

21st November 2023

Tata Technologies – SUBSCRIBE

Investment Thesis

Tata Technologies Ltd. (TTL) is coming out with an initial public offering (IPO) on November 22, 2023. The issue comprises of offer for sale of 60,850,278 equity shares worth Rs.30,425mn at highest price band. Objective of the issue is to achieve the benefits of listing the equity shares on the Stock Exchanges and carry out the offer for sale of selling shareholders.

TTL is a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry and is currently engaged with seven out of the top 10 automotive ER&D spenders. TTL extensive knowledge in the automotive sector has expanded its expertise into aerospace and heavy construction machinery, enhancing its opportunities. Its comprehensive portfolio of services for 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. Its automotive ER&D services span the entire automotive value-chain from concept design and styling, to vehicle architecture, body engineering, chassis engineering, virtual validation, ePowertrain, connected, manufacturing engineering, test and validation and vehicle launch. It also offers turnkey full vehicle development solutions for traditional internal combustion engine vehicles, plug-in hybrids and battery electric vehicles.

TTL'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. It offers product engineering solutions including outsourced turnkey EV development, product benchmarking, electric vehicle modular platform (eVMP) for accelerating product development. Its light-weighting framework help OEMs develop products within competitive timelines. Its capability of integrating product development with digital engineering, embedded solutions and software allows it to provide end-to-end solutions for EV development, manufacturing and after-sales services.

TTL targeting to secure projects with top ER&D spenders within its focus verticals of automotive, aerospace and TCHM. Automotive ER&D is highly concentrated among the top 20 companies, in terms of ER&D spend for 2022, which account for 73% of the global spend. TTL aim to strengthen its business development strategy to focus on high potential accounts with large annual ER&D spends and new energy vehicle companies. Recently, TTL was empaneled by Airbus which is expected to become a strong avenue of growth.

Financials

- During the past 3 years, revenue of TTL grew at a CAGR of 15.7% while PAT grew at CAGR of 35.4% in same period.

Consol. (Rs.Mn.)	FY21	FY22	FY23
Revenue	23,809	35,296	44,142
EBITDA	3,787	6,385	8,067
EBITDA Margin(%)	15.9%	18.1%	18.3%
PAT	2,392	4,370	6,240
EPS (Rs.) #	5.9	10.8	15.4
P/E (x) *#	84.8	46.4	32.5
RoE (%) #	29.7%	54.4%	77.6%

* At highest price band # Post listing

IPO Details

Issue Open Date	22 November 2023
Issue Close Date	24 November 2023
Price Band (Rs.)	Rs. 475 – Rs. 500
Issue Size*	Rs. 30,425 Mn
Issue Size (Shares)	60,850,278
Market Lot	30 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 2/-

* At highest price band

Key Details

Fresh Issue*	N.A.
Issue Type	Book Building
Book Running Lead Manager	JM Financial, Citigroup Global Markets and BofA Securities
Issue structure	QIB: 50% Non Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	04 December 2023
Issue Listing Date	05 December 2023

* At highest price band

Key Business Highlights

- TTL is a leading global engineering services company offering product development and digital solutions, including turnkey solutions, to global OEMs their tier 1 suppliers. It has 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). It delivers value-added services to the clients in support of their digital transformation initiatives including product development, manufacturing and customer experience management.
- TTL is a pure-play manufacturing focused ER&D company, primarily focused on the automotive industry and currently engaged with 7 out of the top-10 automotive ER&D and 5 out of the 10 prominent new energy ER&D in 2022.
- TTL's global delivery model leverages the skills and capabilities to deliver value to its clients. Currently, it has 19 global delivery centers spread across North America, Europe and Asia Pacific.

Valuation

- Zinnov has estimated the global ER&D spend to grow at CAGR of 10.2% to ~\$2.67tn by 2026 from ~\$1.81tn in 2022. ER&D spend outsourced to third party service providers also expected to grow at a CAGR of 11-13% during 2022-26 from \$110bn in 2022. Key drivers for growth within the ER&D market, particularly the automotive market, include an increasing propensity to outsource services (following the Covid-19), increased regulatory interventions for safer and cleaner products, shrinking product innovation cycles and next-generation product technologies that underpin autonomous, connected, electrification and shared (ACES) technologies.
- TTL is focused on scaling up its embedded, digital and software defined vehicle (SDV) capabilities and offerings through strengthening alliances. TTL aim to secure significant new projects spanning electrical and electronic component engineering and integration, ADAS, connected car and electrification offerings, systems engineering, application software development, Autosar, system and software validation, software maintenance and application software development. TTL also intend to expand business through selective acquisitions that provide access to better technology, broader geographical reach, capabilities and key clients.
- TTL has a diversified global client base and in H1FY24, it derived 35.1%, 26.9%, 19.3% and 18.7% of the revenue from operations from clients in India, Europe, North America, and the rest of the world, respectively. The strength of the client relationships is also evidenced by the improving net promoter score (NPS) where the company is positioned among the top-20 percentile of technology services players and the 98.4% repeat rate for FY23 as well as the 97.7% repeat rate for H1FY24.
- With pure-play manufacturing focused ER&D company, services span entire automotive value-chain, end-to-end solutions for EV development, targeting top ER&D spenders within its focus verticals and Zinnov estimated global ER&D spend to grow at CAGR of 10.2%, we are recommending **SUBSCRIBE** rating to the IPO of Tata Technologies Ltd. (TTL) for medium to long term perspective.

Risk & Concern

- TTL's revenue is highly dependent on automotive segment, any economic slowdown or factors affecting automobile segment may have an adverse impact on future growth of TTL.
- Group companies like TCS and Tata Elxsi operate in a similar line of business, which may lead to competition with these entities and may potentially result in a loss of business opportunity for the TTL.
- TTL generates major portion of its revenue from export business which expose it to exchange rate fluctuation.
- TTL expects a significant amount of future revenue to come from new energy vehicle companies, many of whom may be startup companies. Any uncertainties related to these startups may adversely affect future plan of TTL.

Graphs & Charts

Figure 1: Net Sales Trend

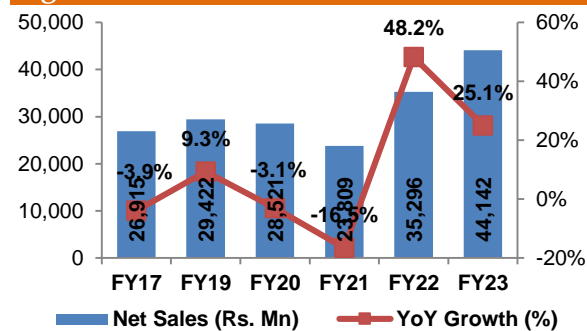


Figure 2: EBITDA & EBITDA Margin Trend

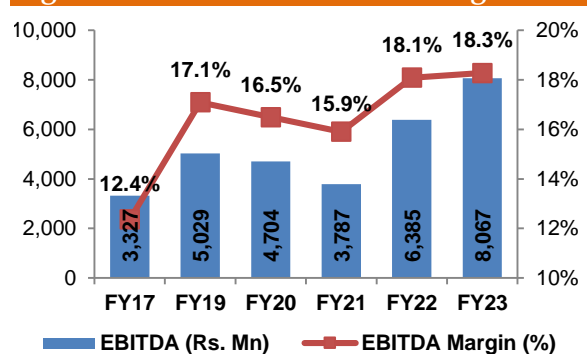


Figure 3: PAT & PAT Margins

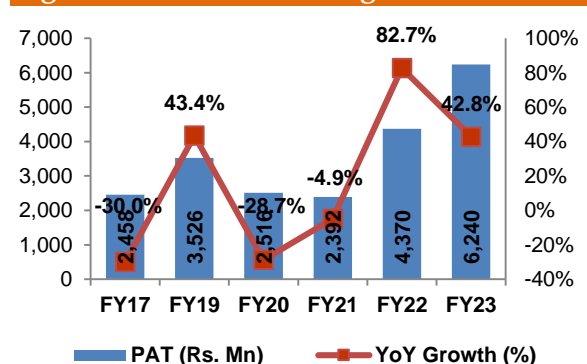
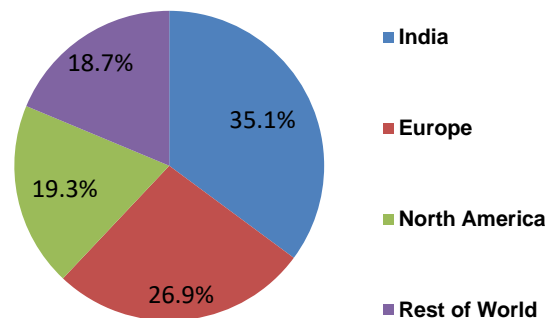


Figure 4: Geography-Wise Revenue(H1FY24)



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