

TATATECH Plant Visit: Showcasing silverware

In our recent visit to TATATECH's Pune campus (Lab/Digital Studio), we got a first-hand glimpse of the breadth and depth of TATATECH's offerings. These span its full vehicle capabilities, product benchmarking, battery design, digital engineering and Software Defined Vehicle (SDV). Apart from its engineering capabilities, TATATECH is deeply entrenched in automotive value chain across sourcing (1,200+ global sourcing partners), costing (value engineering, benchmarking), testing (global physical testing partners e.g MIRA, ARAI) to name a few. We believe such holistic proposition will resonate even more with global OEMs in today's budget/cost constrained environment. Recent deal wins are cases in point. Besides, the company has progressed well on key strategic priorities. BMW JV is on track for 2HFY25 kick-off. Partnership with Agratas, Tata Group's global battery business, has already yielded joint deals from two global OEMs. Its work with Airbus on digital manufacturing has won appreciation from the client, paving the way for incremental opportunities in the product engineering space. Its marketing outreach – presence in Germany's ELIV, LA's CES and Barcelona's MWC – should help amplify its competencies. After c.10% correction YTD, TATATECH is now the cheapest stock among the three auto-focussed ER&D players – KPIT (KPIT IN; BUY; TP: INR 2,140) and Tata Elxsi (ELXSI IN; NOT RATED) being the other two. With Vinfast decline behind and new deal ramps ahead (BMW-JV, Agratas etc.), we believe current levels offer a good entry point to play the broadening TAM-led growth narrative. We reiterate BUY with INR 1,250 TP (unchanged).

- Plant visit showcases:** We visited TATATECH's Axia labs for a tour of its mechanical ER&D offerings. TATATECH's full vehicle proposition encompasses every stage of a vehicle development barring actual production. Some of the pioneer work it has done includes an industry-first carbon+metal body structure for a Swedish OEM, automatic battery-swapping for a Chinese OEM, ICE to EV conversion for TAMO. It augments its engineering capabilities with partner ecosystem across automotive value chain – 1,200+ sourcing partners, physical test partners etc. These help OEMs to shrink time-to-market, lower cost and increase localisation. Its work with Agratas involves battery-pack design, BMS and validation. With couple of deals in the bag, revenues have already started trickling in. Digital studio visit showcased entire gamut of Digital Engineering Services (DES), smart manufacturing, embedded offerings (SDV), and multiple AI/Gen-AI applications. For Airbus, it has created the entire digital journey (twin) of the aircraft development. Its SDV offerings are middleware integrations, OTA integrations etc.
- Time correction likely done; BUY:** TATATECH's FY24 services growth, ex of top-3 clients, was 37% YoY (Source: 2024 AR), reflecting revenue diversification. Its recent partnerships – Agratas (battery), Intel, Arm, BMW – promise to expand addressable market further. Vinfast's 42% YoY decline in FY24 masked the headline growth. With Vinfast decline largely behind and growth triggers ahead – BMW-JV, Agratas ramp, recoup of revenues from project which slipped in Q1 – we see sequential growth to accelerate. c.10% correction YTD has wiped-off any premium over peers. That's a good opportunity to BUY.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,250
Upside/(Downside)	17.8%
Previous Price Target	1,250
Change	NA

Key Data – TATATECH IN

Current Market Price	INR1,061
Market cap (bn)	INR430.5/US\$5.1
Free Float	43%
Shares in issue (mn)	405.7
Diluted share (mn)	405.7
3-mon avg daily val (mn)	INR2,608.7/US\$31.1
52-week range	1,398/970
Sensex/Nifty	82,135/25,152
INR/US\$	83.9

Price Performance

%	1M	6M	12M
Absolute	6.1	-1.9	0.0
Relative*	5.2	-13.4	0.0

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	44,142	51,173	54,431	62,526	71,511
Sales Growth (%)	25.1	15.9	6.4	14.9	14.4
EBITDA	8,208	9,413	10,066	11,605	13,667
EBITDA Margin (%)	18.6	18.4	18.5	18.6	19.1
Adjusted Net Profit	6,239	6,794	7,539	8,821	10,113
Diluted EPS (INR)	15.4	16.7	18.6	21.7	24.9
Diluted EPS Growth (%)	42.9	8.9	11.0	17.0	14.6
ROIC (%)	33.8	28.5	28.3	29.3	30.2
ROE (%)	23.7	21.9	22.3	23.7	24.3
P/E (x)	69.0	63.4	57.1	48.8	42.6
P/B (x)	14.4	13.4	12.2	11.0	9.8
EV/EBITDA (x)	51.2	44.8	41.7	36.3	30.7
Dividend Yield (%)	1.2	0.9	1.0	1.1	1.2

Source: Company data, JM Financial. Note: Valuations as of 29/Aug/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.

Highlights from TATATECH's Pune plant visit

Full vehicle capabilities

TATATECH works across the entire product lifecycle of a vehicle development, except the final production. It has also worked in the entire gamut of PV – from high end luxury cars to mass-market models. For Vinfast, it was involved in all the five models – 1 for concept design, 2 for complete development and 2 for the Electrical/Electronics architecture. For JLR, almost all new model/mid-cycle refresh work comes to TATATECH, underlining its full vehicle capabilities and strategic nature of the relationship. It has over the years, also been involved in a few industry-first programs. These include a carbon-metal upper-body structure for a Swedish OEM, automatic batter-swapping capabilities for a new age Chinese OEM.

Deeply entrenched in OEM supply chain

TATATECH's product benchmarking, costing and sourcing capabilities are key for OEMs to reduce cost and time-to-market. It has sourcing capabilities across engine & powertrain, polymers, electrical & electronics components, casting/forging/machining and battery pack. It has global sourcing footprint – works with 300+ suppliers each in North America and Europe and 600+ in APAC. It also works with global physical testing partners such as ARAI in India, MIRA and Millbrook in EU to name a few. In essence, TATATECH is not just an engineering partner but can help OEMs in the entire product development lifecycle across ICE and EV vehicles.

ICE to EV conversion

TATATECH helped TAMO in converting the existing ICE platforms for Tigore and Tiago model to EVs. This not only shrunk the time-to-market, but also lowered the cost of the car (compared to a born-EV model), helping TAMO to establish an early lead in the EV market in India. The company is currently working on two more ICE-to-EV conversion projects for Tata Motors. The company believes such conversions are likely to pick-up pace in commercial vehicle space too – especially light weight vehicles.

Work with Agratas

TATATECH is the exclusive design partner for Agratas, Tata Group's global battery business. TATATECH's work will involve designing of battery packs for different kind of vehicles as per the energy requirement. Additionally, it will develop the complete battery management system (BMS) of the vehicle in-house. It will also do digital/physical validation of the battery enclosures to ensure safety. TATATECH has already won two joint-deals with Agratas. One of the deals is from a global luxury OEM while the other one is from a mass-market brand.

Digital Engineering Services (DES)

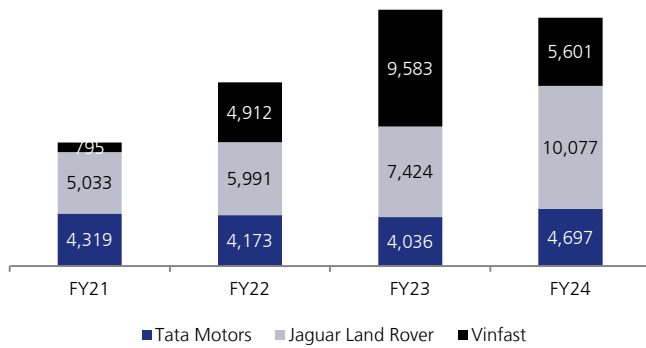
TATATECH's DES offerings include product engineering, digital manufacturing, digital enterprise solutions, customer service & experience and connected vehicle. For Airbus, it has created the entire digital journey of the Aircraft development. For a US-based EV player, it has done the PLM-ERP-MES integration (holy trinity of digital manufacturing as per the company). It has developed seamless customer experience for an APAC OEM. Its SAP implementation for JLR was a complex undertaking given the transformation of JLR at the industrial/plant level. The company has used/built multiple accelerators and solutions which can be cross-leveraged across other such implementations. TATATECH also showcased its smart manufacturing, Industry 4.0 capabilities in the digital studio.

Embedded offerings

TATATECH's embedded offerings span Systems, Functional Safety (FuSA), Application software development, Basic Software Development, Software system and validation, and SDV (middleware development, OTA integrations etc.). BMW-JV for automotive software is a validation of the improved SDV capabilities of TATATECH.

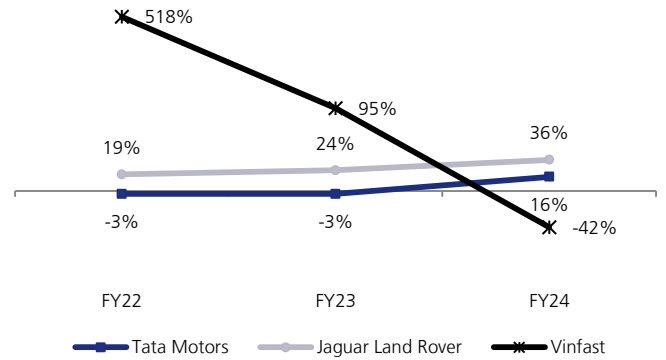
Tata Tech: Key findings from Annual Report Analysis

Exhibit 1. Strong growth in Anchor clients offset Vinfast ramp-down
Services Revenue from top three clients (INR mn)



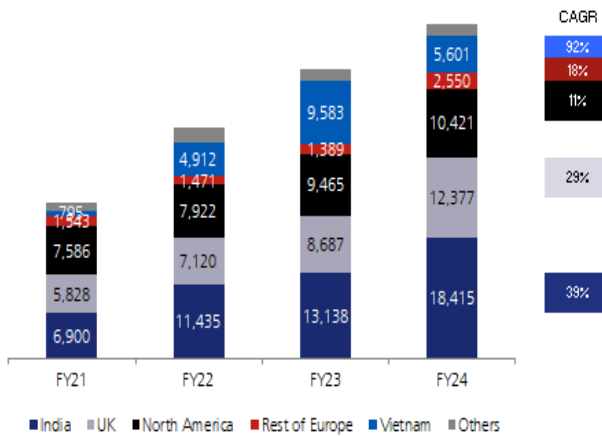
Note: Services rendered to TML in related party transactions (RPT) is considered as revenues from Tata Motors ; JLR revenue is reported as Services Rendered to JLR (incl. subsidiaries) in RPT; Assumed Revenue from Vietnam as Vinfast revenues; Source: Annual report, JM Financial estimates

Exhibit 2. Vinfast revenues declined by 42% YoY, as expected
Services revenues growth, top-3 accounts, YoY



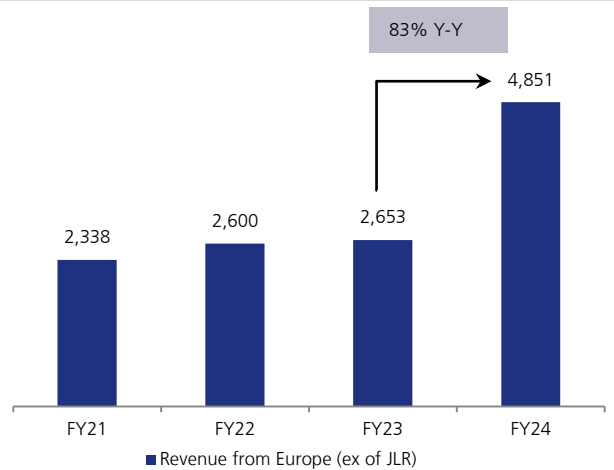
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Exhibit 3. Sustained growth in all three major geographies indicate broad-based nature of demand for TATATECH
Revenue disaggregation, by geography (INR mn)



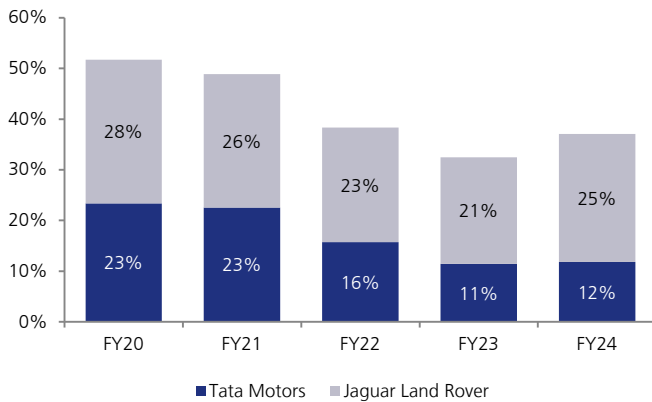
Source: Company, JM Financial

Exhibit 4. Strong ex-JLR growth in EU (UK+CE) imply growth in Aerospace, non-anchor auto OEMs
Revenue from Europe - ex of JLR (INR mn)



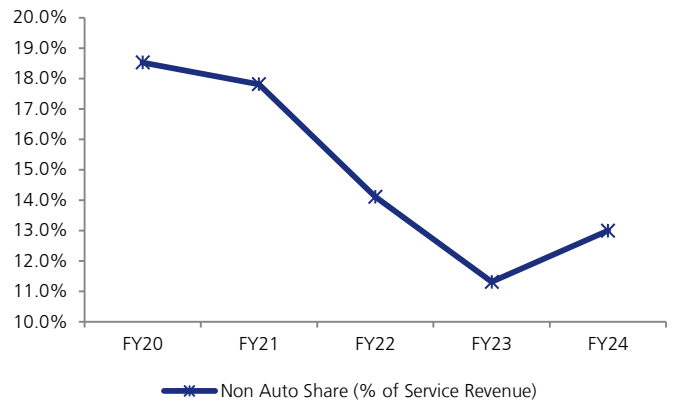
Note: Revenue from Europe ex of JLR is Revenue from UK and Rest of Europe reported in geographical disaggregation minus services rendered to JLR as reported in related party transactions; Source: Company, JM Financial

Exhibit 5. Dependency on Anchor client coming down significantly
Services Revenue contribution – TML and JLR



Note: Services rendered to TML in related party transactions (RPT) is considered as revenues from Tata Motors ; JLR revenue is reported as Services Rendered to JLR (incl. subsidiaries) in RPT; Assumed Revenue from Vietnam as Vinfast revenues; Source: Annual report, JM Financial estimates

Exhibit 6. Higher non-Auto growth likely aided by Aerospace
Non-Auto revenue contribution to Services Revenue



Source: Company, JM Financial

Exhibit 7. TATATECH: Key Operating Metrics

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
% Auto Share					
% of services segment revenue					
Auto	89%	86%	86%	86%	85%
Non-Auto	11%	14%	14%	14%	15%
Revenue mix					
Offshore	63.8%	63.2%	60.5%	62.3%	61.0%
Onshore	36.2%	36.8%	39.5%	37.7%	39.0%
Services: Customer Pyramid					
>50mn	3	3	3	3	2
10-50 mn	3	3	3	5	6
5-10 mn	3	4	4	3	3
1-5 mn	27	28	29	30	29
Employee Metrics					
Headcount	11,833	12,451	12,623	12,688	12,505
LTM Attrition	18.7%	17.2%	15.4%	14.5%	13.7%

Source: Company, JM Financial

Valuation

Exhibit 8. ER&D Services – Global valuation comp

Company	CMP (LC)	Mcap (USD m)	P/E			PEG	EV/EBITDA			EV/Sales		
			FY25	FY26	FY27		FY25	FY26	FY27	FY25	FY26	FY27
India												
Tata Tech*	1,066	5,154	57.3x	49.0x	42.8x	3.1x	42.1x	36.6x	31.0x	7.8x	6.8x	5.9x
KPIT*	1,815	5,932	63.7x	53.9x	45.6x	3.0x	41.0x	34.3x	29.4x	8.4x	7.1x	6.1x
Tata Elxsi	8,001	5,941	58.8x	49.7x	44.2x	3.3x	42.6x	36.3x	31.5x	12.4x	10.6x	9.4x
L&T TS	5,716	7,213	44.5x	37.7x	32.8x	2.3x	28.9x	24.7x	21.7x	5.5x	4.9x	4.3x
Cyient	1,977	2,615	29.6x	23.8x	20.9x	1.2x	17.4x	14.6x	12.8x	2.9x	2.6x	2.3x
Average			50.8x	42.8x	37.2x		37.9x	32.5x	28.1x	8.6x	7.4x	6.6x
Global												
Alten	101	42	13.1x	11.8x	10.7x	1.1x	7.8x	7.1x	6.6x	0.9x	0.8x	0.8x
Bertrandt	23	3	15.3x	7.0x	4.4x	0.1x	5.3x	3.8x	3.0x	0.3x	0.3x	0.3x
EDAG	10	3	8.4x	7.4x	6.4x	0.5x	5.6x	5.1x	4.7x	0.6x	0.6x	0.6x
Desay SV	91	603	24.4x	18.8x	14.7x	0.7x	19.5x	15.4x	12.2x	1.9x	1.5x	1.2x
Etteplan	12	4	15.6x	13.1x	11.9x	0.9x	8.8x	7.6x	7.1x	1.0x	1.0x	1.0x
Assytem	51	10	16.8x	14.6x	13.4x	1.2x	11.8x	10.8x	10.0x	1.1x	1.1x	1.0x
Ricardo	490	4	14.0x	12.3x	10.6x	0.8x	7.2x	6.6x	6.1x	0.8x	0.8x	0.8x
Thundersoft	34	188	32.8x	23.9x	19.3x	0.8x	19.9x	14.8x	11.9x	2.2x	1.9x	1.6x
Arcsoft	25	121	65.3x	44.0x	37.0x	1.3x	49.7x	28.0x	30.8x	9.6x	7.9x	6.5x
Average			22.0x	16.5x	13.9x		14.3x	10.6x	9.8x	1.9x	1.7x	1.4x

Note: * - JM Estimates for Tata Tech Ltd and KPIT Tech; Bloomberg estimates for the rest; Prices as on 30 August 2024. Source: Bloomberg, JM Financial estimates

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	44,142	51,173	54,431	62,526	71,511	
Sales Growth	25.1%	15.9%	6.4%	14.9%	14.4%	
Other Operating Income	0	0	0	0	0	
Total Revenue	44,142	51,173	54,431	62,526	71,511	
Cost of Goods Sold/Op. Exp	31,523	36,755	39,075	44,918	50,979	
Personnel Cost	0	0	0	0	0	
Other Expenses	4,411	5,005	5,290	6,003	6,865	
EBITDA	8,208	9,413	10,066	11,605	13,667	
EBITDA Margin	18.6%	18.4%	18.5%	18.6%	19.1%	
EBITDA Growth	27.1%	14.7%	6.9%	15.3%	17.8%	
Depn. & Amort.	945	1,058	1,197	1,181	1,242	
EBIT	7,263	8,355	8,869	10,424	12,425	
Other Income	697	966	1,115	1,257	967	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	7,960	9,321	9,985	11,681	13,393	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	7,960	9,321	9,985	11,681	13,393	
Taxes	1,721	2,527	2,445	2,861	3,280	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	6,239	6,794	7,539	8,821	10,113	
Adjusted Net Profit	6,239	6,794	7,539	8,821	10,113	
Net Margin	14.1%	13.3%	13.9%	14.1%	14.1%	
Diluted Share Cap. (mn)	405.7	405.7	405.7	405.7	405.7	
Diluted EPS (INR)	15.4	16.7	18.6	21.7	24.9	
Diluted EPS Growth	42.9%	8.9%	11.0%	17.0%	14.6%	
Total Dividend + Tax	6,007	4,908	5,396	5,885	6,373	
Dividend Per Share (INR)	12.3	10.1	11.1	12.1	13.1	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	29,895	32,208	35,264	39,195	44,013	
Share Capital	811	811	811	811	811	
Reserves & Surplus	29,083	31,397	34,453	38,384	43,202	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	5	8	8	8	8	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	29,900	32,216	35,272	39,203	44,021	
Net Fixed Assets	10,980	11,505	11,604	11,876	12,166	
Gross Fixed Assets	3,351	3,103	3,202	3,474	3,764	
Intangible Assets	7,629	8,403	8,403	8,403	8,403	
Less: Depn. & Amort.	0	0	0	0	0	
Capital WIP	0	0	0	0	0	
Investments	0	0	0	0	0	
Current Assets	41,035	44,278	48,518	51,586	59,221	
Inventories	0	0	0	0	0	
Sundry Debtors	11,062	11,479	12,378	14,047	16,065	
Cash & Bank Balances	10,290	9,134	10,968	9,715	11,333	
Loans & Advances	0	0	0	0	0	
Other Current Assets	19,683	23,665	25,172	27,824	31,822	
Current Liab. & Prov.	22,115	23,567	24,850	24,259	27,366	
Current Liabilities	22,115	23,567	24,850	24,259	27,366	
Provisions & Others	0	0	0	0	0	
Net Current Assets	18,920	20,711	23,667	27,327	31,855	
Total - Assets	29,900	32,216	35,272	39,203	44,021	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	6,240	6,794	9,985	11,681	13,393	
Depn. & Amort.	946	1,059	1,197	1,181	1,242	
Net Interest Exp. / Inc. (-)	180	189	171	154	154	
Inc (-) / Dec in WCap.	-2,191	-4,071	-833	-5,061	-2,235	
Others	1,269	1,999	0	0	0	
Taxes Paid	-2,429	-3,026	-2,445	-2,861	-3,280	
Operating Cash Flow	4,014	2,943	8,074	5,095	9,274	
Capex	-657	-918	-1,585	-1,305	-2,206	
Free Cash Flow	3,357	2,025	6,488	3,790	7,068	
Inc (-) / Dec in Investments	-4,298	4,808	0	0	0	
Others	80	47	0	0	0	
Investing Cash Flow	-4,874	3,936	-1,585	-1,305	-2,206	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-4,991	-4,990	-4,484	-4,889	-5,295	
Inc / Dec (-) in Loans	-509	-578	0	0	0	
Others	-1	-1	-171	-154	-154	
Financing Cash Flow	-5,500	-5,568	-4,654	-5,044	-5,449	
Inc / Dec (-) in Cash	-6,361	1,312	1,834	-1,253	1,619	
Opening Cash Balance	8,694	10,290	9,134	10,968	9,715	
Closing Cash Balance	2,333	11,601	10,968	9,715	11,333	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
Net Margin		14.1%	13.3%	13.9%	14.1%	14.1%
Asset Turnover (x)		1.5	1.5	1.5	1.6	1.6
Leverage Factor (x)		1.1	1.1	1.1	1.1	1.1
RoE		23.7%	21.9%	22.3%	23.7%	24.3%

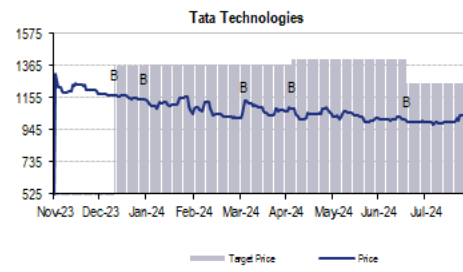
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
BV/Share (INR)		73.7	79.4	86.9	96.6	108.5
ROIC		33.8%	28.5%	28.3%	29.3%	30.2%
ROE		23.7%	21.9%	22.3%	23.7%	24.3%
Net Debt/Equity (x)		-0.3	-0.3	-0.3	-0.2	-0.3
P/E (x)		69.0	63.4	57.1	48.8	42.6
P/B (x)		14.4	13.4	12.2	11.0	9.8
EV/EBITDA (x)		51.2	44.8	41.7	36.3	30.7
EV/Sales (x)		9.5	8.2	7.7	6.7	5.9
Debtor days		91	82	83	82	82
Inventory days		0	0	0	0	0
Creditor days		200	186	185	157	158

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
2-Apr-24	Buy	1,370	0.0
4-May-24	Buy	1,410	2.9
19-Jul-24	Buy	1,250	-11.3

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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