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TATA TECHNOLOGIES LIMITED

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IPO Report

18th Nov'23

Snapshot

Tata technologies Ltd is a leading global engineering services company offering product development and digital solutions, including turnkey solutions, to global original equipment manufacturers ("OEMs") and their tier 1 suppliers . Company endeavor to create value for its clients by helping them develop products that are safer, cleaner and improve the quality of life for their end-customers. Company have deep domain expertise in the automotive industry and leverage this expertise to serve its clients in adjacent industries, such as in aerospace and transportation and construction heavy machinery ("TCHM")..

VALUATION

Company is bringing the issue at price band of Rs 475-500 per share at p/e multiple of 29x on post issue annualized H1FY24 PAT basis. Company with deep expertise in the automotive industry has differentiated capabilities in new age automotive trends – electric vehicles, connected and autonomous. Company's strong digital capabilities bolstered by proprietary accelerators with marquee set of clients across anchor accounts, traditional OEMs and new energy vehicle companies along with well-recognized brand & experienced Promoter, board of directors management team is infusing optimism in company's fundamentals. Hence ,looking after all above we recommend "Subscribe" on issue

Price Band (Rs./Share)	**475-500**
Opening date of the issue	**22nd Nov '2023**
Closing Date of the issue	**24th Nov '2023**
No of shares pre issue	405668530 Eq Shares
Issue Size	Rs 2890-3043 Cr
Offer For Sale	60850280 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	30
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 26368453 Eq Shares)
Non-Institutional	15% of the offer (Approx 7910537 Eq Shares)
Retail	35 % of the offer (Approx 18457919 Eq Shares)
Employee Reservation	2028342 Eq Shares
Lead managers	JM Financial, Citigroup Global, BofA Securities
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Deep expertise in the automotive industry

Company's comprehensive portfolio of services for the automotive industry addresses the product development and enterprise optimization needs of traditional OEM's and new energy vehicle companies, together with their associated supply chains. Company's automotive ER&D services span the entire automotive value-chain and includes concept design and styling, tear down and benchmarking ("TDBM"), vehicle architecture, body engineering, chassis engineering, virtual validation, ePowertrain, electrical and electronics, connected, manufacturing engineering, test and validation and vehicle launch. In addition to the spectrum of discrete service offerings, company also offer turnkey full vehicle development solutions for traditional internal combustion engine ("ICE") powered vehicles, plug-in hybrids ("PHEV") and battery electric vehicles ("BEV") which have been developed over a period of 10 years.

Marquee set of clients across anchor accounts, traditional OEMs and new energy vehicle companies

Company have a diversified global presence across Asia Pacific, Europe and North America and partner with many of the largest manufacturing enterprises in the world. As of September 30, 2023, company's clients are comprised of more than 35 traditional automotive OEMs and tier 1 suppliers and more than 12 new energy vehicle companies. Company's client portfolio includes its Anchor Clients, TML and JLR, leading traditional OEMs and tier 1 suppliers such as Airbus, McLaren, Honda, Ford, and Cooper Standard as well as new energy vehicle companies such as VinFast, among others such as Cabin Interiors and Engineering Solutions, ST Engineering Aerospace. Company's key accounts are comprised of seven out of the top 10 and 12 of the top 20 global automotive ER&D spenders and five out of the 10 prominent new energy ER&D spenders globally.

Well-recognized brand with experienced Promoter, board of directors and management team

Company benefit from the strong track record, reputation and experience of company's Promoter, TML, which is part of the Tata Group. The Tata Group is one of the leading business conglomerates in India, with a heritage of over 100 years. The Tata Group was recognized as the most valuable Indian brand in 2022 in the Brand Finance India 100 2022 report.

COMPANY BACKGROUND

Company primarily categorize its lines of business as follows:

Services:

Company's primary business line is services ("Services"), which includes providing outsourced engineering services and digital transformation services to global manufacturing clients helping them conceive, design, develop and deliver better products. Company's Services business contributed ₹35,311.55 million and ₹19,863.90 million to company's revenue from operations in Fiscal 2023 and the six-months period ended September 30, 2023, respectively, comprising 80.00% and 78.62% of its revenue from operations for the respective periods.

Technology Solutions:

Company complement its service offerings with its Products and Education businesses (collectively, "Technology Solutions"). Through company's Products business company resell third-party software applications, primarily product lifecycle management ("PLM") software and solutions and provide value-added services such as consulting, implementation, systems integration and support. Company's Education business provides "phygital" education solutions in manufacturing skills including upskilling and reskilling in relation to the latest engineering and manufacturing technologies to public sector institutions and private institutions and enterprises through curriculum development and competency center offerings through its proprietary iGetIT platform. In Fiscal 2023 and the six-months period ended September 30, 2023, company's Technology Solutions business contributed ₹8,830.22 million and ₹5,403.12 million to its revenue from operations, respectively, comprising 20.00% and 21.38% of its revenue from operations for the respective periods.

Company is a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry and company is currently engaged with seven out of the top 10 automotive ER&D spenders and five out of the 10 prominent new energy ER&D spenders in 2022. Company's automotive revenue attributable to the Services segment for Fiscal 2023 and the sixmonths period ended September 30, 2023 was ₹31,314.66 million and ₹17,457.56 million, respectively, comprising 88.68% and 87.89% of company's revenue attributable to the Services segment for the respective periods. Additionally, company's revenue attributable to the Services segment from verticals other than automotive for Fiscal 2023 and the six-months period ended September 30, 2023 was ₹3,996.89 million and ₹2,406.34 million, respectively, comprising 11.32% and 12.11% of its revenue attributable to the Services segment for the respective periods.

Company's domain expertise has also been recognized by industry bodies and external analysts. Company is positioned in the "leadership zone" by Zinnov Zones for ER&D services ratings in 2023 for the seventh consecutive year. Company is also ranked first among all India-based ER&D service providers and are among the top two globally, in electrification. For automotive ER&D services, company is ranked first among India service providers and third globally among rated service providers by Zinnov. In addition, company is also ranked in the "leadership zone" in the aerospace ER&D ratings in 2023 by Zinnov Zones and were ranked in the "leadership zone" for digital thread by Zinnov Zones in 2021. Company also ranked in the "established-expansive" zone in the 2023 rankings for Industry 4.0 by Zinnov Zones. Additionally, Frost & Sullivan recognized it as the 'Company of the Year' in 2020 for global digital solutions in the enterprise modernization industry.

The strength of company's client relationships is also evidenced by its improving net promoter score ("NPS") where company is positioned among the top 20 percentile of technology services players and its 98.38% repeat rate (based on the percentage of revenue attributable to the Services segment in a period generated from existing clients) for Fiscal 2023 as well as company's 97.72% repeat rate for the six-months period ended September 30, 2023.

Company's global delivery model leverages the skills and capabilities of its employees from its various regional centers, delivering value to its clients. As of September 30, 2023, company have 19 global delivery centers spread across North America, Europe and Asia Pacific, with each center staffed by a majority of local nationals enabling company to provide uninterrupted service to its clients and tap into specialist skill sets in different geographies.

As of September 30, 2023, company had 12,451 employees, comprising 11,608 full-time employees ("FTEs") and 843 contracted employees. Company is part of the Tata Group, which has been recognized as the most valuable brand in India by Brand Finance, a leading international brand valuation agency . As a subsidiary of Tata Motors Limited ("TML"), company benefit from long-term relationships with both TML and JLR. The long-standing engagements with TML and JLR (collectively, company's "Anchor Clients") have enabled the incubation of skills and capabilities that has assisted company in pursuing opportunities outside of the Tata Group.

INVESTMENT RATIONALE

Differentiated capabilities in new age automotive trends – electric vehicles ("EVs"), connected and autonomous	Company's end-to-end solutions for EV development, manufacturing and after-sales services are designed to help OEMs develop competitive EVs while maintaining a balance between cost, quality and timelines. The first step in creating EVs is a compelling vehicle concept and engineering design. Company's suite of product engineering solutions including outsourced turnkey EV development, product benchmarking, electric vehicle modular platform ("eVMP") for accelerating product development timelines and its light-weighting framework can help OEMs develop products within competitive timelines. Further, company's suite of omnichannel after-sales solutions powered by the Power of 8 platforms can help OEMs engage with their EV customers early and manage the entire customer journey effectively.
Strong digital capabilities bolstered by proprietary accelerators	Company's suite of digital services and accelerators are designed to help OEMs and tier 1 suppliers manage the entire digital product life cycle and engage the customer throughout the product journey. The solutions leverage its deep manufacturing domain knowledge and intimate understanding of clients. Company's solutions and accelerators across new product introduction ("NPI") increase the efficiency of automotive, TCHM and aerospace clients in introducing new products to the market. Company's range of offerings span across digital product development solutions to strengthen NPI processes, digital supply chain solutions for agility and risk management, digital manufacturing solutions for better quality, agility and operational efficiencies, digital customer experience and after sales solutions to manage the entire customer journey effectively and digital transformation solutions enabled by proprietary digital wall to manage the digital thread.
Global delivery model enabling intimate client engagement and scalability	Company have a global workforce of 12,451 employees serving multiple global clients from 19 global delivery centers in Asia Pacific, Europe and North America, as of September 30, 2023. Company's globally distributed execution model ensures balance between onshore client proximity and offshore efficiency. This efficiency is achieved through leveraging its low-cost offshore delivery model to move a greater portion of the work offshore to India and Romania. With the right skill set at a global scale, an optimized engagement model and a balance of onshore/offshore employees, company is able to provide aligned onshore client proximity and support the iterative nature of product development services together with the capacity and cost-effectiveness of offshore delivery centers.
Proprietary e-learning platform leveraging company's manufacturing domain knowledge to tap into the large upskilling and reskilling market	Technological innovations are driving change within the global manufacturing sector, resulting in an increase in demand for new age engineering skills and capabilities. Company's digital and technology capabilities and long-standing manufacturing expertise coupled with its many years of experience of providing skills training, initially through teacher led classroom training and subsequently through company's proprietary iGetIT platform, has positioned it to help address the growing engineering upskilling needs. Company leveraged its manufacturing expertise and its iGetIT platform to impart industry-oriented, job-specific skills for reskilling engineers and technicians. The platform has over 25,000 hands-on exercises and over 2,000 courses across various skill sets, including design thinking and multiple computer aided design ("CAD") software

OBJECTS OF OFFER

The objects of the Offer are to (i) achieve the benefits of listing the Equity Shares on the Stock Exchanges; and (ii) carry out the Offer for Sale of up to 60,850,278 Equity Shares by the Selling Shareholders.

RISKS

Company continue to derive a material portion of its revenues from its top 5 clients by revenue generated in each of the six-months period ended September 30, 2023 and September 30, 2022 and for Fiscals 2023, 2022 and 2021 ("Top 5 Clients") which include Tata Motors Limited (its Promoter) and certain of its subsidiaries (other than Jaguar Land Rover Limited) (collectively, "Tata Motors") and Jaguar Land Rover Limited (and certain other subsidiaries of Jaguar Land Rover Automotive PLC) (collectively, "JLR", and together with Tata Motors, the "Anchor Clients"). If any or all of its Top 5 Clients were to suffer a deterioration of their business, cease doing business with company or substantially reduce their dealings with company, company's revenues could decline, which may have a material adverse effect on its business, results of operations, cash flows and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Overall Automotive ER&D Spend

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. In 2022, automotive ER&D spend reached $180 billion (₹14,758 billion) and is estimated to grow at approximately 7% CAGR to $238 billion (₹19,566 billion) by 2025. Notably, a substantial portion of automotive ER&D spend is concentrated among the top 20 companies, accounting for 73% of overall spend. Within this, digital engineering spend in 2022 amounted to $46 billion (₹3,776 billion) and is expected to grow at 16% CAGR to $85 billion (₹6,978 billion) by 2026. Digital engineering comprises of ADAS, infotainment, telematics and connected, cloud engineering, digital thread initiatives, hybrid and electric technologies, embedded engineering, digital manufacturing, and digital twin-powered body design, among others. Companies in automobile manufacturing have in the past rationalized their R&D budgets due to unfavorable macroeconomic and production trends to reduce their costs but given the strategic nature of the product development, OEMs continue to invest in product development even in recessionary environments.

As the demand for autonomous and connected technologies rises, driven by regulatory pressures for passenger safety and cost considerations for OEMs, OEMs will maintain their commitment to providing improved and safer experiences to their clients through the integration of connected and autonomous technologies. Furthermore, in response to the escalating need to meet carbon emission targets, electrification is anticipated to take center stage in the automotive industry. Global automakers are planning substantial investments, estimated at $1.2 trillion (₹99 trillion) through 2030, to develop and produce EVs, marking a significant shift away from traditional combustion engines.

Additionally, factors propelling growth include a heightened emphasis on smart manufacturing, the integration of the digital thread, and enhanced customer experience. Automotive ER&D Spend – Geography Split Global automotive ER&D spend is largely distributed across three regions: Europe, Asia Pacific, and North America.

As of 2022, Europe accounted for 49% of the global automotive spend; APAC was the second largest and accounted for 38% of the global spend, and North America accounted for 13% of the spend. In 2022, Germany contributed approximately 77% (approximately $68 billion or ₹5,583 billion) of the spend from Europe. France was also a key geography and accounted for approximately $13 billion (₹1,067 billion) of the ER&D spend, with players such as Renault and Valeo being the key contributors. Japan was the highest spender in the APAC region, with players such as Toyota, Honda and Nissan. China was the largest market for BEVs and is emerging as a fast-growing market with presence of OEMs such as BYD, and Nio causing their R&D expenditure to increase. Ford and GM are the top spenders in North America, and new age firms such as Tesla are investing rapidly in this region.

Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	H1FY24
Total Revenue (A)	23809.11	35295.80	44141.77	25267.02
Total Expenditure (B)	19952.02	28839.18	35932.43	20619.52
EBIDTA	3857.09	6456.62	8209.34	4647.50
EBIDTA Margin	16.20	18.29	18.60	18.39
Other Income	448.27	488.02	877.52	607.22
Depreciation	922.00	857.10	945.54	497.41
EBIT	3383.36	6087.54	8141.32	4757.31
Interest	176.56	218.98	179.81	94.77
PBT	3206.80	5868.56	7961.51	4662.54
Extraordinary Items	54.15	0.00	0.00	0.00
PBT	3152.65	5868.56	7961.51	4662.54
Share of profit in associate	0.00	0.00	0.00	0.00
PBT	3152.65	5868.56	7961.51	4662.54
Tax	760.92	1498.65	1721.14	1143.53
PAT	2391.73	4369.91	6240.37	3519.01
NPM	10.05	12.38	14.14	13.93
ROE %	11.17	19.16	20.87	12.33
EPS	5.89	10.77	15.37	8.67
Eq Cap	418.07	418.07	811.34	811.34
Net Worth	21,421.54	22,801.61	29,894.71	28,531.27

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
Tata Technologies	2		44141.77	15.37	73.65	20.87
Peers						
KPIT Technologies Limited	10	80.31	33650.38	13.95	61.58	22.91
L&T Technology Services Limited	2	37.47	80136.00	110.48	470.66	23.54
Tata Elxsi Limited	10	61.55	31447.23	121.26	334.92	36.21

(Source: RHP)

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