



SMC Ranking
 ★★☆☆☆ (3.5/5)

Issue Highlights

| Industry | IT - Enabled Services |
|-------------------------|-----------------------|
| Offer for sale (Shares) | 60,850,278 |
| Net Offer to the Public | 60,850,278 |
| Issue Size (Rs. Cr.) | 2890-3043 |
| Price Band (Rs.) | 475-500 |
| Offer Date | 22-Nov-23 |
| Close Date | 24-Nov-23 |
| Face Value | 2 |
| Lot Size | 30 |

Issue Composition

| | In shares |
|----------------------|------------|
| Total Issue for Sale | 60,850,278 |
| QIB | 30,425,139 |
| NIB | 9,127,542 |
| Retail | 21,297,597 |

Shareholding Pattern (%)

| Particulars | Pre-issue | Post-issue |
|-----------------------------|----------------|----------------|
| Promoters & promoters group | 66.79% | 55.39% |
| QIB | 33.21% | 37.11% |
| NIB | 0.00% | 2.25% |
| Retail | 0.00% | 5.25% |
| Total | 100.00% | 100.00% |

*calculated on the upper price band

Objects of the Issue

The objects of the Offer are:
 Achieve the benefits of listing the Equity Shares on the Stock Exchanges;
 Carry out the Offer for Sale of up to 95,708,984 Equity Shares by the Selling Shareholders.

Book Running Lead Manager

- JM Financial Limited
- Citigroup Global Markets India Private Limited
- BofA Securities India Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1994, Tata Technologies Limited is a leading global engineering services company. The company offers product development and digital solutions. This includes turnkey solutions, to global Original Equipment Manufacturers (OEMs) and their tier-1 suppliers. Tata Technologies aspires to create value for their customers by assisting them in the development of products that are safer, cleaner and improve the quality of life for the end customers. With its deep domain expertise in the automotive industry, it has gained high expertise to serve clients in adjacent industries also, such as aerospace and transportation and heavy construction machinery. The operation of Tata Technologies Limited is spread globally. The company brings together diverse teams from different parts of the world with varied skill sets to collaborate in real time and solve complex engineering problems.

Strength

Deep expertise in the automotive industry: Its 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. Its automotive domain expertise and deep understanding of client requirements underpins the approach it takes to helping its clients leverage digital technologies to optimize the manner in which they conceive, develop, manufacture, sell and service new products.

Differentiated capabilities in new age automotive trends – electric vehicles (“EVs”), connected and autonomous: Its 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. Its 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, its 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. This capability of integrating the mechanical engineering aspect of product development with digital engineering, embedded solutions, and software allows it to provide end-to-end solutions to its clients for EV development, manufacturing and after-sales services.

Strong digital capabilities bolstered by proprietary accelerators: Its 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. Its solutions and accelerators across new product introduction (“NPI”) increase the efficiency of automotive, TCHM and aerospace clients in introducing new products to the market. Its 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.

Marquee set of clients across anchor accounts, traditional OEMs and new energy vehicle companies: It has 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, its clients are comprised of more than 35 traditional automotive OEMs and tier 1 suppliers and more than 12 new energy vehicle companies. Its 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. Its 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 (Source: Zinnov Report). It has deep and long-lasting relationships with its clients. It actively engages on multiple projects with clients and have a high repeat rate of over 97.72%, 98.38%, 97.24% and 95.71% across its Services business for the six-months period ended September 30, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021, respectively. It has developed a strong client NPS globally, achieving a NPS of 58 for the twelve months ended September 2023, 64 for the twelve months ended September 2022 and 63 for the twelve months ended September 2021, as compared to an NPS of 40 for technology services providers, placing it in the top 20 percentile of technology services players.

Global delivery model enabling intimate client engagement and scalability: The company has 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. Its 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, it 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. It had approximately 1,717 employees based out of strategic onshore locations, enabling greater proximity to its clients.

Proprietary e-learning platform leveraging its 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. Its 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 its proprietary iGetIT platform, has positioned it to help address the growing engineering upskilling needs. It leveraged its manufacturing expertise and 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. The company has partnered with four state universities and six private universities along with over 150 private enterprises that user iGetIT platform, as of September 30, 2023.

Strategy

Deepen engagements within existing client base: The company believes there is a significant opportunity within its current client base to increase the use of its solution offerings and further develop deeper, long-term strategic engagements. Given the high concentration of ER&D spend among select automotive, aerospace and TCHM companies globally; it methodically targets large spenders in its chosen industries, devoting substantial time and resources in cultivating relationships. There is still significant potential to increase its market share among its existing clients. Currently, its top 20 clients by revenue attributable to the Services segment account for 88.40% of its revenue attributable to the Services segment for Fiscal 2023. It plans to drive further value by prioritizing the right high potential accounts through strategic account planning.

Target top ER&D spenders in select high priority verticals and key geographies: The company endeavors to secure projects with the 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 (Source: Zinnov Report). It aims to strengthen its dedicated business development strategy to focus on high potential accounts with large annual ER&D spends and new energy vehicle companies. It has also recently been

empanelled by Airbus which is expected to become a strong avenue of growth. Its organic approach to targeting top ER&D spenders is complemented by tuck-in acquisitions. It continues to be open to opportunistic targets that complement its strategy and accelerate client acquisition or capability building. It also aims to increase spending and strengthen its dedicated business development strategy for new energy vehicle companies.

Expand capabilities in digital engineering and embedded systems: The company is focused on scaling up its embedded and digital and software defined vehicle (“SDV”) capabilities and offerings through investments and strengthening alliances as part of its diversification strategy. It is also focused on leveraging its full turnkey product development capabilities related to EVs. It aims 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. It has also targeted large new projects to establish growth momentum.

Strengthening service delivery through capacity and capability building and optimizing delivery processes: As it scales its business across geographies, it is critical that it strengthens its work systems and processes, including through the optimization and management of the employee pyramid per engagement, to increase efficiency of service delivery, thereby increasing margins. It continues to work on strengthening its forecasting processes, resource management processes and automation of non-core processes in order to enhance delivery excellence and strengthen pricing models that will enable it to improve its margins while creating value for all stakeholders. It is focused on building its talent supply chain to ensure it fulfills client requirements at the right time and at the right cost. The company plans to drive offshoring, optimize the employee pyramid and span of control, invest strongly in recruiting, development and retention of its employees, increase utilization rates among employees, drive sub-contractor optimization to further reduce costs where applicable and drive increased productivity.

Expand capabilities and enterprise client base in the education sector: The global manufacturing sector is being disrupted by technological change. There is a large engineering upskilling requirement globally, and particularly in India, in the manufacturing sector. According to an analysis by NASSCOM and Draup, India will need nearly 1.4 million to 1.9 million engineers in order to meet demand in 2026 (Source: Zinnov Report). Its iGetIT platform is used by enterprise clients as well as public sector institutions in India to train engineering, polytechnic and ITI students. Additionally, its academic partnerships in India have extended beyond its iGetIT offering to the development of an entire “phygital” (physical and digital) proposition and it intends to further engage with State Governments on ITI upgradation projects. The company aims to leverage its experience and relationships within the public sector to improve its iGetIT platform and will continue to invest and develop the platform with additional modules as needed to reinforce its private sector enterprise proposition.

Risk factor

- The company derives some revenue from the top 5 clients.
- The company revenues are highly dependent on clients concentrated in the automotive segment.
- The company has had negative cash flows in the past and may continue to have negative cash flows in the future, which could adversely affect its liquidity and operations.

Peer comparison

| Co_Name | Total Income | PAT | EPS | P/E | P/BV | BV | FV | Price | Mcap |
|-----------------------------|--------------|---------|--------|-------|-------|--------|----|---------|----------|
| Tata Elxsi | 3387.63 | 785.07 | 126.06 | 64.97 | 24.33 | 336.62 | 10 | 8190.15 | 51005.34 |
| L&T Technology | 9107.10 | 1270.20 | 120.19 | 36.49 | 9.68 | 453.15 | 2 | 4386.25 | 46355.34 |
| KPIT Technologi. | 4231.27 | 486.94 | 17.84 | 77.97 | 20.50 | 67.86 | 10 | 1391.05 | 38134.77 |
| Tata Technologies Limited** | 5052.97 | 716.88 | 17.67 | 28.29 | 7.11 | 70.33 | 2 | 500.00 | 20283.43 |

*Peer companies financials are TTM based.

**Financial are TTM based

Valuation

Considering the P/E valuation on the upper price band of Rs.500, EPS and P/E based on TTM are Rs.17.67 and 28.29 multiple respectively and at a lower price band of Rs. 475, P/E multiple is 26.88. Looking at the P/B ratio on the upper price band of Rs.500, book value and P/B are Rs. 70.33 and 7.11 multiple respectively and at a lower price band of Rs. 475 P/B multiple is 6.75. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry Outlook

The company operates in the global engineering, research and development (“ER&D”) services industry, primarily across automotive, aerospace and TCHM verticals. The global ER&D spend for 2022 was approximately \$1.81 trillion and is expected to grow to approximately \$2.67 trillion by 2026. The ER&D spend outsourced to third party service providers reached \$105-\$110 billion in 2022 and is anticipated to grow at a 11-13% CAGR between 2022 and 2026. The key growth drivers within the ER&D market include an increasing propensity to outsource, increasing regulatory interventions for safer and cleaner products, shrinking product innovation cycles and next-generation product technologies (source: Zinnov Report).

Outlook

Tata Technologies is one of the leading players in automotive ER&D services globally, from where it garners 75 per cent of revenues. The company serves global Original Equipment Manufacturers and their Tier-1 suppliers, with Tata Motors and Jaguar Land Rover being anchor clients, contribution collectively 40 per cent of the company’s service revenues. As the company derives significant revenues from its top 5 clients (73% of its revenues for FY23) including Tata Motors. Any loss of such clients can have significant impact on company revenues. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

| EVENT | INDICATIVE DATE (On or about) |
|--|----------------------------------|
| BID/ISSUE OPENS ON | 22-November-23 |
| BID/ISSUE CLOSES ON | 24-November-23 |
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 30-November-23 |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 01-December-23 |
| Credit of Equity Shares to demat accounts of Allottees | 04-December-23 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 05-December-23 |

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

| Particulars | Period ended 30-Sep-23 (6 Months) | Period ended 31-Mar-23 (12 Months) | Period ended 31-Mar-22 (12 Months) |
|-------------------------|--------------------------------------|---------------------------------------|---------------------------------------|
| Revenue from operations | 2526.70 | 4414.18 | 3529.58 |
| Total expenditure | 2061.95 | 3593.24 | 2883.92 |
| Operating Profit | 464.75 | 820.93 | 645.66 |
| OPM% | 18.39 | 18.60 | 18.29 |
| Other Income | 60.72 | 87.75 | 48.80 |
| PBDIT | 525.47 | 908.69 | 694.46 |
| Depreciation | 49.74 | 94.55 | 85.71 |
| PBIT | 475.73 | 814.13 | 608.75 |
| Interest | 9.48 | 17.98 | 21.90 |
| PBT | 466.25 | 796.15 | 586.86 |
| Total tax expenses | 114.35 | 172.11 | 149.87 |
| PAT | 351.90 | 624.04 | 436.99 |

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

| Particulars | As on 30-Sep-23 | As on 31-Mar-23 | As on 31-Mar-22 |
|--------------------------------------|-----------------|-----------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 131.81 | 120.15 | 114.52 |
| Capital work-in-progress | 0.00 | 2.65 | 0.26 |
| Right of Use Asset | 184.80 | 180.29 | 187.85 |
| Goodwill | 766.17 | 762.92 | 729.30 |
| Other intangible assets | 40.77 | 31.96 | 36.22 |
| Intangible assets under development | 0.00 | 0.10 | 0.00 |
| Investments in joint venture | 0.00 | 0.00 | 0.00 |
| Financial Assets | | | |
| Loans | 0.00 | 0.00 | 0.04 |
| Other financial assets | 62.67 | 43.70 | 44.22 |
| Deferred tax assets (net) | 185.97 | 152.08 | 57.44 |
| Income tax assets (net) | 30.34 | 30.52 | 30.30 |
| Other non-current assets | 94.86 | 79.65 | 37.66 |
| Total non-current assets | 1497.38 | 1404.02 | 1237.83 |
| Current assets | | | |
| Financial Assets | | | |
| Investments | 89.76 | 29.78 | 527.67 |
| Trade receivables | | | |
| Billed | 1013.41 | 951.75 | 647.29 |
| Unbilled | 211.31 | 154.47 | 120.89 |
| Cash and cash equivalents | 428.55 | 382.82 | 768.26 |
| Other bank balances | 385.95 | 616.38 | 101.14 |
| Loans | 120.75 | 490.22 | 46.25 |
| Other financial assets | 87.50 | 74.43 | 32.77 |
| Current tax assets (net) | 2.98 | 32.62 | 10.72 |
| Other current assets | 1304.82 | 1065.00 | 725.18 |
| Total current assets | 3645.03 | 3797.47 | 2980.17 |
| Total Assets | 5142.42 | 5201.49 | 4218.00 |
| Non-current liabilities | | | |
| Financial liabilities | | | |
| Lease Liabilities | 212.83 | 214.76 | 223.16 |
| Other financial liabilities | 0.73 | 0.54 | 0.35 |
| Provisions | 29.18 | 23.33 | 18.65 |
| Total non-current liabilities | 242.73 | 238.62 | 242.16 |
| Current liabilities | | | |
| Financial Liabilities | | | |
| Lease Liabilities | 47.04 | 40.60 | 38.28 |
| Trades Payable - MSME | 8.53 | 107.17 | 17.22 |
| Trade Payables - other than MSME | 471.03 | 550.63 | 319.38 |
| Other financial liabilities | 3.70 | 4.57 | 255.87 |
| Other current liabilities | 1396.17 | 1174.88 | 1012.65 |
| Provisions | 25.61 | 33.91 | 30.69 |
| Current tax liabilities (net) | 94.48 | 61.64 | 21.60 |
| Total current liabilities | 2046.56 | 1973.39 | 1695.68 |
| Total | 2289.29 | 2212.02 | 1937.84 |
| Net worth represented by: | | | |
| Equity Share Capital | 81.13 | 81.13 | 41.81 |
| Other Equity | 2771.99 | 2908.34 | 2238.35 |
| Net Worth | 2853.13 | 2989.47 | 2280.16 |

RANKING METHODOLOGY

| | |
|------------------|-------|
| WEAK | ★ |
| NEUTRAL | ★★ |
| FAIR | ★★★ |
| GOOD | ★★★★ |
| EXCELLENT | ★★★★★ |

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