

**OPPORTUNE WEALTH ADVISORS PRIVATE LIMITED**

**Blockbuster IPO Alert: Tata Technology's IPO Analysis**



**“BUY for Long Term and Hold, Do Not Sell after Listing Gains”**

*"Buy" Tata Technologies' in IPO or upon listing on the bourses, given the growth prospects in the automotive and electric vehicle sectors.*

**About the IPO:**

- It is entirely an Offer for Sale (OFS) and the company will not receive any proceeds from the issue. This gives the retail investor an opportunity to own the company's shares in the public markets without any dilution at listing.
- IPO includes the sale of up to 6.08 crore equity shares, which accounts for 15% of the company's paid-up share capital. All promoters are only partially selling their stake. Tata Motors to divest 11.41% stake, Alpha TC Holdings to divest 2.4%, and Tata Capital Growth Fund I to divest 1.2%.
- 10% of the issue size (1.5% of shareholding) is reserved for shareholders and employees of Tata Motors. Still significant room for other retail, HNI investors.

**Pre-Offer Shareholding:**

Category of Shareholders	Pre offer		Selling Stake in IPO
	No of Equity Shares	% of Pre-offer paid up Equity Share Capital	
<b>Promoters</b>			
<i>Tata Motors Limited</i>	262,844,816	64.8%	11.4%
<i>Tata Motors Finance Limited</i>	8,119,920	2.0%	
Sub Total	270,964,736	66.8%	
<b>Public</b>			
<i>Alpha TC Holdings Pte Ltd</i>	29,445,010	7.3%	2.4%
<i>Tata Capital Growth Fund I</i>	14,772,500	3.6%	1.2%
<i>Others</i>	90,486,284	22.3%	
Sub Total	134,703,794	33.2%	
<b>TOTAL</b>	405,668,530	100.0%	15.0%

\*\*Source: Tata Technologies RHP

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### IPO's Strengths:

- 1.Brand value and market position:** Tata Technologies is one of the leading players, brands in automotive ER&D services globally.
- 2.Diversified customer base:** Tata Technologies clientele comprise 35 auto manufacturers, suppliers and 12 new energy vehicle companies such as Tata Motors, Land Rover Automotive PLC, Airbus, McLaren, Honda, Ford, Cooper Standard, VinFast among others.
- 3.Experienced management team and promoters:** Backed by seasoned Promoters, a proficient board of directors, and capable management.
- 4.Deep Expertise in the Automotive and Electric Vehicle (EV) sectors:** The company is ranked as the top India-based automotive ER&D service provider for the fourth consecutive year. It is one of the leading participants in the automotive ER&D services industry globally. They offer end-to-end solutions for EV development, manufacturing and after-sales services.

### IPO Weakness:

- 1.Industry Dependency:** Tata Technologies is heavily dependent on the automotive industry. A slowdown in the automotive industry could have a significant negative impact on the company.
- 2.Customer Concentration:** Their top 5 customers account for 60% of FY 23 revenue (compared to 55% in FY21). The company's promoter, Tata Motors Limited and specific subsidiaries (excluding JLR) contribute 34% of FY 23 revenue (compared to 43% of FY21).
- 3.Electric Vehicle (EV) Sector Uncertainty:** Future operations and cash flow could be impacted by uncertainty in the Electric vehicle sector, and related developments.
- 4.Fixed Price Contracts:** Approximately 60% of the contracts predominantly consist of fixed prices for 5-6 years, making them susceptible to inflation without the ability to adjust contract pricing.

### About the Company:

Tata Technologies offers high end technology solutions. The company has four core services that are Engineering, Research and Development (ER&D), digital enterprise services, education offerings, and product and value-added reselling.

The company is a leading player in the automotive ER&D services. Its client roster includes 35 original equipment manufacturers (OEMs) and 12 new energy players such as Tata Motors, Land Rover Automotive PLC, Airbus, McLaren, Honda, Ford, Cooper Standard, VinFast among others.

Tata Technologies is a global engineering services company offering product development and digital solutions, including turnkey solutions, to global original equipment manufacturers. The company uses domain expertise in the automotive industry to serve clients in industries such as aerospace, transportation, and heavy machinery.

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### Management Details:

- The Tata Technologies management team is **highly experienced and qualified**, with a proven track record of success in the automotive industry.
- ✓ Ajoyendra Mukherjee, Chairman, who recently joined the company in February 2023 brings four decades of experience from his prior employer - Tata Consultancy Services.
- ✓ Warren Harris, CEO and MD, has been with the company since 2005.
- ✓ Savitha Balachandran, CFO, joined the company in July 2020, and previously worked at Tata Motors Limited.

### Promoter of Tata Technologies:

- Tata Technologies' major promoter is Tata Motors Limited (holding 65% share as on date), a subsidiary of Tata Group. Tata Motors, founded in 1945, is a prominent Indian automobile company with a strong presence in both domestic and international markets, offering a diverse range of vehicles. They are also actively involved in the electric vehicle market.
- As a significant promoter of Tata Technologies, Tata Motors provides valuable resources, expertise, and access to a global customer base, actively supporting Tata Technologies' growth and success.

### Competitors:

- Key competitors in the ER&D service market include pure play Indian ER&D service providers such as L&T Technology Services, KPIT Technologies and Tata Elxsi;
- IT service providers such as TCS, Wipro and Tech Mahindra;
- Global ER&D service providers such as Bertrandt, Magna Steyr and EDAG;
- In-house ER&D departments of our clients.

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**Peer Comparison:**

(₹ cr)	31-Mar-23					
	Revenue	PAT	PAT Margin	P/E	Basic EPS	RONW
<b>Tata Tech</b>	4,414.2	624.0	14.1%	NA	15.4	20.9%
<b>KPIT Tech</b>	3,365.0	386.9	11.5%	80.3	14.1	22.9%
<b>LTTS</b>	8,013.6	1169.8	14.6%	37.5	110.8	23.5%
<b>Tata Elxsi</b>	3,144.7	755.2	24.0%	61.6	121.3	36.2%
<b>**Source: Tata Technologies RHP</b>						

**Tata Technology v/s Tata Elxsi:**

Particulars	Tata Technology (Consolidated)			
	2020	2021	2022	2023
<b>Revenue</b>	<b>2,852</b>	<b>2,381</b>	<b>3,530</b>	<b>4,414</b>
<i>YoY Growth</i>		-17%	48%	25%
Employee Count	8,620	7,954	9,338	11,638
<b>Revenue per Employee (₹)</b>	<b>3,308,648</b>	<b>2,993,351</b>	<b>3,779,792</b>	<b>3,792,903</b>
<b>EBIT</b>	<b>416</b>	<b>338</b>	<b>609</b>	<b>814</b>
<i>EBIT Margin</i>	14%	14%	17%	18%
<b>PAT</b>	<b>252</b>	<b>239</b>	<b>437</b>	<b>624</b>
<i>PAT Margin</i>	9%	10%	12%	14%
ROA (%)	11%	8%	11%	14%
ROE (%)	14%	12%	20%	24%
ROCE (%)	23%	17%	28%	31%
Total Debt/Equity(x)	0	0	0	0

Particulars	Tata Elxsi (Standalone)			
	2020	2021	2022	2023
<b>Revenue</b>	<b>1,610</b>	<b>1,826</b>	<b>2,471</b>	<b>3,145</b>
<i>YoY Growth</i>		13%	35%	27%
Employee Count	6,577	7,362	9,375	11,864
<b>Revenue per Employee (₹)</b>	<b>2,447,712</b>	<b>2,480,521</b>	<b>2,635,519</b>	<b>2,650,643</b>
<b>EBIT</b>	<b>359</b>	<b>519</b>	<b>756</b>	<b>955</b>
<i>EBIT Margin</i>	22%	28%	31%	30%
<b>PAT</b>	<b>256</b>	<b>368</b>	<b>550</b>	<b>755</b>
<i>PAT Margin</i>	16%	20%	22%	24%
ROA (%)	20%	24%	28%	31%
ROE (%)	25%	30%	37%	41%
ROCE (%)	35%	42%	51%	52%
Total Debt/Equity(x)	0	0	0	0

**OPPORTUNE WEALTH ADVISORS PRIVATE LIMITED****Major Differences in Tata Tech v/s Tata Elxsi**

1. **Revenue by Geography:** Tata Technology mainly caters to Indian, North American and UK market. In the couple of recent years Vietnam has emerged as a major geography. Whereas for Tata Elxsi, Europe and US serve as the major geographies.
2. **Major Sectors:** Tata Technologies majorly focuses on automotive, aerospace, defense and industrial machinery. Whereas Tata Elxsi work across industries such as automotive, media and entertainment, healthcare, and telecommunications
3. **Services Offered:** Tata Technologies offers product engineering and design, manufacturing solutions, PLM (Product Lifecycle Management) services, IT consulting, and digital transformation services; whereas Tata Elxsi provides services related to product design and development, embedded systems, software development, user experience design, and advanced technology solutions, such as AI and IoT.

**Our Opinion on Valuations:**

At the higher price of the IPO band of Rs. 500, the company is being valued at a PE of 58x. This multiple is a modest discount to the 66x PE ratio at which its closest peer, Tata Elxsi, currently trades.

With the growth prospects, strong margin expansion opportunity, and a strong management team, we recommend subscribing to the IPO.

We recommend subscribing Tata Technologies IPO at the highest price band of Rs. 500 per share to ensure allotment. Furthermore, we recommend holding the stock as a long-term investment. Currently the IT sector is facing headwinds and there is a chance that listing gains may not be significant, as a result be cautious while applying for the IPO only from a short-term holding standpoint and only for listing gains.

**As per our internal valuation metrics, we expect some listing gains for the company and potential upside of 30% in the coming two years. In our humble opinion, the real game for investors is patient investing. If an investor decides to hold on to the shares of Tata Technologies for the coming 5 years, we expect an upside of 85% or a CAGR (compounded annual growth rate) of 15% plus for the patient investor.**

Regards,

**Suruchi Jain**

Managing Director and Founder

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