

RETAIL EQUITY RESEARCH

Tata Technologies Ltd.

IT-Automotive

SENSEX: 65,931

NIFTY: 19,783

SUBSCRIBE

Price Range Rs.475- Rs.500

Driving Innovation in the Automotive Realm....

Tata Technologies Ltd. (TTL), established in 1994, a subsidiary of the Tata Motors, is a prominent global engineering services company. Specializing in product development and digital solutions, including turnkey solutions, TTL serves global original equipment manufacturers (OEMs) and their Tier 1 suppliers. The key business segments include Services (contributes ~80% of FY23 revenue) and Technology solutions (contributes to ~20% of FY23 revenue). As of September 30, 2023, they operate 19 global delivery centres distributed across North America, Europe, and the Asia Pacific region. The client portfolio includes anchor clients Tata Motors and JLR, along with prominent traditional OEMs like Airbus, McLaren, Honda, Ford, and Cooper Standard.

- The global automotive ER&D spend is currently \$180bn, projected to grow at a 7% CAGR to reach \$238 bn by 2025, with digital engineering spend expected to increase from \$46bn in 2022 to \$85 bn by 2026 at a 16% CAGR.
- The growth is driven by increasing demand for autonomous and connected technologies, electrification, and widespread adoption of digitalization and technology-enabled skills in the automotive industry.
- Partnering with Airbus and Air India, TTL focuses on aircraft conversions (passenger to freight) and using digital capabilities to shorten development time.
- Revenue from operations grew at a CAGR of ~36% to Rs. 4,414cr over FY21-23 primarily led by services segment, notably driven by increased revenue from automotive sector.
- EBITDA and PAT exhibited a CAGR of 46% and ~62% respectively over FY21-23 led by better operating leverage, including sustained high utilisation levels, improving cost structures, pyramid corrections and a favourable mix of onshore and offshore delivery.
- On margins front, there has been a growth of 240 basis points (bps) in EBITDA margin and 410 bps in PAT margin since FY21, reaching 18.6% and 14%, respectively, in FY23, supported by robust growth and profitability.
- TTL maintains a healthy balance sheet position with 3-year average RoE and RoCE at 17% and 20% respectively over FY21-23.
- At the upper price band of Rs.500, TTL is available at P/E of 28.8x (FY24E annualised EPS), which appears to be reasonably priced compared to peers. Its strong brand legacy, extensive automotive expertise, diversified global presence and strategic partnership with industry leaders provide a distinct advantage that aligns well with its growth ambitions. Hence, we assign a "Subscribe" rating on a medium to long-term basis.

Purpose of IPO

The IPO consists of only OFS (Offer for Sale) of Rs.3,043cr. The issue consists of only offer for sale (OFS) wherein the selling shareholders will divest up to 60,850,278 equity shares. Although the company will not receive any proceeds from this offer, the prime purpose of the issue is to achieve the benefits of listing shares on stock exchanges.

Key Risks

- Revenues are highly dependent on clients concentrated in the automotive segment (~69% of sales in 6MFY24).
- ~46% of revenue is derived from Anchor clients (i.e., Tata Motors and JLR) in 6MFY24.
- ~65% of revenues are in foreign currencies, indicating a forex risk.
- Increasing competition from other players.

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	PAT (%)	EPS(₹)	RoE (%)	Mcap/Sales	P/E(x)	P/BV(x)	EV/EBITDA(x)	CMP(₹)
Tata Technologies Ltd	20,283	4,414	18.6	14.1	15.4	20.9	4.6	32.5	6.8	25	500
KPIT Technologies Ltd	40,730	3,365	18.9	11.3	14.0	25.7	12.1	105.6	24.2	39	1,480
L&T Technology Services	47,059	8,014	21.3	14.6	107.6	25.7	5.9	41.2	9.4	20	4,432
Tata Elxsi Ltd	52,103	3,145	30.6	24.0	121.5	41.0	16.6	69.6	25.3	38	8,459

Source: Geojit Research, Bloomberg; Valuations of TTL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details

Date of opening	November 22, 2023
Date of closing	November 24, 2023
Total No. of shares offered (cr.)	6.09
Post Issue No. of shares (cr)	40.6
Price Band	₹475- ₹500
Face Value	₹2
Bid Lot	30 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 15,000
Maximum application for retail (upper price band for 13 lot)	₹ 1,95,000
Listing	BSE,NSE
Lead Managers	JM Financial, Citigroup Global, BofA Securities
Registrar	Link Intime India Pvt Ltd

Issue size (upper price)	Rs.cr
Fresh Issue	-
OFS	3,043.0
Total Issue	3,043.0

Shareholding (%)	Pre-Issue	Post Issue
Promoter- Tata Motors Ltd	64.8	53.4
Promoter Group	2.0	2.0
Public & Others	33.2	44.6
Total	100.0	100.0
Issue structure	Allocation (%)	Size Rs.cr
Retail	35	922.9
Non-Institutional	15	395.5
QIB	50	1318.4
Tata Motors Ltd Shareholders Reservation Portion.	-	304.3
Employee Reservation	-	101.4
Total	100	3,042.5

Y.E March (Rs cr) Consol.	FY22	FY23	H1FY24
Sales	3,529.6	4,414.2	2,526.7
Growth (%)	48.2	25.1	-
EBITDA	645.7	820.9	464.8
Margin(%)	18.3	18.6	18.4
PAT Adj.	437	624	351.9
Growth (%)	82.7	42.8	-
EPS	10.8	15.4	8.7
P/E(x)	46.4	32.5	28.8*
EV/Sales (x)	5.8	4.7	4.1
RoE (%)	19.2	20.9	24.7*

*Annualised

Business Description:

A leading global engineering services company offers product development and digital solutions, including turnkey options, to international original equipment manufacturers (OEMs) and their tier 1 suppliers (Source: Zinnov Report). The focus is on creating value for clients by contributing to the development of products that enhance safety, cleanliness, and the overall quality of life for end-customers. With deep expertise in the automotive industry, the company extends its services to adjacent sectors like aerospace, transportation, and construction heavy machinery (TCHM). Operating on a global scale, diverse teams with varied skill sets collaborate in real-time to solve complex engineering challenges for clients. TIL is a pure-play manufacturing-focused ER&D company, with a primary emphasis on the automotive industry, is presently involved with seven of the top 10 automotive ER&D spenders and five of the 10 notable new energy ER&D spenders in 2022 (Source: Zinnov Report). As a subsidiary of Tata Motors Limited, the company enjoys enduring partnerships with both TML and JLR. The enduring partnerships with TML and JLR, have facilitated the development of skills and capabilities, aiding in the pursuit of opportunities beyond the Tata Group.

Business Segments:

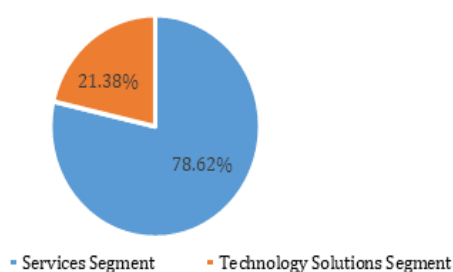
◆ Services:

The primary business line revolves around services (Services), encompassing the provision of outsourced engineering services and digital transformation services to global manufacturing clients. This aids them in conceiving, designing, developing, and delivering enhanced products.

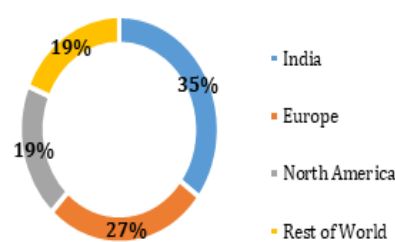
◆ Technology Solutions:

The service offerings are complemented by the Technology Solutions, which include Products and Education businesses. In the Products business, third-party software applications, particularly product lifecycle management (PLM) software and solutions, are resold. Value-added services such as consulting, implementation, systems integration, and support are also provided. The Education business delivers "phygital" education solutions in manufacturing skills, including upskilling and reskilling in the latest engineering and manufacturing technologies. This is extended to public sector institutions, private institutions, and enterprises through curriculum development and competency center offerings via the proprietary iGetIT platform.

Revenue Split as per Line of Business -6MFY24



Region wise revenue Split-6MFY24



(₹ in million, except for percentages)

Onshore/Offshore Mix ⁽¹⁾⁽²⁾	Six-months period ended				Fiscal					
	September 30, 2023		September 30, 2022		2023		2022		2021	
	Portion of revenue attributable to the Services segment	% of revenue attributable to the Services segment	Portion of revenue attributable to the Services segment	% of revenue attributable to the Services segment	Portion of revenue attributable to the Services segment	% of revenue attributable to the Services segment	Portion of revenue attributable to the Services segment	% of revenue attributable to the Services segment	Portion of revenue attributable to the Services segment	% of revenue attributable to the Services segment
Onshore	9,661.92	48.64%	7,977.06	48.55%	17,505.31	49.57%	13,189.68	49.75%	8,865.05	46.31%
Offshore	10,201.98	51.36%	8,452.04	51.45%	17,806.24	50.43%	13,323.83	50.25%	10,278.66	53.69%
Services segment	19,863.90	100.00%	16,408.80	100.00%	35,311.55	100.00%	26,513.51	100.00%	19,143.71	100.00%

(1) Revenue split based on delivery location: Revenue delivered from India and Romania is considered offshore while that delivered outside of these locations is onshore.

(2) Revenue is accounted for on a monthly basis and converted using the average of the \$ conversion rates during each month followed by the average of the ₹ conversion rates during each month for the relevant currencies.

Source: RHP, Geojit Research

Key strengths:

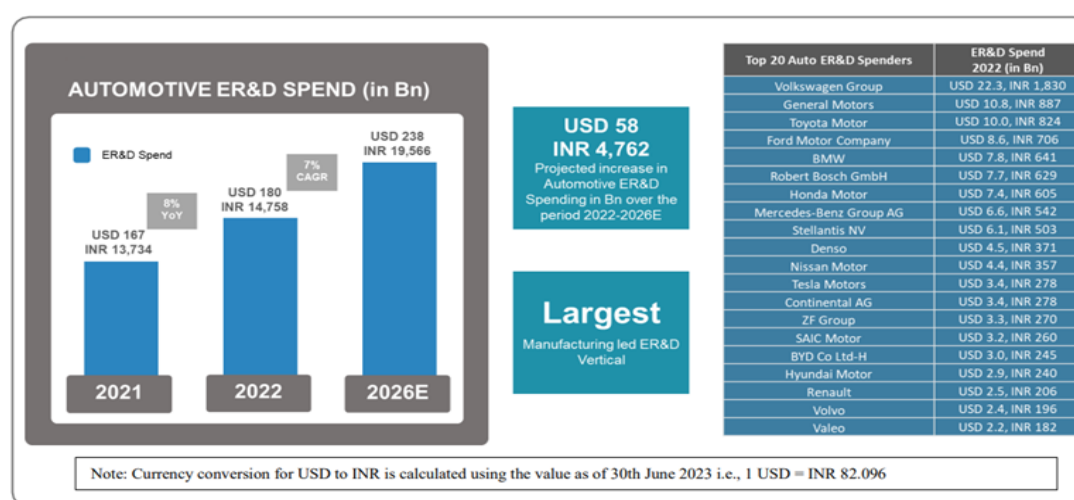
- * Deep expertise in the automotive industry.
- * Differentiated capabilities in new age automotive trends – electric vehicles (“EVs”), connected and autonomous.
- * Strong digital capabilities bolstered by proprietary accelerators.
- * Marquee set of clients across anchor accounts, traditional OEMs and new energy vehicle companies.
- * Global delivery model enabling intimate client engagement and scalability.

Strategies

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

Industry outlook

TTL operate in the global engineering, research, and development (ER&D) services industry, primarily across automotive, aerospace and TCHM verticals. The global ER&D spend for 2022 was approximately \$1.81 trillion and is expected to grow to approximately \$2.67 trillion by 2026. The ER&D spend outsourced to third party service providers reached \$105-\$110 billion in 2022 and is anticipated to grow at a 11-13% CAGR between 2022 and 2026. The key growth drivers within the ER&D market include an increasing propensity to outsource, increasing regulatory interventions for safer and cleaner products, shrinking product innovation cycles and next-generation product technologies (source: Zinnov Report). The global automotive ER&D spend currently stands at \$180 billion (₹14,758 billion), making it the largest contributor within the manufacturing sector, constituting roughly 10% of the overall ER&D spend.



Source: RHP, Geojit Research

Promoter and promoter group

Tata Motors Limited is the Promoter of the company. As of the date of this Red Herring Prospectus, the Promoter, i.e., Tata Motors Limited holds an aggregate of 262,844,816 equity shares, comprising 64.79% of the pre-offer issued, subscribed and paid-up equity share capital of the company.

As on the date of this Red Herring Prospectus, the Board comprises of seven Directors including one Executive Director, two Non-Executive Directors and four Independent Directors (including two women Directors).

Brief Biographies of directors

- ◆ **Ajoyendra Mukherjee**, is the Chairman and Independent Director of the company.
- ◆ **Warren Kevin Harris**, is the Chief Executive Officer and Managing Director of the company.
- ◆ **Usha Sangwan**, is an Independent Director of the company.
- ◆ **Aarthi Sivanandh**, is an Independent Director of the company.
- ◆ **Nagaraj Ijari**, is an Independent Director of the company.
- ◆ **Pathamadai Balachandran Balaji**, is a Non-Executive Director of the company.
- ◆ **Shailesh Chandra**, is a Non-Executive Director of the company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	H1FY24
Sales	3,529.6	4,414.2	2,526.7
% change	48.2	25.1	-
EBITDA	645.7	820.9	464.8
% change	67	27	-
Depreciation	85.7	94.6	49.7
EBIT	560	726.4	415
Interest	21.9	18.0	9.5
Other Income	48.8	87.8	60.7
Exceptional items	-	-	-
PBT	586.9	796.2	466.3
% change	86	35.7	37
Tax	149.9	172.1	114.4
Tax Rate (%)	26	22	25
Reported PAT	437	624	351.9
Adj	-	-	-
Adj. PAT	437	624	351.9
% change	82.7	42.8	-
Post issue No. of shares (cr)	40.6	40.6	40.6
Adj EPS (Rs)	10.8	15.4	8.7
% change	82.7	42.8	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	H1FY24
Cash	869.4	999.2	814.5
Accounts Receivable	768.2	1,106.2	1,224.7
Inventories	-	-	-
Other Cur. Assets	782.1	1,587.8	1,428.5
Investments	604.7	147.9	239.9
Deff. Tax Assets	57.4	152.1	186.0
Net Fixed Assets	302.4	300.4	316.6
CWIP	0.3	2.6	-
Intangible Assets	765.5	794.9	806.9
Other Assets	68.0	110.2	125.2
Total Assets	4,218	5,201	5,142
Current Liabilities	1,349.2	1,832.7	1,875.7
Provisions	49.7	57.8	55.5
Debt Funds	261.4	255.4	259.9
Other Fin. Liabilities	255.9	4.6	3.7
Deferred Tax liability	21.6	61.6	94.5
Equity Capital	41.8	81.1	81.1
Reserves & Surplus	2,238.4	2,908.3	2,772.0
Shareholder's Fund	2,280.2	2,989.5	2,853.1
Total Liabilities	4,218	5,201	5,142
BVPS (Rs)	56.2	73.7	70.3

CASH FLOW

Y.E March (Rs cr)	FY22	FY23	H1FY24
PBT Adj.	586.9	796.2	466.3
Non-operating & non cash adj.	82.5	67.3	33.4
Changes in W.C	-708	-462.1	-507.4
C.F.Operating	-38.7	401.4	-7.8
Capital expenditure	-62.9	-65.2	-47
Change in investment	-99.1	-622.3	-702.4
Sale of investment	230.6	190.4	1,315.4
Other invest.CF	5.6	9.7	14.7
C.F - investing	74.2	-487.4	580.3
Issue of equity	-0.1	-259.9	-
Issue/repay debt	-43.9	-50.9	-27
Dividends paid	-	-	-499
Other finance.CF	-0.4	-0.1	0.1
C.F - Financing	-44.4	-346.9	-526.4
Change. in cash	-8.9	-432.9	46.1
Opening Cash	777.2	815.9	383.1
Closing cash	768.3	383	429.2

RATIOS

Y.E March	FY22	FY23	H1FY24
Profitab. & Return			
EBITDA margin (%)	18.3	18.6	18.4
EBIT margin (%)	15.9	16.5	16.4
Net profit mgn.(%)	12.4	14.1	13.9
ROE (%)	19.2	20.9	12.3
ROCE (%)	18.3	22.1	12.3
W.C & Liquidity			
Receivables (days)	71	77	76
Inventory (days)	-	-	-
Payables (days)	35	54	34
Current ratio (x)	2.2	2.0	1.9
Quick ratio (x)	1.2	1.1	1.1
Turnover &Levg.			
Net asset T.O (x)	11.3	14.6	8.4
Total asset T.O (x)	0.9	0.9	0.5
Int. covge. ratio (x)	25.6	40.4	43.8
Adj. debt/equity (x)	0.1	0.1	0.1
Valuation ratios			
EV/Sales (x)	5.8	4.7	4.1
EV/EBITDA (x)	31.8	25.0	44.2
P/E (x)	46.4	32.5	28.8*
P/BV (x)	8.9	6.8	7.1

*Annualised

DISCLAIMER & DISCLOSURES

Certification

We, Sheen G and Rajeev T, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

For General disclosures and disclaimer: Please Visit : <https://www.geojit.com/research-disclosures#fundamental-research>

Regulatory Disclosures:

Group companies of Geojit Financial Services Limited are Geojit Technologies Private Limited (Software Solutions provider), Geojit Credits Private Limited (NBFC), Geojit Investment Limited (financial Services Company (yet to start operations)), Geojit Techloan Private Ltd (P2P lending (yet to start operations)), Geojit IFSC Ltd (a company incorporated under IFSC Regulations(yet to start operations)), Qurum Business Group Geojit Securities LLC (a joint venture in Oman engaged in Financial Services), Barjeel Geojit Financial Services LLC (a joint venture in UAE engaged in Financial Services), Aloula Geojit Capital Company (a joint venture in Saudi Arabia (Under Liquidation)) and BBK Geojit Securities Co. K.S.C.C (a subsidiary in Kuwait-engaged in Financial services). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc. that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

(ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that we, Sheen G and Rajeev T, Research Analyst (s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

6. "Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

7. Standard Warning: "Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

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