

Recommendation	Subscribe	
Price Band	Rs 475-500	
Bidding Date	22nd Nov - 24th Nov	
Book Running Lead Manager	JM Fin , Citi , Bofa Sec	
Registrar	Linkintime	
Sector	IT	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	30	
Minimum Application Money	Rs. 15000	
Discount to retail	0	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY23	9MFY24 annualized
Total Income	4,414	3,369
EBITDA	821	620
Adj PAT	624	469
Valuations(FY23)	Lower Band	Upper Band
Market Cap (Rs Cr)	19269	20283
Adj EPS	15.38	15.38
PE	31	33
EV/ EBITDA	22	23
Enterprise Value (Rs Cr)	18400	18886
Post Issue Shareholding Pattern		
Promoters	55.4%	
Institutions	7.5%	
Bodies Corporates & Public	37.1%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs. in cr)	81.13	
Issue Size (Rs in cr)	2890-3043	
Face Value (Rs)	2	
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BACKGROUND

Incorporated in 1994, Tata Technologies Ltd (TTL), part of the Tata Group & subsidiary of Tata Motor, is a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry .TTL is 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. The company have a diversified global client base from India, Europe, North America and the rest of the world. Repeat business stands at 97.72% in H1FY24. As of September 30, 2023, the company had 12,451 employees, comprising 11,608 full-time employees (“FTEs”) and 843 contracted employees.

Details of the Issue:

The public issue consists of Offer for sale of ~Rs 3043 cr by Promoter (Rs 2314 cr) and selling shareholder (Rs 729 cr)

Tata Motor Shareholder Application:

Tata Motor Shareholder can apply in Shareholder category upto Rs 200000 and also in public category

Investment Rationale:

- Benefiting from Strong Parentage
- Diversifying client base by developing new customer relationships
- Growth in the industry, with higher penetration will lead to growth for the company
- Strong financials

Valuation and Recommendation:-

Over FY20-23 Sales grew by 15.7% and came at Rs 4414 cr in FY23. H1FY24 sales came at Rs 2526.7cr (+33.8% YoY). Ebit margins have also improved from 13% in FY20 to 16.5% in FY23. Going ahead The automotive outsourced ER&D market is pegged at \$18-20 billion and is expected to grow at a CAGR of 11 % and reaching USD 27- 29 bn By 2026E.The company being a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry , will be benefit from the growth in the industry .The company plans to strengthen relationships with existing clients, target new high potential accounts with large annual ER&D spends and new energy vehicle companies, to drive the growth. ROE and ROCE also improved and stood at 20.9% and 24.3% respectively for FY23

With this, at the given upper price band of issue of Rs 500, Tata Technologies is offered at annualized H1FY24 PE of 28.8x which we feel is attractive. **We recommend subscribing to the issue**

Business

Incorporated in 1994, Tata Technologies, part of the Tata Group & subsidiary of Tata Motor, is a pure-play manufacturing focused ER&D Company, primarily focused on the automotive industry and is 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.

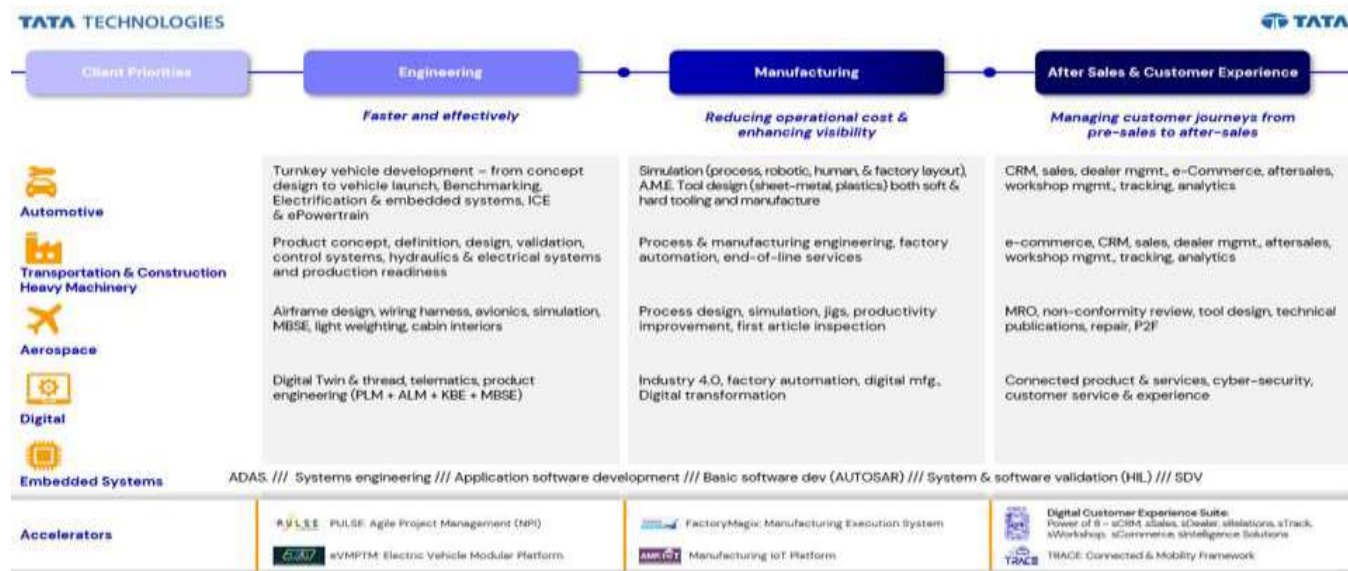
The company has majorly 2 business:-

- 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.
- Technology Solutions offering - which includes Products business comprising of the reselling of specific software that manufacturing companies deploy to conceive, develop, build and service new products and Education business where they work with colleges, universities, private enterprises and State Governments to equip the next generation of engineers and technicians with relevant skills that are required by the global manufacturing industry.

	FY20	FY21	FY22	FY23	H1FY24
Services	2343.2	1914.4	2651.4	3531.2	1986.4
Automotive	1909.1	1573.4	2276.9	3131.5	1745.8
Others	434.1	341.0	374.5	399.7	240.6
Technology Solutions	508.9	466.5	878.2	883.0	540.3
Total Revenue	2852.1	2380.9	3529.6	4414.2	2526.7

Source: Company data, Nirmal Bang Research

Product Portfolio



Source: Company data, Nirmal Bang Research

The company have a diversified global client base from India, Europe, North America and the rest of the world.

	FY20	FY21	FY22	FY23	H1FY24
India	30.1%	29.0%	32.4%	29.8%	35.1%
Europe	34.3%	31.0%	24.3%	22.8%	26.9%
North America	30.0%	31.9%	22.4%	21.4%	19.3%
Rest of World	5.6%	8.2%	20.8%	26.0%	18.7%

Source: Company data, Nirmal Bang Research

The client portfolio includes Anchor Clients (40.2% FY23 revenue) like TML and JLR , leading traditional OEMs like Airbus, McLaren, Honda, Ford, and Cooper Standard and tier 1 suppliers as well as new energy vehicle companies such as VinFast, among others such as Cabin Interiors and Engineering Solutions, ST Engineering Aerospace. Repeat business stands at 97.72% in H1FY24 . The company’s global delivery model leverages the skills and capabilities of their employees from various regional centres, delivering value to its clients. As of September 30, 2023, the company had 12,451 employees, comprising 11,608 full-time employees (“FTEs”) and 843 contracted employees.

Investment Rationale

Benefiting from Strong Parentage

As a part of the Tata Group, the company benefit from long-term relationships with both Tata Motors & JLR (collectively, their “Anchor Clients”) have enabled the incubation of skills and capabilities in automotive sector , that has assisted them in pursuing opportunities outside of the Tata Group

The association with the Tata group brand provides the company with a competitive advantage in attracting talent, benefiting from Promoter's global network, exploring potential business opportunities, corporate governance practices. End-to-end engineering expertise backed by parent's deep domain automotive expertise provides the company with a competitive edge over other ER&D players.

Growth in the industry, with higher penetration will lead to growth for the company

The ER&D spend outsourced to third-party service providers reached \$105 billion to \$110 billion in 2022 is anticipated to grow at a CAGR of 11-13% between 2022 and 2026. The automotive outsourced ER&D market is pegged at \$18-20 billion and is expected to grow at a faster rate than overall automotive ER&D spending during 2022 and 2026 by growing at a CAGR of 11 % and reaching USD 27- 29 bn by 2026E

The company being a pure-play manufacturing focused ER&D Company, primarily focused on the automotive industry, providing end-to-end solutions for EV development, manufacturing and after-sales services which are designed to help OEMs develop competitive EVs while maintaining a balance between cost, quality and timelines may capture the arising opportunity in the industry

Diversifying client base by developing new customer relationships

The company is diversifying its client base, with an emphasis on the acquisition of new clients, evidenced by the total number of clients generating over \$1 million in revenue increasing from 27 to 38 In H1FY24. The revenue from non-Anchor Clients, as a percentage of revenue attributable to the Services segment, has also increased from 45.65% in FY20 to 59.8% in FY 23, which also indicates diversification. The company has recently been empanelled by Airbus which is expected to become a strong avenue of growth

Client Contribution	FY20	FY21	FY22	FY23	H1FY24
Anchor	1273.6	984.0	1069.6	1421.0	913.0
Anchor % of serv seg rev	54.4%	51.4%	40.3%	40.2%	46.0%
Top 5 Clients	66.6%	64.5%	65.8%	73.2%	70.9%
Top 10 Clients	75.4%	76.4%	77.7%	80.8%	80.1%
Top 20 Clients	83.7%	84.9%	77.7%	88.4%	88.0%
Services Seg Rev	2343.2	1914.4	2651.4	3531.2	1986.4

Source: Company data, Nirmal Bang Research

Client Concentration	FY20	FY21	FY22	FY23	H1FY23	H1FY24
\$50 million +	2	2	3	3	3	3
\$20 million +	2	2	3	3	3	3
\$10 million +	5	6	6	6	6	6
\$5 million +	8	8	11	7	11	10
\$1 million +	33	27	31	31	34	38

Source: Company data, Nirmal Bang Research

Strong financials

Over FY20-23 Sales grew by 15.7% and came at Rs 4414 cr in FY23. H1FY24 sales came at Rs 2526.7cr (+33.8% YoY).. EBIT margins has also improved from 13% in FY20 to 16.5% in FY23 . ROE and ROCE also improved and stood at 20.9% and 24.3% respectively for FY23

Going ahead growth in industry with plans to strengthen relationships with existing clients, target new high potential accounts with large annual ER&D spends and new energy vehicle companies accompanied with expansion of its digital engineering and embedded capabilities would be the key growth drivers to the company.

Risk

- Top 5 clients contribute 70.9% to H1FY24 revenue. Any loss in client due to inability to renew contracts or failure to secure large order from them may impact the revenue
- 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 business
- Company expect a significant amount of future revenue to come from new energy vehicle companies, many of whom may be startup companies. Uncertainties about their funding plans, future product roadmaps, ability to manage growth, creditworthiness and ownership changes may adversely affect business
- Exchange rate fluctuations in various currencies could materially and adversely impact business.

Valuation & Recommendation

Looking upon business of the company, we have compared Tata Technologies with LTTS , Cyient, KPIT , Tata Elxsi being into the same industry

FY23 Figures	LTTS	Cyient	KPIT	Tata Elxsi	Average	Tata Technologies
Revenue	8,014	6,016	3,365	3,145	5,135	4,414
CAGR (FY20-23)	12.6%	10.8%	16.0%	25.0%	16.1%	15.7%
EBIT	1464.5	744.9	486.5	878.7	894	726
EBIT Margin	18.3%	12.4%	14.5%	27.9%	18.3%	16.5%
Adj. PAT	1169.8	561.1	381.0	755.2	717	624
EPS	110.7	50.7	13.9	121.3		15.4
Wkg Cap Days	58	51	73	101	71	37
ROCE	29.6%	17.1%	28.6%	42.1%	29.3%	24%
ROE	23.6%	16.2%	23.1%	36.2%	24.8%	20.9%
Debt/Equity	0.0	0.3	0.0	0.0	0	0.0
EV/EBITDA	26.5	20.3	22.0	52.6	30.3	23.5
P/E	40.9	36.2	116.1	68.4	65.4	32.5
EV/EBITDA H1 FY24 annualised	24.5	20.5	60.0	50.0	38.8	20.8
P/E H1FY24 Annualised	38.1	30.9	80.4	66.4	54.0	28.8

Source: NBRR, Company Data

Over FY20-23 Sales grew by 15.7% and came at Rs 4414 cr in FY23. H1FY24 sales came at Rs 2526.7cr (+33.8% YoY). Ebit margins have also improved from 13% in FY20 to 16.5% in FY23. Going ahead The automotive outsourced ER&D market is pegged at \$18-20 billion and is expected to grow at a CAGR of 11 % and reaching USD 27- 29 bn By 2026E.

The company being a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry , will be benefit from the growth in the industry .The company plans to strengthen relationships with existing clients, target new high potential accounts with large annual ER&D spends and new energy vehicle companies, to drive the growth.

ROE and ROCE also improved and stood at 20.9% and 24.3% respectively for FY23.

With this, at the given upper price band of issue of Rs 500, Tata Technologies is offered at annualized H1FY24 PE of 28.8x which we feel is attractive. **We recommend subscribing to the issue**

Financials (₹ in Cr)

P&L	FY21	FY22	FY23	H1FY23	H1FY24	Balance Sheet	FY21	FY22	FY23	H1FY23	H1FY24
Net Revenue	2,380.9	3,529.6	4,414.2	1,887.9	2,526.7	Share Capital	41.8	41.8	81.1	40.6	81.1
% Growth	-17%	48%	25%		33.8%	Other Equity	2,100.3	2,238.4	2,908.3	2,441.3	2,772.0
Purchase for technology solu	338.3	688.5	682.5	177.3	423.5	Networth	2,142.2	2,280.2	2,989.5	2,481.9	2,853.1
Employee benefits expense	1,216.0	1,512.7	1,929.5	891.1	1,131.9	Total Loans	0.0	0.0	0.0	0.0	0.0
Outsourcing and consultancy	241.4	399.8	569.7	247.8	290.5	Lease Liabilities	266.2	261.4	255.4	239.1	259.9
Other expenses	199.5	282.9	411.6	199.1	216.0	Other Fin & non-curr li	3.5	256.2	5.1	3.7	4.4
Total Expense	1,995.2	2,883.9	3,593.2	1,515.4	2,062.0	Provisions	27.1	49.3	57.2	50.1	54.8
EBITDA	385.7	645.7	820.9	372.5	464.8	Trade payable	223.7	336.6	657.7	313.0	479.6
EBITDA Margin	16.2%	18.3%	18.6%	19.7%	18.4%	Other Current Liab	907.2	1,012.7	1,174.9	1,053.8	1,396.2
Depreciation	92.2	85.7	94.6	45.6	49.7	Total Equity & Liab.	3,569.9	4,196.4	5,139.7	4,141.6	5,047.9
EBIT	293.5	560.0	726.4	326.9	415.0	Fixed Assets & CWIP	87.3	114.8	122.8	114.7	131.8
EBIT Margin	12.3%	15.9%	16.5%	17.3%	16.4%	Intangible asset	44.1	36.2	32.0	31.9	40.8
Other Income	44.8	48.8	87.8	22.5	60.7	Right-of-use-asset	232.6	187.9	180.3	169.6	184.8
Interest	17.7	21.9	18.0	8.1	9.5	Goodwill	725.9	729.3	762.9	708.8	766.2
PBT	320.7	586.9	796.2	341.3	466.3	Investment	497.1	527.7	29.8	0.0	89.8
Exceptional item	-5.4					Deferred Tax Assets	93.5	76.9	153.6	89.3	124.8
PBT	315.3	586.9	796.2	341.3	466.3	Receivable	595.8	768.2	1,106.2	909.7	1,224.7
Tax	76.1	149.9	172.1	82.2	114.4	Inventories	0.0	0.0	0.0	0.0	0.0
Tax rate	24%	26%	22%	24%	25%	Other Fin & non Curr.	56.8	114.7	197.8	114.5	245.0
PAT	239.2	437	624.0	259.1	351.9	Loans	252.1	46.3	490.2	422.0	120.8
Adj PAT	233.8	437.0	624.0	259.1	351.9	Cash & Bank	783.4	869.4	999.2	985.8	814.5
EPS (Post Issue)	5.8	10.8	15.4	6.4	8.7	Other Current assets	201.4	725.2	1,065.0	595.4	1,304.8
						Total Assets	3,569.9	4,196.4	5,139.7	4,141.7	5,047.9

Ratios & Others	FY21	FY22	FY23	H1FY23	H1FY24	Cash Flow (Rs. Cr)	FY21	FY22	FY23	H1FY23	H1FY24
Debt / Equity	0.0	0.0	0.0	0.0	0.0	Profit Before Tax	315.3	586.9	796.2	341.3	466.3
EBITDA Margin (%)	16.2%	18.3%	18.6%	19.7%	18.4%	Provisions & Others	102.1	82.5	67.2	38.6	30.4
PAT Margin (%)	9.8%	12.4%	14.1%	13.7%	13.9%	Op. profit before WC	417.4	669.3	863.4	379.9	496.6
ROE (%)	11.2%	19.2%	20.9%	20.9%	24.7%	Change in WC	805.7	-580.2	-219.1	-120.0	-421.8
ROCE (%)	13.7%	24.6%	24.3%	26.3%	29.1%	Less: Tax	-110.2	-127.8	-242.9	-91.5	-82.6

Turnover Ratios	FY21	FY22	FY23	H1FY23	H1FY24	CF from operations	FY21	FY22	FY23	H1FY23	H1FY24
Debtors Days	91	79	91	88	88	Int & Div Received	13.5	37.9	33.0	8.7	24.5
Inventory Days	0	0	0	0	0	Payment for PPE	-13.7	-62.9	-65.2	-32.4	-47.4
Creditor Days	34	35	54	30	35	Others	-673.3	99.2	-455.3	139.0	603.2
Asset Turnover (x)	0.7	0.8	0.9	0.9	1.0	CF from Investing	-673.6	74.2	-487.4	115.3	580.3

Valuation Ratios	FY21	FY22	FY23	H1FY23	H1FY24	Share cap proceeds	FY21	FY22	FY23	H1FY23	H1FY24
Price/Earnings (x)	86.8	46.4	32.5	39.1	28.8	Div paid	0.0	0.0	0.0	0.0	-499.0
EV/EBITDA (x)	49.3	29.3	23.5	25.9	20.8	Others	-44.1	-44.4	-51.0	-24.5	-27.5
EV/Sales (x)	8.0	5.4	4.4	5.1	3.8	CF from Financing	-44.1	-44.4	-346.9	-320.4	-526.5
Price/BV (x)	9.5	8.9	6.8	8.2	7.1	Net Change in cash	395.2	-8.9	-432.9	-36.6	46.0
						opening cash bal	386.1	777.1	815.7	749.9	382.6
						Closing Cash Bal	781.3	768.3	382.8	713.3	428.6

Source: Company Data, NBRR

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