

**Rating: Subscribe**

**Issue Summary**

|                             |               |
|-----------------------------|---------------|
| Price Band (INR)            | 475-500       |
| Face Value (INR)            | 2             |
| Implied Market Cap (INR Cr) | 20,283        |
| Market Lot                  | 30            |
| Issue Opens on              | Nov, 22, 2023 |
| Issue Close on              | Nov, 24, 2023 |
| No. of share pre-issue      | 405,668,530   |
| No. of share post issue     | 405,668,530   |
| Listing                     | NSE / BSE     |

**Issue Break-up (%)**

|                |     |
|----------------|-----|
| QIB Portion    | 50% |
| NIB Portion    | 15% |
| Retail Portion | 35% |

**Book Running Lead Managers**

JM Financial

Bofa Securities India Ltd

Citigroup Global Markets

India Private Limited

**Registrar**

Link Intime India Pvt Ltd

**Shareholding Pattern**

|                 | Pre-Issue | Post-Issue |
|-----------------|-----------|------------|
| Promoters       | 64.79%    | 56.04%     |
| Public & Others | 35.21%    | 46.61%     |

**Objects of the issue**

- Achieve the benefits of listing the Equity Shares on the Stock Exchanges
- Conduct an Offer for Sale, selling up to 60,850,278 Equity Shares by the Selling Shareholders.

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Established in 1994, Tata Technologies Limited is a prominent global engineering services firm that provides product development and digital solutions, including turnkey solutions, to international OEMs and their tier-1 suppliers. Operating globally, Tata Technologies brings together diverse teams with varied skill sets from different parts of the world to collaboratively address complex engineering challenges in real time. With deep expertise in the automotive industry, the company extends its services to clients in related sectors such as aerospace, transportation, and construction heavy machinery (TCHM). Tata Technologies organizes its business into services and technology solutions, aiming to create value for clients by assisting in the development of cleaner, safer, and higher-quality products.

**Investment Rationale**

**Prioritizing Top ER&D Spenders: Strategic Focus on Key Sectors and Geographies**

The company is strategically targeting top ER&D spenders in automotive, aerospace, and TCHM, particularly focusing on the top 20 automotive companies that contribute to 73% of global spend. Recent accreditation by Airbus is expected to be a significant avenue for growth. The company employs a combination of organic growth, tuck-in acquisitions, and a commitment to exploring opportunities that align with its strategy. Additionally, efforts are underway to expand its presence in key manufacturing sectors in France, Germany, and China, utilizing tailored strategies for sustainable growth in each region. The global delivery model remains central, with region-specific services as needed.

**Distinctive Proficiencies in Emerging Automotive Trends: EV, Connectivity, and Autonomous Technologies:**

Providing comprehensive end-to-end solutions for EV development, manufacturing, and after-sales services, we specialize in creating compelling vehicle concepts and engineering designs. With a history dating back to 2010, expertise spans lightweight body structures, EV architectures, connected services, autonomous driver assistance systems, and more. Recognized as a leader in global engineering services and electrification, notable projects include collaborations with JLR, Polestar, VinFast, and other renowned OEMs, earning accolades and acknowledgments in the evolving automotive landscape.

**Utilizing a Worldwide Delivery Framework for Enhanced Client Interaction and Scalability:**

As of September 30, 2023, the global team comprises 12,451 professionals across 19 delivery centers in Asia Pacific, Europe, and North America. This strategic distribution ensures a synergy of onshore client proximity and offshore efficiency, capitalizing on the low-cost offshore model in India and Romania. With 1,717 employees strategically located onshore, company maintain a balanced engagement model, integrating the right skill set and ensuring proximity to clients, while optimizing costs through the offshore delivery centers.

**Valuation and View:** Tata Technologies Limited provides a diverse range of services encompassing IT consultancy, SAP implementation, and CAD/CAM engineering and design consultancy. The revenue breakdown as of FY23 indicates approximately 80% from services, 11% from products, and 9% from education. Strong partnerships, including with Dassault and Siemens, and utilization of Microsoft AZURE products enable global expansion. Recent empanelment by Airbus signals significant growth potential. The company's revenue and PAT demonstrated a CAGR of 36% and 62%, respectively, from FY21 to FY23. In H1FY24, there was a 34% and 36% YoY growth in revenue and PAT. Robust earnings growth is anticipated moving forward. Tata Technologies has outpaced Tata Elxsi, L&T Technologies, and KPIT Technologies in revenue CAGR over the last three years. At an upper band valuation of INR 500, the issue's valued at a PE ratio is 32.5x based on FY23 EPS. We recommend subscribing to the issue for both short-term listing gains as well as long-term investment prospects.

## Plant Visit Concall Highlights

### Margin trajectory

Margin Enhancement Achieved This Year Through Operational Efficiency: 18-19% Offshore Improvement, 50-60 bps Gain, and Increased Wallet Share from Existing Customers

### Top ER&D Spend Targets in Priority Verticals and Geographies

Airbus partnership sets the stage for robust growth. The strategy combines organic targeting of ER&D leaders with acquisitions for accelerated client acquisition. Global expansion in key manufacturing hubs like France, Germany, and China, with tailored strategies, anticipates strong revenue growth, particularly in FY25.

### Risks of Education Business Expansion: Potential Impact on Business, Operations, and Financial Condition

Strategic foray into Education with iGetIT platform for upskilling in engineering; challenges include third-party dependence, lower margins, and revenue fluctuations. Engagement with governments and universities involves complex negotiations, exposing them to policy changes and contract risks. Despite efforts for upfront fees, there's a risk of counterparty default with government institutions.

### Enhancing Service Delivery: Capacity and Capability Building with Optimized Processes

As the company's expand globally, they are prioritizing the optimization of work systems and processes to boost service efficiency and increase margins. Focus includes talent supply chain enhancement, offshoring strategies, campus recruitment, and skill development initiatives to ensure a cost-effective and value-driven approach for sustained growth.

### Defence

The company is actively engaged in defense government processes, having already undertaken substantial projects in this sector.

### ER&D spends

North America Leads Global ER&D Spend, Asia Pacific Surpasses Western Europe. China, contributing over 10% of global ER&D spending, focuses on automotive, semiconductor, telecom, and software, particularly in the rapidly growing electric vehicle market.

The company controls the interface with its customers.

**VINFAST:** The company is actively involved in various full vehicle turnkey models such as VF 6 & VF 7, leveraging the eVMP platform to expedite development timelines. Notably, there has been a significant reduction in product development time for the first BEV, marking one of the fastest achievements in the industry

**Conversion of existing ICE Vehicle to EV:** Successfully converted existing ICE vehicles to EV with full control over design, packaging, and integration of EV components. Launched Tata Tigor EV in 2021 and Tata Tiago EV in 2023, meeting quality standards for remote collaborations. Engaged in a multi-year commitment to provide application maintenance and support

### End-to-End Excellence

Significant achievements include a 35% improvement in traceability in engineering and manufacturing.

### Digital Enterprise in Luxury Car Manufacturing

With three decades of experience, Tata Technology plays a pivotal role in the digital transformation of luxury car manufacturing. - Emphasis on customer experience is evident through direct-to-customer channels and a digital CX lab.

### Diverse Manufacturing Landscape

Tata Technology's manufacturing operations range from factory-based volume initiatives to OpEx-driven projects. Airbus collaboration extends to digital design manufacturing in North America.

**Medical Devices and Smart Manufacturing**

The company extends its expertise to medical devices and smart manufacturing. A network of connectivity facilitates solutions for digital greenfield and brownfield projects.

**European Presence and OEM Collaboration**

In Europe, Tata Technology handles complete lines for OEMs like JLR. Easy-matic assembly parts and virtual showrooms with virtual test drives enhance customer engagement.

**Global Clientele and Industry Collaborations**

Tata Technology serves 35 existing clients globally in various capacities. Collaborations with industry giants like Polestar and NIO underscore its position in the automotive sector.

**Focus on ECUs and Cybersecurity**

The company addresses the evolving automotive landscape by integrating ECUs into today's cars. Noteworthy contributions include cybersecurity solutions for British luxury vehicles.

**Localization and Value Engineering**

Tata Technology emphasizes localization for cost and weight reduction. Value engineering optimizes product weight and cost through end-to-end design solutions, Tera Down, and benchmarking.

**Global Supplier Network and Cost Benchmarks**

The company's global reach includes partnerships with suppliers like Arai in India. Cost benchmarks in Europe and proposals for 5% weight saving and 6% cost reduction highlight customer-centric initiatives.

Airbus's involvement is set to escalate in the second half (H2), with a significant ramp-up anticipated in FY25

Tata Technology's multifaceted engagements across industries showcase its commitment to innovation, customer-centric solutions, and a sustainable future in the ever-evolving technological landscape.

**Exhibit 1: Comparison with listed industry peers**

| Company                         | Revenue (INR Mn) | EBITDA | EBITDA Margin(%) | PAT   | EPS    | RONW   | NAV    |
|---------------------------------|------------------|--------|------------------|-------|--------|--------|--------|
| Tata Technologies Limited       | 44142            | 8209   | 18.6%            | 3519  | 15.38  | 20.87% | 73.65  |
| <b>Listed peers</b>             |                  |        |                  |       |        |        |        |
| KPIT Technologies Limited       | 33650            | 6757   | 20.1%            | 3869  | 14.1   | 22.91% | 61.58  |
| L&T Technology Services Limited | 80136            | 19187  | 23.9%            | 11698 | 110.8  | 23.54% | 470.66 |
| Tata Elxsi Limited              | 31447            | 10349  | 32.9%            | 7552  | 121.26 | 36.21% | 334.92 |

**Exhibit 2: Revenue Break up**

| Revenue break-up     |       |       |       |       |
|----------------------|-------|-------|-------|-------|
| Particulars          | FY23  | FY22  | FY21  | FY20  |
| Services Segment     | 80.0% | 75.1% | 80.4% | 82.2% |
| Automotive           | 70.9% | 64.5% | 66.1% | 66.9% |
| Others               | 9.1%  | 10.6% | 14.3% | 15.2% |
| Technology Solutions | 20.0% | 24.9% | 19.6% | 17.8% |
| Geography wise       |       |       |       |       |
| Particulars          | FY23  | FY22  | FY21  | FY20  |
| India                | 29.8% | 32.4% | 29.0% | 30.1% |
| Europe               | 22.8% | 24.3% | 31.0% | 34.3% |
| North America        | 21.4% | 22.4% | 31.9% | 30.0% |
| Rest of World        | 26.0% | 20.8% | 8.2%  | 5.6%  |

**Exhibit 3: Employees**

| Employees                             | H1FY23 | FY23   | FY22   | FY21   |
|---------------------------------------|--------|--------|--------|--------|
| Attrition Rates                       | 17.20% | 21.70% | 25.10% | 11.50% |
| Total as of the end of the period/yea | 12451  | 11616  | 9338   | 7954   |

**Exhibit 4: Global delivery model enabling intimate client engagement and scalability**

Source: Arian Research, Company Filings,

## Risk Factors

**Competition from Group Companies:** The company faces competition from certain Group Companies in a similar business line, potentially resulting in a loss of business opportunities.

**Exchange Rate Fluctuations:** The business is susceptible to adverse impacts from fluctuations in exchange rates for various currencies in which the company operates, affecting its financial condition and results.

**Dependence on Top 5 Clients:** With 72.75% of revenue coming from the Top 5 Clients, including Tata Motors Limited and subsidiaries, any negative changes in their business could significantly impact the company's financial health.

**Vulnerability to Automotive Segment Cyclicalities:** The company's revenue heavily depends on clients in the automotive segment, making it vulnerable to economic downturns or issues affecting this industry, potentially harming its overall business and financial performance.

### Exhibit 5: Client concentration

|                | FY20 | FY21 | FY22 | FY23 | H1FY24 |
|----------------|------|------|------|------|--------|
| \$50 million + | 2    | 2    | 3    | 3    | 3      |
| \$20 million + | 2    | 2    | 3    | 3    | 3      |
| \$10million +  | 5    | 6    | 6    | 6    | 6      |
| \$5 million +  | 5    | 8    | 11   | 7    | 10     |
| \$1 million +  | 33   | 27   | 31   | 34   | 38     |

The company anticipates revenue growth by expanding outsourcing with existing clients. Diversification is underway, evidenced by acquiring new clients generating over \$1 million, increasing from 27 to 38 between Fiscal 2021 and September 2023. The success is attributed to our engagement model, global delivery approach, and robust NPS scores (58 for September 2023), fostering high client satisfaction and loyalty. This is reflected in a repeat rate of over 97.72% for the six-month period ending September 30, 2023, and 98.38% for Fiscal 2023 in the Services business

### Exhibit 6: Key Management

| Management                                     | Designation                    |
|------------------------------------------------|--------------------------------|
| Mr. Ajoyendra Mukherjee (w.e.f March 29, 2021) | Chairman, Independent Director |
| Mr. Warren Harris                              | CEO & Managing Director        |
| Mrs. Savitha Balachandran                      | Chief Financial Officer        |

### Exhibit 7: Milestones

| Year | Key Milestones                                                                                                                                        |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2005 | Acquired 100% equity in INCAT International UK                                                                                                        |
|      | In December company acquired 100% stake in Tata Technologies Pte Ltd. a Singapore based Company                                                       |
| 2006 | The company sold its 100% equity stake in Tata Technologies (Thailand) Ltd. to its wholly owned subsidiary viz. Tata Technologies Pte Ltd., Singapore |
| 2011 | Secured funding through Alpha TC Holdings Pte. Ltd. and Tata Capital Growth Fund I                                                                    |
| 2013 | Acquired Cambic Holdings Inc                                                                                                                          |
| 2017 | Acquisition of Escenda Engineering AB by Tata Technologies Europe Limited                                                                             |

## Financial Statements

## Income Statement (INR Mn)

| Year End-March                     | FY21          | FY22          | FY23          | H1FY24        |
|------------------------------------|---------------|---------------|---------------|---------------|
| <b>Revenues</b>                    | 23,809        | 35,296        | 44,142        | 25,267        |
| <i>Change (%)</i>                  | 0.0%          | 148.2%        | 125.1%        | 57.2%         |
| Material                           | 3,383         | 6,885         | 6,825         | 4,235         |
| Employee costs                     | 14,574        | 19,125        | 24,991        | 14,224        |
| Other expenses                     | 1,995         | 2,829         | 4,116         | 2,160         |
| <b>Total Expenses</b>              | <b>19,952</b> | <b>28,839</b> | <b>35,932</b> | <b>20,620</b> |
| <b>EBITDA</b>                      | <b>3,857</b>  | <b>6,457</b>  | <b>8,209</b>  | <b>4,648</b>  |
| <b>Margin (%)</b>                  | <b>16.2%</b>  | <b>18.3%</b>  | <b>18.6%</b>  | <b>18.4%</b>  |
| Depreciation                       | 922           | 857           | 946           | 497           |
| <b>EBIT</b>                        | <b>2935</b>   | <b>5600</b>   | <b>7264</b>   | <b>4150</b>   |
| <b>Margin (%)</b>                  | <b>12.3%</b>  | <b>15.9%</b>  | <b>16.5%</b>  | <b>16.4%</b>  |
| Interest                           | 177           | 219           | 180           | 95            |
| Other Income                       | 448           | 488           | 878           | 607           |
| <b>PBT</b>                         | <b>3,207</b>  | <b>5,869</b>  | <b>7,962</b>  | <b>4,663</b>  |
| Exceptional Items                  | 54.15         | -             | -             | -             |
| <b>PBT after exceptional Items</b> | <b>3,153</b>  | <b>5,869</b>  | <b>7,962</b>  | <b>4,663</b>  |
| Tax                                | 761           | 1,499         | 1,721         | 1,144         |
| <i>Rate (%)</i>                    | 24.1%         | 25.5%         | 21.6%         | 24.5%         |
| <b>PAT</b>                         | <b>2,392</b>  | <b>4,370</b>  | <b>6,240</b>  | <b>3,519</b>  |
| <i>Change (%)</i>                  | 10.0%         | 12.4%         | 14.1%         | 13.9%         |

## Cash Flow Statement (INR Mn)

| Year End-March                           | FY21           | FY22         | FY23           | H1FY24       |
|------------------------------------------|----------------|--------------|----------------|--------------|
| <b>PBT</b>                               | <b>2,392</b>   | <b>4,370</b> | <b>6,240</b>   | <b>3,519</b> |
| Cash From Operating Activities           | 12,231         | 891          | 6,443          | 749          |
| Tax                                      | (1,102)        | (1,278)      | (2,429)        | (827)        |
| Net Cash From Operations                 | 11,128         | (387)        | 4,014          | (78)         |
| <b>Cash From Investing Activities</b>    | <b>(6,736)</b> | <b>742</b>   | <b>(4,874)</b> | <b>5,803</b> |
| Cash From Financing                      | (441)          | (444)        | (3,469)        | (5,265)      |
| <b>Net Increase/ Decrease in Cash</b>    | <b>3952</b>    | <b>-89</b>   | <b>-4329</b>   | <b>460</b>   |
| <b>Cash at the beginning of the year</b> | <b>7,813</b>   | <b>7,683</b> | <b>3,828</b>   | <b>4,286</b> |
| Cash at the end of the year              | 3,760          | 7,813        | 7,683          | 3,828        |

## Balance Sheet (INR Mn)

| Year End-March                         | FY21          | FY22          | FY23          | H1FY24        |
|----------------------------------------|---------------|---------------|---------------|---------------|
| <b>Financial Assets</b>                |               |               |               |               |
| Cash and cash equivalents              | 7,813         | 7,683         | 3,828         | 4286          |
| Bank Balance                           | 21            | 1,011         | 6,164         | 3859.54       |
| Loans                                  | 2,517         | 462           | 4,902         | 1,208         |
| Other Financial Assets                 | 268           | 328           | 744           | 875           |
| Trade receivables                      | 5957          | 7682          | 11062         | 12247         |
| Investments                            | 4971          | 5277          | 298           | 898           |
| <b>Others</b>                          | <b>2,328</b>  | <b>7,359</b>  | <b>10,976</b> | <b>13,078</b> |
| <b>Total Financial Assets</b>          | <b>23,875</b> | <b>29,802</b> | <b>37,975</b> | <b>36,450</b> |
| <b>Non-Financial Assets</b>            |               |               |               |               |
| Plant Property & CWIP                  | 873           | 1,148         | 1,228         | 1318          |
| Other Non-Financial Assets             | 950           | 1,696         | 3,059         | 875           |
| Goodwill                               | 7,259         | 7,293         | 7,629         | 7662          |
| Righ of use assets                     | 2,326         | 1,879         | 1,803         | 1848          |
| <b>Others</b>                          | <b>444</b>    | <b>363</b>    | <b>320</b>    | <b>3,072</b>  |
| <b>Total Non-Financial Assets</b>      | <b>11,852</b> | <b>12,378</b> | <b>14,039</b> | <b>14,775</b> |
| <b>Total Assets</b>                    | <b>35,727</b> | <b>42,180</b> | <b>52,014</b> | <b>51,225</b> |
| Equity Share                           | 418.07        | 418.07        | 811.34        | 811.34        |
| Reserves & Surplus                     | 21,003        | 22,383        | 29,083        | 27,720        |
| <b>Networth</b>                        | <b>21,422</b> | <b>22,801</b> | <b>29,895</b> | <b>28,531</b> |
| <b>Financial Liabilities</b>           |               |               |               |               |
| Lease Liabilities                      | 2,327         | 2232          | 2148          | 2128          |
| Other financial liabilities            | 4.7           | 4             | 5             | 7             |
| Provisions                             | 152.02        | 186           | 233           | 292           |
| <b>Total Non-Financial Liabilities</b> | <b>2,484</b>  | <b>2,422</b>  | <b>2,386</b>  | <b>2,427</b>  |
| <b>Current liabilities</b>             |               |               |               |               |
| Trade payables                         | 2,237         | 3,366         | 6,578         | 4795.57       |
| Other Financial Liabilities            | 31            | 2,259         | 46            | 36.99         |
| Lease Liabilities                      | 334.73        | 382.79        | 405.95        | 470.43        |
| Provisions                             | 119           | 307           | 339           | 256           |
| Current tax liabilities (net)          | 9,101         | 10,342        | 12,365        | 14906.44      |
| <b>Total Current Liabilities</b>       | <b>11,822</b> | <b>16,957</b> | <b>19,734</b> | <b>20,466</b> |
| <b>Total Liabilities</b>               | <b>14,306</b> | <b>19,378</b> | <b>22,120</b> | <b>22,893</b> |
| <b>Total Equity &amp; Liabilities</b>  | <b>35,727</b> | <b>42,180</b> | <b>52,015</b> | <b>51,424</b> |

## Key Ratios

| Year End-March          | FY21   | FY22   | FY23   | H1FY24 |
|-------------------------|--------|--------|--------|--------|
| <b>Per share (INR)</b>  |        |        |        |        |
| EPS                     | 5.9    | 10.8   | 15.4   | 8.7    |
| <b>Valuation (x)</b>    |        |        |        |        |
| P/E                     | 84.9   | 46.4   | 32.5   | 57.7   |
| <b>Return ratio (%)</b> |        |        |        |        |
| EBIDTA Margin           | 16.20% | 18.29% | 18.60% | 18.39% |
| PAT Margin              | 10.05% | 12.38% | 14.14% | 13.93% |
| ROE                     | 11.17% | 19.17% | 20.87% | 12.33% |
| ROCE                    | 20.52% | 28.90% | 32.84% | 18.13% |
| <b>Turnover Ratios</b>  |        |        |        |        |
| Receivable Days         | 70     | 67     | 79     | 73     |

Source: Arianth Research, Company Filings,

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**Stock Rating Scale**

| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY                | >20%            |
| ACCUMULATE         | 12% to 20%      |
| HOLD               | 5% to 12%       |
| NEUTRAL            | -5% to 5%       |
| REDUCE             | -5% to -12%     |
| SELL               | <-12%           |

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