b>	<b>CI/CD</b>	<b>AUTOSAR</b>	<b>Virtualization</b>	<b>Virtualization</b> SDN/NFV Digital Twin Microservices
<b>Digital Thread Initiatives</b>	<b>Data Engineering</b>	<b>Cloud Platforms</b> XaaS	<b>Model/ Function Dev. for ADAS, V2X, IVI</b>	<b>Over the air (OTA)</b>	
<b>AI/ML</b>	<b>Data Quality Analysis</b>	<b>Cloud Transformation</b>	<b>Virtual Environments</b>	<b>Remote Management</b>	
<b>Deep Learning</b>	<b>Predictive Analytics</b>	<b>Digital manufacturing - cloud based solutions</b>	<b>Computer Vision</b>	<b>Robotics</b>	
<b>Speech Recognition</b>	<b>Data Modelling</b>	<b>PLM on cloud</b>	<b>HV/ LV Simulation</b>		
<b>NLP</b>	<b>Data Science</b>				

Source: RHP, SSL Research

**Overall, ER&D spend is expected to grow at 10% CAGR between CY22-CY26E:**



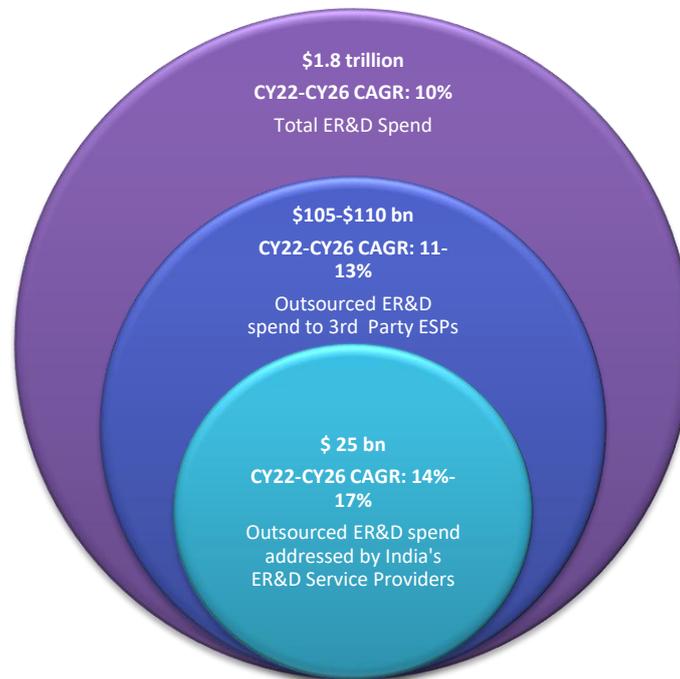
*Source: RHP, SSL Research*

**Out of the USD 1.8 tn (i.e Rs 148 tn) ER&D market in 2022,**

- USD 810 bn (Rs 66,498 bn) was attributed to digital engineering spending. This mainly comprised of spending on new-age technologies like the Internet of Things (IoT), blockchain, 5G, augmented reality, virtual reality, cloud engineering, digital thread initiatives, advanced analytics, embedded engineering and generative artificial intelligence, among others.
- Additionally, digital engineering spending is expected to grow at a CAGR of ~16% from 2022 to 2026.

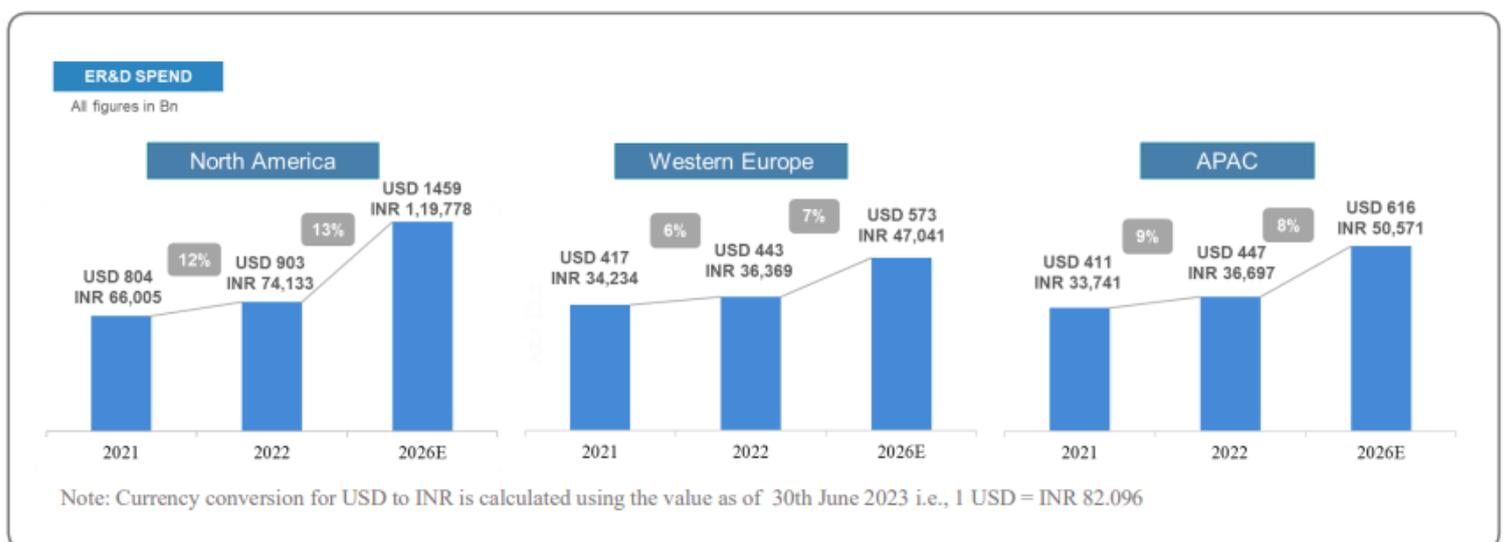
**Outsourced ER&D Spend Opportunity:**

- Total global outsourced ER&D spend is USD 1.8 tn in CY22.
- Automotive is the largest manufacturing ER&D vertical with spend of USD 180 bn in CY22, making it the largest contributor within the manufacturing sector, constituting roughly 10% of the overall ER&D spend. Automotive ER&D spend are expected to grow at 7% CAGR between CY22-CY26E to USD 238 bn
- Global automotive ER&D spend is largely distributed across 3 regions: Europe, Asia Pacific, and North America.
- As of CY22, Europe accounted for 49% of the global automotive spend; APAC was the second largest and accounted for 38% of the global spend, and North America accounted for 13% of the spend.



Source: RHP, SSL Research

**ER&D Spend - Geographic Distribution:**



Source: RHP, SSL Research

**Financial Snapshot**

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
<b>Revenue from Operations</b>	<b>2,381</b>	<b>3,530</b>	<b>4,414</b>
% YoY growth	-	48.2	25.1
Cost Of Revenues (incl Stock Adj)	580	1,088	1,252
<b>Gross Profit</b>	<b>1,801</b>	<b>2,441</b>	<b>3,162</b>
<b>Gross margins (%)</b>	<b>75.7</b>	<b>69.2</b>	<b>71.6</b>
Employee Cost	1,216	1,513	1,929
Other Operating Expenses	199	283	412
<b>EBITDA</b>	<b>386</b>	<b>646</b>	<b>821</b>
<b>EBITDA margins (%)</b>	<b>16.2</b>	<b>18.3</b>	<b>18.6</b>
Other Income	45	49	88
Net Interest Exp.	18	22	18
Depreciation	92	86	95
Exceptional Items	-5	0	0
<b>PBT</b>	<b>315</b>	<b>587</b>	<b>796</b>
Tax	76	150	172
<b>Adj PAT</b>	<b>245</b>	<b>437</b>	<b>624</b>
<b>Adj. PAT margin (%)</b>	<b>10.3</b>	<b>12.4</b>	<b>14.1</b>
<b>Adj. EPS</b>	<b>6.0</b>	<b>10.8</b>	<b>15.4</b>

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
<b>Assets</b>			
Net Block	87	115	120
Capital WIP	0	0	3
Intangible Assets under development	277	224	212
Other Non current Assets	821	899	1,069
<b>Current Assets</b>			
Current Investment	497	528	30
Trade receivables	596	768	1,106
Cash and Bank Balances	783	869	999
Short-term loans and advances	252	46	490
Other Current Assets	260	769	1,172
<b>Total Current Assets</b>	<b>2,388</b>	<b>2,980</b>	<b>3,797</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	224	337	658
Other current liabilities	913	1,290	1,241
Short-term provisions	45	69	75
<b>Total Current Liabilities</b>	<b>1,182</b>	<b>1,696</b>	<b>1,973</b>
<b>Net Current Assets</b>	<b>1,205</b>	<b>1,284</b>	<b>1,824</b>
<b>Total Assets</b>	<b>2,391</b>	<b>2,522</b>	<b>3,228</b>
<b>Liabilities</b>			
Share Capital	42	42	81
Reserves and Surplus	2,100	2,238	2,908
<b>Total Shareholders Funds</b>	<b>2,142</b>	<b>2,280</b>	<b>2,989</b>
<b>Total Debt</b>	<b>0</b>	<b>0</b>	<b>1</b>
Long Term Provisions	15	19	23
Other Long Term Liabilities	233	223	215
<b>Total Liabilities</b>	<b>2,391</b>	<b>2,522</b>	<b>3,228</b>

CASH FLOW (Rs cr)	FY21	FY22	FY23
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Cash flow from Operating Activities	1,113	-39	401
Cash flow from Investing Activities	-674	74	-487
Cash flow from Financing Activities	-44	-44	-347
<b>Free Cash Flow</b>	<b>1,098</b>	<b>-102</b>	<b>336</b>

RATIOS			
	FY21	FY22	FY23
<b>Profitability</b>			
Return on Assets (%)	6.7	10.4	12.0
Return on Capital (%)	15.8	26.7	27.2
Return on Equity (%)	11.2	19.2	20.9
<b>Margin Analysis</b>			
Gross Margin (%)	75.7	69.2	71.6
EBITDA Margin (%)	16.2	18.3	18.6
Net Income Margin (%)	10.0	12.4	14.1
<b>Short-Term Liquidity</b>			
Current Ratio (x)	2.0	1.8	1.9
Quick Ratio (x)	2.0	1.8	1.9
Avg. Days Sales Outstanding	91	79	91
Avg. Days Payables	34	35	54
Fixed asset turnover (x)	27.3	30.8	36.7
Debt-service coverage (x)	21.8	29.5	45.7
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.0	0.0	0.0
Interest Coverage Ratio (x)	19.2	27.8	45.3
<b>Valuation Ratios</b>			
EV/EBITDA (x)	50.6	30.1	23.5
P/E (x)	82.9	46.4	32.5
P/B (x)	9.5	8.9	6.8

	Tata Technologies Ltd.	KPIT Technologies Ltd.	L&T Technology Services Ltd.	Tata Elxsi Ltd.
CMP	500	1,537	4,454	8,307
Sales (Rs cr)	4,414	3,365	8,014	3,145
EBITDA (Rs cr)	821	633	1,711	962
Net Profit (Rs cr)	624	387	1,174	755
Market Cap (Rs cr)	20,283	42,126	47,068	51,731
Enterprise Value (Rs cr)	19,284	41,864	46,832	50,724
EBITDA Margin (%)	18.6	18.8	21.4	30.6
Net Margin (%)	14.1	11.5	14.6	24.0
P/E(x)	32.5	108.9	40.1	68.5
EV/EBITDA	23.5	66.1	27.4	52.7
RoE (%)	20.9	25.7	25.0	41.1
RoCE (%)	27.2	30.2	32.6	47.7

The data is based on FY23 financial data.

For Tata Technologies Limited the Market cap, PE(x), and EV/EBITDA are calculated on post-issue equity share capital based on the upper price band.

CMP as on 17<sup>th</sup> November'23.

Source: RHP, SSL Research

## TML Shareholders and Employee Reservation Portion

### Tata Motors Ltd (TML) Shareholders Reservation Portion

- TML Shareholders Reservation Portion of up to 60,85,027 Equity Shares (constituting up to 10.00% of the Offer)
- Maximum Bid Amount: Rs 2 lakhs
- Record Date: 13<sup>th</sup> Nov23
- Tata Motors Ltd (TML) eligible shareholders can apply in the
  - (a) TML shareholders reservation portion **AND**
  - (b) can also bid in Employee Reservation **AND**
  - (c) can also apply in the Non-Institutional Portion **OR** the RIB Portion,

and such Bids will not be treated as multiple Bids

### Employee Reservation Portion

- Employee Reservation Portion of up to 20,28,342 Equity Shares (constituting up to 0.50% of our post-Offer paid-up Equity Share capital)
- Eligible employees has to ensure that bid amount should not exceed Rs 5 lakhs
- Initial allocation shall not exceed Rs 2 lakhs
- Only in the event of an under-subscription in the Employee Reservation Portion post the initial allocation, such unsubscribed portion may be allocated on a proportionate basis to Eligible employees bidding in the Employee Reservation Portion, for a value in excess of Rs 2 lakhs, subject to the total Allotment to an Eligible Employee not exceeding Rs 5 lakhs
- Can bid at cut-off price

#### SBICAP Securities Limited

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Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
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Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
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