TATA TECHNOLOGIES LIMITED

IPO NOTE

OVERVIEW

Tata Technologies Ltd, was incorporated in 1994 and is a subsidiary of **Tata Motors Ltd**. It is a leading global **engineering services** company that offers product development and digital solutions including turnkey solutions to global original equipment manufacturers (OEMs) as well as their Tier-1 suppliers. It leverages its deep domain expertise in the **automotive** segment and caters to adjacent verticals as well like aerospace, transportation and construction heavy machinery. A pure play manufacturing focused ER&D (engineering, research and development) company that is currently engaged with ~7 out of the top 10 automotive ER&D spenders. The company has grown organically as well as inorganically through acquisitions. As of 30th September 2023, it has 19 global delivery centres spread across North America, Europe and Asia Pacific.

FINANCIAL HIGHLIGHTS

	FY21	FY22	FY23
Revenue from Operations	2,381	3,530	4,414
EBITDA	386	646	821
Net Profit	239	437	624

₹ crore

ISSUE SIZE

Total
₹3,043 cr

Fresh Issue
-

Offer For Sale
₹3,043 cr

ISSUE DETAILS

Issue Date	**22 Nov'23 to 24 Nov'23**
Price Band	₹475-₹500
Bid Lot	30
Issue Size	₹3,043 cr
No. of Shares (Post Issue)	40.6 cr
Post-Issue Implied Market Cap*	₹20,283 cr
P/E Ratio (FY23)*	**32.5x**

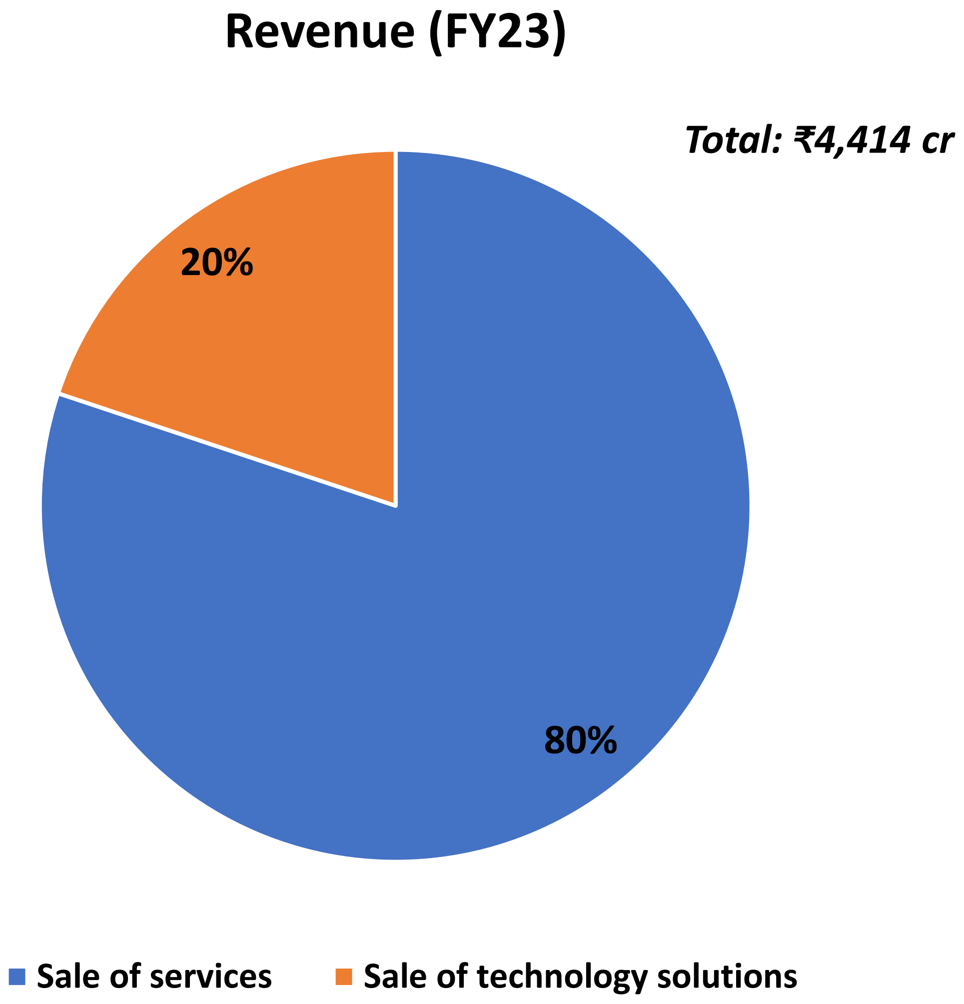
* At upper price band

ABOUT THE COMPANY- REVENUE SOURCES

- **Services-** Majority of the revenue comes from this segment (~₹3,535 cr). This segment includes providing outsourced engineering services as well as **digital transformation services** to global manufacturing clients helping them conceive, design, develop and deliver better products. These solutions help OEMs address challenges of process effectiveness across their value chain from product development to customer experience and accelerate the digital transformation journey.

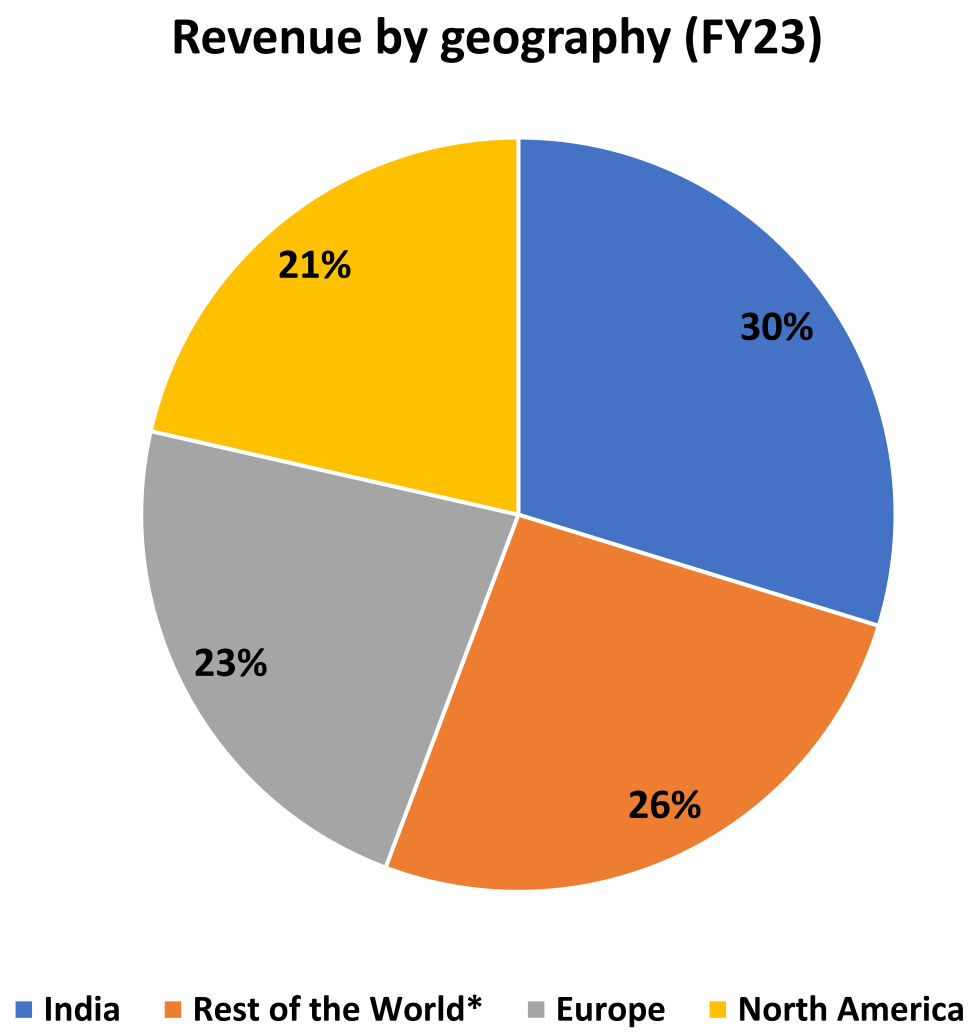
- **Technology solutions-** Remaining of the revenue (~₹877 cr) comes from technology solutions that complement the service offerings. Through the **Products business** (~11% of revenue), the company resells third-party software applications, primarily product lifecycle management software as well as value-added services like consulting, implementation, systems integration and support. Through the **Education business** (9% of revenue), it provides education solutions in manufacturing skills including upskilling and reskilling in relation to the latest engineering & manufacturing technologies to public & private institutions through its proprietary platform 'iGetIT'.

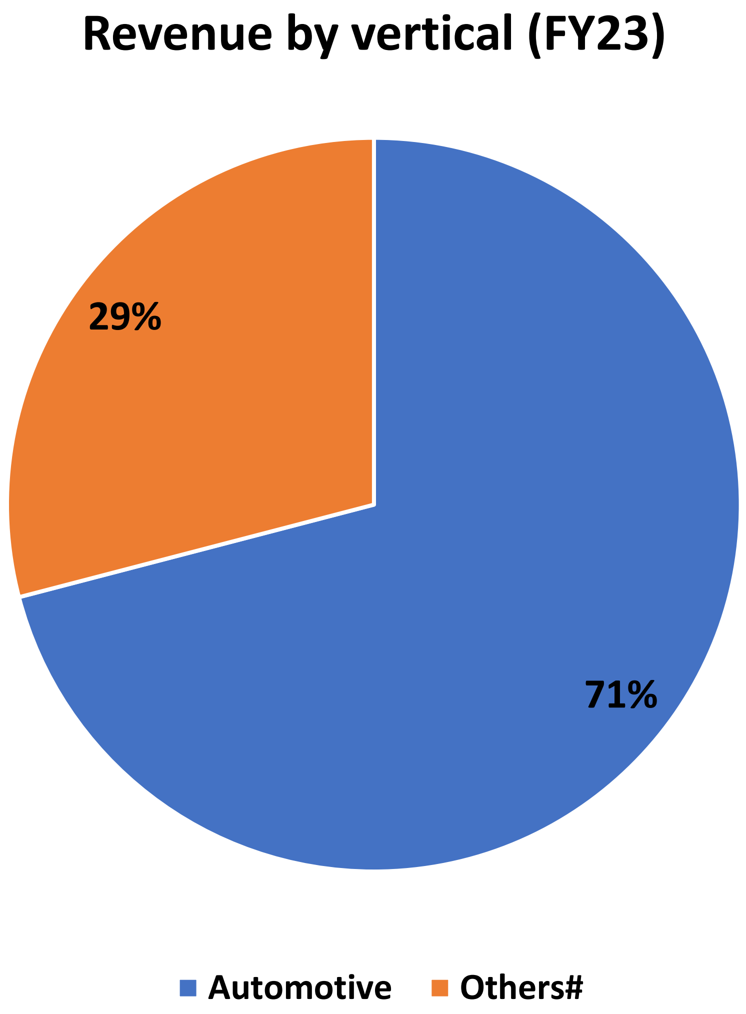
- A small portion (~₹2 cr) comes from **other operating** revenue.



ABOUT THE COMPANY- REVENUE SPLIT

FY23 Revenue- ₹4,414 cr



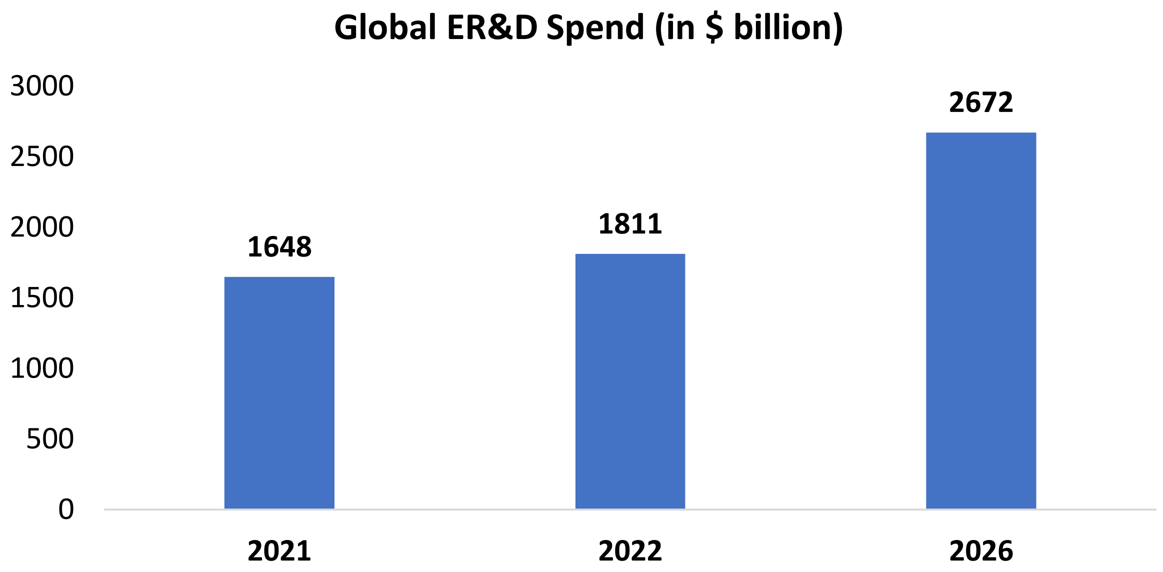


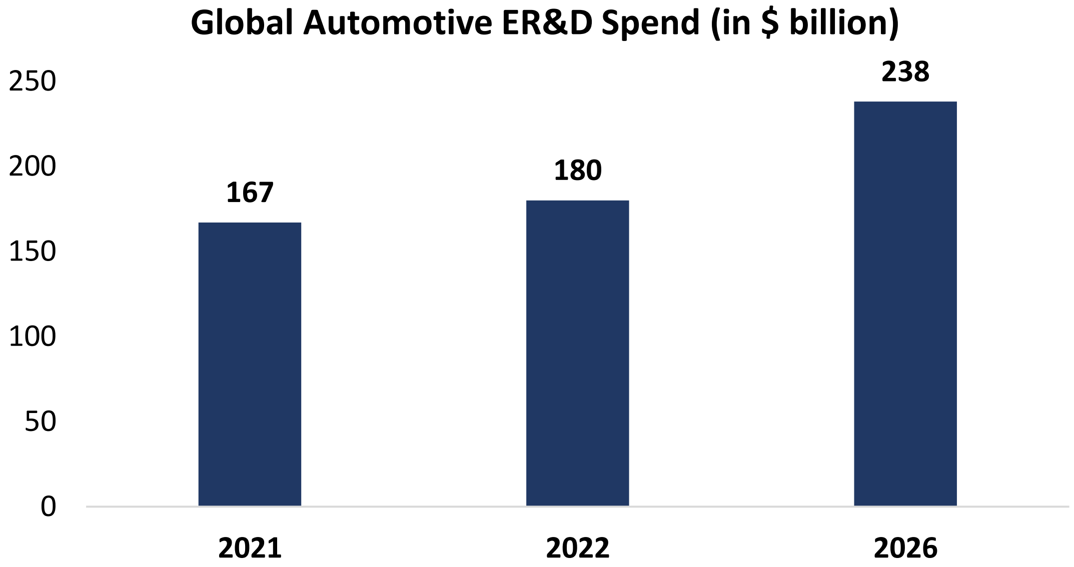
**Rest of the world majorly includes Vietnam & others; #Others include Aerospace and Construction heavy vehicles*

SECTOR OUTLOOK

- The **global ER&D spend** stood at $1,811 billion (~₹148.7 lakh cr) as of 2022 and is expected to grow by a CAGR of ~10% to reach $2,672 billion (~₹219.4 lakh cr) by 2026. Out of the total spends in 2022, manufacturing-led spending accounted for ~48% of the total share, with automotive being the top vertical under the manufacturing ER&D spend. The transition towards electrification as well as advent of new age digital technologies would ramp up the overall ER&D spends.

- The **global automotive ER&D spend** stood at $180 billion (~₹14.8 lakh cr) as of 2022. It is expected to grow by a CAGR of 7% by 2026 to reach $238 billion (₹19.6 lakh cr). The top 20 ER&D spenders like Volkswagen, General Motors, Toyota, etc account for ~73% of the overall spend. As the demand for autonomous & connected technologies rise aided by regulatory pressures for emission controls, the spend on automotive ER&D would advance going ahead.





Source: Zinnov Research

SECTOR OUTLOOK

- In terms of **geography**, North America has the highest share (~50%) of the ER&D spends followed by Western Europe (~25%) and APAC (Asia Pacific) (25%). The spend of North America, Europe and APAC is expected to grow by a CAGR of 13%, 7% and 8% respectively by 2026.

- The market for **outsourced ER&D spend** to third-party engineer service providers (ESP) stood at $105-$110 billion in 2022 and is poised to reach $165-$170 billion by 2026. The total ER&D GCC (global capability centres) in offshore locations stood at $65-$70 billion in 2022 and would reach $90-$95 billion by 2026. More than ~85% of the top 50 ER&D spenders have GCCs in India owing to its software engineering maturity and digital talent availability. The total of outsourced as well as GCC ER&D spend forms the global addressable market.

- In terms of geography for the **automotive ER&D spend**, Europe has the highest market share (~49%), followed by APAC (38%) and North America (13%) as of 2022. The outsourced automotive ER&D spend market stood at $18-$20 billion during the same period and is expected to grow by a CAGR of ~11% to reach $27-$29 billion by 2026.

- The **key growth drivers** for higher automotive ER&D spend lies in 'CASE' (Connected, Autonomous, Shared Mobility and Electrification); from vehicle motion control, infotainment, smart assistance to efficiency requires transition towards digitization and AI. Thus, as the transition ramps up, the spends would rise in tandem, boosting overall ER&D spend market.

Source: Zinnov Research

SECTOR OUTLOOK

- The ER&D spend for the **aerospace & defense industry** stood at $52 billion (~₹4.3 lakh cr) in 2022 and is expected to reach $62 billion (₹5.1 lakh cr) by 2026. In 2022, the highest spend came from Europe (48%), followed by North America. The top 10 aerospace ER&D spenders account for more than 65% of the overall spending.

- The **outsourced aerospace** ER&D market stood at $9-$10 billion as of 2022 and is expected to grow by a CAGR of 10% by 2026. The growth would be driven by a renewed focus from aerospace enterprises towards digitization and use of electric systems to reduce costs. Key players like Airbus, Boeing, Pratt & Whitney, etc have already made significant investments towards autonomous flight technologies.

- The global **transportation** & **construction heavy** machinery (TCHM) ER&D spend stood at $43 billion (~₹3.5 lakh cr) in 2022 and is poised to grow to $49 billion (~₹4 lakh cr) by 2026. The industry is investing in various digital engineering initiatives to improve asset utilization as well as performance optimization. The key future growth drivers would include smart factories, electrification aided by reduced carbon footprint requirements, autonomous fleet and connected equipment.

- The **outsourced TCHM** ER&D market was $3 billion in 2022 and is expected to grow to $4 billion by 2026. Mechanical design & manufacturing engineering are the key outsourced sub segments of the outsourced TCHM industry.

- The total **tech talent** demand and supply stood at 5.2 million and 4.7 million, respectively in 2022 and the same is expected to reach ~9.6 million and ~7.8 million, respectively by 2026. Tata Technology is uniquely positioned in terms of manufacturing tech upskilling as there are no other major players.

Source: Zinnov Research

COMPETITIVE LANDSCAPE

KPIT TECHNOLOGIES LIMITED

- Market Cap: ₹41,341 cr
- Revenue: ₹3,365 cr
- Employee base: 11,013
- EBITDA Margin: 18.8%
- RONW: 22.91%
- P/E Ratio: 84.90x

L&T TECHNOLOGY SERVICES LIMITED

- Market Cap: ₹48,446 cr
- Revenue: ₹8,014 cr
- Employee base: 22,233
- EBITDA Margin: 21.3%
- RONW: 23.54%
- P/E Ratio: 39.08x

TATA ELXSI LIMITED

- Market Cap: ₹52,299 cr
- Revenue: ₹3,145 cr
- Employee base: 11,864
- EBITDA Margin: 30.6%
- RONW: 36.21%
- P/E Ratio: 66.62x

TATA TECHNOLOGIES LIMITED

- Market Cap: ₹20,283 cr
- Revenue: ₹4,414 cr
- Employee base: 11,616
- EBITDA Margin: 18.6%
- RONW: 20.87%
- P/E Ratio: 32.50x

Figures are for FY23

COMPETITIVE LANDSCAPE

Key Metrics	KPIT Technologies	L&T Technology Services	Tata Elxsi	Tata Technologies
Attrition rate (%)	-	22%	17%	22%
Employee cost as a % of revenue	64%	57%	51%	44%
Offshore employee mix (%)	-	56%	75%	85%
Top 5 clients revenue contribution (%)	-	16%	40%	61%
Top 10 clients revenue contribution (%)	-	27%	48%	81%*
Top 20 clients revenue contribution (%)	83% (#)	42%	-	88%*
% of revenue from Automotive	99%	35%	43%	71%
Major geography revenue contribution (Geography, % of revenue)	Europe, 48%	North America, 62%	Americas, 43%	India, 30%

All figures as of FY23; #Top 21 client; *attributable to Service segment revenue only

PROMOTER BACKGROUND AND SHAREHOLDING

Ajoyendra Mukherjee is the Chairman & Independent Director of the company. He holds a bachelor's degree in engineering (electrical & electronics) from the Birla Institute of Technology and Science. He was previously associated with Tata Consultancy Services Ltd for almost four decades, where he held position as the head of business operations in Eastern India, Middle East, Africa, and Switzerland.

Warren Kevin Harris is the CEO and the Managing Director of the company. He holds a bachelor's degree in engineering (technology) from the University of Wales Institute of Science and Technology, a doctorate in philosophy from Amity University and has done an advanced management program from Harvard Business School. He is a chartered mechanical engineer who has been with the company since 2005.

Shareholding	Pre IPO	Post IPO
Promoter & Group	66.8%	55.4%
Public	33.2%	44.6%
Total	**100%**	**100%**

Allocation of offer	Share in Issue (₹ crore)	% of Issue
QIB	1,522	50%
Retail	1,065	35%
NIB	456	15%
Total	**3,043**	**100%**

Major Shareholders	Shareholding % Pre Issue	Shareholding % Post Issue	% of OFS Issue
Tata Motors Ltd	**64.8%**	**53.4%**	**76%**
Alpha TC Holdings Pte Ltd	**7.3%**	**4.9%**	**16%**
Tata Capital Growth Fund I	**3.6%**	**2.4%**	**8%**

RISK FACTORS

- The company derives a substantial portion of its revenue from its Top 5 clients and any inability to renew or **retain** the **contracts** could materially impact the ongoing business operations.

- The company's business model depends upon the strength of skilled manpower, therefore the **inability to attract** and **retain skilled manpower** could impact the operations of the business.

- As the company majorly deals with the **automotive segment**, any economic slowdown or specific factors affecting the vertical could lead to adverse impact for the company.

- The company earns ~70% of revenue from **foreign regions** and any exchange rate fluctuations or macro-economic factors negatively affecting those particular regions could have an impact on the profitability of the company.

- In terms of its **technology solutions** revenue stream, it relies on third-party software providers and partners and any delay or termination of the alliance could potentially impact this revenue stream.

STATEMENT OF PROFIT AND LOSS

Particulars	Data for the period (₹ crore)			Data for the six months period
	2021	2022	2023	30th Sep 23
Revenue From Operations	**2,381**	**3,530**	**4,414**	**2,527**
Other Income	45	49	88	61
Total Income (I)	**2,426**	**3,578**	**4,502**	**2,587**
Purchase for technology solutions	338	689	682	424
Employee benefit expense	1,216	1,513	1,929	1,132
Finance costs	18	22	18	9
Depreciation & Amortization	92	86	95	50
Other Expense	440	683	981	506
Total Expense (II)	**2,105**	**2,992**	**3,706**	**2,121**
Profit Before Tax (III) = (I)-(II)	**321**	**587**	**796**	**466**
Exceptional Item (IV)	5	-	-	-
Tax Expense (V)	76	150	172	114
Net Profit for the Period (VI)= (III)-(IV)-(V)	**239**	**437**	**624**	**352**

STATEMENT OF ASSETS AND LIABILITIES

Particulars	Data as on 31st March (₹ crore)			Data as on
	2021	2022	2023	30th Sep 23
Property, plant and equipment	87	115	120	132
Right-of-use assets	233	188	180	185
Goodwill	726	729	763	766
Trade receivables	596	768	1,106	1,225
Investments	497	528	30	90
Bank Balance	2	101	616	386
Cash & Cash Equivalents	781	768	383	429
Other assets	651	1,021	2,003	1,930
Total assets	**3,076**	**3,690**	**5,172**	**5,142**
Total Equity	2,142	2,280	2,989	2,853
Non-Current Liabilities	248	242	239	243
Trade payables	224	337	658	480
Other current liabilities	959	1,359	1,316	1,566
Total Equity and liabilities	**3,076**	**3,690**	**5,172**	**5,142**

STATEMENT OF CASH FLOW

Particulars	Data for the year ended 31st March (₹ crore)			Data for the six months ended
	2021	2022	2023	30th Sep 23
Net cash generated from / (used in) operating activities (A)	1,113	(39)	401	(8)
Net cash generated from / (used in) investing activities (B)	(674)	74	(487)	580
Net cash generated from / (used in) financing activities (C)	(44)	(44)	(347)	(527)
Net increase / (decrease) in cash and cash equivalents (A+B+C)	**395**	**(9)**	**(433)**	**46**

KEY METRICS

Particulars	Data for the year ended 31st March			Data for six months ended
	2021	2022	2023	30th Sep 23
EBITDA Margin (%)	16.2	18.3	18.6	18.4
Net Profit Margin (%)	6.8	12.4	14.1	13.9
Employee base	7,954	9,338	11,616	12,451
Repeat client (%)	95.7	97.2	98.4	97.7
Revenue contribution by Anchor Client (%)	42.9	31.5	34.1	37.7
Utilization rate (%)	75.8	86.8	87.1	87.6
Active client band base:				
$50 million+	2	3	3	3
$20 million+	2	3	3	3
$10 million+	6	6	6	6
$5 million+	8	11	7	10
$1 million+	27	31	34	38

Anchor Client: Tata Motors (including Jaguar Land Rover)

FUTURE OUTLOOK

- The company plans to expand its client as well as geographical reach through **acquisitions** going ahead.

- They would be focused on scaling up their embedded & **digital** software defined vehicles (SDV) **capabilities** & offerings through increased investments.

- The company plans to drive revenue through **offshoring,** optimize the employee pyramid and recruit campus hires to drive margins.

- They would leverage its experience and relationships with the public sector to expand its **education business** portfolio and improve its ‘iGetIT’ platform.

SWOT ANALYSIS

Strengths
Brand loyalty

Key clients

High repeat rate

Opportunities
Push for electrification and ramp up in ER&D spend

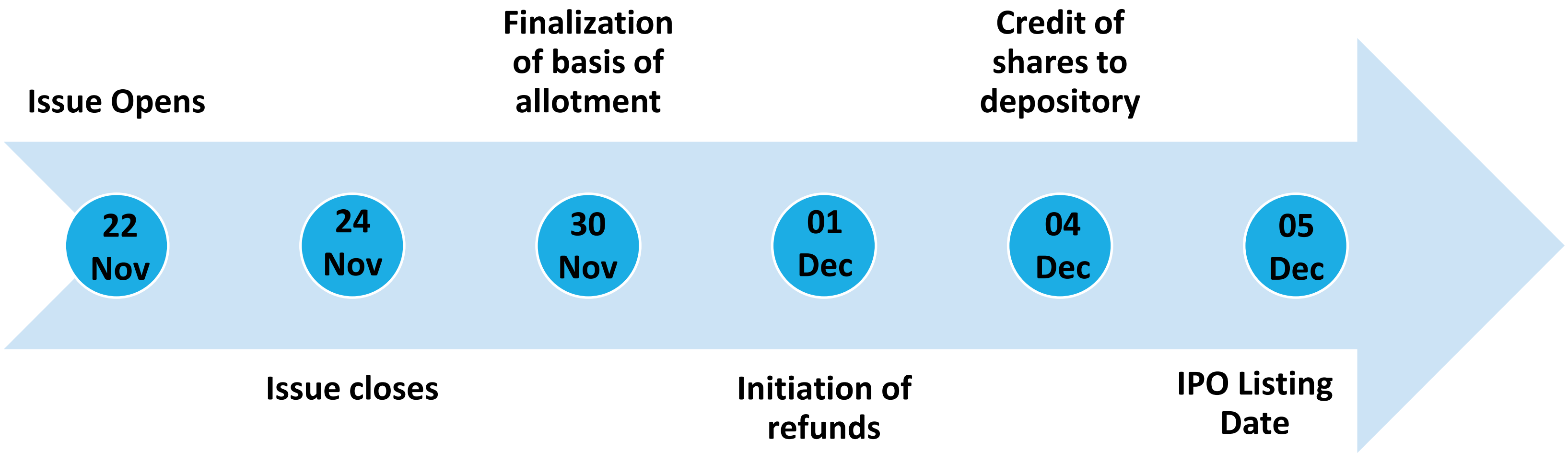
Threats
Automotive sector headwinds

Increase in competition

Weakness
Client concentration

- **Tata Technologies** is a pure play **manufacturing ER&D services** company that enables automotive, aerospace and its adjacent verticals to digitally enhance and improve operations.
- The company may have several **opportunities** going ahead as the ramp up for electric vehicle & transport penetration rises.
- Manufacturing ER&D is a key need for automotive makers. The brand name of the Tata Group along with years of **experience** in this sector gives the company an edge against others.

TIMELINES



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