

02 September 2024

India | Equity Research | Company Update

## Tata Technologies

Technology

### Analyst meet update: ICE-to-EV prowess, SDV, plant engineering to drive growth

We attended Tata Technologies' (TATATECH) analyst meet. The demonstration indicated TATATECH's prowess in :1) ICE to EV conversion, 2) SDV, 3) smart manufacturing, 4) plant engineering, 5) robotics, 6) AI implementation and 7) battery solutions. Special emphasis has been put on deepening partnership with OEM ecosystem stakeholders to speed up the transition to software/ SDV portfolio. It has also added marquee names to client roster to limit the downside from VinFast ramp-down (in EV, semiconductor, manufacturing domain). We recommend **BUY** with unchanged TP of INR 1,290 on 1-year forward PE of 56x (in line with lifetime median/average PE). Key risks: Under-penetration in Europe and other verticals being unable to adequately compensate for VinFast's ramp-down.

### Robust skillset for engineering EV

Due to its previous project of converting Tigor and Tiago from ICE to EV (which is more complex than designing born EVs), TATATECH has gained robust skillsets in EV domain. Its capabilities include converting ICE to EV 1) without any changes in the existing model look and feel, 2) doing so in record time and without exceeding much on the cost side, 3) managing the weight of the vehicle upon transition, 4) adding cooling systems, 5) powertrain installation. This positions it favourably to engineer-born EVs (2/3/4 wheelers as well as commercial vehicles). This is primarily the norm in India and South Asian countries while manufacturing born EV vehicles are trend all across the world. Commercial and industrial heavy vehicles are undergoing ICE to EV conversion and TATATECH is well positioned for this opportunity. Moreover, value engineering, teardown benchmarking, cost engineering, sourcing and dynamic benchmarking services are driving growth traction for the company.

### Incubating battery solution capabilities

TATATECH is in exclusive partnership with Agratas for development and industrialisation of battery solutions, which gives it strong foothold in EV domain. It recently started engineering battery solutions for 2-3 wheelers. Battery solution capabilities may serve as key competitive advantage (in cost engineering segment) for TATATECH for electrification as battery accounts for ~50% of electric vehicle cost today.

### Financial Summary

Y/E March (Rs mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	51,172	56,400	66,783	75,255
EBITDA	9,413	10,543	13,308	15,148
EBITDA Margin (%)	18.4	18.7	19.9	20.1
Net Profit	6,794	7,475	9,373	10,579
EPS (INR)	16.7	18.4	23.1	26.1
EPS % Chg YoY	8.9	10.0	25.4	12.9
P/E (x)	62.8	57.0	45.5	40.3
EV/EBITDA (x)	42.9	38.2	30.0	26.1
RoCE (%)	19.6	19.9	22.6	22.8
RoE (%)	21.9	21.9	24.5	24.4

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#### Market Data

Market Cap (INR)	426bn
Market Cap (USD)	5,081mn
Bloomberg Code	TATATECH IN
Reuters Code	TATE.BO
52-week Range (INR)	1,398 /970
Free Float (%)	30.0
ADTV-3M (mn) (USD)	32.9

Price Performance (%)	3m	6m	12m
Absolute	2.2	(3.8)	0.0
Relative to Sensex	(9.5)	(15.7)	0.0

#### Previous Reports

19-07-2024: [Q1FY25 results review](#)

15-05-2024: [Initiating Coverage](#)

## Other KTAs

### Rooted to scale digital engineering services

TATATECH is also transitioning from having hardware-dominated portfolio to software one with strong capabilities in SDV, which enhances the user car experience. High end EV car has ~100 ECUs, distributed across powertrain, body, chassis, ADAS and infotainment. Now ECU consolidation is happening instead of adding more from streamlining processes. TATATECH is offering application software, functional safety (FuSA), basic software development, software systems and validations, middle ware development, etc.

### Addition of new marquee clients

TATATECH has added some marquee OEM names to its roster and is going deeper into them. Its trinity of offerings in software domain includes: PLM, ERP and MES. With one of these clients, TATATECH is doing factory modernisation work. TATATECH is already implementing SAP for JLR. It is also in a JV with BMW for setting up centre in India, for which 4,000-5,000 people team has been allocated to develop software. This new client addition is likely to cover up the void left by VinFast ramp-down.

### Important piece in partner ecosystem

TATATECH is partnering with OEMs, semiconductor chip manufacturers, hyperscalers, battery makers in the EV ecosystem across domains like product development, manufacturing and customer experience. It is partnering exclusively with Agravas for industrialisation of battery solutions, semiconductor chip manufacturers for hardware customisation. Tata Technologies has signed a Memorandum of Understanding (MoU) with Arm to develop automotive software and systems solutions for software-defined vehicles (SDVs).

## AI

The company is using AI/ gAI in 1) product design, 2) digital twins of car models, 3) sales pitches, 4) car insurance sales. These solutions are increasing productivity of engineers, planners and product designers. So far, TATATECH has built 40+ AI applications on top of readily available LLMs (LLAMA, GPT). It has also built framework for bridging the gap between domain knowledge (mostly mechanical and embedded software knowledge) and data science, which is key for AI implementation.

## Plant engineering

Besides EV-fication, plant engineering is increasingly becoming an important piece for TATATECH. One key US-based OEM client has been added in this domain. Nexon EV plant work (Sanand Plant) was done by TATATECH in nine months. It was already involved in SAP implementation for JLR plant. For Airbus, too, it is implementing its huge process knowledge for streamlining plant processes.

## Miscellaneous

### EV:

- As all OEMs are developing EVs with ECUs and softwarisation, OEMs are building their own vehicle OS in order to differentiate from peers.
- Chinese EV companies are converting ICE vehicles to EV within 30 months, while the normal timeline is 40-50 months. China is at the forefront of EV-fication.
- There is increased demand for 2-3 wheeler EVs, for which TATATECH has started working on lithium ion PACs (smaller cylindrical PACs).
- EV cost has increased from BS-4 to BS-6 transition.
- TATATECH is also working on remote control vehicle solutions (through smartphone).

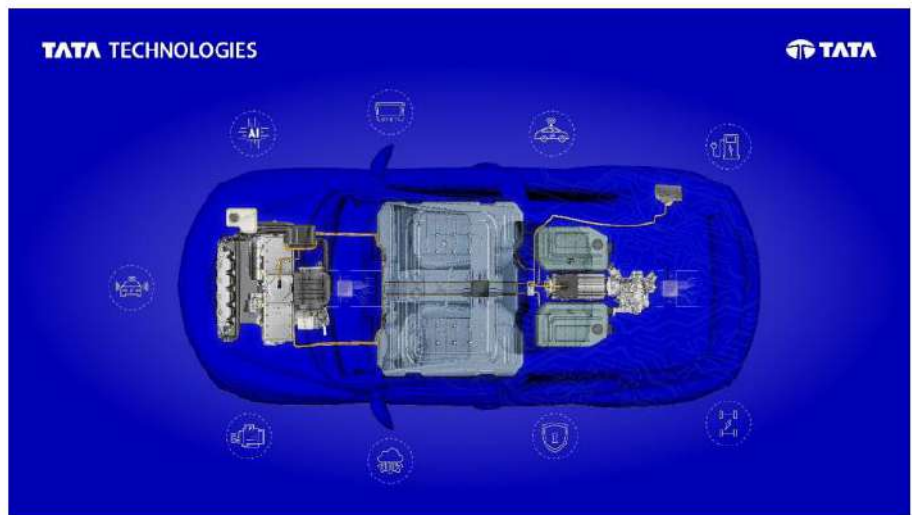
- TATATECH has deep capabilities in power system engineering, CAE (computer aided engineering) analysis, NVH (noise, vibration and harshness) reduction, design quality, teardown and benchmarking, crash safety, predictive maintenance.
- With an American EV major, TATATECH is using ethernet to reduce the weight of the vehicle.

#### Plant engineering:

- Key challenges in manufacturing (which is also an opportunity for TATATECH) include: Open loop system, rigid material handling, quality inspection precision, real time data analytics, unpredictable downtime, skilled labour gap.
- TATATECH is partnering with TASL for robotics (for plant engineering, defence purposes and maintenance). Factory Magix is its in-house plant engineering software which makes shopfloor processes error and paper free with minimal human intervention.

#### Exhibit 1: TATATECH-Arm partnership

**Tata Technologies partners with Arm to drive innovation in software-defined vehicles (SDVs)**



Source: Company data

**Exhibit 2: TATATECH partnering with Agratas will leverage its expertise in product engineering, supply chain, digital engineering and manufacturing. This will work in favour of TATATECH in EV ecosystem**



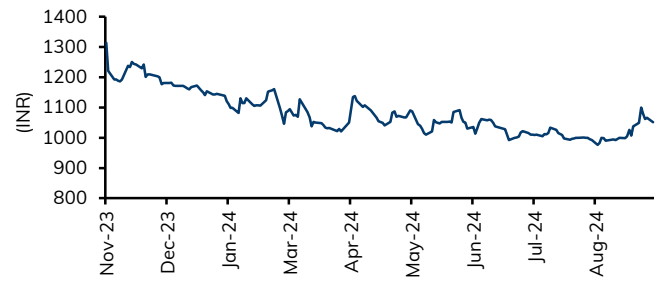
Source: Company data

### Exhibit 3: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	55.4	55.4	55.4
Institutional investors	4.7	2.6	3.5
MFs and others	1.9	1.1	1.6
FIs/Banks	0.2	0.1	0.1
Insurance	0.5	0.3	0.2
FIIIs	2.1	1.1	1.6
Others	39.9	42.0	41.1

Source: Bloomberg

### Exhibit 4: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Net Sales (US\$ mn)</b>	<b>618</b>	<b>676</b>	<b>795</b>	<b>896</b>
<b>Net Sales (INR mn)</b>	<b>51,172</b>	<b>56,400</b>	<b>66,783</b>	<b>75,255</b>
Operating Expense	41,759	45,857	53,475	60,107
<b>EBITDA</b>	<b>9,413</b>	<b>10,543</b>	<b>13,308</b>	<b>15,148</b>
EBITDA Margin (%)	18.4	18.7	19.9	20.1
Depreciation & Amortization	1,059	1,259	1,469	1,656
EBIT	8,354	9,284	11,839	13,492
Interest expenditure	189	197	200	200
Other Non-operating Income	1,156	1,130	1,200	1,200
<b>Recurring PBT</b>	<b>9,321</b>	<b>10,217</b>	<b>12,839</b>	<b>14,492</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	2,527	2,742	3,467	3,913
PAT	6,794	7,475	9,373	10,579
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>6,794</b>	<b>7,475</b>	<b>9,373</b>	<b>10,579</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>6,794</b>	<b>7,475</b>	<b>9,373</b>	<b>10,579</b>

Source Company data, I-Sec research

### Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	38,227	44,072	52,761	61,267
of which cash & cash eqv.	5,199	7,028	9,608	13,544
Total Current Liabilities & Provisions	21,001	23,325	27,537	30,981
<b>Net Current Assets</b>	<b>17,225</b>	<b>20,747</b>	<b>25,223</b>	<b>30,286</b>
Investments	1,504	1,579	1,658	1,740
Net Fixed Assets	1,293	1,435	1,565	1,710
ROU Assets	1,810	1,810	1,810	1,810
Capital Work-in-Progress	-	-	-	-
Goodwill	7,826	7,826	7,826	7,826
Other assets	4,548	4,548	4,548	4,548
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>34,782</b>	<b>38,520</b>	<b>43,206</b>	<b>48,496</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
provisions	-	-	-	-
other Liabilities	2,574	2,574	2,574	2,574
Minority Interest	-	-	-	-
Equity Share Capital	811	811	811	811
Reserves & Surplus*	31,397	35,135	39,821	45,111
<b>Total Net Worth</b>	<b>32,208</b>	<b>35,946</b>	<b>40,632</b>	<b>45,922</b>
<b>Total Liabilities</b>	<b>34,782</b>	<b>38,520</b>	<b>43,206</b>	<b>48,496</b>

Source Company data, I-Sec research

### Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	12693	12895	13011	12,690
% growth (YoY)		14.7%	-7.2%	0.9%
EBITDA	2144	2366	2400	2311
Margin %	16.9%	18.3%	18.5%	18.2%
Other Income	298.5	306.9	241.4	230.0
Adjusted Net Profit	1605	1703	1573	1621

Source Company data, I-Sec research

### Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
CFO before WC changes	10,379	11,476	14,308	16,148
<b>CFO after WC changes</b>	<b>2,943</b>	<b>7,042</b>	<b>8,945</b>	<b>11,108</b>
Capital Commitments	(1,220)	(1,400)	(1,600)	(1,800)
<b>Free Cashflow</b>	<b>1,724</b>	<b>5,642</b>	<b>7,345</b>	<b>9,308</b>
Other investing cashflow	(1,206)	(75)	(79)	(83)
<b>Cashflow from Investing Activities</b>	<b>3,936</b>	<b>(1,475)</b>	<b>(1,679)</b>	<b>(1,883)</b>
Issue of Share Capital	0	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
<b>Cash flow from Financing Activities</b>	<b>(5,568)</b>	<b>(3,738)</b>	<b>(4,686)</b>	<b>(5,290)</b>
Dividend paid	(4,990)	(3,738)	(4,686)	(5,290)
Others	-	-	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,312</b>	<b>1,829</b>	<b>2,580</b>	<b>3,936</b>
Closing cash & balance	5,199	7,028	9,608	13,544

Source Company data, I-Sec research

### Exhibit 9: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	16.7	18.4	23.1	26.1
Diluted EPS	16.7	18.4	23.1	26.1
Cash EPS	19.4	21.5	26.7	30.2
Dividend per share (DPS)	10.1	9.2	11.6	13.0
Book Value per share (BV)	79.4	88.6	100.2	113.2
Dividend Payout (%)	60.0	50.0	50.0	50.0
<b>Growth (%)</b>				
Net Sales	15.9	10.2	18.4	12.7
EBITDA	14.7	12.0	26.2	13.8
EPS	8.9	10.0	25.4	12.9
<b>Valuation Ratios (x)</b>				
P/E	62.8	57.0	45.5	40.3
P/CEPS	54.3	48.8	39.3	34.8
P/BV	13.2	11.9	10.5	9.3
EV / EBITDA	42.9	38.2	30.0	26.1
P/S	8.0	7.3	6.1	5.4
Dividend Yield (%)	1.0	0.9	1.1	1.2
<b>Operating Ratios</b>				
EBITDA Margins (%)	18.4	18.7	19.9	20.1
EBIT Margins (%)	16.3	16.5	17.7	17.9
Effective Tax Rate (%)	27.1	26.8	27.0	27.0
Net Profit Margins (%)	13.3	13.3	14.0	14.1
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	40.6	41.4	44.5	46.0
Receivables Days	80	79	76	78
Payables Days	41	33	32	33
Working Capital Days	94	83	80	78
Net Debt / EBITDA (x)	(4.9)	(5.6)	(6.5)	(8.2)
<b>Profitability Ratios</b>				
RoCE (%)	19.6	19.9	22.6	22.8
RoC (%)	28.0	28.8	33.8	36.7
RoNW (%)	21.9	21.9	24.5	24.4

Source Company data, I-Sec research

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