

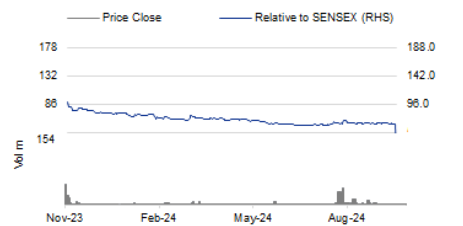
India

REDUCE (no change)

Consensus ratings*:	Buy 4	Hold 0	Sell 8
Current price:	Rs1,000		
Target price:	Rs740		
Previous target:	Rs740		
Up/downside:	-26.0%		
InCred Research / Consensus:	-28.3%		
Reuters:	TATATECH IN		
Bloomberg:	US\$5,584m		
Market cap:	Rs405,466m		
Average daily turnover:	US\$33.7m		
	Rs2447.1m		
Current shares o/s:	405.9m		
Free float:	4,461.0%		
*Source: Bloomberg			

Key changes in this note

- Expect 10.8% revenue CAGR over FY24-27F.
- Expect 14.7% EBIT CAGR over FY24-27F.
- Expect 14.1% PAT CAGR over FY24-27F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.8)	0.1	0.0
Relative (%)	(4.6)	1.7	0.0

Major shareholders	% held
Promoter	55.2
TPG rise climate Sf Pte Ltd	6.0
Mutual Funds	2.4

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Tata Technologies Ltd

The narrative is changing

- 2QFY25 performance in line. Services growth at 0.3% qoq was feeble.
- Acknowledges the strategic consideration between electric vehicles or EVs and hybrid vehicles is impacting the spending pattern.
- Maintain REDUCE rating with an unchanged target price of Rs740.

2QFY25 earnings summary

Tata Technologies' 2QFY25 earnings call aptly summarizes the concerns highlighted in our 'Know the cycle' thematic report on automotive ER&D. Management believes the strategic consideration between electric vehicles (EVs) and hybrids led by 1) polarized policy positioning ahead of the US presidential elections, and 2) regulatory concerns related to Chinese OEMs and associated tariff in the Europe is leading to decision-making delay, tapering of demand, and smaller deal sizes as customers are cautious to committing larger, long-term projects. This likely reflects a shift from accelerated adoption to protectionism and pricing pressure which in-turn could moderate capex intensity, a key rationale for our REDUCE rating. We retain our estimates, our target price of Rs740 and await a better entry valuation.

Revenue diversification could help offset growth concerns

Despite challenges in the services business, Tata Technologies believes that stable anchor accounts, traction in the aerospace segment supported by recent Airbus accreditations, ramp-up in BMW & Agratas deals and the strength in education are key growth drivers which could help offset near-term challenges while clarity in automotive business could emerge early next year.

Focus remains on margin preservation

The reported EBIT margin at 15.9%, flat qoq and up 110bp yoy, was marginally below the 16.3% estimate driven by ~10% qoq increase in other expenses, higher professional fees and allowance for expected credit losses, and increased outsourcing costs due to ramp-up of new projects, partially offset by a reduction in employee benefit expenses (~140bp) driven by improved utilization and offshoring initiatives. Disciplined cost management could help preserve FY25F margin while the long-term EBITDA margin aspiration (20%+) has been retained. We retain our FY25F-27F average EBIT margin assumption of ~17%.

Maintain REDUCE rating with an unchanged target price of Rs740

We maintain our US\$ revenue/EBIT (Rsm)/PAT (Rsm) CAGR assumptions of 10.8%/14.7%/14.1%, respectively, over FY24-27F and also our discounted cash flow or DCF-based target price of Rs740. Our target price implies a target PE/G and P/E multiple of 2.1x and ~30x FY24-FY27F EPS CAGR. Upside risks to our estimates and rating include EV recovery-led growth in the automotive business which, in turn, could help achieve long-term margin aspiration.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	44,142	51,172	52,710	62,690	73,168
Operating EBITDA (Rsm)	8,210	9,413	10,022	11,975	14,132
Net Profit (Rsm)	6,241	6,794	6,958	8,482	10,088
Core EPS (Rs)	15.4	16.7	17.1	20.9	24.9
Core EPS Growth	42.8%	8.9%	2.4%	21.9%	18.9%
FD Core P/E (x)	65.00	59.72	58.30	47.83	40.22
DPS (Rs)	0.0	10.0	10.5	11.0	11.5
Dividend Yield	0.00%	1.00%	1.05%	1.10%	1.15%
EV/EBITDA (x)	47.78	41.91	39.21	32.57	27.31
P/FCFE (x)	120.84	200.32	77.57	61.70	51.44
Net Gearing	(44.7%)	(34.8%)	(36.5%)	(40.1%)	(44.6%)
P/BV (x)	13.57	12.60	11.62	10.42	9.15
ROE	23.7%	21.9%	20.7%	23.0%	24.2%
% Change In Core EPS Estimates			(0.11%)	(0.10%)	(0.10%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	2QFY25	qoq (%)
Revenue (US\$ m)	155	153	0.8	152	1.6	156	(1.2)
Revenue (Rs m)	12,965	12,692	2.1	12,690	2.2	13,107	(1.1)
EBITDA	2,355	2,143	9.9	2,311	1.9	2,432	(3.2)
EBITDA margin (%)	18.2	16.9	128 bp	18.2	(4 bp)	18.6	(39 bp)
EBIT	2,056	1,881	9.3	2,014	2.1	2,131	(3.5)
EBIT margin (%)	15.9	14.8	104 bp	15.9	(1 bp)	16.3	(40 bp)
Net other income	118	252	(52.9)	183	(35.2)	176	(32.5)
PBT	2,175	2,133	2.0	2,196	(1.0)	2,306	(5.7)
Provision for tax	601	529	13.6	576	4.3	588	2.1
% tax rate	27.6	24.8	282bp	26.2	139bp	25.5	212bp
Net profit	1,574	1,604	(1.9)	1,620	(2.9)	1,718	(8.4)
EPS (Rs)	3.9	3.9	(1.9)	4.0	(2.9)	4.2	(8.4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call highlights

- **Guidance:**
 - Expects revenue acceleration in both 3Q and 4QFY25F, despite seasonal headwinds in 3Q. Expects 2HFY25F to be better than 1H.
 - Expects wage hikes to impact margin in 3Q, which could be recovered in 4QFY25F. FY25F margin could be similar to FY24F, led by leveraging operational efficiency (focus on offshoring, pyramid optimization, and productivity).
- **Demand environment:** Strategic consideration (EV vs. hybrid) is leading to decision-making delay, and smaller deal sizes as customers adopt a cautious approach to committing larger, long-term projects. Challenges are compounded by uncertainties around the US presidential elections. Expect clarity to emerge in the early part of CY25F, which could positively impact order booking and the pipeline.
- **Segment commentary**
 - **Tech solutions:**
 - **Education:** Traction driven by successful project deliveries in Bihar and Telangana, and major wins from Maharashtra and Tamil Nadu industrial development corporations. Expects growth to sustain in FY25F driven by strong order book and a healthy pipeline.
 - **Products & software:** Product business declined 21% qoq due to seasonality and a strong recovery in 2HFY25F is expected.
 - **Services**
 - **Automotive:** Performance was in line, despite the delay in decision-making. The company saw increased traction in mid-cycle refresh vehicle programs and embedded software, securing key deals with an Asian OEM for automotive engineering services and establishing an offshore development centre for a global leader in electric powertrain products.
 - **Aerospace:** Management remains optimistic, driven by Airbus accreditation, which will allow Tata Technologies to deepen its involvement in aerospace projects, especially in product engineering and smart manufacturing, aligning with the expected growth in commercial aircraft demand.
- **BMW joint venture:** BMW TechWorks India to start operations from 1 Nov 2024. This partnership will develop software for software-defined vehicles (SDVs), artificial intelligence or AI solutions, and nextgen infotainment systems. Initially employing 100 staff in Pune, Bengaluru and Chennai with an expected ramp-up to >1,000 employees by CY25F. The run-rate potential is >US\$100m.
- **AI:** Tata Technologies is utilizing AI and GenAI in digital engineering, addressing the demand in smart manufacturing and customer experience. Created an AI governance framework for a European luxury automotive OEM, focusing on responsible AI and compliance, to accelerate deployment and enhance efficiency.

- Tata Technologies' headcount rose by 1.4% qoq to 12,680 employees, driven by capacity addition in growth areas and new order wins in the embedded sector.

Figure 2: Operating metric trend

Operating Trends	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue (US\$ m)	153.1	153.4	154.8	156.6	152.1	154.6
Growth YoY (%)	NA	NA	13.4	-8.1	-0.7	0.8
Growth QoQ (%)	-10.2	0.2	0.9	1.2	-2.9	1.6
Revenue (Rs. m)	12,575	12,692	12,895	13,011	12,690	12,965
Growth YoY (%)	NA	NA	14.7	-7.2	0.9	2.1
Growth QoQ (%)	-10.3	0.9	1.6	0.9	-2.5	2.2
EBIT Margin (%)	18.0	14.8	16.2	16.2	15.9	15.9
Headcount	11,833	12,451	12,623	12,688	12,505	12,680
Attrition (%)	18.7	17.2	15.4	14.5	13.7	13.1
Segments (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Services	77.6	79.7	77.6	76.8	77.6	77.6
Technology Solutions	22.4	20.3	22.4	23.2	22.4	22.4
Segments (US\$ m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Services	118.8	122.2	120.2	120.2	118.1	119.9
Technology Solutions	34.3	31.2	34.6	36.4	34.0	34.7
Segments YoY (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Services	NA	NA	8.4	1.3	-0.6	-1.9
Technology Solutions	NA	NA	35.2	-29.6	-1.0	11.2
Segments QoQ (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Services	0.0	2.9	-1.6	-	-1.7	1.5
Technology Solutions	-33.6	-9.1	10.9	5.2	-6.6	2.1
Incremental Revenues (US\$ m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Services	0.1	3.4	-2.0	-	-2.1	1.8
Technology Solutions	-17.4	-3.1	3.4	1.8	-2.4	0.7
Services Revenue (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Auto	89.8	86.0	86.0	86.0	85.0	85.0
Non-Auto	10.2	14.0	14.0	14.0	15.0	15.0
Services Revenue (US\$ m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Auto	106.7	105.1	103.4	103.4	100.4	101.9
Non-Auto	12.1	17.1	16.8	16.8	17.7	18.0
Services Revenue YoY (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Auto	NA	NA	4.7	-2.1	-5.9	-3.0
Non-Auto	NA	NA	37.9	28.9	46.6	5.1
Services Revenue QoQ (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Auto	1.0	-1.5	-1.6	-	-2.9	1.5
Non-Auto	-7.5	41.6	-1.6	-	5.3	1.5
Incremental Services Revenue (US\$ m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Auto	1.0	-1.6	-1.7	-	-3.0	1.5
Non-Auto	-1.0	5.0	-0.3	-	0.9	0.3
Customer Pyramid	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
> US\$ 50m	3	3	3	3	2	2
US\$ 10-50m	3	3	3	5	6	6
US\$ 5-10m	3	4	4	3	3	4
US\$ 1-5m	27	28	29	30	29	30
Services Delivery Mix (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Onshore	63.8	63.2	60.5	62.3	61.0	56.3
Offshore	36.2	36.8	39.5	37.7	39.0	43.7
Services Delivery Mix (US\$ m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Onshore	75.8	77.2	72.7	74.9	72.0	67.5
Offshore	43.0	45.0	47.5	45.3	46.1	52.4
Services Delivery Mix YoY (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Onshore	NA	NA	-3.6	-1.1	-4.9	-12.6
Offshore	NA	NA	33.8	5.5	7.1	16.5
Services Delivery Mix QoQ (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Onshore	0.0	1.9	-5.8	3.0	-3.8	-6.3
Offshore	0.0	4.6	5.6	-4.6	1.6	13.8
Incremental Services Delivery Mix (US\$ m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Onshore	0.0	1.5	-4.5	2.2	-2.8	-4.5
Offshore	0.0	2.0	2.5	-2.2	0.7	6.3
Per employee analysis	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue (US\$ m) - TTM	NA	613	632	618	617	618
Employees (average TTM)	NA	11,745	12,131	12,399	12,567	12,624
Revenue per employee (TTM)	NA	52,225	52,074	49,836	49,090	48,962

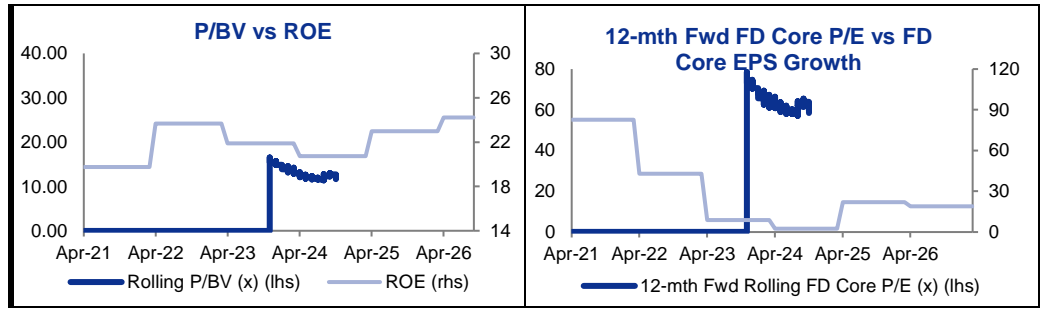
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	629	635	-1.0	729	733	-0.6	841	841	0.0
Revenue	52,710	53,266	-1.0	62,690	63,012	-0.5	73,168	73,143	0.0
EBIT	8,858	8,931	-0.8	10,641	10,755	-1.1	12,595	12,626	-0.2
EBIT Margin (%)	16.8%	16.8%	0.0bp	17.0%	17.1%	(0.1)bp	17.2%	17.3%	(0.0)bp
Net PAT	6,958	7,074	-1.6	8,482	8,566	-1.0	10,088	10,107	-0.2
EPS (Rs)	17.1	17.4	-1.5	20.9	21.1	-1.0	24.9	24.9	-0.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	44,142	51,172	52,710	62,690	73,168
Gross Profit	12,326	13,498	14,434	16,954	19,761
Operating EBITDA	8,210	9,413	10,022	11,975	14,132
Depreciation And Amortisation	(946)	(1,059)	(1,164)	(1,334)	(1,537)
Operating EBIT	7,265	8,354	8,858	10,641	12,595
Financial Income/(Expense)	698	966	566	744	945
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	7,962	9,320	9,423	11,385	13,540
Exceptional Items					
Pre-tax Profit	7,962	9,320	9,423	11,385	13,540
Taxation	(1,721)	(2,527)	(2,465)	(2,903)	(3,453)
Exceptional Income - post-tax					
Profit After Tax	6,241	6,794	6,958	8,482	10,088
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,241	6,794	6,958	8,482	10,088
Recurring Net Profit	6,241	6,794	6,958	8,482	10,088
Fully Diluted Recurring Net Profit	6,241	6,794	6,958	8,482	10,088

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	8,210	9,413	10,022	11,975	14,132
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,191)	(4,071)	(1,347)	(1,517)	(1,593)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(921)	(1,011)			
Other Operating Cashflow	1,346	1,638			
Net Interest (Paid)/Received					
Tax Paid	(2,429)	(3,026)	(2,465)	(2,903)	(3,453)
Cashflow From Operations	4,014	2,943	6,210	7,555	9,086
Capex	(657)	(918)	(980)	(980)	(1,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4,218)	4,855	751	927	1,129
Cash Flow From Investing	(4,874)	3,936	(229)	(53)	(71)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(2,959)				
Dividends Paid		(4,990)	(4,260)	(4,463)	(4,666)
Preferred Dividends					
Other Financing Cashflow	(510)	(578)	(185)	(184)	(184)
Cash Flow From Financing	(3,469)	(5,568)	(4,445)	(4,646)	(4,849)
Total Cash Generated	(4,329)	1,312	1,535	2,856	4,166
Free Cashflow To Equity	3,357	2,025	5,230	6,575	7,886
Free Cashflow To Firm	(860)	6,880	5,980	7,502	9,015

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	15,936	13,795	15,330	18,186	22,352
Total Debtors	11,062	11,479	13,283	15,798	18,438
Inventories					
Total Other Current Assets	10,976	14,457	14,457	14,457	14,457
Total Current Assets	37,975	39,730	43,070	48,441	55,247
Fixed Assets	3,031	3,103	2,919	2,565	2,228
Total Investments					
Intangible Assets	7,950	8,403	8,403	8,403	8,403
Total Other Non-Current Assets	3,060	4,548	4,548	4,548	4,548
Total Non-current Assets	14,040	16,053	15,869	15,515	15,178
Short-term Debt	406	524	524	524	524
Current Portion of Long-Term Debt					
Total Creditors	6,578	4,814	5,271	6,269	7,317
Other Current Liabilities	12,750	15,891	15,891	15,891	15,891
Total Current Liabilities	19,734	21,228	21,686	22,684	23,731
Total Long-term Debt					
Hybrid Debt - Debt Component	2,148	2,050	2,050	2,050	2,050
Total Other Non-Current Liabilities	5	8	8	8	8
Total Non-current Liabilities	2,153	2,058	2,058	2,058	2,058
Total Provisions	233	289	289	289	289
Total Liabilities	22,120	23,575	24,032	25,030	26,078
Shareholders Equity	29,895	32,208	34,906	38,925	44,347
Minority Interests					
Total Equity	29,895	32,208	34,906	38,925	44,347

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	25.1%	15.9%	3.0%	18.9%	16.7%
Operating EBITDA Growth	27.2%	14.7%	6.5%	19.5%	18.0%
Operating EBITDA Margin	18.6%	18.4%	19.0%	19.1%	19.3%
Net Cash Per Share (Rs)	32.96	27.63	31.41	38.45	48.71
BVPS (Rs)	73.65	79.35	86.00	95.90	109.26
Gross Interest Cover	40.40	44.18	47.88	57.96	68.60
Effective Tax Rate	21.6%	27.1%	26.2%	25.5%	25.5%
Net Dividend Payout Ratio		60.0%	61.2%	52.6%	46.2%
Accounts Receivables Days	77.50	80.39	85.73	84.66	85.39
Inventory Days					
Accounts Payables Days	57.04	55.18	48.08	46.05	46.42
ROIC (%)	52.5%	36.4%	30.7%	35.3%	39.7%
ROCE (%)	19.7%	18.1%	18.1%	20.1%	21.2%
Return On Average Assets	12.1%	11.3%	11.4%	12.9%	14.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.