

# Tata Technologies | BUY

## A JV that ticks many boxes

Tata Technologies (TATATECH IN; BUY) announced a JV with the BMW group. The JV entails building a software hub with 1,000+ resources offering automotive software and digital engineering services for the BMW group. Our back of the envelop calculation indicates the JV, at steady state, could add 4-5% to our current earnings estimates. Near-term earnings upside aside, the implications of the deal seem far reaching to us. It allays concerns that TATATECH's parentage is a hurdle in getting business from traditional OEMs. Further, an automotive software partnership with BMW establishes TATATECH's credentials in software ER&D, augmenting its full vehicle engineering proposition, thus expanding addressable spend. It is also an important marker in TATATECH's efforts to diversify its revenue mix from anchor clients. Importantly, the JV corroborates the argument that rising software complexity and multiple constraints facing OEMs can trigger multi-year offshoring wave. The trend, though still early, seems undeniable. TATATECH is well positioned to ride it. BUY.

- The Deal:** The BMW group, as part of its efforts to expand software coding capabilities across global IT hubs, signed an agreement to form a JV with TATATECH. The JV aims to establish automotive software and IT development hub in Pune, Bangalore and Chennai. In automotive software, the focus of the JV will be on automated driving, infotainment, and digital services. In business IT, the JV will emphasise on digitalisation and automation of product development, production and sales. Tata Technologies will contribute 100 resources to the JV at inception. This is expected to grow swiftly to 1,000+ resources over the next few years.
- The significance:** A deal with leading European OEMs in automotive software domain ticks many boxes for TATATECH. One, it addresses investor concerns that TATATECH's parentage (i.e subsidiary JLR) prevents it to win traditional global automotive clients. Two, it demonstrates TATATECH's improving software ER&D capabilities, contrary to the perception that it has predominantly mechanical ER&D skill-sets. Three, it should alleviate concerns around client concentration and offset of Vinfast ramp-down. Importantly, it strengthens our overarching thesis that growing software complexity and multiple constraints facing OEMs will likely trigger an offshoring wave in auto ER&D. TATATECH's full vehicle EV/ICE proposition combined with string of recent partnerships – Intel, Arm, Agratas and BMW – put it in an enviable position to capture this burgeoning opportunity.
- The impact:** Our back of the envelop calculation suggests the JV, at steady state, could add 4-5% to our current earnings estimates. That said, we have not built this yet as we await more details around ramp timelines and potential steady state resource count. The BMW group has been building a network of global technology partners since 2016. TATATECH's inclusion in that network is a significant positive and should offer the company a marquee referenceable client to win more accounts/cross-sell to existing ones. At 45x FY26E PER, the valuation is now at par with KPIT/ELXSI (47x/44x). With capabilities now spanning the entire spectrum of OEMs' ER&D spend, comparable valuations are justified, in our view. We reiterate BUY with an unchanged TP of INR 1,370.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,370
Upside/(Downside)	30.5%
Previous Price Target	1,370
Change	NA

### Key Data – TATATECH IN

Current Market Price	INR1,050
Market cap (bn)	INR425.9/US\$5.1
Free Float	40%
Shares in issue (mn)	405.7
Diluted share (mn)	405.7
3-mon avg daily val (mn)	INR1,289.3/US\$15.5
52-week range	1,400/1,020
Sensex/Nifty	74,015/22,462
INR/US\$	83.4

### Price Performance

%	1M	6M	12M
Absolute	-3.5	0.0	0.0
Relative*	-3.8	0.0	0.0

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	35,296	44,142	51,322	58,264	66,962
Sales Growth (%)	48.2	25.1	16.3	13.5	14.9
EBITDA	6,457	8,208	9,448	11,176	13,118
EBITDA Margin (%)	18.3	18.6	18.4	19.2	19.6
Adjusted Net Profit	4,370	6,239	7,020	8,178	9,474
Diluted EPS (INR)	10.8	15.4	17.3	20.2	23.3
Diluted EPS Growth (%)	78.5	42.9	12.5	16.5	15.8
ROIC (%)	30.1	33.8	30.7	33.2	33.9
ROE (%)	19.8	23.7	23.6	25.3	24.9
P/E (x)	97.6	68.3	60.7	52.1	45.0
P/B (x)	18.7	14.3	14.4	12.2	10.3
EV/EBITDA (x)	64.7	50.7	44.3	37.2	31.5
Dividend Yield (%)	0.0	1.2	0.6	0.7	0.8

Source: Company data, JM Financial. Note: Valuations as of 01/Apr/2024

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. Details of Tata Technologies – BMW Joint Venture**

Particular	Details
Purpose	The joint venture aims to support BMW in creating premium products and enriching digital experiences for its customers. Key focus areas are - <ul style="list-style-type: none"> <li>• <b>Strategic Software Development:</b> The JV prioritizes strategic software development, particularly for software-defined vehicles (SDV).</li> <li>• <b>Automotive Software:</b> Focus areas will be automated driving, infotainment, and digital services.</li> <li>• <b>Business IT Solutions:</b> Emphasis will be on digitalization and automation of product development, production, and sales.</li> </ul>
Shareholding	50% by each Tata Tech & BMW
Workforce	Initially, TTL plans to deploy 100 employees for the JV. Aim to rapidly scale up to over 1000+ employees in the near term.
Location	<ul style="list-style-type: none"> <li>• Pune and Bengaluru for development and operations</li> <li>• Chennai for business IT Solutions</li> </ul>

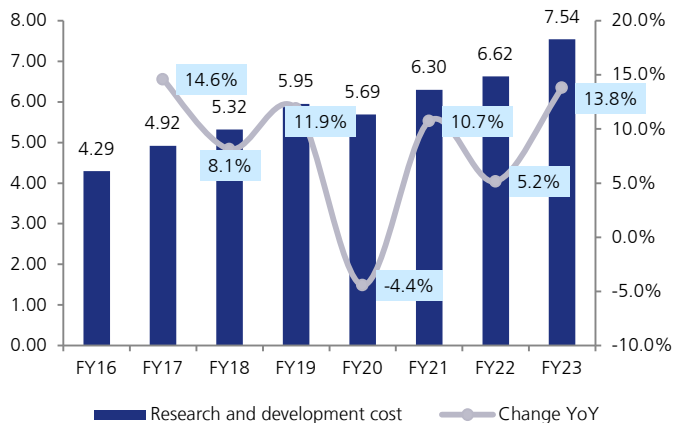
Source: Company, JM Financial

**Exhibit 2. Recently announced partnerships by TATATECH not only expand its addressable market – software/battery – but also demonstrate its improved capabilities in the automotive software domain**

Partnership with	Details
BMW	Tata Technologies and BMW are forming a Joint Venture focused on automotive software and IT development. The goal is to enhance BMW's premium products and digital experiences, with a focus on software-defined vehicle solutions and digital transformation for business IT. In the automotive sector, the key focus will be on automated driving, infotainment, and digital services. Meanwhile, in business IT, the emphasis will be on digitalization and automating processes related to product development, production, and sales. Once regulatory conditions are met, BMW will invest in the JV, holding 50% equity. Initially starting with 100 skilled professionals, the JV aims to rapidly expand its workforce to over 1000+ employees.
Intel	TTL will be using Intel's new software-defined vehicle system-on-chip family of products for building software platforms. Collaborating with Intel, TTL aims to develop a joint go to market strategy for introducing high-performance system-on-chip based vehicle solutions to its customers in Asia Pacific, with a specific focus on Southeast Asia and, more prominently, China, where there is a strong demand for such technology
Agratas	TTL will be supporting Agratas to design, develop, and manufacture sustainable battery solutions for the global mobility market. The partnership will involve various engagements, focusing on battery pack design, the industrialization of planned giga factories in India and the UK, and implementing a digital thread for tracking products and digital assets throughout the lifecycle. This strengthens TTL's capabilities in the electric vehicle segment while expanding its service lines, especially in software-defined everything, cyber-security, and autonomy.
Arm	Tata Tech has partnered with Arm, a British semiconductor company owned by SoftBank. TTL has recently worked with ARM on software-defined vehicle solutions using the SOAFEE framework.

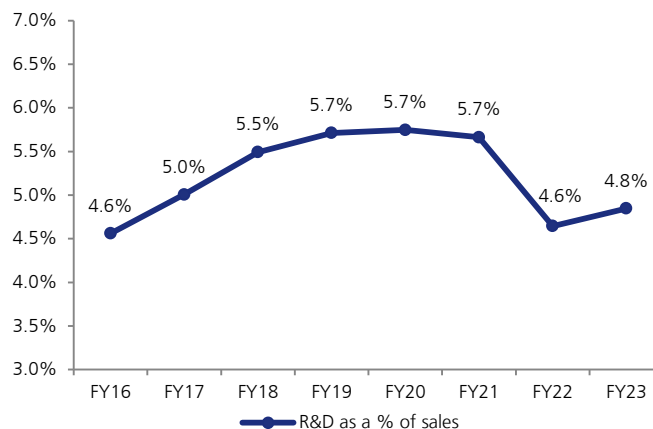
Source: Company, JM Financial

**Exhibit 3. BMW's R&D cost jumped 13.8% YoY underlining its...  
BMW Group – Research & Development cost (EUR mn)**



Source: Company, JM Financial

**Exhibit 4. ...sustained investments in EV and software  
R&D as % of sales, BMW**



Source: Company, JM Financial

**Exhibit 5. BMWs recent commentary indicates its strategy to incorporate technology clusters across different drivetrains (AV, EV, PHEV)  
Q4CY23 earnings commentary by BMW**

On Technology	Well, first of all, to frame that, we are <b>not cutting down on R&amp;D expenses</b> because we have something ahead of us. And before I answer your question on what is happening at BMW, we do the <b>next step of our technology clusters</b> , which you will not only see in the Neue Klasse vehicles, you will see that <b>in the next coming years in all BMWs, autonomous drivetrain technologies, electrical drivetrains, partially electrical drivetrains and of course, the new user interface.</b>
EV demand and product launch	And that is why we adjust our product offerings and very much in line with market conditions we see then, that <b>we can reach 50% BEV share global</b> , maybe in Europe a little bit higher and <b>that's the reason also why we bring the Neue Klasse to the market.</b>
On Powertrain	<b>PHEVs have a strong market demand in Europe, but also, of course, in the United States.</b> So, they're a firm constant. There is no end in sight. <b>And I don't think that this is only a transformational technology in cars.</b> They are here to stay for the foreseeable time, at least for BMW.

Source: Company, JM Financial

## Exhibit 6. ER&amp;D players – Current Valuation

Company	CMP (LC)	Mcap (LC m)	P/E			PEG	EV/EBITDA			EV/Sales		
			FY24	FY25	FY26		FY24	FY25	FY26	FY24	FY25	FY26
<b>India</b>												
Tata Tech	1,092	5,313	63.1x	54.2x	46.8x	3.3x	46.1x	38.9x	33.2x	8.5x	7.5x	6.5x
KPIT	1,512	4,969	68.9x	56.5x	47.4x	2.7x	42.2x	35.7x	30.1x	8.5x	7.2x	6.2x
Tata Elxsi	7,702	5,752	59.8x	51.8x	43.9x	3.1x	44.1x	38.8x	32.8x	13.1x	11.4x	9.7x
L&T TS	5,583	7,080	45.2x	39.1x	33.7x	2.5x	29.4x	24.2x	21.0x	5.9x	5.2x	4.5x
Cyient	2,009	2,672	30.2x	24.8x	20.8x	1.2x	17.2x	14.8x	12.9x	3.1x	2.7x	2.4x
<b>Average</b>			<b>53.5x</b>	<b>45.3x</b>	<b>38.5x</b>		<b>35.8x</b>	<b>30.5x</b>	<b>26.0x</b>	<b>7.8x</b>	<b>6.8x</b>	<b>5.9x</b>
<b>Global</b>												
Alten	133	56	15.8x	14.1x	13.8x	2.1x	9.6x	8.8x	8.2x	1.1x	1.0x	1.0x
Bertrandt	46	6	10.8x	7.7x	6.8x	0.3x	5.3x	4.5x	4.1x	0.5x	0.5x	0.5x
EDAG	13	4	9.5x	8.4x	7.5x	0.7x	5.3x	4.9x	4.6x	0.6x	0.6x	0.6x
Desay SV	126	836	33.3x	25.0x	20.0x	0.9x	28.0x	21.5x	16.9x	2.6x	2.1x	1.7x
Etteplan	14	4	13.9x	12.7x	11.3x	1.1x	8.0x	7.4x	7.0x	1.1x	1.0x	1.0x
Assytem	60	11	19.4x	17.1x	15.5x	1.4x	14.3x	13.1x	11.5x	1.4x	1.3x	1.2x
Ricardo	450	3	12.9x	11.1x	9.8x	0.7x	6.6x	6.1x	5.6x	0.8x	0.7x	0.7x
Thundersoft	52	287	29.3x	23.1x	20.7x	1.2x	20.1x	15.7x	13.2x	3.0x	2.5x	2.1x
Arcsoft	31	152	99.6x	61.0x	38.7x	1.0x	67.3x	40.3x	24.8x	15.5x	12.0x	8.6x
<b>Average</b>			<b>25.8x</b>	<b>19.2x</b>	<b>15.4x</b>		<b>17.3x</b>	<b>13.0x</b>	<b>10.4x</b>	<b>2.8x</b>	<b>2.3x</b>	<b>1.8x</b>

Note: As on 2<sup>nd</sup> April 2024; JM Estimates for Tata Tech Ltd and KPIT Tech, Bloomberg estimates for others. Source: Bloomberg, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	35,296	44,142	51,322	58,264	66,962
Sales Growth	48.2%	25.1%	16.3%	13.5%	14.9%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>35,296</b>	<b>44,142</b>	<b>51,322</b>	<b>58,264</b>	<b>66,962</b>
Cost of Goods Sold/Op. Exp	26,010	31,523	36,847	41,437	47,349
Personnel Cost	0	0	0	0	0
Other Expenses	2,829	4,411	5,028	5,652	6,495
<b>EBITDA</b>	<b>6,457</b>	<b>8,208</b>	<b>9,448</b>	<b>11,176</b>	<b>13,118</b>
EBITDA Margin	18.3%	18.6%	18.4%	19.2%	19.6%
EBITDA Growth	67.4%	27.1%	15.1%	18.3%	17.4%
Depn. & Amort.	857	945	1,036	989	1,182
EBIT	5,599	7,263	8,412	10,187	11,936
Other Income	269	697	967	740	722
Finance Cost	0	0	0	0	0
PBT before Excep. & Forex	5,869	7,960	9,379	10,927	12,658
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	5,869	7,960	9,379	10,927	12,658
Taxes	1,499	1,721	2,359	2,749	3,184
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	4,370	6,239	7,020	8,178	9,474
<b>Adjusted Net Profit</b>	<b>4,370</b>	<b>6,239</b>	<b>7,020</b>	<b>8,178</b>	<b>9,474</b>
Net Margin	12.4%	14.1%	13.7%	14.0%	14.1%
Diluted Share Cap. (mn)	406.1	405.7	405.7	405.7	405.7
<b>Diluted EPS (INR)</b>	<b>10.8</b>	<b>15.4</b>	<b>17.3</b>	<b>20.2</b>	<b>23.3</b>
Diluted EPS Growth	78.5%	42.9%	12.5%	16.5%	15.8%
Total Dividend + Tax	0	6,007	2,930	3,418	3,907
Dividend Per Share (INR)	0.0	12.3	6.0	7.0	8.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	4,370	6,240	9,379	10,927	12,658
Depn. & Amort.	857	946	1,036	989	1,182
Net Interest Exp. / Inc. (-)	219	180	196	171	160
Inc (-) / Dec in WCap.	-5,802	-2,191	-853	-2,126	-2,674
Others	1,247	1,269	0	0	0
Taxes Paid	-1,278	-2,429	-2,359	-2,749	-3,184
<b>Operating Cash Flow</b>	<b>-387</b>	<b>4,014</b>	<b>7,399</b>	<b>7,212</b>	<b>8,142</b>
Capex	-634	-657	-2,070	-1,885	-2,242
Free Cash Flow	-1,021	3,357	5,330	5,327	5,900
Inc (-) / Dec in Investments	1,315	-4,298	0	0	0
Others	61	80	0	0	0
<b>Investing Cash Flow</b>	<b>742</b>	<b>-4,874</b>	<b>-2,070</b>	<b>-1,885</b>	<b>-2,242</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	-4,991	-2,434	-2,840	-3,246
Inc / Dec (-) in Loans	-439	-509	41	0	0
Others	-4	-1	-196	-171	-160
<b>Financing Cash Flow</b>	<b>-443</b>	<b>-5,500</b>	<b>-2,590</b>	<b>-3,011</b>	<b>-3,406</b>
<b>Inc / Dec (-) in Cash</b>	<b>-88</b>	<b>-6,361</b>	<b>2,740</b>	<b>2,316</b>	<b>2,494</b>
Opening Cash Balance	7,834	8,694	10,290	8,148	10,464
Closing Cash Balance	7,746	2,333	13,030	10,464	12,957

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	22,802	29,895	29,598	34,936	41,165
Share Capital	418	811	811	811	811
Reserves & Surplus	22,384	29,083	28,787	34,125	40,353
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	4	5	7	7	7
Def. Tax Liab. / Assets (-)	0	0	0	0	0
<b>Total - Equity &amp; Liab.</b>	<b>22,805</b>	<b>29,900</b>	<b>29,605</b>	<b>34,944</b>	<b>41,172</b>
Net Fixed Assets	10,682	10,980	11,277	11,601	12,008
Gross Fixed Assets	3,389	3,351	3,208	3,531	3,939
Intangible Assets	7,293	7,629	8,069	8,069	8,069
Less: Depn. & Amort.	0	0	0	0	0
Capital WIP	0	0	0	0	0
Investments	0	0	0	0	0
Current Assets	31,498	41,035	41,582	47,629	55,001
Inventories	0	0	0	0	0
Sundry Debtors	7,682	11,062	12,092	13,568	15,594
Cash & Bank Balances	8,694	10,290	8,148	10,464	12,957
Loans & Advances	5,277	0	0	0	0
Other Current Assets	9,846	19,683	21,341	23,597	26,450
Current Liab. & Prov.	19,375	22,115	23,253	24,286	25,838
Current Liabilities	19,375	22,115	23,253	24,286	25,838
Provisions & Others	0	0	0	0	0
Net Current Assets	12,124	18,920	18,328	23,343	29,163
<b>Total - Assets</b>	<b>22,805</b>	<b>29,900</b>	<b>29,605</b>	<b>34,944</b>	<b>41,172</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	12.4%	14.1%	13.7%	14.0%	14.1%
Asset Turnover (x)	1.4	1.5	1.6	1.7	1.7
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1
RoE	19.8%	23.7%	23.6%	25.3%	24.9%

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	56.2	73.7	72.9	86.1	101.5
ROIC	30.1%	33.8%	30.7%	33.2%	33.9%
ROE	19.8%	23.7%	23.6%	25.3%	24.9%
Net Debt/Equity (x)	-0.4	-0.3	-0.3	-0.3	-0.3
P/E (x)	97.6	68.3	60.7	52.1	45.0
P/B (x)	18.7	14.3	14.4	12.2	10.3
EV/EBITDA (x)	64.7	50.7	44.3	37.2	31.5
EV/Sales (x)	11.8	9.4	8.1	7.1	6.2
Debtor days	79	91	86	85	85
Inventory days	0	0	0	0	0
Creditor days	215	200	182	169	159

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
8-Jan-24	Buy	1,360	
27-Jan-24	Buy	1,370	0.7

## Recommendation History

## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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