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IPO ANALYSIS AND OVERVIEW

TATA TECHNOLOGIES LTD

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HIGHLIGHTS:

- Tata Technologies is coming out with a 100% book building; initial public offering (IPO) of 6,08,50,278 shares of Rs 2 each in a price band Rs 475-500 per equity share.
- Not more than 50% of the issue will be allocated to Qualified Institutional Buyers (QIBs), including 5% to the mutual funds. Further, not less than 15% of the issue will be available for the non-institutional bidders and the remaining 35% for the retail investors.
- The issue will open for subscription on November 22, 2023 and will close on November 24, 2023.
- The shares will be listed on BSE as well as NSE.
- The face value of the share is Rs 2 and is priced 237.50 times of its face value on the lower side and 250.00 times on the higher side.
- Book running lead managers to the issue are JM Financial, Citigroup Global Markets India and BofA Securities India.
- Compliance Officer for the issue is Vikrant Gandhe.

PROFILE OF THE COMPANY

Tata Technologies 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. It endeavors 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. 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). As a global organization, it brings together diverse teams from different parts of the world with multiple skill sets to collaborate in real time and solve complex engineering problems for its clients.



In a world that is becoming increasingly complex, with shortening product innovation timelines and rapid technological change, the company's globally distributed onshore-offshore service delivery capability helps it to suitably address its clients' requirements. It leverages its deep manufacturing domain knowledge to deliver value-added services to its clients in support of their digital transformation initiatives including product development, manufacturing and customer experience management.

The company's primary business line is services, which includes providing outsourced engineering services and digital transformation services to global manufacturing clients helping them conceive, design, develop and deliver better products. Moreover, the company complements its service offerings with its Products and Education businesses (collectively, Technology Solutions). Through its Products business it resells 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. Its 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.



PROCEED IS BEING USED FOR:

- Achieving the benefits of listing the Equity Shares on the Stock Exchanges.
- Carrying out the Offer for Sale of up to 60,850,278 Equity Shares by the Selling Shareholders.



INDUSTRY OVERVIEW

Engineering Research & Development (ER&D) Services is defined as the set of services offered to enterprises on activities which involve the process of designing and developing a device, equipment, assembly, platform, or application such that it may be produced as a product for sale through software development or a manufacturing process. Players in the ER&D services industry typically focus on the design, development, testing, rollout, and maintenance aspects of the product and process development chain, and not on mass manufacturing. The ER&D services market is comprised of product engineering services and process engineering services.

In 2022, ER&D spending continued its upward trend, marking another significant year of steady growth. Enterprises, committed to sustaining innovation while funding it through cost optimization and productivity improvements, have maintained their focus on future-proofing and transformation, with an intensified emphasis on digital engineering. The engineering services and technology solutions industries are marked by rapid technological changes, evolving industry standards, shifting client preferences, and the introduction of new products and services. Currently, global ER&D spending is estimated at \$1,811 billion.



The current macro environment presents a complex landscape, with inflation peaking in certain countries and persistent concerns about ongoing global recessionary pressures, alongside sustainability and energy challenges. However, as companies strive for strategic endurance, there is a renewed focus on investments in innovation, and ER&D spending is expected to remain resilient, continuing its steady growth trajectory. Out of the \$1,811 billion ER&D market in 2022, \$810 billion was attributed to digital engineering spending.

Meanwhile, Indian ESPs are defined as Indian heritage players and do not include global players with Indian centers. They account for almost a fourth of the overall outsourced ER&D spend, while more than 85% of the top 50 R&D spenders have a GCC presence in India. With a talent pool that adds 2.3 million sciences, technology, engineering, and mathematics (STEM) graduates annually, India's software engineering maturity and abundant digital engineering talent are drawing enterprises to outsource end-to-end product/platform development to the region.

PROS AND STRENGTHS

- **DEEP EXPERTISE IN THE AUTOMOTIVE INDUSTRY:**

The 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. The 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, it also offers 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. 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:**

The 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. 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 omni-channel 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:**

The company's suite of digital services and accelerators are designed to help OEMs and tier I 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:**

The company 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. The 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.



RISKS AND CONCERNS

- **MAXIMUM REVENUE COMES FROM REVENUES FROM TOP 5 CLIENTS:**

The company's ability to meet its growth plans in the near future will depend upon the successful continuation of its relationship with its Top 5 Clients, which include JLR, Tata Motors and VinFast. Revenue from Top 5 clients attributable to the Services segment are Rs 2584.76 crore (73.20%) in 2023, Rs 1743.41 crore (65.76%) in 2022 and Rs 1234.74 crore (64.50%) in 2021. A majority of its existing master service agreements with the Top 5 Clients are fixed term typically ranging from 3 to 5 years (with an option to renew or extend such term) or in certain cases, with respect to its Anchor Clients, are valid until completed or terminated. Such contracts may be terminated by its clients for certain customary reasons, such as, for cause or material breach of the agreement and the initiation of bankruptcy or insolvency proceedings against the company. Such contracts may also be terminated without cause, with prior notice. The loss of any of its Top 5 Clients, due to its inability to renew contracts with them or failure to secure a large order from them, could result in material decline in the company's revenues.





- **SIGNIFICANT REVENUES DEPENDENT ON CLIENTS CONCENTRATED IN AUTOMOTIVE SEGMENT:**

The company is exposed to certain risks due to concentration of clients in the automotive segment. The company's Revenue from automotive segment were Rs 3131.47 crore (88.68%) in 2023, Rs 2276.87 crore (85.88%) in 2022 and Rs 1573.42 crore (82.19%) in 2021. The manufacturing sector and automotive industry in particular is influenced by several macroeconomic and geopolitical factors and events specific to corporate demand. An economic slowdown or factors affecting this segment may have an adverse effect on its business, financial condition and results of operations.

- **SEVERAL RESTRICTIONS ON SPECIAL ECONOMIC ZONES:**

The company's facilities in Maharashtra Industrial Development Corporation, Pune and Qubix Business Park Private Limited are situated in SEZs and its leases for these premises, therefore, restrict its ability to transfer the SEZ units to third parties except to its associates or group companies in accordance with SEZ rules. Further, the approvals received by it to develop, operate and maintain the SEZs are subject to it fulfilling certain conditions such as maintaining all licenses, approvals required under various laws for carrying on its business from the SEZ premises. In the event, it is unable to comply with the restrictions under the laws governing SEZs in India, its rights to use its units demarcated as SEZs may be suspended or withdrawn and the guarantees provided by it may be invoked against it as a penalty, which may in turn adversely affect its business, financial condition, results of operations and prospects.



• **STIFF COMPETITION:**

The company operates in an intensely competitive industry. Its competitors include large ER&D consulting and technology firms globally, divisions of large multinational IT firms and in-house ER&D departments of large corporations, in addition to numerous smaller local competitors in the various geographic markets in which it operates. The engineering services industry is experiencing rapid changes that are affecting the competitive landscape. It may face competition from companies that increase in size or scope as the result of strategic mergers or acquisitions, which may result in larger competitors with significant resources that benefit from economies of scale and scope. These transactions may include consolidation activity among global technology majors, hardware manufacturers, software companies and vendors and service providers. The result of any such vertical or horizontal integration may be greater integration of services and solutions and a larger portfolio of services on offer, in each case, relative to previous offerings by such independent vendors. The company's access to such services and solutions may be reduced as a result and it may otherwise become disadvantaged relative to its potentially more circumscribed service portfolio. Such events could have a negative effect on its competitive position and financially impact its profitability.



FINANCIAL HIGHLIGHTS

Tata Technologies Ltd. - Financial Highlights

[INR-Crores]

DESCRIPTION	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Inc / Exp Performance										
Gross Sales	4,414.18	3,529.57	2,380.91	2,852.05	2,942.21	2,691.48	2,801.95	2,683.38	2,594.20	2,344.45
Total Income	4,516.14	3,585.55	2,432.75	2,896.94	2,986.43	2,779.76	2,839.28	2,711.74	2,644.23	2,394.73
Total Expenditure	3,607.46	2,891.11	2,002.21	2,381.61	2,439.34	2,358.77	2,312.26	2,183.65	2,154.26	2,001.39
Gross Profit	3,731.70	2,841.03	2,042.61	2,484.13	2,597.55	2,355.07	2,481.47	2,311.72	2,156.23	1,942.22
PBIDT	908.68	694.44	430.54	515.33	547.09	420.99	527.02	528.09	489.97	393.34
PBIT	814.13	608.73	332.93	407.60	472.23	341.23	454.47	469.56	438.75	345.23
PBT	796.15	586.83	315.27	391.97	470.94	336.53	450.16	463.36	429.76	337.57
PAT	624.03	436.97	239.18	251.55	352.60	245.81	350.98	383.39	334.07	273.22
Cash Profit	718.58	522.68	331.38	350.70	421.24	317.24	413.82	441.92	385.29	321.33

DESCRIPTION	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Sources of Funds										
Equity Paid Up	81.13	41.81	41.81	41.81	42.10	42.10	42.10	43.02	43.02	43.02
Reserves and Surplus	2,906.59	2,238.34	2,100.36	1,810.80	1,714.56	1,507.98	1,378.53	1,359.06	1,022.14	1,137.62
Net Worth	2,987.72	2,280.15	2,142.17	1,852.61	1,756.66	1,550.08	1,420.63	1,402.08	1,065.16	1,180.64
Total Debt	-	-	-	-	-	67.37	217.46	395.99	362.45	410.65
Capital Employed	2,989.45	2,280.15	2,142.17	1,852.61	1,757.00	1,617.85	1,638.49	1,798.26	1,427.61	1,591.29
Application of Funds										
Gross Block	1,625.90	1,499.50	1,453.35	1,403.06	1,018.20	1,046.82	1,111.10	1,106.95	1,008.45	983.54
Investments	29.78	527.68	497.08	36.06	38.83	36.79	220.44	74.29	281.87	502.90
Cash and Bank balance	999.20	869.40	783.41	389.03	383.93	256.81	305.60	580.52	485.33	465.45
Net Current Assets	1,824.06	1,284.49	1,205.34	896.71	829.04	627.09	581.45	566.89	349.85	531.34
Total Current Liabilities	1,973.41	1,695.71	1,182.16	452.67	470.96	610.90	679.05	790.38	1,047.77	821.72
Total Assets	5,049.41	4,160.58	3,529.77	2,540.96	2,238.33	2,190.38	2,098.29	2,272.78	2,277.58	2,208.75

DESCRIPTION	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Cash Flow										
Cash Flow from Operations	401.39	-38.71	1,113.20	267.39	369.01	270.11	197.97	234.17	298.77	364.19
Cash Flow from Investing activities	-487.43	74.21	-673.58	-7.56	-22.43	111.15	-36.18	246.49	-165.92	-232.97
Cash Flow from Finance activities	-346.87	-44.41	-44.38	-261.07	-220.87	-373.63	-330.64	-369.68	-238.36	-58.66
Free Cash flow	433.78	-120.91	1,122.68	181.22	348.11	204.55	121.11	175.17	244.78	432.80
DESCRIPTION	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Key Ratios										
Debt to Equity(x)	.	.	.	.	.	0.04	0.15	0.28	0.34	0.35
Current Ratio(x)	1.92	1.76	2.02	2.98	2.76	2.03	1.86	1.72	1.33	1.65
ROCE(%)	30.90	27.53	16.67	22.58	27.99	20.96	26.45	29.11	29.07	24.30
RONW(%)	23.69	19.76	11.97	13.94	21.33	16.55	24.87	31.08	29.75	25.61
GPM (%)	84.54	80.49	85.79	87.10	88.29	87.50	88.56	86.15	83.12	82.84
PBIDTM(%)	20.59	19.67	18.08	18.07	18.59	15.64	18.81	19.68	18.89	16.78
PATM(%)	14.14	12.38	10.05	8.82	11.98	9.13	12.53	14.29	12.88	11.65
CPM(%)	16.28	14.81	13.92	12.30	14.32	11.79	14.77	16.47	14.85	13.71

DESCRIPTION	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Market Cues										
Close Price (Unit Curr.)	-	-	-	-	-	-	-	-	-	-
High Price (Unit Curr.)										
Low Price (Unit Curr.)										
Market Capitalization	-	-	-	-	-	-	-	-	-	-
Adjusted EPS	15.38	10.45	5.72	6.02	8.38	5.84	8.34	8.92	7.77	6.35
Price / Book Value(x)	-	-	-	-	-	-	-	-	-	-
CEPS	17.71	12.50	7.93	8.39	10.01	7.54	9.83	10.27	8.96	7.47
Equity Dividend %	615.00	-	-	400.00	150.00	300.00	421.26	350.00	750.00	300.05
Enterprise Value	-918.07	-827.59	-741.60	-347.22	-341.83	-147.34	-46.04	-141.51	-79.86	-11.78
Dividend Yield %										
PE (x)	-	-	-	-	-	-	-	-	-	-

OUTLOOK

Tata Technologies is a leading global engineering services company. It offers product development and digital solutions. This includes turnkey solutions, to global original equipment manufacturers (OEMs) and their tier-1 suppliers. The company aspires to create value for its customers by assisting them in the development of products that are safer, cleaner and improve the quality of life for the end customers. On the concern side, the company continue to derive a material portion of its revenues from top 5 clients which include Tata Motors and certain of its subsidiaries and Jaguar Land Rover (and certain other subsidiaries of Jaguar Land Rover Automotive PLC). If any or all of its Top 5 Clients were to suffer a deterioration of their business, cease doing business with it or substantially reduce their dealings with it, the company's revenues could decline, which may have a material adverse effect on its business, results of operations, cash flows and financial condition.



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The issue has been offered in a price band of Rs 475-500 per equity share. The aggregate size of the offer is around Rs 2890.39 crore to Rs 3042.51 crore based on lower and upper price band respectively. Minimum application is to be made for 30 shares and in multiples thereon, thereafter. On performance front, the company's total income comprising of revenue from operations and other income increased by 25.81% to Rs 4501.93 crore in FY23 from Rs 3578.38 crore in FY22, on the back of an increase in its revenue from operations across all geographies but primarily in the rest of the world geography, led by its Services business. Moreover, the company's profit for the period/year increased by 42.80% to Rs 624.04 crore for FY 23 from Rs 436.99 crore for FY22.



There are significant opportunities 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. Moreover, the company is also investing in building capabilities of its frontline sales teams in priority domains and aims to conduct proactive campaigns and cultivate relationships across its top accounts to increase penetration of its priority offerings. It also leverages its account-based marketing approach and highly skilled subject matter experts to gain industry insights and develop customer specific value propositions in order to cultivate deeper engagements.



Contact Us

 1800- 889 -0255

 www.sukhanidhi.in

 info@sukhanidhi.in

 8310770674





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