

Tata Technologies | BUY



Making the right moves

Tata Technologies' (TATATECH IN) 3QFY24 performance tracked expectations. Consol. revenues grew by 1.9% QoQ in cc terms. Services (78% of rev.) was soft (-0.5% cc QoQ) – led by seasonality and anticipated ramp-down in Vinfast (a top-3 account). Usual year-end spike in Product segment pushed up Technology Solutions revenues (+4.5% QoQ), making up for a soft Services. Operational efficiency and lower sub-con drove 140bps QoQ expansion in EBITDA margin. Management expects Vinfast to bottom out in Q4FY24. Besides, strong deal win in Q3 and ramp-up in Airbus position the company well for growth acceleration in FY25. As we noted in our recent initiation ([Charged up for a long-range](#), 8 Jan 2024), TATATECH is a strong play on the electrification opportunity in the automotive sector. Its recent partnerships with chip makers Intel and ARM suggest it is expanding its capabilities (and TAM) to address SDV opportunity as well. That bodes well for long term growth. Management's aspiration to drive 200-250bps margin expansion over the medium term means earnings growth could be higher. These should help sustain its current valuations. We continue to value the stock at 60x 24-M fwd EPS. Our TP rolls forward to INR 1,370. BUY.

- 3QFY24 - on expected line:** Consol. revenues grew by 1.9% QoQ in cc terms net of -0.5%/+4.5% QoQ growth in Services/Technologies Solutions segment. Services revenues were impacted by holidays and anticipated ramp-down in Vinfast. Technology Solutions, on the other hand, was aided by year-end pick up in Product segment (reselling business). EBIT margin expanded by 140bps QoQ aided by higher offshoring (+150bps) and lower sub-con (-260bps QoQ). PAT came in at INR 1.7bn (+6% QoQ).
- Upbeat outlook:** TATATECH's headcount has increased by 8% from FY23-end despite on-going ramp-down in Vinfast. This indicates that the company has been able to redeploy resources and back-fill Vinfast revenues. Strong demand from anchor clients (TAMO + JLR) and other EV programs are helping. Vinfast's decline will be complete in Q4 as the project transitions from development to launch support, paving the way for sequential growth acceleration from 1QFY25. 5 large deal wins, including one USD 50mn+ and a USD 25mn deal, lend further visibility. Management also indicated that Aerospace, led by Airbus, should provide further impetus to FY25 growth.
- Deal wins and partnerships point to TATATECH's full range offerings:** On one hand, TATATECH won a USD 50mn vendor consolidation deal. On the other hand, it entered into partnership with global chip maker ARM and Intel to support OEMs' SDV programs. Its partnership with Agratas – Tata Group's global battery business – adds upstream capabilities to its portfolio. The USD 25mn deal with European Aerospace OEM reflects its growing strength in the Aero vertical. In the current constraints driven outsourcing wave, TATATECH's expanded capabilities position it favourably to gain share, in our view.
- Estimates largely unchanged; maintain BUY:** Our FY24-26E EPS changes are limited to 0-2%. Long growth run-way and 200-250bps margin expansion scope lend visibility to EPS growth trajectory. That should sustain valuations. We reiterate BUY with INR 1,370 TP.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,370
Upside/(Downside)	19.7%
Previous Price Target	1,360
Change	0.7%

Key Data – TATATECH IN

Current Market Price	INR1,145
Market cap (bn)	INR464.3/US\$5.6
Free Float	40%
Shares in issue (mn)	405.7
Diluted share (mn)	405.7
3-mon avg daily val (mn)	INR0.0/US\$0.0
52-week range	1,400/1,130
Sensex/Nifty	70,701/21,353
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	-4.8	0.0	0.0
Relative*	-4.0	0.0	0.0

* To the BSE Sensex

Financial Summary

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)	106.4	74.5	66.2	56.8	49.0
P/B (x)	20.4	15.5	15.7	13.3	11.3
EV/EBITDA (x)	70.7	55.4	48.3	40.7	34.5
Dividend Yield (%)	0.0	1.1	0.5	0.6	0.7

Source: Company data, JM Financial. Note: Valuations as of 25/Jan/2024

JM Financial Institutional Securities Limited

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.

Key Highlights from the call

- **Outlook:** Despite near term headwinds due to ramp down in Vinfast project, Management remains confident of string growth in FY25. Management expects tapered growth in Q4 in vinfast account. Management aims for a 200-250 bps margin expansion
- **Top Accounts: Tata Motors:** Implemented a smart manufacturing solution for the recently acquired Salon, this involved designing and integrating ERP, PLM, MES, and IoT systems. This integration has allowed Tata Motors to increase its annual production capacity by 300,000 units. **Land Rover:** contributed to their digital transformation program by deploying software for efficiency improvement. **Vinfast:** focus is shifting from product development to car manufacturing and sales. The development of two electric vehicles outsourced to TTL is in transition to the launch support stage. There was a notable drop in Q3 revenues, and further reductions are expected in the current quarter.
- **Deal wins:** Tata Tech has won five large deals in Q3FY24. Four of these large deals are in the automotive sector and one in aerospace. The Company signed one large deal of TCV \$50mn+ with a global automotive OEM, involving the transfer of roles from the US to delivery centres in India. Another large deal of TCV 25mn+ with a European Aerospace OEM includes facilitating digital transformation of their manufacturing operations. The company has also won a Top Hat vehicle deal in China. Company is focusing on both hunting and mining of customers. TTL is emphasizing the proactive design of comprehensive solutions to meet customers' unmet needs. Investment and capability-building in this regard have played a significant role in securing substantial deals.
- **Key partnerships: TTL has partnered with Intel** to use 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. **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. **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.

Partnerships and deal wins in focus

Exhibit 1. 3QFY24 Result Summary

	3Q24 A	2Q24 A	Change (QoQ)	3Q23 A	Change (YoY)
USD-INR	83.30	82.74	0.7%	82.34	1.2%
CC Revenue Growth (QoQ)			1.9%		
Revenue (USD mn)	155	153	0.9%	137	13.4%
Revenue (INR mn)	12,895	12,692	1.6%	11,239	14.7%
EBIT (INR mn)	1,992	1,787	11.5%	1,711	16.4%
EBIT margin	15.5%	14.1%	137bp	15.2%	23bp
PAT (INR mn)	1,702	1,604	6.1%	1,484	14.7%
EPS (INR)	4.20	3.95	6.3%	3.66	14.8%

Source: Company, JM Financial

3QFY24 result review

Exhibit 2. Key Financials

	3QFY23	2QFY24	3QFY24
Revenue (USD mn)	136.5	153.4	154.8
QoQ cc growth			1.9%
- Services	110.9	122.2	120.2
QoQ cc growth			-0.5%
- Technology Solution	25.6	31.2	34.6
Revenue (INRmn)	11,239	12,692	12,895
Gross Margins	28.6%	27.0%	28.4%
Total operating expenses	1,155	1,285	1,297
EBITDA	2,057	2,143	2,366
EBITDA Margin	18.3%	16.9%	18.3%
Depreciation & amortization	231	262	272
EBIT	1,826	1,881	2,094
EBIT Margin	16.2%	14.8%	16.2%
Other income	126.4	251.6	256.1
Profit Before Tax	1,953	2,133	2,350
Income tax expense	461	529	648
Net income from operations	1,492	1,604	1,703
Net margin	13.3%	12.6%	13.2%
EPS	3.68	3.95	4.20

Source: Company, JM Financial

Consol. revenues grew by 1.9% QoQ cc

Services revenues were impacted by holidays and anticipated ramp-down in Vinfast.

Growth in Technology Solutions was aided by year-end pick up in Product segment (reselling business)

EBIT margin expanded by 140bps QoQ aided by higher offshoring (+150bps) and lower sub-con (-260bps QoQ).

Exhibit 3. Key Operating Metrics

	3QFY23	2QFY24	3QFY24
% Auto Share			
% of services segment revenue			
Auto	89%	86%	86%
Non-Auto	11%	14%	14%
Revenue mix			
Offshore	68.0%	63.2%	60.5%
Onshore	32.0%	36.8%	39.5%
Services: Customer Pyramid			
>50mn	3	3	3
10-50 mn	3	3	3
5-10 mn	4	4	4
1-5 mn	24	28	29
Employee Metrics			
Headcount	11,081	12,451	12,623
LTM Attrition	23.5%	17.2%	15.4%

Source: Company, JM Financial

Retain BUY, Revised TP of 1,370

We raise our estimates marginally by 0.7% to 0.9% over FY24-26. We have lowered our EBIT margin estimate by 14bps for FY24 and raise by 34bps/41bps in FY25/26E. This translates into EPS cut by 2.6% in FY24 and 0.5%/-0.1% change in EPS in FY25/FY26. Long growth run-way and 200-250bps margin expansion scope lend visibility to EPS growth trajectory. That should sustain valuations. We reiterate BUY with a revised TP of INR 1,370.

Exhibit 4. What has changed

	Old			New			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Exchange rate (INR/USD)	82.76	83.20	83.20	82.87	83.20	83.20	0.1%	0.0%	0.0%
Consolidated revenue (USD mn)	614	695	798	619	700	805	0.8%	0.7%	0.9%
Growth in USD revenues (YoY)	12.3%	13.1%	14.7%	13.2%	13.1%	14.9%	87bp	-4bp	18bp
Consolidated revenue (INR mn)	50,857	57,837	66,367	51,313	58,264	66,962	0.9%	0.7%	0.9%
EBITDA margin	18.6%	19.2%	19.5%	18.4%	19.2%	19.6%	-18bp	0bp	7bp
EBIT margin	16.5%	17.1%	17.4%	16.4%	17.5%	17.8%	-14bp	34bp	41bp
Adjusted PAT (INR mn)	7,206	8,141	9,486	7,020	8,178	9,474	-2.6%	0.5%	-0.1%
Adjusted EPS (INR)	17.8	20.1	23.4	17.3	20.2	23.3	-2.6%	0.5%	-0.1%

Source: JM Financial estimates

Valuation Table

Exhibit 5. ER&D Services – Global valuation comp

Company	CMP (LC)	Mcap (USD m)	P/E			PEG	EV/EBITDA			EV/Sales		
			FY24	FY25	FY26		FY24	FY25	FY26	FY24	FY25	FY26
India												
Tata Tech*	1,145	5,586	66.2x	56.8x	49.0x	3.5x	48.3x	40.9x	34.8x	8.9x	7.8x	6.8x
KPIT*	1,415	4,669	66.4x	53.8x	44.7x	2.5x	40.6x	33.5x	28.2x	8.0x	6.7x	5.8x
Tata Elxsi	7,667	5,745	59.4x	50.6x	42.4x	2.8x	43.7x	37.2x	31.4x	13.0x	11.1x	9.4x
L&T TS	5,386	6,852	43.7x	37.7x	32.5x	2.4x	28.4x	23.3x	20.2x	5.7x	5.0x	4.4x
Cyient	2,020	2,693	29.5x	24.8x	21.2x	1.4x	17.0x	14.9x	13.1x	3.1x	2.8x	2.4x
Average			53.0x	44.7x	38.0x		35.6x	29.9x	25.5x	7.7x	6.7x	5.8x
Global												
Alten	138	58	17.7x	15.3x	14.0x	1.3x	10.6x	9.6x	8.9x	1.2x	1.1x	1.0x
Bertrandt	51	6	11.2x	8.3x	7.4x	0.4x	5.6x	4.7x	4.4x	0.6x	0.5x	0.5x
EDAG	13	4	10.4x	9.3x	8.4x	0.8x	6.1x	5.6x	5.2x	0.7x	0.7x	0.6x
Desay SV	97	650	36.2x	26.1x	19.7x	0.7x	31.7x	22.5x	17.1x	2.7x	2.1x	1.7x
Etteplan	14	4	18.1x	14.5x	13.0x	0.8x	9.3x	8.4x	7.9x	1.2x	1.1x	1.1x
Assytem	50	9	18.1x	15.8x	14.3x	1.3x	14.2x	12.8x	11.7x	1.3x	1.2x	1.1x
Ricardo	436	3	12.5x	10.8x	9.2x	0.6x	6.5x	6.0x	5.4x	0.8x	0.7x	0.7x
Thundersoft	59	325	33.3x	25.6x	19.0x	0.8x	25.3x	19.3x	14.7x	3.9x	3.1x	2.4x
Arcsoft	32	155	89.7x	54.5x	36.0x	0.9x	63.8x	34.9x	22.4x	15.7x	11.7x	8.3x
Average			26.0x	19.2x	15.1x		17.9x	13.0x	10.3x	2.9x	2.3x	1.8x

Note: * - JM Estimates for Tata Tech Ltd and KPIT Tech rest Bloomberg estimates. 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	
Total Revenue	35,296	44,142	51,322	58,264	66,962	
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	
EBITDA	6,457	8,208	9,448	11,176	13,118	
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	
Adjusted Net Profit	4,370	6,239	7,020	8,178	9,474	
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	
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%	
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	
Operating Cash Flow	-387	4,014	7,399	7,212	8,142	
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	
Investing Cash Flow	742	-4,874	-2,070	-1,885	-2,242	
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	
Financing Cash Flow	-443	-5,500	-2,590	-3,011	-3,406	
Inc / Dec (-) in Cash	-88	-6,361	2,740	2,316	2,494	
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	
Total - Equity & Liab.	22,805	29,900	29,605	34,944	41,172	
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	
Total - Assets	22,805	29,900	29,605	34,944	41,172	

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)	106.4	74.5	66.2	56.8	49.0	
P/B (x)	20.4	15.5	15.7	13.3	11.3	
EV/EBITDA (x)	70.7	55.4	48.3	40.7	34.5	
EV/Sales (x)	12.9	10.3	8.9	7.8	6.7	
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	

Recommendation History

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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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