KRChoksey | RESEARCH by DEVEN CHOKSEY

Tata Technologies Ltd

IPO Note

November 21,2023

Tata Technologies Ltd.

Issue Opens On	Issue Closes On	Price Band (INR)	Issue Size (INR Mn)	Rating
November 22, 2023	November 24, 2023	475-500	28,903 – 30,425	SUBSCRIBE

Tata Technologies Limited was incorporated on August 22,1994 as a Private Limited Company in the name of Core Software Systems Private Limited. Promoted by Tata Motors Ltd. ("TML"), Tata Technologies is a prominent global provider of engineering services, providing turnkey solutions, digital solutions and product development to OEMs and Tier-1 suppliers worldwide and is a pure-play manufacturing focused Engineering Research & Development ("ER&D") company. The services business includes includes providing outsourced engineering services for manufacturing clients and leveraging digital technology to optimize the way in which a manufacturing company conceives, develops, manufactures and services new products. Service Business mainly caters to Auto OEM and their Tier I suppliers. To leverage its expertise in Auto business, the company diversified into aerospace, transport and construction heavy machinery ("TCHM"). Their Products business includes reselling of third-party software applications, primarily product lifecycle management ("PLM") software and providing value added services such as consulting, implementation, systems integration and support. Tata Tech's education business is where the company works with colleges, universities, private enterprises and State Governments to equip the next generation of engineers and technicians with relevant skills that are required by the global manufacturing industry through proprietary iGetIT platform.

OFFER STRUCTURE

Particulars	IPO Details
Pre issue shares (Mn)	405.66
Post issue shares (Mn)	405.66
No. of shares under IPO (Mn)	60.8
Fresh issue (# shares) (Mn)	Nil
Offer for sale (# shares) (Mn)	60.8
Price band (INR)	475-500
Post issue MCAP (INR Mn)	192,693 - 202,834

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	24th Nov'23
Finalization of Basis of Allotment with Stock Exchange	On or about 30th Nov' 23
Initiation of Refunds	On or about 1st Dec' 23
Credit of Equity Shares to Demat accounts	On or about 4th Dec' 23
Commencement of Trading on NSE/BSE	On or about 5th Dec' 23

Source: IPO Prospectus

Issue	# Shares	INR Mn	%
QIB	2,63,68,453	1,318	50
NII	79,10,537	395	15
Retail	1,84,57,919	922	35
Employees	20,28,342	101	NA
Shareholders of TTML	60,85,027	304	NA
Net offer	6,08,50,278	3,042	100

Source: IPO Prospectus

Objects of the Offer
Listing publicly

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	66.79%	55.39%
Others	33.21%	44.61%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY21	FY22	FY23
Revenue	23,809	35,296	44,142
EBITDA	4,305	6,944	9,087
EBITDA Margin	37.8%	36.5%	30.4%
PAT	2,391	4,370	6,240
PAT Margin	10.1%	12.4%	14.1%
RONW	12.0%	19.8%	23.7%

*Source: IPO Prospectus, * Restated Statement, consolidated numbers, rest standalone basis.*

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

Tata Technologies Ltd.

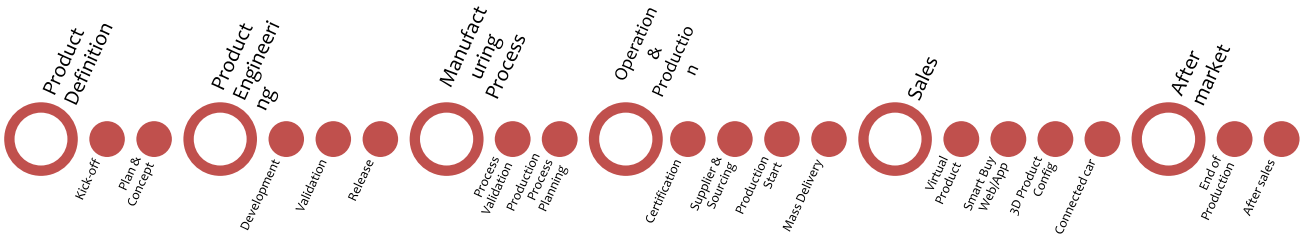
Company Overview

Tata Technologies Limited (Tata Tech) is an Engineering, Research & Development (ER&D) company operating primarily in the Automotive sector. In the services segment, the company offers end-to-end product development for Auto, Software Defined Vehicles, Benchmarking/Teardown solutions. In the Technology Segment the company offers sale of software, primarily Product Lifecycle Management (PLM), and associated services like implementation, training etc.; along with "phygital" upskilling services in collaboration with Government ITIs and private organizations. The company currently has a staff strength of 12,451 employees and is the only company in India offering end-to-end vehicle development.

Company's presence across the Automotive Value Chain
Source: Company, KRChoksey Research

Services Segment (ER&D)

Tata Tech's core competency is Full Vehicle Development, the company offers solutions for outsourced vehicle development from concept to to reality helping Auto companies to launch competitive vehicles faster with optimized costs. The company is an end-to-end services partner for manufacturing companies for parts and vehicles, catering to Auto companies & OEMs. The company offers services to greenfield customers who are looking for EV development like startups, and for brownfield customers like traditional OEM: it offers services like cost optimisations, teardown and benchmarking, Internal Combustion Engine (ICE) to Electric (EV) conversions etc. The company also offers its services to the Industrial Heavy Machinery Segment, this sector has a lag in technology adoption, hence the company expects higher revenues from this segment as the sector modernises. The company has recently also started work in the aerospace and defence sectors and has empanelled with Airbus. For Airbus, it is one of the only 17 partners that have been empanelled, offering product engineering, digital engineering services and Maintenance, Repair & Operation (MRO) services. Airbus revenue is expected to start flowing from H2FY24.



Full Vehicle Development Services
Source: Company, KRChoksey Research

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Company Overview

Technology Segment

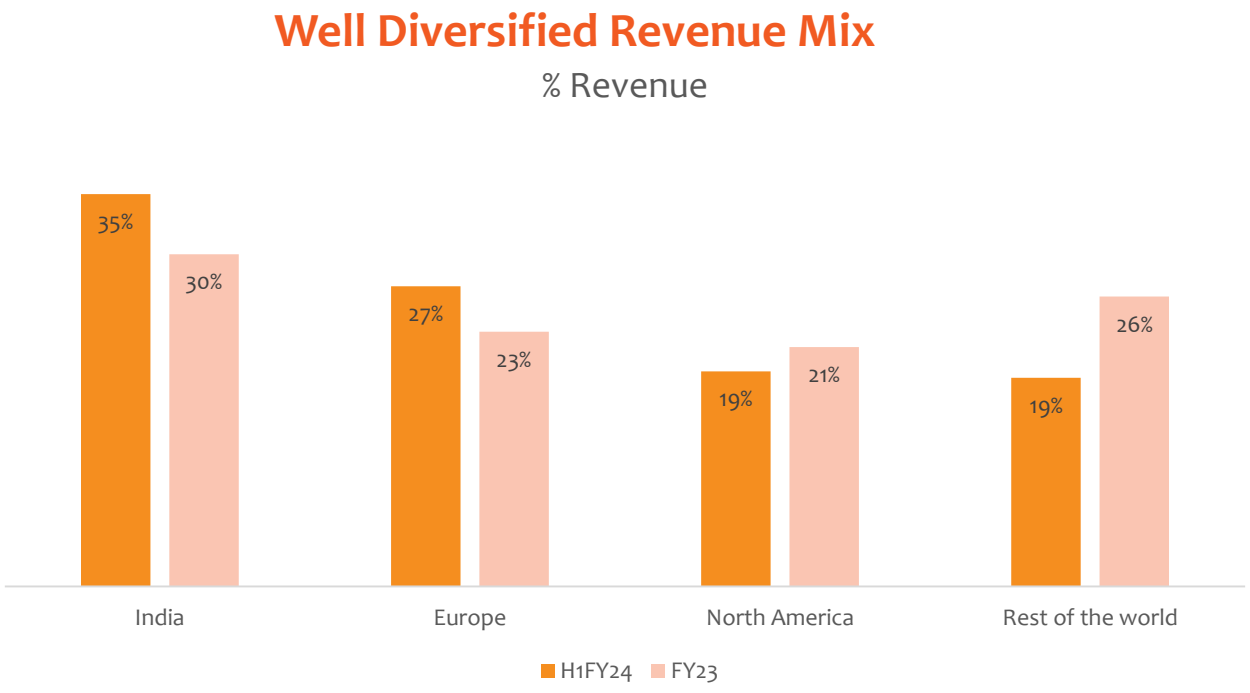
Tata Tech resells 3rd party software for Product Lifecycle Management, CAD, Simulation, Virtual Collaboration, Manufacturing Monitoring/Quality Inspection. The company is a silver partner with Dassault Systems and an expert partner for Siemens design and manufacturing software. The company also offers upskilling and training services via their "phygital" platform iGETit. In the education vertical the company has partnered with State Government Industrial Training Institutes (ITIs) and private organizations to offer practical and relevant courses. This helps the company to access a ready pool of talent and upskill existing employees. The education business is only in the incubation phase driving 10% of revenues. Currently the company has MOUs with 9 state ITIs, the first MOU was signed with the Karnataka state government 2 years ago. While the company has lower margins with state government partnerships, partnerships with private organizations/colleges will bring in better margins and higher growth in the future.

Segment	H1FY24	H1FY23	FY23	FY22	FY21
Services	79%	87%	80%	75%	80%
Technology	21%	13%	20%	25%	20%
Products	9%	10%	11%	12%	18%
Education	12%	3%	9%	13%	2%

Global Revenue Distribution

The company's revenue data reflects a strategic balance in its global operations, with a well-distributed presence across both emerging and developed markets. This diversified approach positions the company to capitalize on growth opportunities across different economic landscapes, ensuring stability and minimizing regional market risks.

In particular, the company's significant activities in North America and Europe indicate a strong foothold in advanced markets known for innovation and high tech demand. Simultaneously, its performance in emerging markets suggests adaptability and a keen understanding of these dynamic regions. This dual focus equips the company to harness global economic trends effectively.



Source: Company, KRChoksey Research

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Industry Overview

Engineering, Research & Development (ER&D):

ER&D services encompass design, development, testing, and maintenance activities for creating devices, platforms, or software ready for production and sale. These services are divided into software engineering services, embedded engineering services, and mechanical engineering services. This market includes product engineering services for product lifecycle management and process engineering services for creating value-added production processes.

ER&D Services encompass a wide range of engineering disciplines aimed at the development and lifecycle management of products. This includes Mechanical Engineering services like prototyping and simulation, using tools such as CAD and CAM, and Embedded Engineering covers system design. In the segment of Design & Development, services focus on product roadmaps and human design factors, while Software Engineering involves legacy product development, legacy product testing and legacy product maintenance. Testing and Simulation ensures product robustness through various testing methodologies, and Technical Support provides ongoing product and system assistance post-deployment. Each of these services leverages advanced technologies and methodologies, such as AI/ML for data analysis, cloud platforms for digital manufacturing, and various IoT solutions for enhanced connectivity and integration.

The ER&D services cater to a wide array of sectors including Automotive, Aerospace & Defense, Industrial & Heavy Machinery, Energy & Utilities, Healthcare & Medical Devices, Plant & Machinery, Semiconductor, Consumer Electronics, Telecom, FMCG & Retail, Healthcare Providers, BFSI, and Media & Entertainment. ER&D services cater to technical and development needs across the above-mentioned industries.

In 2022, ER&D investments reached $1,811 billion, driven by companies' prioritizing innovation, cost efficiency, and digital transformation despite economic uncertainties. Digital engineering, a key component of this spending, accounted for $810 billion, fueled by advancements in IoT, blockchain, 5G, and AI. It shows the robust demand of digital engineering within the ER&D space, and it is likely to grow 16% CAGR from 2022 to 2026. The entire ER&D space is likely to grow at 10% CAGR from 2022 to 2026 to $2672 billion from $1811 billion.

The main forces driving growth in the industry are the swift advancement of technology and the rising complexity of products. Industries like automotive are now prioritizing digital features, such as connectivity and online services, to stay competitive. Additionally, the emergence of generative AI is creating new opportunities for innovation in engineering, promising significant changes in how businesses operate. The majority of ER&D spending is dominated by the top 1000 global companies, underscoring that most innovation funding is concentrated among these market leaders.

Industry-Vertical Wise Spending in ER&D:

Manufacturing driven businesses :

Manufacturing-led verticals, encompassing areas such as automotive, industrial, aerospace, and defense, are at the forefront of global Engineering and Research & Development (ER&D) investments, collectively representing nearly half of all such expenditures worldwide. Within this manufacturing sector, the automotive industry stands out as a primary investor in ER&D activities. It not only ranks as the top spender within the manufacturing verticals but also emerges as the second-highest spender across all industry verticals. For the year 2022, the automotive sector alone is responsible for about 10% of the total global ER&D spending, highlighting its significant role in driving innovation and technological advancements in the broader manufacturing landscape.

Hi-Technology driven businesses

The high-tech sector, which includes industries like software, internet services, semiconductors, and telecommunications, is a major player in the world of engineering and research & development, making up 40% of the global ER&D spending. Specifically, the software and internet segment is the powerhouse of this group, contributing about 20% to the global ER&D expenditures, making it not only the largest within its category but also one of the most rapidly expanding areas.

Services driven businesses:

Service-oriented industries such as banking, healthcare, and media & entertainment are also significant contributors, accounting for 12% of the worldwide ER&D spending. The growth in this sector is largely fueled by investments in digital engineering. Although these service-led industries currently represent a smaller slice of the overall ER&D investment pie, they are gaining momentum and growing at the quickest rate among all the categories.

RESEARCH ANALYST
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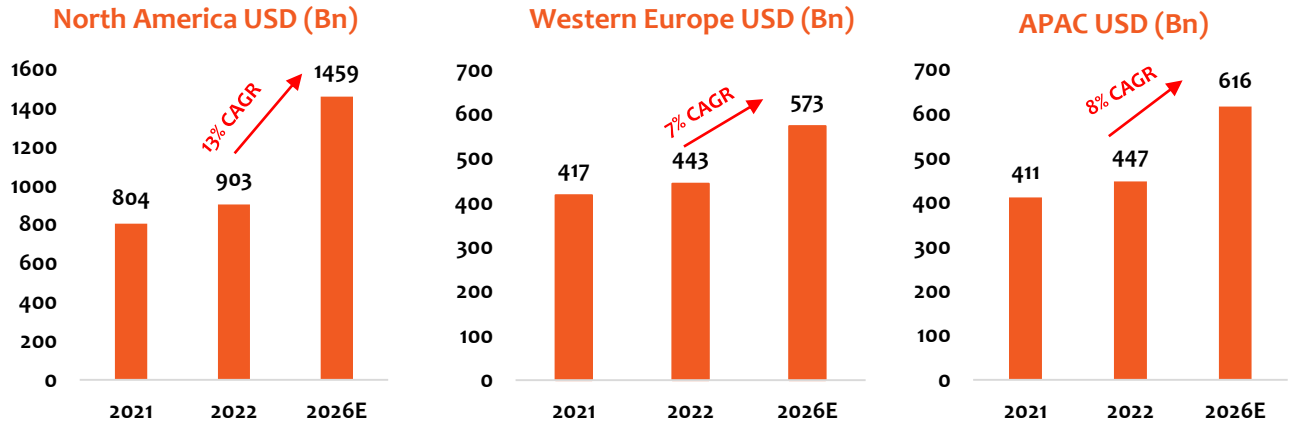
Region-wise ER&D Spend & Growth opportunity

North America leads in global engineering and research & development (ER&D) spending, largely due to its strong software and internet sector, and is expected to grow the fastest. The Asia Pacific region, boosted by South-East Asian companies and high-tech investments, has now overtaken Western Europe in ER&D spending. China contributes over 10% of the global ER&D budget, focusing on industries like automotive, semiconductors, telecom, and internet services. China is a major player in the electric vehicle market, with companies like BYD and Nio significantly increasing their research and development efforts.



Source : IPO Prospectus & KRChoksey Research

The ER&D Services Addressable Market is sum of both internal company spending at Global Capability Centers (GCCs) and the amount outsourced to third-party Engineering Service Providers (ESPs). In 2022, this market was valued between $170-$180 billion, up from $145-155 billion in 2021, representing about 10% of the total global ER&D expenditure. GCCs accounted for $65-70 billion of this amount, with a projected growth to $90-95 billion by 2026, increasing at a CAGR of 7%-9%. Outsourced ER&D to ESPs, which was between $105-$110 billion in 2022, is expected to surge to $165-$170 billion by 2026, growing at a CAGR 11%-13% rate. This data reflects the dynamic expansion of both internal and external engineering research and development efforts globally.

Rising outsourcing spend to Third-Party ER&D Companies

As technology evolves, companies are adapting their product development and user experience strategies, leading to shifts in business models and operations. Increasingly, they're relying on third-party Engineering Service Providers (ESPs) for help in improving existing products and creating new ones to stay competitive. Innovations in cloud technology, 5G, AI, and machine learning are fueling advancements like autonomous vehicles, pushing companies to invest more in digital and embedded engineering.

Both traditional and new-energy companies are using ESPs for various needs. Traditional firms focus on balancing R&D between old and new products, while new-energy firms need help across different domains. Outsourcing to ESPs is growing due to the need for specialized skills, shorter product development times, faster market entry, and cost savings. The COVID-19 pandemic has also boosted confidence in remote and hybrid work models, further encouraging outsourcing to tap into global talent pools.

Differentiation in IT services & ER&D services

ER&D services are different from IT services because they are more specialized, have more potential to grow, and rely on deep industry knowledge. It also works more closely with clients in their own countries. While IT outsourcing is common, ER&D outsourcing is newer, giving ER&D a greater chance to expand in the future.

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The below chart shows the difference between the IT services and ER&D services.

Service Area	Key Aspects	Strategic Approach	Operational Detail	Innovation & Growth	Win Factors & Barriers to Entry
IT Services	- Application Services	- Activities involving cost reduction and integration	- Long-duration models	- Rate-card focus	-Global Delivery Model & Competitive rates
	- Infrastructure Services		- 15% Global IT Spend outsourced	- CIO involvement later	-Low entry barriers
ER&D Services	- Product Development (Mechanical, Embedded, Software)	- High trust, mission-critical partnerships	- 5.5% Global ER&D Spend outsourced	- IP/Solutions, R&D Infrastructure	-knowledge Assets (IP/Solutions),R&D Infrastructure, Data Protection
	- Manufacturing Engineering, MRO, Network			- Day o CTO involvement	-High entry barriers

Source: IPO Prospectus & KRChoksey Research

This signifies the strong background of growth that ER&D services are likely to leverage in the coming time. It provides enough opportunities for India. Indian engineering service providers (ESPs) are outpacing their counterparts in Western Europe and North America, fueled by India's abundant talent pool. The Indian ESP market is projected to grow at a rate of 14%-17%, second only to Eastern Europe's 18%-20%. In 2022, it contributed $25 billion, comprising a quarter of the global outsourced Engineering Research & Development (ER&D) spending, which totaled $105-$110 billion.

Opportunity in Global ER&D Market across Sectors

Automotive

Digital advancements have broadened the scope of automotive ER&D beyond traditional design and manufacturing to include the entire value chain. The global automotive ER&D spending, standing at $180 billion in 2022, is expected to grow to $238 billion by 2025, with a major share held by top companies, especially in digital engineering. Europe leads the spending, followed by the Asia Pacific and North America, with significant investments in electric vehicles forecasted for the coming years. This growth is fueled by the drive towards autonomous, connected, and electrified technologies, with a large portion of ER&D activities increasingly being outsourced to specialized service providers. Investment in these areas is rising due to demand for electric vehicles and smart technologies like AI, which enhance safety and the driving experience. Governments' incentives are also pushing the industry towards sustainable electric transport.

The automotive outsourced Engineering, Research, and Development (ER&D) market is experiencing a swift expansion, with projections indicating a growth from $18-$20 billion in 2022 to larger figures over the next four years. This sector's growth is expected to surpass that of the broader automotive ER&D industry, with a compound annual growth rate (CAGR) of about 16% from 2022 to 2026. A significant driver of this growth is the rising allocation to digital technologies, which is forecasted to grow from 26% to 36% of the overall automotive ER&D spend. The accelerated growth stems from a critical need for specialized digital engineering capabilities as the industry pivots towards advanced technologies such as electric vehicles (EVs), which require new sets of expertise. Companies are increasingly turning to third-party service providers to bridge skill gaps, particularly in body engineering and EV technology. This trend is expected to strengthen as companies aim to scale production and incorporate digital innovations swiftly and efficiently. After initial vehicle models are out, the tendency to outsource to engineering service providers grows, allowing companies to focus on reducing development times and costs while leveraging external expertise for subsequent models and innovations.

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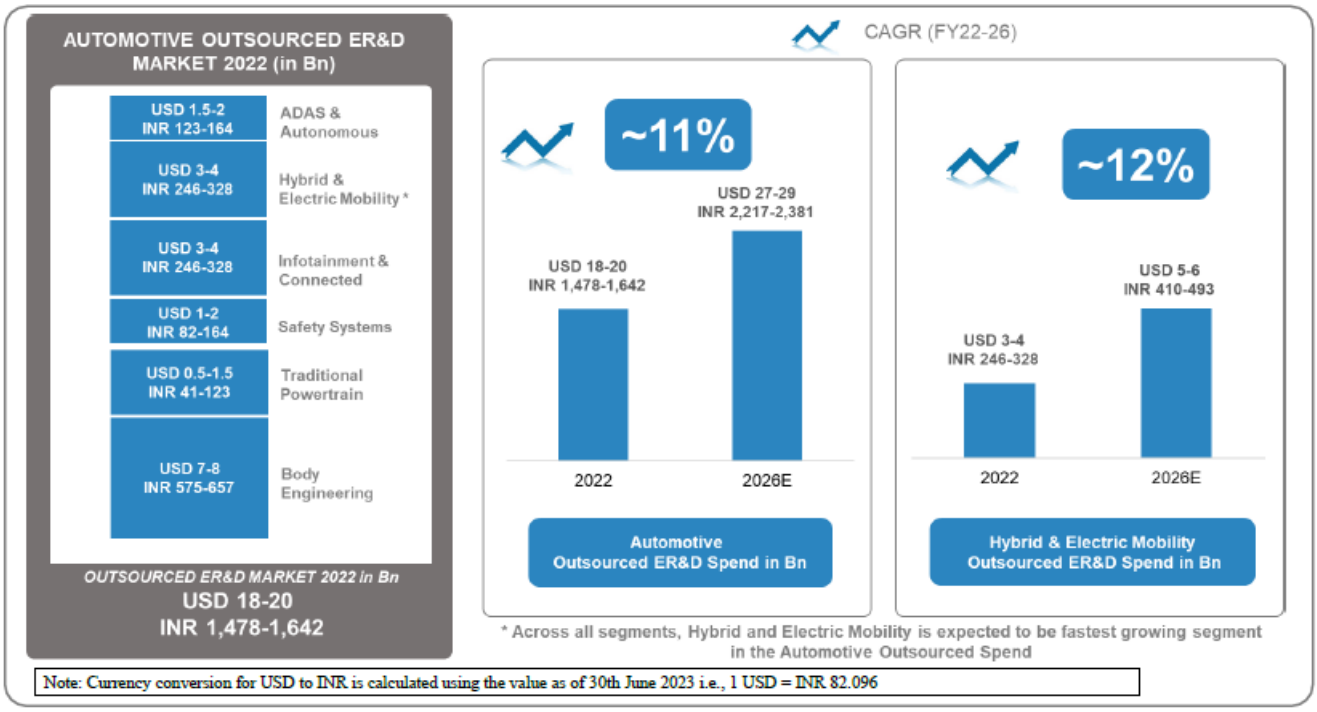
Industry Overview

The below chart signifies the growth opportunity in automotive outsourced ER&D market spend



Source: IPO Prospectus

Aerospace & Defense

The aerospace industry is rebounding from the pandemic with increased R&D spending, projected to grow from $52 billion in 2022 to $62 billion by 2026. Europe leads in spending with France as a significant contributor. The sector focuses on digitalization and sustainability to enhance manufacturing and meet rising demand, with outsourced ER&D growing over 10% in the same period. Innovations like electric propulsion are gaining interest, spurred by automotive advances. Major firms are expanding to address the aircraft backlog and invest in new technologies like autonomous flight.

Transportation & Construction Heavy Machinery (TCHM)

The TCHM sector's ER&D spending is set to grow from $43 billion in 2022 to $49 billion by 2026. Outsourcing in this sector is also increasing, with a focus on mechanical design and manufacturing engineering. The industry is investing in smart technologies and electrification to improve machinery performance. Following the automotive industry's lead, TCHM is innovating in areas like electrification, connected equipment, autonomous fleet and reduced carbon footprint. Also, the pandemic has accelerated the shift towards digital solutions, with companies aiming to speed up product development and enhance their offerings.

Competition Landscape

The ER&D sector worldwide faces stiff competition, involving major global ER&D consulting and tech firms, multinational IT companies' divisions, and in-house ER&D teams of specialized tech firms, along with many smaller local players. Tata Technologies Limited competes in this diverse market. Global ER&D spending is distributed among in-house departments, GCCs, and third-party ESPs, with the third-party outsourced market valued at approximately $100-$105 billion. The below chart shows the types of ESPs:

Category	Companies
Large IT Service Providers	Capgemini, Accenture, TCS, Wipro, etc
Indian Heritage ER&D Specialists	KPIT, LTTS, Tata Elxsi, Tata Technologies etc
Western European Specialists	Alten, Akkodis, Bertrand, EDAG, Magna Steyr, etc
High Growth Service Providers	EPAM, Globant, Endava, etc

Source: IPO Prospectus

RESEARCH ANALYST
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Industry Overview

Education Services

Considering Industry 4.0, the demand for new skills among engineers and technical workers is on the rise. A 2021 World Economic Forum report highlighted that almost all companies they surveyed (92%) are looking to train their staff in new technologies. Despite India having a large pool of talent, there's a significant need for enhanced training. Upskilling is crucial for India's workforce, particularly in engineering and technology sectors. If done right, such training could add about $570 billion to the Indian economy and create 2 to 2.5 million jobs by 2030.

There's also a global shortage of tech skills, and India is no exception. To keep up with the anticipated industry needs by 2026, India must train between 1.4 and 1.9 million engineers. This upskilling presents a big opportunity to improve the qualifications of India's engineers to match future job requirements.

As industries adopt new technologies like those from Industry 4.0, the demand for digitally skilled workers has soared. The Labour Bureau's Employment Economic Survey from the second quarter of 2021 shows that 17.9% of companies across nine major sectors in India offer formal skill training. In the manufacturing sector, 17.4% of firms are providing such training, making it the fifth largest sector in terms of formal skill training.

The manufacturing sector's shift to advanced technologies such as automation and digitalization is creating a skill gap, particularly noticeable with the automotive industry's move towards ACES (Autonomous, Connected, Electric, and Shared) technologies. To bridge this gap, Industrial Training Institutes (ITIs) and other educational institutions are revising their curricula to include new-age skills for the emerging workforce and to enhance the capabilities of existing employees. The current curriculum, which focuses heavily on Internal Combustion Engine (ICE) vehicles, needs to expand to cover Electric Vehicles (EVs). This expansion is crucial since the Ministry of Skill Development and Entrepreneurship (MSDE) projects that the EV industry will generate jobs for 10 million people by 2030.

In terms of government investment, the MSDE allocated about $289 million in 2021 to develop standard infrastructure for skill development training. Additionally, for 2023, nearly $318 million is budgeted for further skill and infrastructure development.

India currently has 14,758 ITIs, with around 2,000 either upgraded or in the process of being upgraded. Upgrading one ITI can cost between ₹300-400 million ($3.6-4.8 million), with states and industry partners funding the modernization of technology infrastructure and providing industry-aligned courses.

So, with the government's push on manufacturing and increased participation by the private players, provides a strong opportunity for Tata Tech to extend phygital educational solutions in manufacturing skills including upskilling and reskilling.

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

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Investment Rationale

Diversification on track

Revenue from Anchor Clients (Tata Motors/JLR) formed 51% of revenues in FY21, for FY23 the number stood at ~40%, and for H1FY23 it was ~45%. The company has managed to secure global clientele and with it's expertise managed to de-risk their portfolio sequentially. Tata Tech has worked across the global auto sector with clients from Vietnam, China, South Korea, Europe & USA. The diversification revenue bouquet will aid the company going forward providing room for growth.

Source: KRChoksey Research Company Prospectus

Global Execution Model

Tata Tech has a strong global presence with offices across UK, USA, Sweden, China & India. Majority of employees are local nationals across the 19 global delivery centres employing 11,534 people. 25% of these full-time employees have 10+ years of experience. Asia has the largest headcount at 9934, followed by Europe with 1,354 and 246 employees in North America. A global presence like this will help the company compete on the world stage and secure further contracts from overseas manufacturers and OEMs.

Promoter Strength

The company is promoted by Tata Motors, a leading global manufacturer. Further, the ultimate promoter group of the company is Tata Group. Tata Group is one of the oldest corporate groups in India, and has one of the highest corporate governance standards. Tata is the most valuable Indian brand of 2022, as per Brand Finance India 2022 report. There is a heritage of 100+ years, and about 300Bn+ Market Capitalization from the group. The company is well positioned to benefit from Tata Group's priorities in EVs and Aerospace. The company was certified as "Emerging Business Leader" in TBEM assessment in 2022.

Resilient Financials with good profitability

The company has a strong balance sheet, with nil debt as on the date of filing the Red Herring Prospectus. Additionally, the company has 4,971 Mn INR of investments, 2,517 Mn INR of Loans given, and 7,834 Mn INR of cash & bank in it's books as on 30th September 2023. For FY22 & FY23 the company had a Return on Net Worth of 19% and 20% respectively. Additionally, the company enjoys a high EBITDA margin of roughly 18% in FY22 & FY23.

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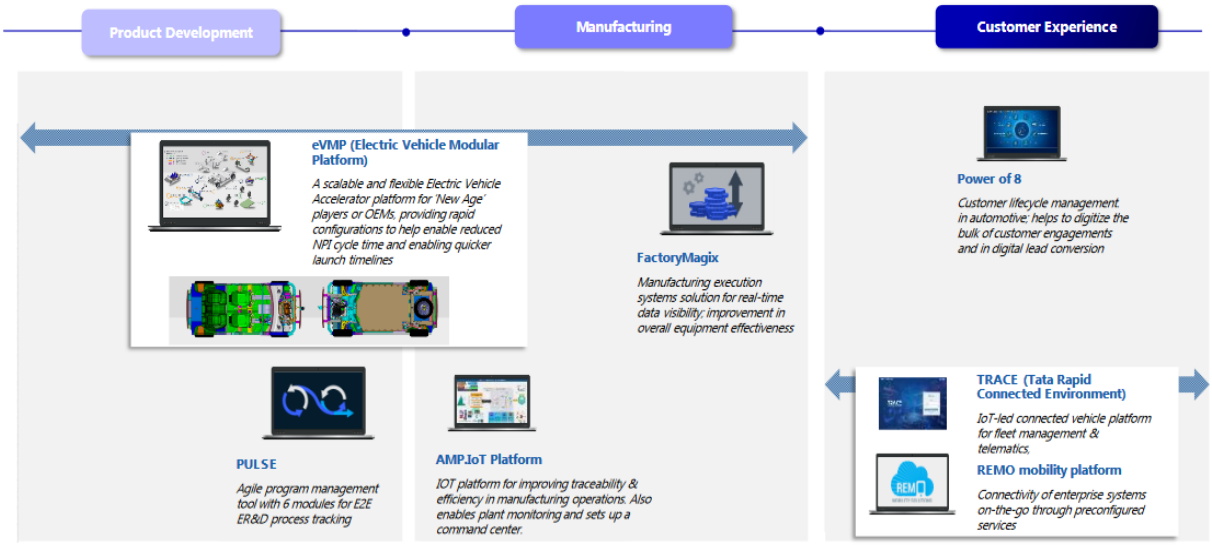
Key Strengths

Expertise in Automotive Industry

Tata Tech has deep expertise in the Automotive Sector, and is rated in Leadership Zone by Zinnov in ER&D Segment. The company has over 20+ years of expertise developing solutions for the sector. The company has worked for concept design, tear down and benchmarking, vehicle architecture, body engineering, chassis engineering, end-to-end vehicle development, powertrain, electricals, building and testing. The diversified range of services offered by the company have given the company a deep understanding of the sector that can also be applied to adjacent sectors of Heavy Machinery & Construction Equipment and Aerospace.

Marquee set of clients

The company has worked with clients across the global automotive landscape from North America to China. The client list includes names like Tata Motors, Jaguar-Land Rover, Polestar, Vinfast (Vietnam), Mclaren, Honda, Ford. The company has worked with both greenfield clients like Vinfast for end-to-end vehicle development. 7 of the top 10 global automotive ER&D spenders as well as five out of the top 10 prominent new energy ER&D spenders globally. The company has a high repeat rate of above 95% over the last 3 years. The company has also achieved a high Net Promoter Score of 58 for the twelve months ended September 2023.



Source: KRChoksey Research, Company Prospectus

Proprietary Platforms accelerating execution

The company has invested in development of proprietary platforms to aid execution and growth. The company has platforms for product development, manufacturing, Internet of Things, mobility and customer lifecycle management. The platforms enable the company to rapidly execute and prototype customer requirements. The company is also developing cutting edge solutions like VR/AR, robotics, IOT. FactoryMagix, PULSE, AMP.IoT & eVMP aid in accelerating the development, manufacturing and quality monitoring of the manufacturing process. With the help of Power of 8 (digital enabled services like VR, smart buy, personalization settings, 3D product config) the company aims to improve sales experience for the customers.

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Key Risks

Concentration risks due to huge dependency on automotive industry

The automotive segment contributes nearly 88% of the overall service segment's revenue and it is also a significant portion of the overall revenue of the company. The automotive industry, which is subject to economic cycles, has been impacted by recent slowdowns, such as those during the COVID-19 pandemic. This has affected the industry worldwide. Economic downturns, higher interest rates and inflation, costly environmental and tax policies, labor strikes, and rising freight and fuel costs can negatively impact vehicle sales and manufacturing operations. Additionally, some car manufacturers are revising their investment plans in electric vehicles due to lower demand. While these issues may not immediately impact the company's business, a decrease in automotive demand could lead to reduced client spending on company's services, potentially harming company's growth, financial health, and operational results.

Concentration risks due to reliance on top customers

Tata Tech has huge dependency on top 5 customers. In 2023, the company has generated 73% of the revenue from top 5 customers. Top 5 customers include Tata Motors and some of its subsidiaries such as Jaguar Land Rover Limited. If any or all of top five clients were to experience a decline in their business, cease their business with Tata Tech, or significantly reduce their transactions with Tata Tech, company's revenue could decrease. This reduction in revenue may, in turn, materially and adversely affect Tata Tech's business, operational results, cash flows, and financial position.

The emergence of adverse impacts due to a slowdown in the developed world

Tata Tech generates nearly 45% of its revenue from the developed regions of Europe and North America. These economic areas are experiencing a high inflationary environment, and there is a risk of a slowdown or recession in these regions next year. As a result, Tata Tech's clients from these regions might defer the execution of discretionary projects due to tighter financial conditions, and it might impact the company's growth pace if these economies slow down, since a significant portion of the company's revenue is dependent on these economies.

Contractual profitability risk

Tata Technologies faces the risk of contractual profitability when it comes to pricing and delivering its services. The company uses fixed-price and time-and-material contracts, but if it doesn't accurately predict the costs and complexities involved, projects can become unprofitable. Despite strategies to manage costs, such as optimizing service delivery and controlling subcontracting expenses, there's no guarantee these will be effective. Major costs like salaries and software aren't easily adjusted to match revenue fluctuations. Misjudging the necessary resources or failing to handle changes, inflation, or exchange rates can lead to lower profits or losses on contracts. Furthermore, fixed-term projects like full vehicle development carry the risk of revenue decline if they are not renewed or if similar new projects are not secured. In essence, inaccurate cost estimates, pricing, or risk assessments can adversely affect Tata Technologies' profitability.

Talent retention and acquisition

Tata Technologies, operating at the forefront of ER&D faces the critical challenge of talent retention and acquisition due to the high level of expertise required in its projects. The company's success depends on its ability to not only attract but also retain the best minds in the fields of engineering, technology, and research. This necessity is amplified by the complex and innovative nature of Tata Tech's work, which demands a workforce that is not just technically proficient but also continuously evolving with the industry's cutting-edge advancements. To this end, Tata Tech invests in rigorous talent development programs and creates an environment conducive to professional growth, ensuring that employees are engaged, and their skills remain sharp and relevant.

Exchange rate fluctuation

Foreign currency risk for Tata Technologies arises from potential changes in exchange rates that can affect the company's earnings, expenses, and financial position. As Tata Tech operates internationally, it deals in various currencies such as the US dollar, British pound, euro, and Swedish krona. Fluctuations in these currencies against the local currencies of Tata Tech's subsidiaries can impact the company's financial results. To safeguard against these risks, Tata Technologies employs hedging strategies through derivatives and other financial instruments in line with its risk management policy. The company regularly assesses its vulnerability to currency fluctuations and strategically hedges a portion of this exposure to maintain financial stability across its global operations.

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

Tata Technologies Ltd.

Future Growth Strategies

Increased Wallet Share from existing Clients

By targeting the largest ER&D spenders in the automotive sector and devoting time and resources for developing long term relationships, Tata Tech has the opportunity of earning an increased wallet share from it's existing set of clients. By cross-selling and upselling more services, the company has the possibility to reap rewards of work done successfully. Scoring in the top quartile in NPS amongst its peer group is indicative of the fact that the company can use its existing client base to grow further. The company follows a Key Account Management approach to engage and retain its top clients. The company is also investing in building capabilities of its sales personnel and aims to conduct proactive campaigns to better engage with the client base.

Electrification is the future

Auto companies are moving away from Internal Combustion Engines(ICE) to Electric Vehicles(EV). This process is an ongoing and a multi-year process. Tata Tech has executed multiple ICE to EV conversions. Tata Tech also specialised in EV battery conceptualising and design with eVMP which is a flexible and scalable vehicle platform for OEMs. Tata Tech has been in the EV business since 2012, with the launch of eMo, giving it an edge in terms of execution process. Additionally, it has successfully Tata Tigor from ICE to EV, and completed JLR electrification. The company is in a strategic position to capture the upcoming EV revolution.

Auto Adjacent verticals to drive future revenues

Tata Tech has recently entered the Aerospace vertical, with their empanelment with Airbus, the contract will be a significant addition to the revenues going forward. The company is only one of the 17 vendors that are empanelled, the industry has high entry barriers. The company is also servicing the IHCM, Industrial Heavy Construction Machinery segment. Leveraging it's deep expertise in the auto segment the company will be able to pivot into these new verticals for ER&D, smart manufacturing and other services.

Digital Engineering & Smart Manufacturing

The automotive industry is going through a fundamental transformation, where modern practices are becoming more relevant. Tata Tech has experience with robotics, Internet of Things (IoT), Augmented Reality, Computer Vision & AI, Simulation, Digital and 3D Twins, Additive Manufacturing, Paperless Factory. All of these solutions can be used in auto adjacent industries too. With a decade and more of experience in these advanced technologies the company is positioned well to capture the new generation of automation in the auto sector.

Upskilling Opportunity

The company has forayed into the edtech sector with their proprietary phygital platform 'IGETit'. The company partners with state Industrial Training Institutes and private sector organisations for training and upskilling. IGETit has 25,000+ exercises and 2000+ courses. The company has partnerships with 4 state universities, 6 private universities and 150+ private organisations using IGETit. With the transformation of the automotive sector to newer methods of manufacturing and production, upskilling and practical education gains more importance. The education business has been started only recently and is in induction. As traction picks up and the company expands it's offerings, it represents a significant opportunity for the company to capitalize on.

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

Tata Technologies Ltd.

Outlook

Tata Tech is in a favorable position as being the only company in India being able to manufacture end-to-end vehicles, working on the hardware and the software of Automotive Sector. With the automotive industry's progression toward innovative technologies such as smart manufacturing, robotics, AR/VR, Tata Tech's positioning is optimal for capitalizing on this momentum. The Tata group's strong brand equity and corporate governance standards further bolster confidence in its prospective growth. Additionally, significant prospects in aerospace, interactive human-machine (IHM) interfaces, and educational sectors, coupled with a robust financial state featuring no debt and a healthy cash reserve, signal a company with sound capital management suitable for investment. **Hence, we rate the Tata Technologies Limited IPO as 'Subscribe'.**

Peer Comparison

Particulars	KPIT Technologies Ltd	L&T Technology Services Ltd	Tata Elxsi Ltd	Tata Technologies Ltd
CMP-20/11/2023	1622.3	4,528.7	8290.3	475-500*
Revenue (INR Mn)	33,650	80,136	31,447	44,142
Diluted EPS (INR)-FY23	13.95	110.48	121.26	15.37
P/E FY-23	116.3	41.0	68.4	30.9-32.5 ^
Adjusted EBITDA Margin%	18.9%	21.4%	30.6%	18.6%
Net Profit Margin (%)	11.5%	14.6%	24.0%	14.1%
ROCE%	30.3%	31.8%	46.0%	26.9%
ROE%	25.9%	25.6%	41.0%	23.7%

*The IPO price range has been considered as CMP for Tata Tech has been taken.
^ P/E of Tata Tech has been calculated on the IPO price range.

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Tata Technologies Ltd.

Financials

Income Statement (INR Mn)	FY2020	FY2021	FY2022	FY2023
Revenue from operations	**28,521**	**23,809**	**35,296**	**44,142**
Total expenditure	**23,816**	**19,952**	**28,839**	**35,932**
EBITDA	**4,704**	**3,857**	**6,457**	**8,209**
Dep	992	922	857	946
EBIT	**3,713**	**2,935**	**5,599**	**7,264**
Finance cost	156	177	219	180
Other Income	449	448	488	878
EBT(Including exceptional items)	3,920	3,153	5,868	7,962
Tax	1,404	761	1,499	1,721
PAT	**2,516**	**2,392**	**4,370**	**6,240**
Adjusted EPS Rs.	**6.20**	**5.90**	**10.77**	**15.38**

Balance Sheet (INR Mn)	FY2020	FY2021	FY2022	FY2023
Assets				
Property Plant and Equipment	1,051	872	1,145	1,202
Right use of assets	2,469	2,326	1,879	1,803
Goodwill	6,999	7,259	7,293	7,629
Other current assets	1,717	1,395	2,062	3,407
Total non current Assets	**12,236**	**11,852**	**12,379**	**14,040**
Trade receivables	6,251	5,957	7,682	11,062
Cash and Cash Equivalents	3,761	7,813	7,683	3,828
Bank	130	21	1,011	6,164
Other Financial assets	3,353	10,084	13,426	16,921
Total current Assets	**13,494**	**23,875**	**29,802**	**37,975**
Total Assets	**25,730**	**35,727**	**42,181**	**52,015**
Equity and Liabilities				
Equity share capital	418	418	418	811
Other equity	18,108	21,004	22,383	29,083
Lease	2,297	2,327	2,232	2,148
Other non current	380	157	190	239
Total non current liabilities	**2,677**	**2,484**	**2,422**	**2,386**
Trade Payables	2,431	2,237	3,366	6,578
Other current liabilities	2,095	9,585	13,591	13,156
Total current liabilities	**4,527**	**11,822**	**16,957**	**19,734**
Total liabilities	**7,204**	**14,306**	**19,379**	**22,120**
Total equity and liabilities	**25,730**	**35,727**	**42,180**	**52,015**

Cash Flow (INR Mn)	FY2020	FY2021	FY2022	FY2023
Net Cash flow generated from operations	2,674	11,132	-384	4,014
Net Cash flow from investing activities	-76	-6,736	742	-4,874
Net Cash flow from Financing activities	-2,611	-441	-444	-3,469
Cash at the beginning of the year	**3,725**	**3,761**	**7,813**	**7,683**
Cash at the end of the year	**3,761**	**7,813**	**7,683**	**3,828**

Source: IPO Prospectus, KR Choksey Research

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

Tata Technologies Ltd.

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•KRChokseyhoksey Shares and Securities Pvt. Ltd.

•CIN-U67120MH1997PTC108958

•Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

•Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

•Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

•Phone: 91-22-66535000

•Compliance Officer: Varsha Shinde

•Email: varsha.shinde@KRChokseyhoksey.com

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420