

TATA TECHNOLOGIES

Buy Range ₹1080 – 1100

Target ₹1330 – 1350

Recommendation BUY

Highlights

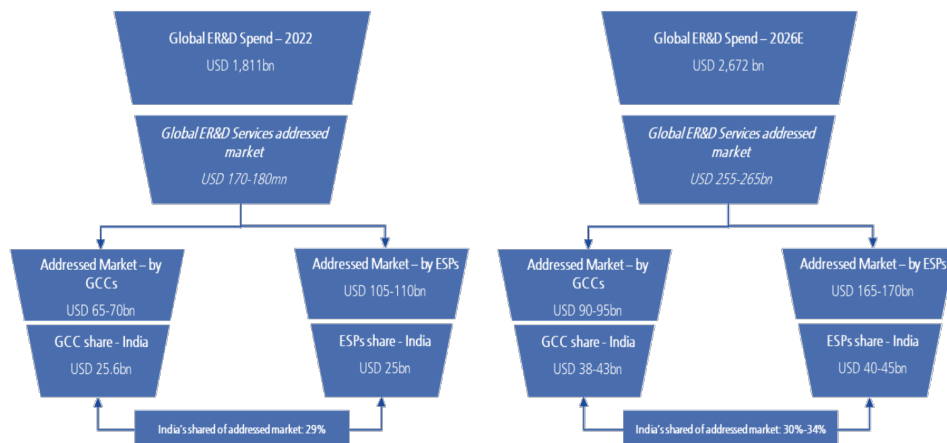
- **Tata Technologies Ltd (TATATECH)** is a pure play engineering, research and design (ER&D) company which was incorporated in 1994 as Core Software Systems Pvt. Ltd and got acquired by Tata Group in 1996. **Tata Motors has a 55.39% stake in the company.** It has marquee clients in the automotive space, which includes Tata Motors, JLR (Jaguar Land Rover), Honda, Ford, VinFast and BMW. It is also making strides in the aerospace segment by servicing clients such as Airbus and Tata Group.
- Segment-wise, **Services** formed the largest part with **78% share in FY24 revenue** and the rest **22%** from **Technology Solutions**. Both **automotive and aerospace** come under **Services**, which are the major verticals with anchor clients. **Automotive (87% in FY24) is the anchor vertical with marquee clients – Tata Motors, JLR and VinFast.** It has **deep capabilities in automotive sub-segments of design, infotainment systems and cloud native architecture for software-defined vehicles.** Within **Services**, TATATECH is also **gaining opportunities in aerospace (currently, forms low single digit share of services) and is a fast growing segment.** Within **Technology solutions (22% of revenue in FY24) there are two parts – Education and VAS (Value Added Services),** education business is gaining momentum.
- TATATECH has an **impressive clientele, consisting of 35 OEMs and 11 new energy vehicle companies.** The key point that reduces the concentration risk is the fact that majority of the top-5 companies have a contract tenure of three–five years, with an option for renewal post that. TATATECH's current clients include seven out of ten and 12 out of 20 automotive ER&D spenders. The top client portfolio includes marquee names such as: 1) **Anchor clients – TATA Motors and JLR;** 2) **Tier-I OEMs - Airbus, McLaren, Ford, Honda, Cabin Interiors & Engineering Solutions, ST Engineering Aerospace and Cooper Standard;** and 3) **New energy vehicle companies such as VinFast, NIO and Rivian.** A leading American EV and autonomous company which designs, manufactures and sells battery electric vehicles, also outsources digital engineering work to the company.
- Almost 2/3rd of OEMs outsourced work comprises traditional spend areas, e.g., body engineering, chassis engineering, powertrain etc. Given these are more mature and commoditised services, naturally the propensity to outsource these spend areas are significantly higher as compared to the latest technologies. The industry is likely to witness outsourcing in the traditional mechanical/mechatronics segment will rise further as OEMs balance their investment across traditional and new-age initiatives. As major OEMs sharpen their focus on ACES initiatives, leading players like TATATECH are likely to witness more outsourcing opportunities in the body engineering segments.
- It is also the only accredited company under **Tata Group to provide engineering services provider for Airbus.** The list of marquee clients now includes another noteworthy OEM of repute – BMW. **TATATECH announced a JV with BMW in Apr'24.** The motive of this JV is to create a **software development hub in India – cities of Chennai, Bengaluru and Pune – to deliver software-defined vehicles and automotive software for BMW's digital transformation solutions and premium vehicles.** This is also expected to fill the gap left by VinFast's ramp down.
- It has a lower exposure to traditional geographies i.e., North America (20.4%) and Europe (29.2%). **The portfolio is looks Asia heavy. This is a result of presence in TATA Motors (India), VinFast (Vietnam) and TATATECH's subsidiary in China.** Though the presence in China is miniscule as a % of revenue, the subsidiary allows TATATECH to work with **Chinese new energy vehicle companies/startups (albeit limited) and get hands on access to cutting edge innovation in the field of EVs.** This is of prime importance, as China is ahead of US and Europe in EV and autonomous vehicle technology as well as in support infrastructure which is evident from higher share of China in EV sales as out of the Global 9.8mn EVs were sold between Jan-Aug'24, China accounted for 6mn EV sales.
- It stands out in the tech industry due to its **unique ownership structure, providing it with a distinct competitive advantage.** With Tata Motors as its largest client and promotor, it enjoys a strategic partnership that helps bolster its market position and stability. **Equity and commercial client duality of its relationship with Tata Motors enables TATATECH to participate in development and innovation programs of Tata Motors and JLR.** Unlike its peers, including Tata Elxsi and TCS, which are Tata Sons-owned names, TATATECH benefits from a organic relationship with major players in the automotive industry.
- **As part of JLR's 'Reimagine' strategy, to grow its presence in luxury EV, JLR has committed systematic and continuous investments.** This entails **evolution of its existing platforms and architecture in a phased manner to: 1) Modular Longitudinal Architecture; 2) Electric Modular Architecture; and 3) Jaguar Electrified Architecture.** Similarly, Tata Motors plans to increase its portfolio of EVs. This will likely have a downstream positive impact on TATATECH.

TATA TECHNOLOGIES LTD.
Company Background

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Investment Rationale
1. Global ER&D spend likely to witness 10% CAGR to reach \$2.7tn in CY26 as outsourcing spend increases

Engineering research and development (ER&D) services is defined as the set of services offered to enterprises to help them develop their own products for their end-customers through software development or a manufacturing process. ER&D services are broadly broken down into software, embedded, and mechanical engineering services. Global ER&D spend is estimated at USD 1,811bn in 2022, according to Zinnov, an industry research firm. Rapid technological changes, evolving industry standards, changing client preferences and regulatory push towards carbon neutral emission norms are characterizing the engineering services technology solutions industry. These factors underpin the resilient spend on ER&D despite uncertain macro factors. Global ER&D spending grew 10% YoY in 2022 and is likely to grow at a CAGR of 10% over 2022-2026 and reach \$2.7tn, as per Zinnov's estimates.



Source: Zinnov

Important Data

Nifty	25,967
Sensex	85,010
Key Stock Data	
CMP	₹1,102.5
MCAP (bn)	₹447.2
52-WHigh/Low	₹1400/970
Shares o/s(mn)	405.7
Daily Vol.(3MNSEAvg.)	12,743,817
BSE Code	544028
NSE Code	TATATECH
Bloomberg Code	TATATECH:IN

Shareholding Pattern (%) – Jun'24

Promoter	55.4
DII's	1.8
FII's	1.6
Public	41.2

Financials

Particulars	FY21	FY22	FY23
Revenue	23,809	35,296	44,142
EBITDA	3,857	6,457	8,210
EBITDA Margin (%)	16.2	18.3	18.6
Net Profit	2,392	4,370	6,241
EPS (₹)	11.4	20.9	15.4
DPS (₹)	-	-	12.3
RoE (%)	12.0	19.8	23.7
RoCE (%)	15.2	25.1	29.2
RoIC (%)	20.7	38.1	43.9
P/E (x)	94.2	52.7	36.9
EV/EBITDA (x)	114.6	68.3	53.6
P/BV (x)	10.8	10.1	15.0

Particulars	FY24	FY25E	FY26E
Revenue	51,172	58,674	67,510
EBITDA	9,413	11,663	12,206
EBITDA Margin (%)	18.4	19.9	18.1
Net Profit	6,794	8,569	9,245
EPS (₹)	16.7	21.1	22.8
DPS (₹)	10.1	11.1	12.1
RoE (%)	21.9	23.5	20.4
RoCE (%)	30.1	32.9	28.8
RoIC (%)	43.2	50.3	48.6
P/E (x)	33.9	26.9	24.9
EV/EBITDA (x)	46.8	37.2	35.2
P/BV (x)	13.9	11.0	8.9

Source: Company, Way2Wealth

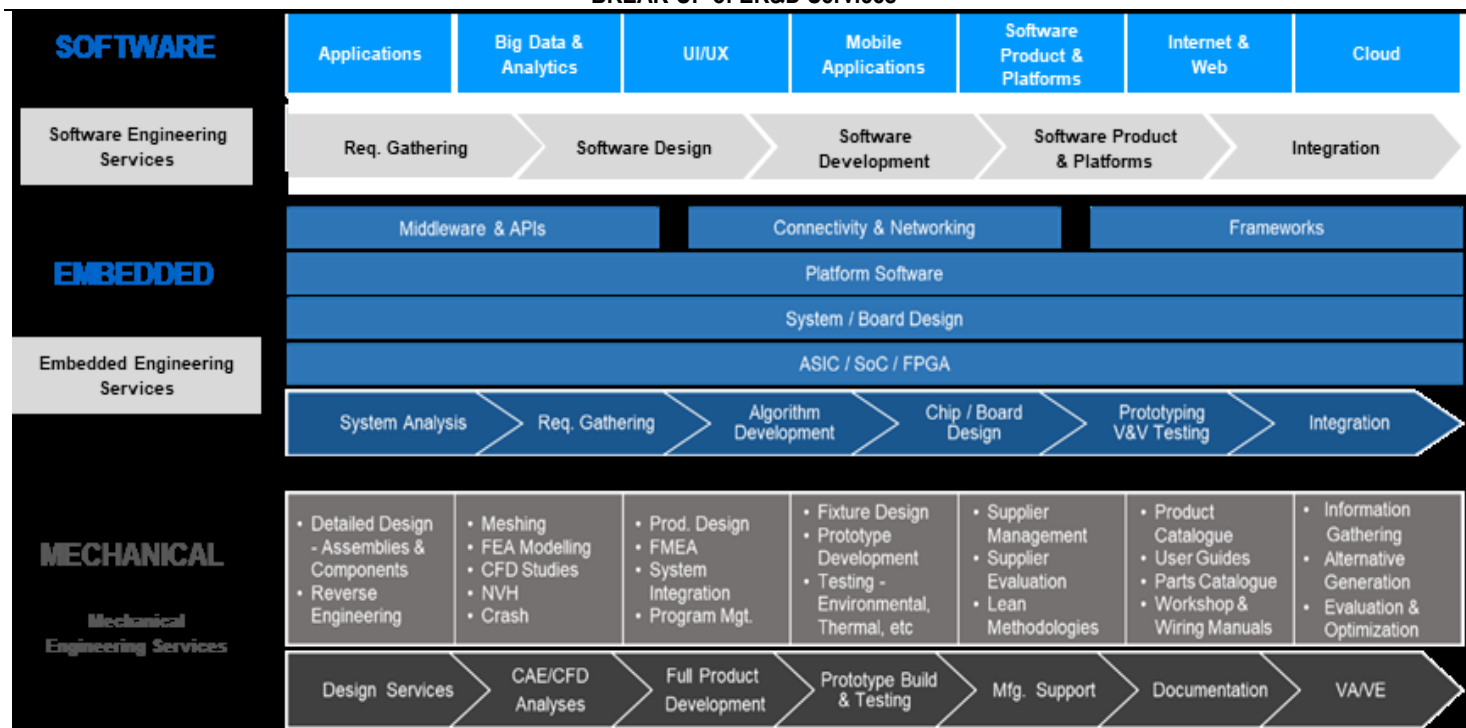
Relative Performance

Returns (%)	Since 30Nov23
TATA TECH	(21.3)
Nifty 50	29.0
Sensex	26.9

Source: Company, Way2Wealth

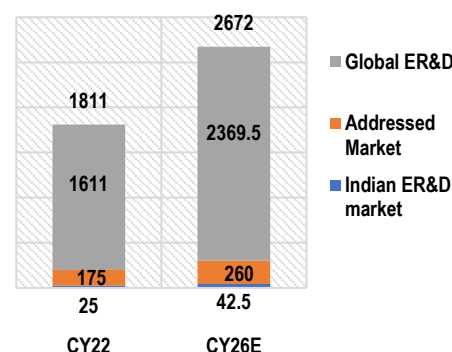
Jayakanth Kasthuri
jayakanthk@way2wealth.com

91-22-4019 2914

BREAK-UP of ER&D Services


Source: Zinnov

Global ER&D Services addressed market refers to the spend that is either offshored by OEMs to their captive centres (Global Capabilities Centres or GCC) or outsourced to third party Engineering Services Providers (ESPs). Global ER&D Services addressed market remains underpenetrated with only US\$ 170-180bn or 9-10% of overall ER&D spend currently catered by GCCs or ESPs. This is estimated to grow at 9-10% CAGR and reach US\$ 255-265bn by 2026. Outsourcing penetration of third party ER&D services is just 5.9%. The share going to Indian ESPs is even lower at USD 25bn, representing 14% of addressed market or 1.4% of overall spend. This suggests there are multiple levers of growth for Indian ESPs, i.e., increase in global ER&D spend, higher outsourcing to ESPs and rising penetration of Indian ESPs. Zinnov expects Indian ESPs to growth at 14-16% CAGR over 2022-26, outpacing not only Indian GCCs but also global ESPs. ER&D exports out of India-based ESPs have outpaced not only that of India's GCCs but also that of global ESPs.



Source: NASSCOM, Zinnov estimates

Within the addressed market, third party ESPs has a majority share and account for US\$ 105-110bn (61%-62%). ESPs' opportunity is estimated to grow at a faster pace as well (11-12% CAGR over 2022 vs. 8-9% for GCC) and reach US\$ 165-170bn by 2026, as per Zinnov. In fact, ESPs are projected to capture ~71% of incremental ER&D Services addressed market over 2022-2026. Apart from cost saving, flexibility (in terms of variable demand) and scalability are key advantages that ESPs offer vis-à-vis GCCs.

India is a favoured offshore ER&D services destination for both GCCs and third-party ESPs. Total Global ER&D Services addressable market addressed through India stands at ~US\$ 51bn (29% of addressable market); of this, GCCs in India account for USD 26bn while Indian ESPs account for US\$ 25bn. Indian ESPs accounts for almost one fourth of ER&D outsourced spend. Further, 85% of top-50 ER&D spenders have GCCs in India, underlining India's strong structural advantages. Of the overall share of ESPs, western European service providers account for the largest share of the ER&D outsourced market (approximately 35%) followed by Indian service providers (approximately 24%). In the past four years, the outsourced market of Indian service providers grew at a CAGR of ~14-16%, which is more than twice the growth rate of the Western European service providers.

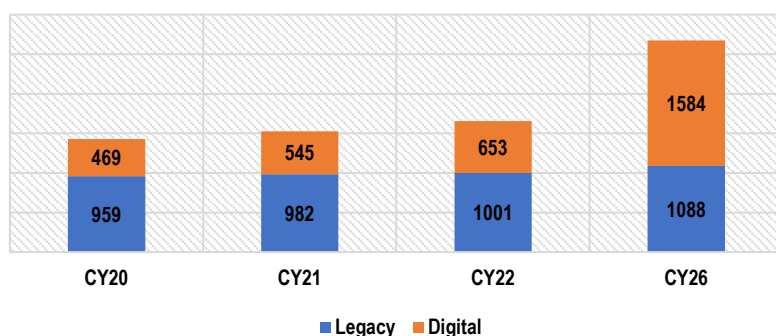
Penetration Levels

USD bn	2022			2026E		
	ER&D Spend*	% of Total ER&D spend	% of Addressable spend	ER&D Spend*	% of Total ER&D spend	% of Addressable spend
Global ER&D Spend	1,811	100.0%		2,672	100.0%	
Global Addressed market	175	9.7%	100.0%	260	9.7%	100.0%
Global Capability Centres (Captives)	67.5	3.7%	38.6%	92.5	3.5%	35.6%
- India	25.6	1.4%	14.6%	40.5	1.5%	15.6%
- Other Offshore/Near-shore centres	41.9	2.3%	23.9%	52	1.9%	20.0%
Global ESPs	107.5	5.9%	61.4%	167.5	6.3%	64.4%
- India	25	1.4%	14.3%	42.5	1.6%	16.3%
- Other Offshore/Near-shore centres	82.5	4.6%	47.1%	125	4.7%	48.1%
Automotive						
Outsourced ER&D	19	1.0%	10.9%	28	1.0%	10.8%

Source: Zinnov

Not surprisingly, Indian ESP market is expected to grow at a CAGR rate of 14-17% and reach US\$ 40-45bn by 2026, taking India's share of overall ESP market from 23% in 2022 to 24% by 2026. This shift is already in motion. ER&D exports out of India-based ESPs have outpaced not only that of India's GCCs but also that of global ESPs.

Till CY22, legacy ER&D spend outpaced digital ER&D spend by 1.5x. However, many industry expert converse likely prevailing in CY26 with digital ER&D spends overshadowing legacy spends by 1.5x. Digital engineering ER&D spend is pegged at USD 810bn (45% of overall ER&D spend) and includes new age technologies such as Internet of Things ("IoT"), blockchain, 5G, AR/VR, cloud engineering, digital thread initiatives, advanced analytics, embedded engineering, and AI/ML. Zinnov estimates digital technologies to grow ahead of overall ER&D spend at 16% CAGR over 2022-2026. In digital ER&D, there is burgeoning demand for AI/ML, cloud, data analytics While legacy ER&D spend is expected to grow at 2% CAGR between CY22-26, digital ER&D is estimated to grow at a whopping 18% to reach \$1.58tn.



Source: Zinnov

2. Electrification and Digitisation in Auto industry to drive ER&D growth

Like overall ER&D, outsourcing penetration in Auto ER&D Services is also relatively lower at 10-11% (including GCCs). Unlike IT Services, the top-5 Auto ESPs are Europe based, indicating most of the outsourcing is concentrated to local, near-shore players. That means offshoring penetration in Auto ER&D is likely even lower.

The Automobile industry is the largest manufacturing-led ER&D vertical with USD 180bn ER&D spend. New age digital technologies, sustainability initiatives and regulatory push are driving OEMs to ramp up their R&D spend towards "ACES" – Autonomous, Connected, Electrical and Shared mobility.

As these new technologies disrupt the automobile industry, it is not only increasing the requirement for specialised ER&D support, it is also making the ER&D services (especially on the digital engineering side) more offshorable. This is likely to drive higher outsourcing penetration for the automotive vertical.

Key highlights of ACES

AUTONOMOUS	CONNECTED	ELECTRIFICATION	SHARING
USD 7 Bn/ INR 579 Bn	220x	55%	2040
Investment on autonomous vehicles through 2025 by a global OEM	Projected growth of Connected Car Sales for a leading global player over the period 2021-2028	Growth of EV Sales from FY 2021 – FY 2022	Target date for a leading global ride sharing player to evolve into a zero-emission mobility platform

Initiatives taken under ACES

Focus area	Growth Driver	Key Initiatives
Autonomous	Automotive players are keen to provide advanced safety and autonomous driving with environmental sensor technologies. This includes AI/ML to provide enhanced levels of vehicle motion control.	Ford: Plans to invest USD 7bn 2021-2030 in autonomous technology development Toyota: Invested USD 28 Bn in launching a company (TRI AD) that builds software for self driving cars GM: invested an excess of USD 3.5 Bn (INR 0.29 Tn) on its self-driving technology unit Cruise
Connected	Bi-directional connectivity is becoming one of the key differentiators in PVs now. The connectivity in a vehicle enables infotainment, safety, roadside assistance, diagnostics efficiency, navigation, and payments	Volkswagen: Allocated c.USD 35 B from 2021-2025 towards digitization and self driving cars Stellantis: Plans to invest USD 33 Bn+ over 2021-2025 to make technological advancements in software and electrification Toyota: Invested USD 500 M in the Telecom provider KDDI Corp to strengthen connected car R&D
Electrification	Electrification has already picked up pace with sale of electric vehicles has increased by more than 55% annually in 2022 vs 2021. Focuses to meet carbon targets and incentivization policies by governments across the globe are further accelerating the transition towards electric vehicles.	Volkswagen: Announced USD 193bn in EVs and Digital Technologies over 2023-2028. Stellantis: Committed USD 30bn+ over electrification and software development over 2023-2030 Volvo: Committed to transition its entire model line up to fully electric vehicles by 2030 Nissan: To invest USD 17.6 bn over 2021-26 for its long term electric vehicle strategy JLR: Plans to invest USD 3.5 bn every year, to take all Jaguars and 60% of Land Rovers electric by 2030
Shared Mobility	Sharing of transportation services and resources among users has gained importance over the last few years with the growth of the mobility industry.	Toyota (along with Denso and Softbank's Vision Fund) invested USD 1 Bn in Uber's self-driving car business

Source: Zinnov

The automotive outsourced ER&D market is pegged at US\$ 18-20bn (₹1,478-1,642bn) in 2022 and constitutes 20% of the overall outsourced ER&D market (Source: Zinnov). Outsourcing penetration in automotive ER&D is similar to overall ER&D spend. Zinnov expects outsourced Auto ER&D to grow from US\$ 18-20bn currently to US\$ 27-29bn by 2026, implying an incremental annual opportunity of US\$ 9-10bn.

Rising digitisation in the automotive industry is driving higher demand for technology enabled skills, widening the skill gap for OEMs who have traditionally possessed ICE-based skill gap.

ESPs' access to large digital-tech enabled talent pool (in India and Eastern Europe) and ability to scale engineering teams for automotive clients is likely to translate into an opportunity to take higher wallet share of automotive ER&D spend from supply constrained automakers.

Alternate propulsion engines, e.g., hybrid and electric mobility is likely to drive higher outsourcing in the automotive sector, with OEMs looking to work with ESPs having full body EV capabilities.

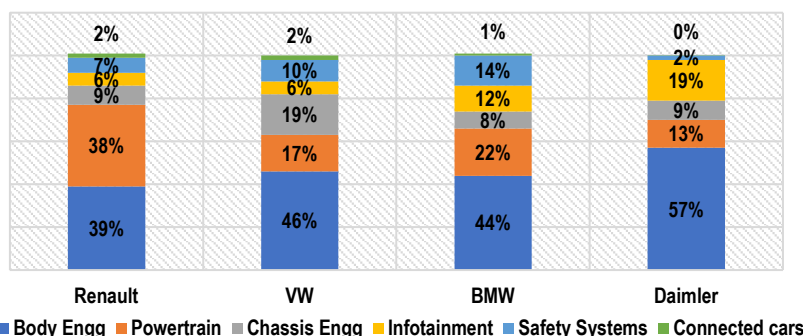
Automotive Outsourced ER&D Market Spend (USD bn)

2021	16-18
2022	18-20
2025E	21-23
2026E	27-29

Outsourced Automotive ER&D sub-segments (USD bn)

Body Engg	7-8
Hybrid & Electric	3-4
Infotainment & connected	3-4
ADAS & Autonomous	1.5-2
Safety Systems	1-2
Traditional Power trains	0.5-1

Source: Zinnov

OEMs tend to outsource non-core components more. Top-4 ER&D outsourcer, by segment (2017)


while core software is likely to remain in-house Propensity to outsource automotive ER&D component

Segment	Propensity to outsource	Key sub-segments outsourced
Body Engineering	●	Body Electronics, Body Interior, Interior Exterior Development, BIW
Powertrain	●	Engine Systems, Hybrid Electric Vehicle, Diesel Engine, Drivetrain systems
Chassis Engineering	●	Braking Systems, Steering systems, suspension systems, Chassis sensors
Infotainment	●	HMI, Instrument Clusters, Connectivity systems, Navigation systems
Safety Systems	●	ADAS, Passive & Active Safety systems, Intelligent Parking Assist
Autonomous/Connected	●	RADAR, Adaptive Cruise Control, Collision Warning, Vehicle & Asset tracking

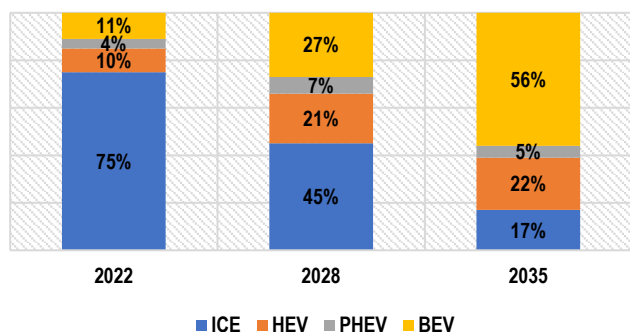
Source: Zinnov

Besides, as OEMs sharpen their focus on ACES initiatives, they seek to outsource body engineering segments completely to third-party service providers. **Interestingly, almost 2/3rd of OEMs outsourced work comprises traditional spend areas, e.g., body engineering, chassis engineering, powertrain etc. Given these are more mature and commoditised services, naturally the propensity to outsource these spend areas are significantly higher as compared to the latest technologies.** The industry is likely to witness outsourcing in the traditional mechanical/mechatronics segment will rise further as OEMs balance their investment across traditional and new-age initiatives.

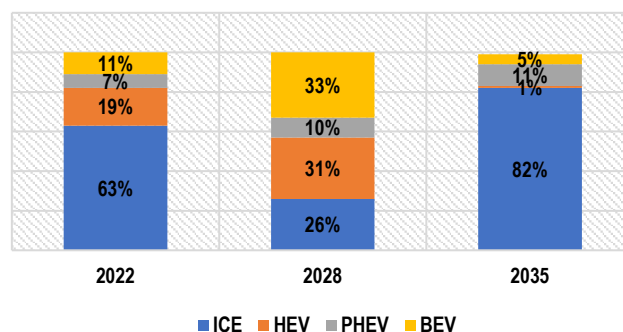
3. Electrification is an US\$ 35bn outsourced Auto ER&D opportunity

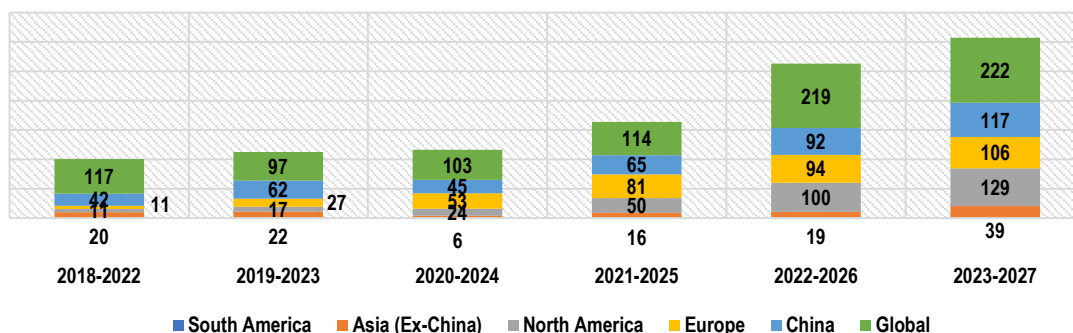
Tesla, Regulation (net zero) and changing consumer preference are driving an accelerated shift towards alternate propulsion engines. EVs – Battery EV (BEV) and Plug-in Hybrid EV (PHEV) – have taken a lead. Electrification of vehicles is progressing in full swing. According to IEA, 14% of all new cars sold in 2022 were EV, up from less than 5% in 2020. Alix Partners, an automotive consultancy, estimates that by 2027, 26% of all new cars sold in US and 36% in Europe will be EVs. Under IEA's Stated Policies Scenario (STEPS), the share of electric cars based on existing policies by 2030 has gone up to 35% (from 25% earlier). Total global EV investments announced for the 2023-2027 period has doubled in the past two years to USD 616bn. The ongoing global emphasis on electrification of vehicles, the majority of progress in this avenue seems to be currently centered in only a handful of countries i.e., China and US, and Europe as a region.

Global BEV share could reach as high as 56% by 2035



EU's BEV share will likely be the highest at 82%



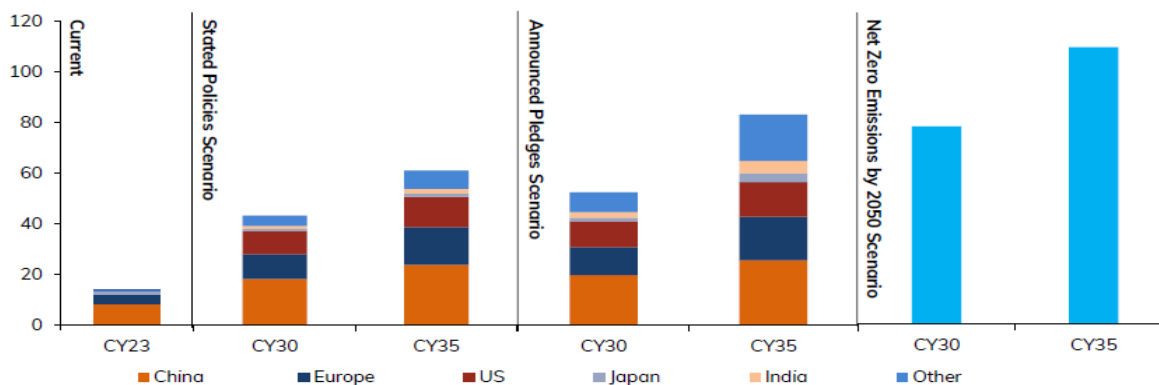
EV investment announcements by region – rolling 5 year period, USD bn


Source: Alixpartners, Company

Regulatory push by different countries towards alternative fuel

Country	EV-fication target year	Level of investments required to achieve this target
USA	President Biden's pledge to ensure that 50% of all vehicles sold by 2030 are electric.	Companies have invested ~US\$ 85bn in manufacturing batteries, EVs and EV chargers in US, since President Biden took office.
EUROPE	EU aims for climate neutrality by 2050. It also aims for 50% reduction in net greenhouse gas emissions by 2030 and zero emission road mobility by 2035	Top European OEMs have already invested ~US\$ 35–40bn in electrification
China	The economy aims to achieve carbon neutrality by 2060	Largest market for EVs. Chinese OEMs are now looking to expand EVs and their ancillary production overseas with EV OFDI standing at US\$ 28.2bn in 2023 vs. US\$ 29.7bn in 2022.
India	The Government of India intends to have EV sales penetration of 30% for private cars, 70% for commercial vehicles, 40% for buses, and 80% for two and three-wheelers by 2030.	On Mar'24 the Indian government approved a new USD 500mn-worth EV policy, offering range of incentives with the intention of drawing investments from global EV companies and positioning India as a prime manufacturing hub for state-of-the-art EVs

Source: Zinnov

Electrification of vehicles in major countries: EV sales by region and scenario

Investments by major OEMs in Europe to build EV ecosystem

OEMs	Investment	Region	Remarks
Northvolt	USD 3-5bn	Sweden	EV battery plant in Heide.
ACC: a JV of Stellantis, Mercedes and Total Energies	EUR 7bn	Across Europe	Plan to create three gigafactories in Europe; aim to reach capacity of 40GWh by 2030.
ProLogium	EUR 5.2bn	Dunkirk	Expanding production outside Taiwan.
Envision	EUR 2bn	Dubai	Building AESC gigafactory – expected capacity to reach 24GWh by 2030.
Envision in Spain	EUR 2.5bn	Spain	Planning to build gigafactory with an annual production of 30GWh
Volkswagen	EUR 10bn	Across Europe	Plans to build six battery factories across Europe – total 240GWh capacity by 2030.
CATL	NA	Erfurt	Expanding supply chain outside China.
BASF	NA	Germany	Building battery materials site.
Verkor	NA	Dunkirk	Building gigafactory with 12GWh targeted capacity.
Tata Group	NA	Spain/ Britain	Looking for sites to set up battery production plants.
LG	EUR 65mn	Poland	Started production in 2017; now expanding capacity – targeting 115GWh by 2025.

Source: IEA, Company, Way2Wealth | EV projected sales country wise under different scenarios: 1) Stated Policies scenario 2) Announced Pledges Scenario 3) Net Zero emissions by 2050 scenario

Major geographies are pushing the peddle on EV and electrification ecosystem-related investments. 2030 is the target year for most to achieve solid footing on the EV front. The next 10-years are going to be more disruptive for the automotive industry than the last 100 years, with electrification as the overarching theme.

Considerable opportunity is arising from China and Europe. ER&D players with high penetration in Europe also stand to benefit from this trend. Both, government's regulatory push and private investments are creating a conducive environment for EV demand to thrive. Hence, EV demand buoyancy is likely to persist at least until 2030. EV sales (excluding 2/3Ws) is expected to reach almost 45mn in CY30 and ~65mn in CY35, up from around 14mn in CY23. The sales share of EVs will grow from around 15% in 2023 to ~ 40% in 2030 and over 50% in 2035. The reduction in available ICE models over the same period has been relatively lower, resulting in net increase in total car models available. Such high and front-loaded investments towards EVs should drive higher Auto ER&D Services demand as well. An EV model will not only entail traditional mechanical/mechatronics engineering services, e.g., body, chassis engineering but also electric vehicle specific services, e.g., e-powertrain, DC-to-DC inverter, E/E architecture, etc. **Industry estimates current outsourced spend per model on Body Engineering, etc. is ~US\$ 30mn/year while that on Hybrid and Electric work is ~US\$ 35mn/year. Additionally, as OEMs focus on new EV models, they will be more disposed towards outsourcing mid-cycle refresh of existing ICE models to ESPs. A mid-cycle refresh program could be as large as US\$ 25mn-30mn for an ESP. This presents huge opportunity for ER&D players with high exposure to the transportation vertical like TATATECH.**

4. Softwarisation is an ~US\$ 46-47bn Auto ER&D outsourced opportunity

Cars are no longer solely mechanical structures; they are becoming tech products. This is causing the merging of two different domains i.e., mechanical and software. And the result is transition towards software-defined vehicles. This transition will lead to new collaborations between automotive and technology/software companies. **Software defined vehicles (SDVs) is a major trend that will likely catapult the auto industry towards US\$ 650mn value by 2030. Software-defined vehicles are only beginning to emerge and shall likely constitute 15-20% of the automotive value by 2030.**

In an SDV, cars are built around software instead of integrating software into a car. Softwarisation or putting software at the core will drive significant increase in software R&D budgets of OEMs over the next few years. Transition to software-defined-vehicle is as profound a shift for OEMs as Electrification. **Industry estimates expect software spend by OEMs to increase by at least 70% by 2030.** While the propensity to outsource development of these new-age software currently remains low, **the downstream work (integration, testing etc.) could drive significant outsourced ER&D services demand.**

Annual Software R&D spend of traditional OEMs is estimated to be US\$ 1-3bn

OEM	2021 Software R&D Estimate (USD bn)	Approximate Per Vehicle Cost	Estimated Software Staffing Commitment
BMW	1-1.5	\$3,000	3000-5000
Ford	1.5-1.75	\$1,500	+7000
GM	1.5-1.75	\$1,000	3,000 new between 2020 and 2021
Mercedes-Benz	1.3-1.7	\$3,000	4000-7000
Toyota	3.5-4	\$1,100	18000 across Toyota & Subsidiaries
Volkswagon	3-3.5	\$1,750	+10000 by 2025

Source- SBD

Embedded software is not new to a car. Autosar (AUTomotive Open System Architecture), an industry alliance on standardization of in-vehicle software applications and Electronic Control Units (ECU), has existed for over two decades. However, those earlier in-vehicle applications were tightly coupled with hardware in what is called as hardware-defined vehicle (HDV).

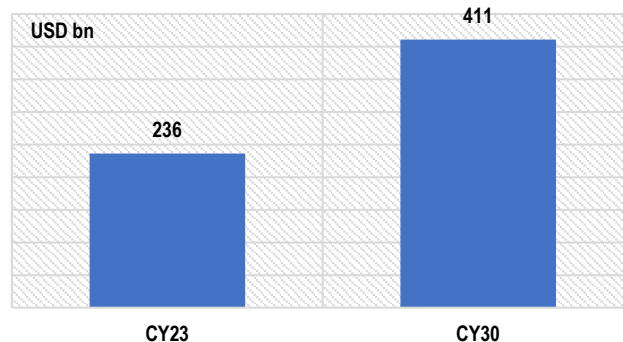
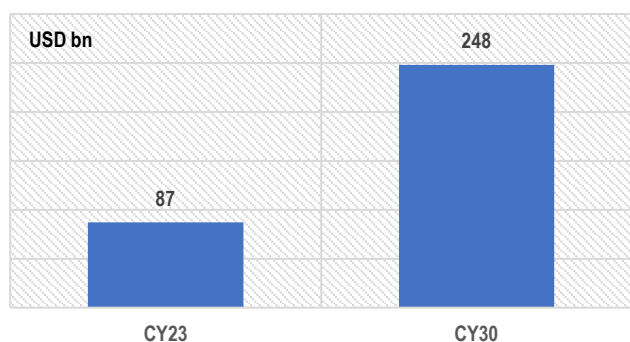
In HDVs, the software was written on the system-on-chip components of a specific hardware, which was sourced from various tier-1s as a "blackbox". Think of an Anti-lock Braking System (ABS) of a car. The sensor and the software that make ABS work are very specific to the braking module of a car. This ABS capability – sensor, system-on-chip, software – would typically be housed in an ECU that will be tightly coupled with the braking hardware. Similarly,

there will be multiple ECUs in the car, each tightly coupled with a specific hardware. Such a distributed Electrical and Electronic (E/E) architecture of an HDV has resulted in over 100 ECUs within a car.

Among other things, the key challenge this architecture poses is lack of OEMs' control over software as different software/ECUs are provided by different component providers. This makes software reusability and scalability (across different models) as well as their updates, especially over-the-air challenging. The transition from tight coupling to light coupling is the ethos of a software defined vehicle. Light coupling would mean introduction of a hardware abstraction and middleware layer. The abstraction layer will allow centralisation of ECUs and development of software application independent of hardware. Apart from a central/zonal E/E architecture, an SDV also requires a High-Performance Computer (HPC), high-performance microprocessors/ microcontrollers and a powerful software platform called Vehicle OS.

OEM revenues from electronics and automotive software is expected to grow ~3x from US\$ 87bn in CY23 to US\$ 248bn in CY30 (per BCG).

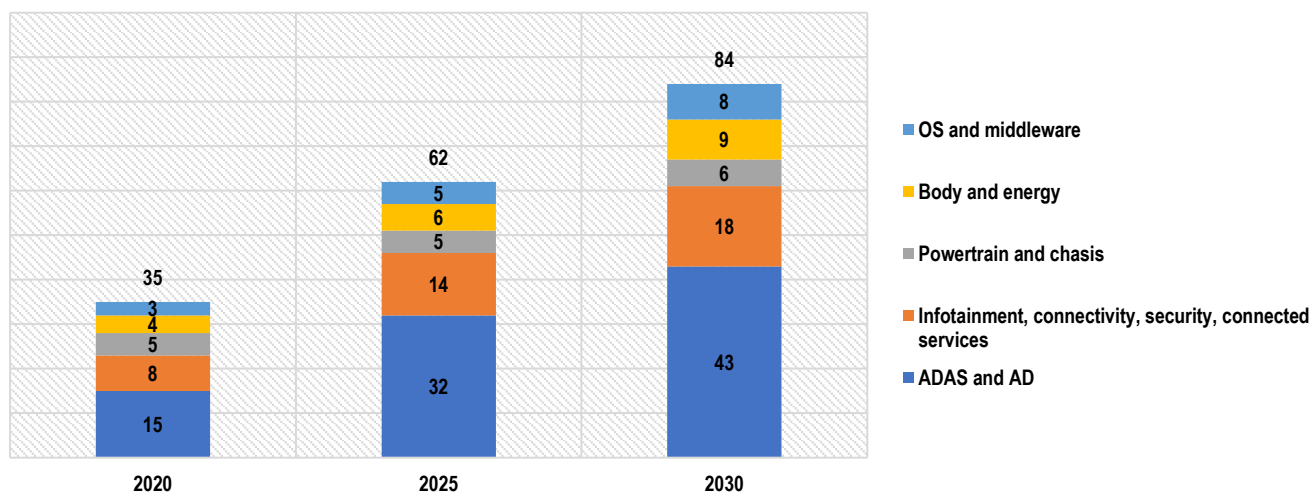
On similar lines, the supplier market for electronics and automotive software is expected to grow ~2x, from US\$ 236bn in CY23 to US\$ 411bn in CY30 (as per BCG).



The features that customers are looking for in software-defined vehicles are:- comfort convenience, safety, connectivity, a modern dashboard and driver assistance. The demand for these features is causing OEMs to move from a hardware-defined architecture to a software-defined one.

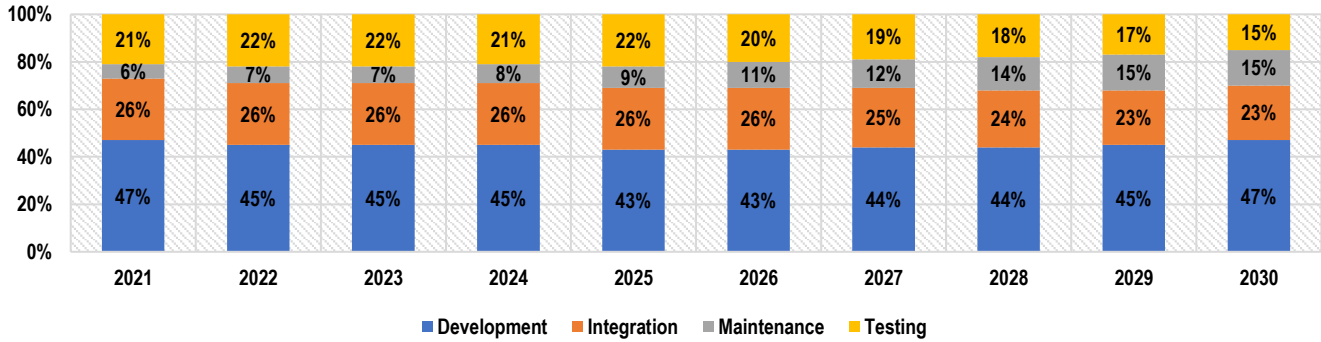
Softwarisation can drive US\$ 46.7bn of cumulative outsourcing demand over 2023-27, implying an incremental annual opportunity of ~US\$ 9bn. According to Zinnov, outsourced spend on embedded automotive software such as Infotainment, ADAS, safety systems was US\$ 6.75bn in 2022. That is 41.5% of the total software development spend on downstream services such as integration, testing and maintenance (as estimated by Roland Berger). Industry estimates a gradually improving outsourcing penetration to the downstream software spend

McKinsey pegs the overall automotive software market size at US\$ 84bn by 2030



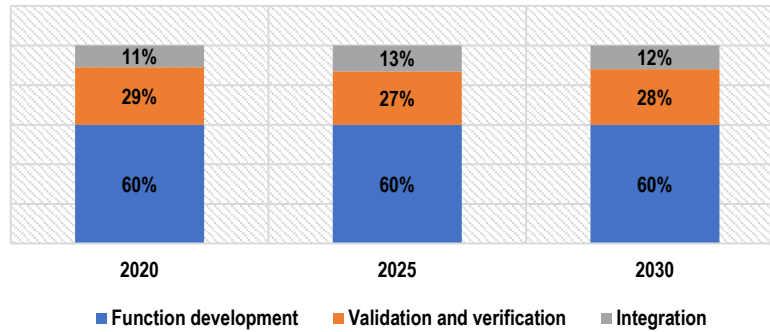
Source- McKinsey

As per various industry estimates, downstream services could constitute 40-50% of overall software spend. Break-down of automotive software development cost



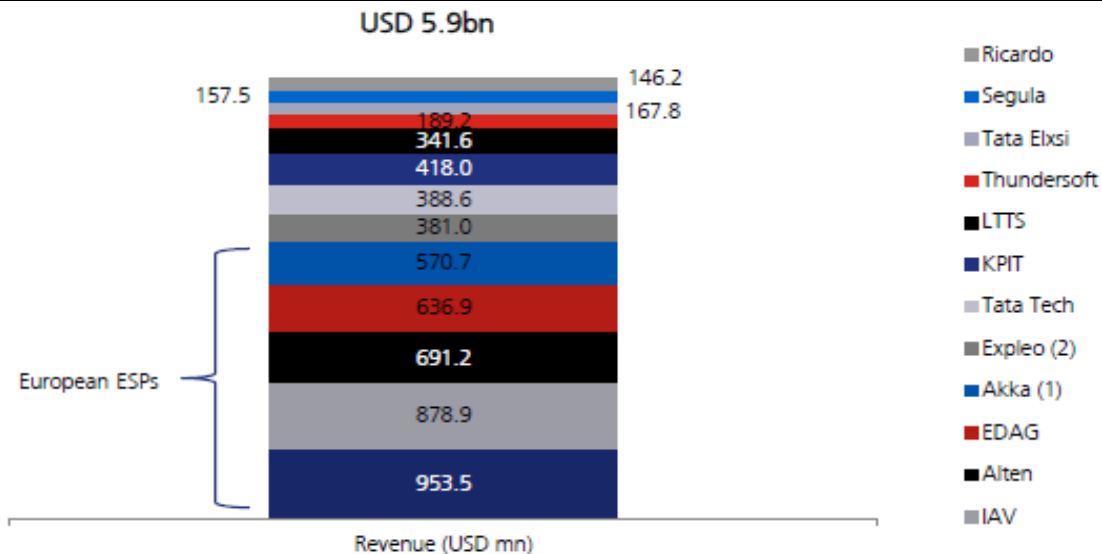
Source: Roland Berger

Split of automotive software cost, by type of work



Source: McKinsey

System integrators (SIs) are key to an OEM's successful SDV transition - Whether an OEM chooses to develop its Vehicle OS in-house or depend on a combination of proprietary, partner-provided and open-source software, the role of domain specific system integrators will be key. **Even if SIs will have limited role to play in the product development of various software components, they will have to play a central role in the integration, maintenance and validation of these software.** Unfortunately, given the still nascent stage of SDV development, there aren't many established SIs in this domain. KPIT and Vector are two such niche providers with clear head-start in this domain. European Players dominate 63% of the Automotive ESP market worth US\$5.9bn as on 2022.



Source- Company, Way2Wealth

5. Cost, Capacity and Capability to drive Auto ER&D outsourcing drive

Auto OEMs are facing simultaneous constraints on **Cost, Capacity and Capability**. Cost pressures on Auto OEMs are multi-pronged today. Shift to software-defined-vehicle is pushing up cost of software in a car. **Rising cost of software in a car (USD 3,000/car and rising), and pricing pressure from Tesla and Chinese EV players are putting significant pressure on traditional OEMs' cost structure.** Deloitte, a consultancy, estimates that software cost as a % of car's BOM (Bill of Material) could rise from 10% currently to 50% by 2030. Software aside, even physical cost of a BEV is still materially higher than ICE vehicles. At a time when cost of living situation in developed nation has worsened and credit standards have made auto-loans dearer, **BEVs are becoming less affordable. Cost advantage of Chinese BEV OEMs is already driving significant market share gains in the BEV segment. Price cuts by Tesla and rising labour cost due to strikes by United Auto Workers in 2023 are incremental factors. OEMs have little choice but to reduce cost of the car to stay competitive.**

CAPACITY constraints for Auto OEMs are emanating from two directions. One is caused by parallel development of ICE and BEV models. **OEMs are faced with a regulatory deadline to transition their portfolio to EVs. But the money to fund that transition will come from their ICE portfolio. The recent slowdown in BEV sales due to higher cost means OEMs can't take their eyes off ICE models.** AlixPartners estimates that number of BEV platforms is likely to grow from 53 in 2022 to 96 in 2030, even as existing ICE platforms remain operational. Not only will this stretch the OEMs' balance sheets, but also put pressure on their engineering workforce. **The second capacity constraint will be of software talent at OEMs' disposal.** ACES trends are making software an increasingly central aspect of a vehicle, increasing demand for specialised software engineer. This pressure is likely to be more pronounced for Western European OEMs. Not only are software professional in Western Europe (WE) significantly expensive than their Asian counterparts, they are also increasingly scarce.

McKinsey pegs the overall full time equivalent (FTE) requirement in automotive software at 234,000 by 2025, up from 177,000 in 2020. The talent shortage is reflected in number of unfilled positions in Western Europe in ICT (Information and Communication Tech) jumping from 117,000 to 167,000 between 2016.

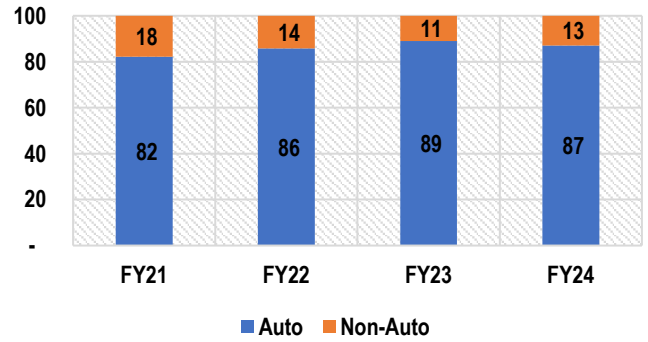
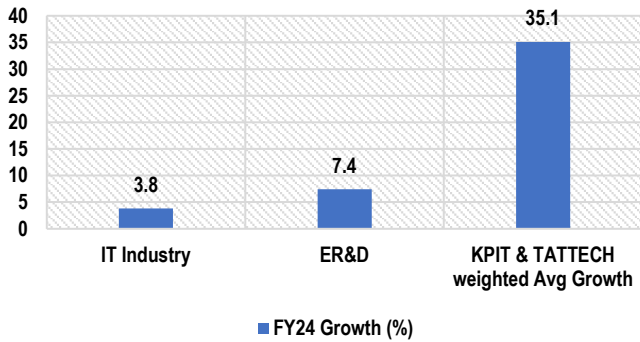
CAPABILITY - Software defined vehicle is a complex mesh of Infrastructure, OS and application layer. While building own Vehicle OS allows OEMs greater autonomy over their next generation software defined vehicle, **their lack of software development experience and rising complexity of the software/application stack in a car are becoming a challenge.**

These constraints, typical drivers of outsourcing, should trigger a multi-year outsourcing wave. **While the step-up in OEMs' ER&D spend due to ACES will likely normalise by 2030, the outsourcing wave should outlast the investment cycle.**

India: best placed to benefit from incremental outsourcing – India's ER&D talent supply is likely to more than double from 1mn in 2021 to 2.2mn by 2030. As per Zinnov, annual billing rate per FTE in India is around USD 35K-45K, compared to USD 60K- 70K in Eastern Europe. **The cost differential is also reflected in 50-70% lower revenue/employee of Indian ESPs as compared to their global counterparts. This is despite over 50% of Indian ESPs' revenue share coming from onsite/near-shore locations.** Clearly, the global delivery model of Indian ESPs is far more cost efficient. As auto OEMs look to offset some of the cost escalation they are facing, shifting their sourcing to India should be a logical step. Further, India is becoming a global ER&D hub for OEMs. These place India favourably to gain incremental share of outsourced Auto ER&D.

6. TATATECH well placed in the Auto ER&D Space

In FY24, the ER&D sector showcased significant growth, making a **meaty 48% contribution to total exports**, per NASSCOM. As per NASSCOM's Annual Strategic Review, 2024, ER&D is the fastest-growing segment for the industry in FY24, growing at 7.4% YoY, as against net industry revenue growth of 3.8% YoY. KPIT, a pure automotive engineering company that posted 40.4% YoY growth in FY24, has guided for 18–22% organic and 40% overall revenue growth in FY25. **TATA TECH, with 87% revenue from automotive, offers entry into an opportune exposure to the industry's fastest growing sub-segment of auto engineering services.**

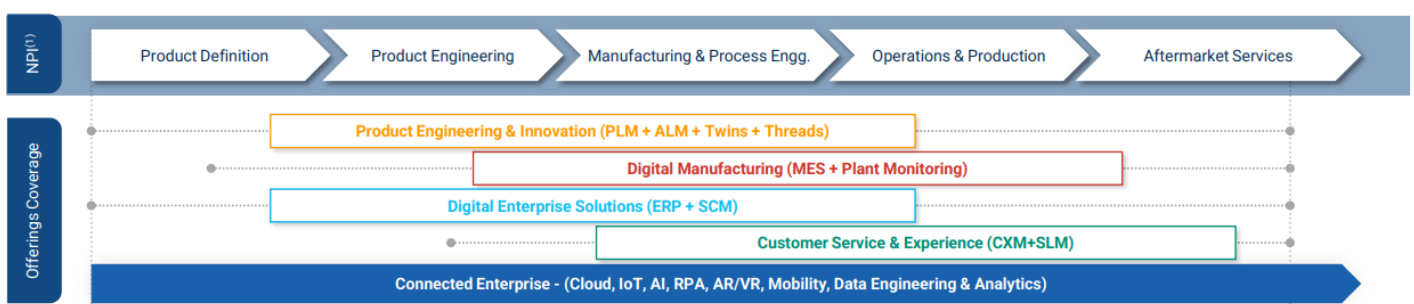
NASSCOM IT industry, ER&D and KPIT & TATA TECH FY24 revenue growth: Best growth was displayed by automotive-heavy KPIT and TATATECH
Automotive forms highest portion of revenues for TATA TECH (%)


Source – NASSCOM

Source- Company, Way2wealth

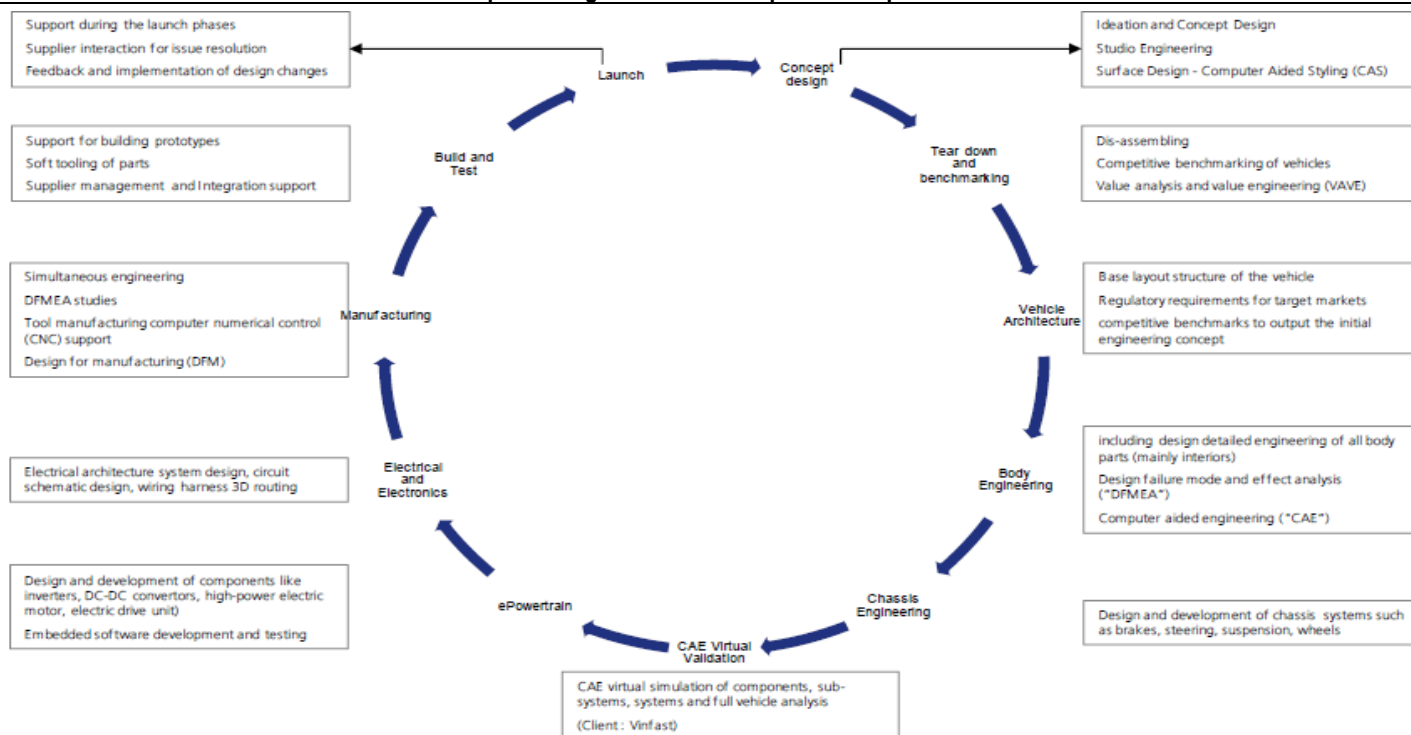
Tata Tech's primary business line is **Services**, which includes providing outsourced ER&D and digital services to global manufacturing clients. Tata Technologies' services offerings cover the entire spectrum of a product development to manufacturing to aftermarket services. These services can be classified as **ER&D services – for product development** – and **Digital Services** – for digitising factories, manufacturing processes and providing customer experience management.

Product Engineering & Innovation	Digital Manufacturing	Digital Enterprise Solutions	Customer Experience Management	Connected Enterprise
<ul style="list-style-type: none"> Consulting and Business Process Re-engineering Implementation & Integration 	<ul style="list-style-type: none"> MES Scan & Consulting MES Implementation & Upgrade Production Systems Integration 	<ul style="list-style-type: none"> Enterprise Scan and Supply Chain Consulting ERP Implementation & Migration 	<ul style="list-style-type: none"> 360-degree customer management Dealer and Call-centre Mgmt. Advanced Analytics 	<ul style="list-style-type: none"> Cloud Solutions Data Engineering & Analytics Artificial Intelligence

Our Service Offerings


Source- Company

The company's product engineering offerings span the entire product development lifecycle of an automotive vehicle development – from concept to design to launch except the final production.



Source- Company RHP

Its digital engineering offerings include implementation and integration of PLM-ERP-MES software, analytics and customer experience management for post-sales support. Besides, the company has also built capabilities in new age programs including EV Architecture, over-the-air connected services (OTA- SOTA & FOTA), level 2 and level 3 Advanced Driver Assistance Systems (ADAS), embedded electronics, EV system design. It has also built multiple IPs in both product development as well as digital engineering space to accelerate clients' time-to-market.

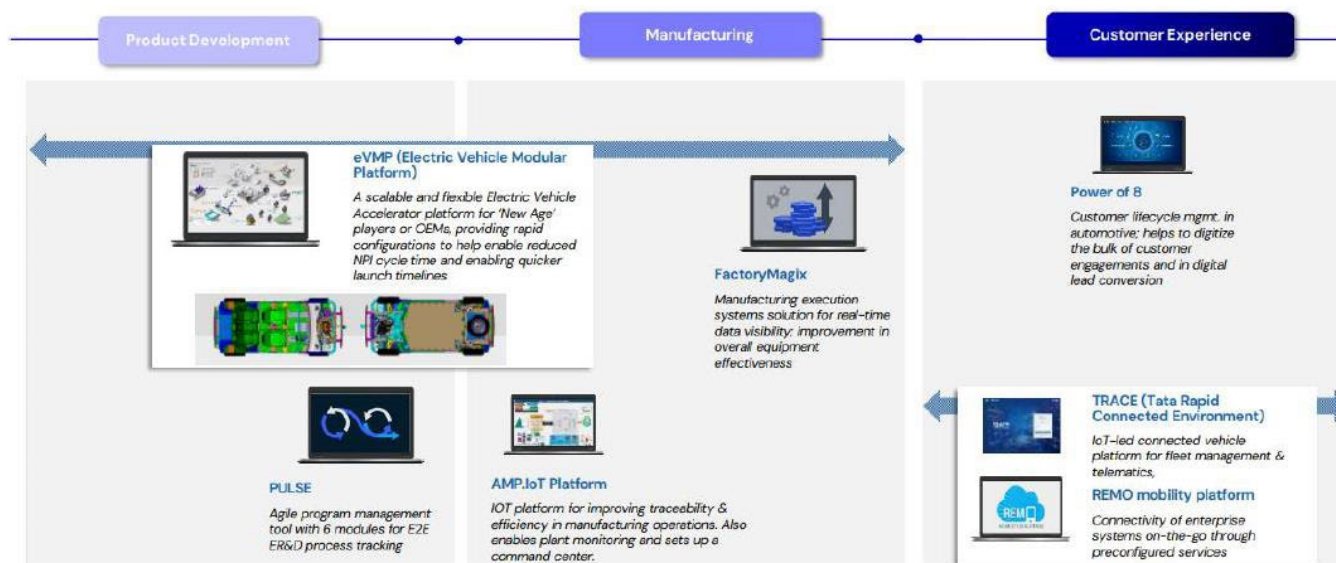
The eVMP platform, a key IP developed by Tata Technologies, helps OEMs in faster compatibility checks to support multiple system selections, achieves a higher degree of uniformity, scalability and de-risking through virtual validation. These help OEMs in rapid configuration changes as per their dimensions, thus reducing time-to-market. This platform helped reduce product development time for VinFast to one of the fastest in the industry.

Key services offerings and IPs across ER&D/Digital services

ER&D Services	Digital Engineering	New Age Services
Tear Down and benchmarking	Process planning	EV Architecture
Computer Aided Engineering/Design	PLM/ERP implementation	ADAS
Vehicle Architecture	PLM-ERP-MES integration	SOTA/FOTA
Body/Chassis engineering	Application Management	ePowertrain
Virtual simulation/validation	Analytics using AI/ML	Battery Management/Swapping
Electrical Architecture/System design	CRM/post sales support	Embedded Electronics
Manufacturing – Soft tooling etc	Customer experience management	Factory 4.0
IP developed to reduce time-to-market/improve efficiency		
eVMP	Modular/configurable/scalable platform to reduce vehicle development timelines for EVs	
FactoryMagix	Real time data visualisation of manufacturing execution system	
TRACE	Tata Rapid Connected Environment – IoT-led connected vehicle platform	
Power of 8	Digital customer experience offerings covering 8 intelligent digital services	

Source- Company RHP

Technologies has developed proprietary IPs and accelerators to facilitate faster time-to-market, digital transformation among others



Source- Company RHP

TATATECH's embedded offerings span Systems, Functional Safety (FuSA), Application software development, Basic Software Development, Software system and validation, and SDV (middleware development, OTA integrations etc.). **BMW-JV for automotive software is a validation of improved SDV capabilities of the company.**

Expertise across all major sub-segments within automotive

Services Capability	Client
Concept Design	PoleStar
Teardown and benchmarking	Tata Motors
Vehicle Architecture	VinFast
Body Engineering	A Chinese new energy vehicle company
Chassis Engineering	McLaren
CAE Virtual Validation	VinFast
ePower-Train	A British tier-I supplier
Electrical and Electronics	VinFast
Manufacturing	McLaren
Build & Test	Tata Motors
Launch	Polestar, VinFast

Source- Company, Way2Wealth

It has also worked in the entire gamut of PV – from high end luxury cars to mass-market models. For Vinfast, it was involved in all the five models – 1 for concept design, 2 for complete development and 2 for the Electrical/Electronic architecture. With JLR, it is deploying S4 HANA at JLR production facilities. TATATECH is also deeply involved in all the production processes at JLR. **Almost all new model/mid-cycle refresh work comes to TATATECH**, underlining its full vehicle capabilities and strategic nature of the relationship.

VinFast announced to set up an integrated EV plant in Tamil Nadu with capacity of producing 150,000 EVs. This opens up opportunity for TATATECH to leverage its existing relationship with VinFast and get additional projects from VinFast's India EV plant setup. Also, TATATECH's platform-based work on VinFast has provided positive word of mouth and helped it bag another project with a French automotive OEM.

It has over the years, also been involved in a few industry-first programs. These include a **carbon-metal upper-body structure for a Swedish OEM, automatic batter-swapping capabilities in a new age Chinese OEM.**

TATATECH's Deeply entrenched in OEM supply chain enables product benchmarking, costing and sourcing capabilities are key for OEMs to reduce cost and time-to-market. **It has sourcing capabilities across engine& powertrain, polymers, electrical & electronics components, casting/forging/machining and battery pack.** It has global sourcing

footprint – works with 300+ suppliers each in North America and Europe and 600+ in APAC.

It also works with **global physical testing partners** such as ARAI in India, MIRA and Millbrook in EU to name a few. TATATECH is **not just an engineering partner but can help OEMs in the entire product development lifecycle across ICE and EV vehicles.**

TATATECH helped TAMO in **converting the existing ICE platforms for Tigor and Tiago model to EVs.** This not only shrunk the time-to-market, but also lowered the cost of the car (compared to a born-EV model), helping TAMO establishing early lead in the EV market in India. The company is **currently working on converting on two more conversions for Tata Motors.** The company believes such conversions **are likely to pick-up pace in commercial vehicle space too – especially light weight vehicles.**

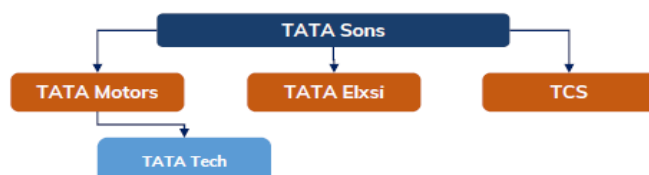
TATATECH is also the **exclusive designing partner for Agratas, Tata Group's global battery business.** It will involve designing of battery packs for different kind of vehicles as per the energy requirement. Additionally, it will develop the complete batter management system (BMS) of the vehicle in-house. It will also digital/physical validation of the battery enclosures to ensure safety. TATATECH has already won two joint-deals with Agratas. One of the deals is from a global luxury OEM while the other one is from a mass-market brand.

The **Technology Solutions (Non-Auto) comprises two main segments: Products and Education businesses.** In the Products business, the company resells third-party software, primarily product lifecycle management (PLM) software and solutions. It also provides value-added services such as consulting, implementation, systems integration and support for such software. The company has longstanding relationships with third party software vendors like Dassault Systems and Siemens Industry.

For **Education**, Tata Technologies **caters to the skilling requirements of corporate and academia in the manufacturing domain through its iGetIT eLearning** platform. iGetIT platform has courses on more than 2,000 mechanical computer aided design (MCAD), PLM and niche skill sets. The company has signed agreement with six state governments to upgrade ITIs to enhance skill development and improve youth employability.

7. TATATECH has direct link to Tata Motors

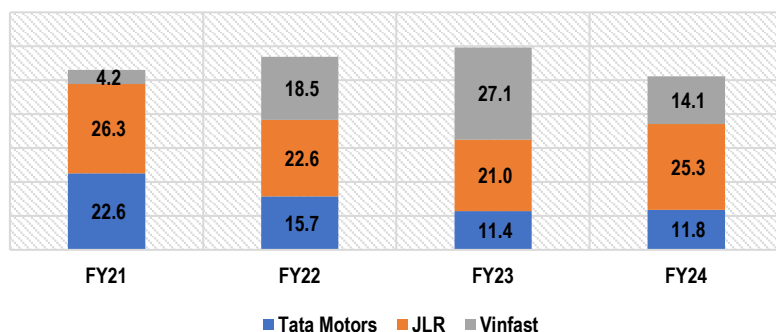
TATATECH stands out in the tech industry due to its **unique ownership structure, providing it with a distinct competitive advantage.** With Tata Motors as its largest client and promotor, TATATECH enjoys a strategic partnership that helps bolster its market position and stability. **Equity and commercial client duality of its relationship with Tata Motors enables TATATECH to participate in development and innovation programs of Tata Motors and JLR.** Unlike its peers, including Tata Elxsi and TCS, which are Tata Sons-owned names, TATATECH benefits from a organic relationship with major players in the automotive industry, leveraging opportunities for growth. The relationship not only ensures steady stream of revenues but enhances TATATECH's resilience and credibility in the market. TATATECH's success depends on maintaining relationships with its top long-standing clients. **The top-5 include: Tata Motors, JLR, Airbus, Boeing and VinFast. Separately, Tata Motors and JLR together form the anchor clients.**



Top 5 Clients	FY21	FY22	FY23
Revenue (₹ mn)	13,163.4	17,858.5	26,703.2
As % to Total Revenue	55.3	50.6	60.5
Revenue to Service segment (₹mn)	12,347.4	17,434.1	25,847.6
As % to Service segment	64.5	65.8	73.2
Revenue to Tech segment (₹ mn)	815.9	424.4	855.6
As % to Tech segment	17.5	4.8	9.7

Anchor Clients Revenue Mix (%)	FY21	FY22	FY23
Anchor Clients % to the Services segment	51.4	40.3	40.2
Anchor Clients % to the Technology segment	8.0	4.9	9.6

Anchor Revenue % to Total	FY21	FY22	FY23
Anchor Service Clients	41.3	30.3	32.2
Anchor Technology Clients	1.6	1.2	1.9
Anchor Clients % to Total Revenue	42.9	31.5	34.1

Services Revenue Mix (%) from top three clients

Services Revenues YoY Growth (%), Top-3 Accounts

	FY22	FY23	FY24
Tata Motors	(3.4)	(3.3)	16.4
JLR	19.0	23.9	35.7
Vinfast	517.9	95.1	(41.6)

Source-Company, Way2Wealth

Tata Motors and JLR – key anchor clients of TATATECH – have ambitious capex plans. JLR has maintained its capex plan of investing GBP 3bn per year till 2029 (GBP 15bn over five years). **As part of JLR's 'Reimagine' strategy, to grow its presence in luxury EV, JLR has committed systematic and continuous investments. This entails evolution of its existing platforms and architecture in a phased manner to: 1) Modular Longitudinal Architecture; 2) Electric Modular Architecture; and 3) Jaguar Electrified Architecture.** Similarly, Tata Motors plans to increase its portfolio of EVs. This will likely have a downstream positive impact on TATATECH.

JLR investment areas


JLR to collaborate deeply with Tata Group and NVIDIA
JLR to collaborate deeply with Tata Group and NVIDIA



Source-Company, Way2Wealth

8. Large, reputed clientele enables reduction in concentration risk

TATATECH has an impressive clientele, consisting of 35 OEMs and 11 new energy vehicle companies. The key point that reduces the concentration risk is the fact that majority of the top-5 companies have a contract tenure of three–five years, with an option for renewal post that. TATATECH’s current clients include seven out of ten and 12 out of 20 automotive ER&D spenders. The top client portfolio includes marquee names such as: 1) Anchor clients – TATA Motors and JLR; 2) Tier-I OEMs - Airbus, McLaren, Ford, Honda, Cabin Interiors & Engineering Solutions, ST Engineering Aerospace and Cooper Standard; and 3) New energy vehicle companies such as VinFast, NIO and Rivian. A leading American EV and autonomous company which designs, manufactures and sells battery electric vehicles, also outsources digital engineering work to TATATECH. TATATECH is also the only accredited company under Tata Group to provide engineering services provider for Airbus. The list of marquee clients now includes another noteworthy OEM of repute – BMW. TATATECH announced a JV with BMW in Apr’24. The motive of this JV is to create a software development hub in India – cities of Chennai, Bengaluru and Pune – to deliver software-defined vehicles and automotive software for BMW’s digital transformation solutions and premium vehicles. This is also expected to fill the gap left by VinFast’s ramp down.

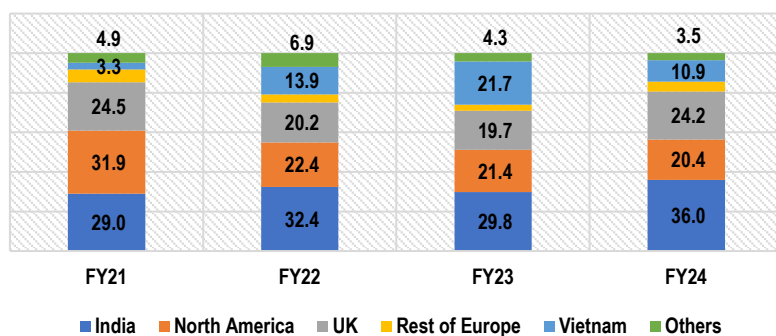


Source- Company, Way2Wealth

9. Largest Exposure to Non-Americas & Non-Europe region amongst ER&D Players

TATATECH has lower exposure to traditional geographies i.e., North America (20.4%) and Europe (29.2%). The portfolio is looks Asia heavy. This is a result of presence in TATA Motors (India), VinFast (Vietnam) and TATATECH's subsidiary in China. Though the presence in China is miniscule as a % of revenue, the subsidiary allows TATATECH to work with Chinese new energy vehicle companies/startups (albeit limited) and get hands on access to cutting edge innovation in the field of EVs. This is of prime importance, as China is ahead of US and Europe in EV and autonomous vehicle technology as well as in support infrastructure which is evident from higher share of China in EV sales as out of the Global 9.8mn EVs were sold between Jan-Aug'24, China accounted for 6mn EV sales.

Revenue Mix (%) by Geography; CAGR (%) FY21-24 India-39/North America-11/ UK-29/Vitenam-92/Rest of Europe -18/ Others -16



Source- Company, Way2Wealth

10. Major uptick likely in the Aerospace (Non-Auto) services in FY25

Though the company's primary focus is on automotive vertical, it also leverages its automotive capability to serve clients in adjacent verticals such as aerospace and transportation and construction heavy machinery (TCHM).

TATATECH has been working in the aerospace for more than a decade. Aerospace currently forms a single-digit share of its services segment. However, FY25 is expected to be a year that would likely mark an uptick in aerospace for TATATECH driven by ambitions of Tata Group and Airbus coupled with the rise in aircraft demand post covid.

TATATECH's expertise in transportation is helping it get into adjacent domains such as aerospace and TCHM (Transportation and Construction Heavy Machinery). The company has already proved its mettle in the space with recognitions such as being ranked in the 'leadership zone' in the aerospace ER&D ratings in 2023 and 2021 by Zinnov Zones.

It has a set of marquee clientele in aerospace such as ST Engineering Aerospace, Airbus, Tata Group (Air India, TASL, Vistara). TATATECH is optimistic of expanding in aerospace and industrial heavy machinery and aims to lift its contribution to 20% (from the current low single digit) in the next three–five years.

Tata Group's sway is increasing in aerospace which will likely benefit TATATECH. Management of TATA Group had announced their plans in terms of buying aircraft, in both commercial and defence spaces. Air India (owned by Tata Group) is placing an order of 270 aircraft worth USD 100bn with Airbus and Boeing. TATATECH, given its relationship with Tata Group as well as Airbus, is expected to benefit as this order unfolds.

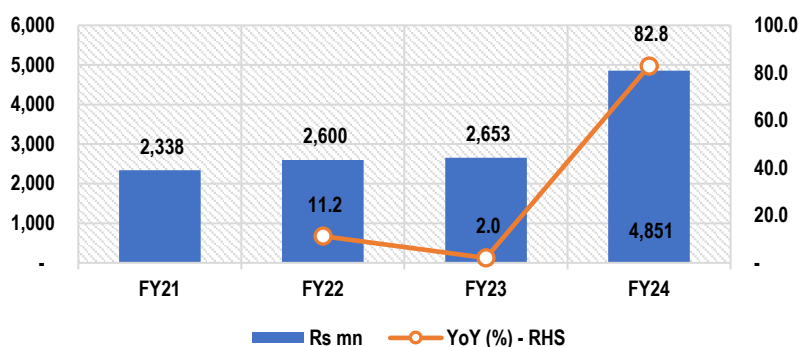
Its presence in the defence space is with TATA Advanced Systems – sister company of TATATECH (TASL). TASL is collaborating with Airbus to manufacture and assemble medium lift tactical C-295 transport aircraft for the Indian Airforce.

TATATECH got accredited by Airbus around two years ago and is part of Airbus' EMES cube supply program (the program involves EUR 2bn annualised outsourced spend). Empanelment with a client of Airbus's stature holds high significance. This is because of the

fact that in a space such aerospace, safety, quality and compliance are of utmost importance. Hence, the Airbus empanelment is testament to deep trust that clients have on TATATECH's offerings.

Airbus being one of the largest spenders in the industry opens up large opportunities for TATATECH. **The company begun discharging the Airbus orderbook in Jan'24 and has doubled its revenue from the account in Q4FY24 v/s Q3FY24.** The work with Airbus majorly revolves around infrastructure support and manufacturing throughput. The Airbus opportunity is huge, **considering** there are currently 23,000 aircraft and the fleet is expected to double in the next 15–20 years (i.e., a minimum 1,150 aircraft to be added each year). It will also be **helping Airbus to automate its factories by implementing ERP, PLM and EMES so that all the data across the organisation is communicating seamlessly.**

Strong ex-JLR growth in EU (UK+CE) imply growth in Aerospace, non-anchor auto OEMs



Source- Company, Way2Wealth

11. Experienced Board of Directors and Management

- **Mr. Warren Harris – Chief Executive Officer and Managing Director.** He obtained his bachelor's degree in engineering (technology) from the University of Wales Institute of Science and Technology, University of Wales. He has been with the company for 15 years.
- **Ms. Sukanya Sadasivan – Chief Operating Officer of the organisation.** In her role, she oversees the management of Delivery, Practice, and internal digital & IT systems at TATATECH. She earned her Bachelor's degree in Computer Science and Informatics from Bharathiar University. Prior to joining TATATECH, Sadasivan held the position of Senior Vice President and Chief Information Officer at Tata Consultancy Services Limited (TCS). With over 33 years of experience at TCS, she held numerous leadership positions and made significant contributions to the company.
- **Mr. Nachiket Paranjpe – President of Automotive Sales.** He became a part of TATATECH Europe Limited, a subsidiary of the company, in 2019. Paranjpe is tasked with overseeing sales and client engagement at JLR. He earned his Bachelor's degree in Mechanical Engineering from Maharashtra Institute of Technology, University of Pune, and a Master's degree in Management from Purdue University. Before joining the company, he served as the Head of the Automotive Integrated Business Unit at KPIT Technologies GmbH in Germany.
- **Mr. Alope Palsikar – Executive Vice President and Head of Aerospace and Industrial Heavy Machinery Sales.** His responsibilities include overseeing global sales for non-automotive industry sectors. Palsikar holds a Bachelor's degree in Electrical Engineering from the University of Bombay; a Master's degree in Technology in Electrical Engineering with a focus on electrical machines and drives from the Indian Institute of Technology, Bombay, and has completed the Management Education Program at the Indian Institute of Management, Ahmedabad. Before joining the company, he held various roles at Siemens Limited as Chief Manager – Marketing; at Larson & Toubro Infotech Limited as Assistant General Manager; at Tech Mahindra Limited as Global Competency Head; and at Satyam Computer Services Limited as Assistant Vice President.

- **Mr. Sriram Lakshminarayanan – President and Chief Technical Officer.** His role involves overseeing the practice organisation, strategic monetisation of intellectual property and assets, and managing the products business. He earned his Bachelor's degree in Electronics and Communication Engineering from Madurai Kamaraj University. Before joining the company, he held positions at Complete Business Solutions (India) Limited as a Senior Application Developer and at IBM India Private Limited as an Executive.
- **Ms. Savitha Balachandran – CFO –** She earned her Bachelor's degree in Commerce from Bangalore University and a Post-Graduate Diploma in Management from Symbiosis Centre for Management and Human Resource Development. In 2012, she successfully completed the Fulbright Scholarship Program and passed the final examination for Chartered Financial Analyst from the CFA Institute. Before joining the company, she was affiliated with Tata Motors Ltd.
- **Mr. Warren Harris – Chief Executive Officer and Managing Director.** He obtained his bachelor's degree in engineering (technology) from the University of Wales Institute of Science and Technology, University of Wales. He has been with the company for 15 years.
- **Ms. Sukanya Sadasivan – Chief Operating Officer of the organisation.** In her role, she oversees the management of Delivery, Practice, and internal digital & IT systems at TATATECH. She earned her Bachelor's degree in Computer Science and Informatics from Bharathiar University. Prior to joining TATATECH, Sadasivan held the position of Senior Vice President and Chief Information Officer at Tata Consultancy Services Limited (TCS). With over 33 years of experience at TCS, she held numerous leadership positions and made significant contributions to the company.
- **Mr. Nachiket Paranjpe – President of Automotive Sales.** He became a part of TATATECH Europe Limited, a subsidiary of the company, in 2019. Paranjpe is tasked with overseeing sales and client engagement at JLR. He earned his Bachelor's degree in Mechanical Engineering from Maharashtra Institute of Technology, University of Pune, and a Master's degree in Management from Purdue University. Before joining the company, he served as the Head of the Automotive Integrated Business Unit at KPIT Technologies GmbH in Germany.
- **Mr. Alope Palsikar– Executive Vice President and Head of Aerospace and Industrial Heavy Machinery Sales.** His responsibilities include overseeing global sales for non-automotive industry sectors. Palsikar holds a Bachelor's degree in Electrical Engineering from the University of Bombay; a Master's degree in Technology in Electrical Engineering with a focus on electrical machines and drives from the Indian Institute of Technology, Bombay, and has completed the Management Education Program at the Indian Institute of Management, Ahmedabad. Before joining the company, he held various roles at Siemens Limited as Chief Manager – Marketing; at Larson & Toubro Infotech Limited as Assistant General Manager; at Tech Mahindra Limited as Global Competency Head; and at Satyam Computer Services Limited as Assistant Vice President.
- **Mr. Sriram Lakshminarayanan – President and Chief Technical Officer.** His role involves overseeing the practice organisation, strategic monetisation of intellectual property and assets, and managing the products business. He earned his Bachelor's degree in Electronics and Communication Engineering from Madurai Kamaraj University. Before joining the company, he held positions at Complete Business Solutions (India) Limited as a Senior Application Developer and at IBM India Private Limited as an Executive.
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KEY RISKS

- **Dependence on Top 5-clients is 60% of the revenue and within that Top-3 clients account of 50% of revenue. Any termination of contract or less favourable renewal terms with any of them could result in a decline in the company's revenue and profit and have an adverse impact on its business.**
- **The company's clients are concentrated in the automotive industry, which contributes more than 87% of its services revenue. The automotive industry in particular is influenced by several macroeconomic and geopolitical factors and events specific to corporate demand. Any softness in demand in the automotive industry due to negative economic growth in key markets will affect the company's business. Any UAW (United Auto Workers) future strike in the US, weakening EV demand and delays in regulatory deadline to phase out ICE vehicles could impact near to medium term prospects.**
- **Limited expertise in Embedded ER&D – Tata Tech's has strength in traditional mechanical/mechatronics ER&D areas, e.g., Body Engineering, Chassis, Interiors, etc. Incremental ER&D budgets/spend of OEMs is shifting towards embedded systems, e.g., ADAS, safety systems, connected cars where other competitors have a head-start. Inability of Tata Tech to develop these capabilities could impact its market share in the Auto ER&D segment. Additionally, OEMs could exert pricing pressure in traditional areas such as Body engineering in order to channelise resulting savings towards newer technologies. That could impact Tata Tech's realisation and revenue growth.**
- **Tata Tech gets a significant share of its services revenue from some of the new-age EV startups such as VinFast, etc. While these companies are well funded currently, they are still unprofitable. Increased competition in the EV space from both market leader (Tesla) or traditional OEMs could impact these new age companies' profitability further and impede their ability to maintain ER&D spend.**
- **The company is dependent on third party vendors and partners for software solutions, many of which are single sources or limited sourced. A delay in the supply of a critical single-source or limited-source software may prevent the timely delivery of the related software as per desired specifications. Moreover, these relationships with vendors are non-exclusive, hence there is a risk of them competing with the company by directly aligning with clients or through a competitor. Moreover, any change in the prices of software or disruptions in customer experience can affect the company's business adversely.**

VIEW

Currently the automobile industry is undergoing major transformation primarily due to Electrification and Softwarisation which is likely to bring in more opportunities to outsourced ER&D players as the current pie is at lower levels and majority of the outsourcing is with European ESPs players, reflecting near-shoring bias. The dual transition (to EV and Software Defined Vehicle) is putting unprecedented constraints on cost, capacity and capability on OEMs thus benefiting players like Tata Technologies who have the cost arbitrage, capability and offerings which are of relevance with the offshoring trend that is likely to outlast the investment cycle, paving the way for a multiyear growth runway for most Indian Auto ESPs present in this space. The company with its full vehicle proposition and end-to-end EV capability is in a sweet spot of the Electrification-led outsourcing theme. The company offers investors an opportune entry into the fastest-growing Auto ER&D segment compared to other IT services. Additionally, company's proposition are structural catalysts that will help the company transition its services portfolio and encompass the much desirable digital engineering sub-segment as per the industry trends and requirements. The Tata Group lineage too helps the company synergistic advantages in the aviation sub-segment. Even as under penetration in Europe and other verticals would take longer to compensate for VinFast's ramp-down; the people skills, marquee clients and various partnerships (like BMW-JV, Agratas etc) in the addressable market augers well for its expansion plans. **Hence, we view it as a value BUY with Target Range ₹1330-1350 P/E 24.9x EPS ₹22.8 FY26E.**

Q1FY25 Result – Revenue/EBITDA/PAT at ₹12.7bn/₹2.3bn/₹1.62bn was flat /-8% /-15.4% YoY

TATATECH reported 2.5% cc QoQ decline in revenues to US\$ 152.1mn (₹12.69bn, -2.9% QoQ & -0.7% YoY). The drop in revenues was driven largely by weaker Tech Services growth. Tech Services declined by 7.3% QoQ to ₹2.8bn as seasonal softness in product business dragged while Education business grew 4% QoQ. Order book & pipeline in the Tech services looks healthy and management expects sustained growth through the fiscal in this sub-segment.

Services revenues declined by 1% QoQ to ₹9.86bn. Within Services, Auto declined by 2.1% QoQ while non-auto grew 6.1% QoQ, likely on Airbus deal ramp. Ex-Vinfast, Services grew 1% QoQ. EBIT margin was down 217bps QoQ to 15.9%. Employee expenses were flat while higher professional/advisory expenses were partially offset by lower sub-con and outsourcing expenses. PAT came in at ₹1,620mn, +3.1% YoY and -15.4% QoQ.

Management attributed Q1FY25 softness in Services segment to Vinfast ramp-down and delayed/staggered start to a couple of large projects. Management confirmed that Vinfast decline is now largely behind. Project delays are isolated and customer-specific and do not reflect broader demand trends. The company won 5 large deals including deals from an Aerospace Tier-1 (new logo), global battery EV manufacturer and a CV OEM for SDV program. Focus is on preserving margins and expect flat to slightly better margins through FY25. Reiterated its long-term goal of achieving 20% EBITDA margin.

Company signed MoU with ARM AI technology platform to accelerate the development of AI enabled vehicles. Company highlighted that Gen AI is at the early stages of adoption and that it is going to transform new product introduction, manufacturing and aftermarket processes. Company also highlighted Gen-AI powered virtual sales assistant deployed at CV manufacturer and leveraging of Gen AI for supply chain, raw material processes at a North American Tier-1. The BMW JV is expected to start operations in the second half of FY 25 and company will provide guidance subsequently.

Headcount stood at 12,505, a reduction of 183 employees. Utilization stood at 86.5%, which is around optimum level as per management. Attrition levels are favourable with attrition coming down to 13.7% vs. 14.5% previous quarter. Annualised attrition stood at 12.8%, offshore % improved sequentially to 39% from 37.7% and management is in the process of improving this further. They also highlighted that there can be some improvement in onshore utilisation.

(₹mn)

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue (USD mn)	152.1	153.1	(0.7)	156.6	(2.9)	617.9	547.0	13.0
Revenue	12,689.7	12,575.3	0.9	13,010.5	(2.5)	51,172.0	44,141.8	15.9
Technology Purchases	2,249.6	2,089.5	7.7	2,411.8	(6.7)	8,953.3	6,824.8	31.2
Outsourcing & Consultancy	905.9	1,509.6	(40.0)	1,034.6	(12.4)	5,083.6	5,695.6	(10.7)
Employee Exps	6,141.3	5,372.0	14.3	6,195.6	(0.9)	23,637.2	19,294.6	22.5
Other Exps	1,082.1	1,099.6	(1.6)	969.0	11.7	4,085.1	4,116.4	(0.8)
EBITDA	2,310.8	2,504.6	(7.7)	2,399.5	(3.7)	9,412.8	8,210.4	14.6
EBITDA Margin (%)	18.2	19.9	(171)	18.4	(23)	18.4	18.6	(21)
Depreciation	297.1	235.7	26.1	289.6	2.6	1,058.7	945.5	12.0
EBIT	2,013.7	2,268.9	(11.2)	2,109.9	(4.6)	8,354.1	7,264.9	15.0
EBIT Margin (%)	15.9	18.0	(217)	16.2	(35)	16.3	16.5	(13)
Other Income	230.0	308.7	(25.5)	241.4	(4.7)	1,155.5	877.4	31.7
Finance Cost	47.3	47.8	(1.0)	43.6	8.5	189.1	179.8	5.2
PBT	2,196.4	2,529.8	(13.2)	2,307.7	(4.8)	9,320.5	7,962.5	17.1
Tax	576.1	614.5	(6.2)	735.5	(21.7)	2,526.8	1,721.2	46.8
Net Profit	1,620.3	1,915.3	(15.4)	1,572.2	3.1	6,793.7	6,241.3	8.9
EPS (₹)	4.0	4.7	(15.4)	3.9	3.1	16.7	15.4	8.9

As % to Sales	Q1FY25	Q1FY24	YoY (BPS)	Q4FY24	QoQ (BPS)	FY24	FY23	YoY (BPS)
OPEX	24.9	28.6	(375)	26.5	(162)	27.4	28.4	(93)
Gross Margin	75.1	71.4	375	73.5	162	72.6	71.6	93
Employee Exps	48.4	42.7	568	47.6	78	46.2	43.7	248
Other Exps	8.5	8.7	(22)	7.4	108	8.0	9.3	(134)

(USD mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	152.1	153.1	(0.7)	156.6	(2.9)	617.9	547.0	13.0
Service	118.1	120.7	(2.2)	120.2	(1.7)	483.3	438.3	10.3
Technology Solutions	34.0	32.4	4.9	36.4	(6.6)	134.6	108.7	23.8

₹ mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	12,690	12,575	0.9	13,011	(2.5)	51,172	44,142	15.9
Service	9,855	9,911	(0.6)	9,951	(1.0)	39,826	35,312	12.8
Technology Solutions	2,835	2,664	6.4	3,060	(7.3)	11,346	8,830	28.5

Revenue Mix (%)	Q1FY25	Q1FY24	YoY(BPS)	Q4FY24	QoQ(BPS)	FY24	FY23	YoY(BPS)
Service	77.7	78.8	(115)	76.5	118	77.8	80.0	(217)
Technology Solutions	22.3	21.2	115	23.5	(118)	22.2	20.0	217

Service Revenue Mix (%)	Q1FY25	Q1FY24	YoY (BPS)	Q4FY24	QoQ (BPS)	FY24	FY23	YoY (BPS)
Auto	85	89	(400)	86	(100)	87	89	(200)
Non-Auto	15	11	400	14	100	13	11	200

Service Revenue Mix (₹ mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24	FY23	YoY (%)
Auto	8,377	8,821	(5.0)	8,558	(2.1)	34,649	31,428	10.2
Non-Auto	1,478	1,090	35.6	1,393	6.1	5,177	3,884	33.3

QoQ - CC Terms (%)	Q3FY24	Q4FY24	Q1FY25
Services	(0.5)	(1.0)	(1.3)
Technology Solutions	11.3	4.8	(6.5)
TOTAL	1.9	0.3	(2.5)

YoY - CC Terms (%)	Q3FY24	Q4FY24	Q1FY25
Services	5.8	(0.5)	(1.9)
Technology Solutions	36.7	(29.5)	6.1
TOTAL	11.6	(9.3)	0.2

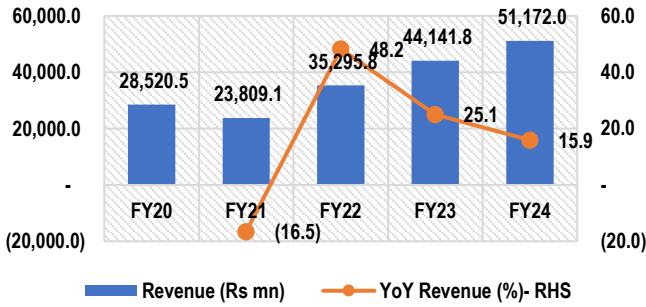
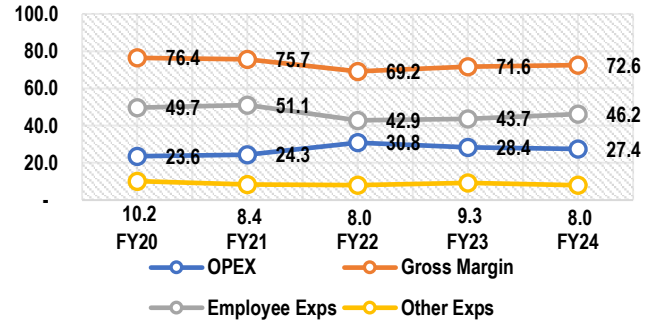
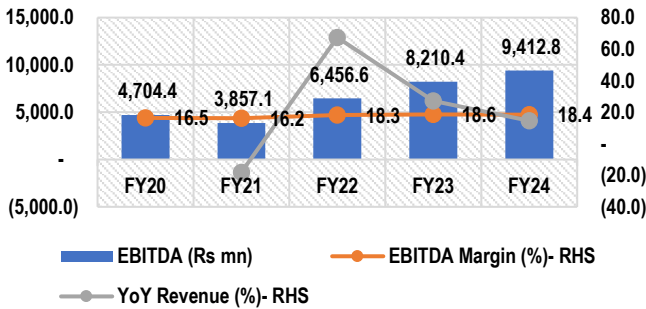
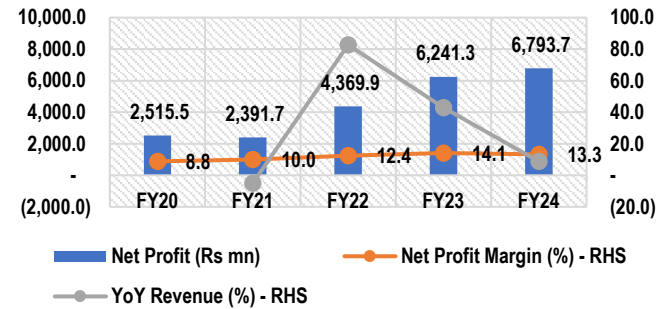
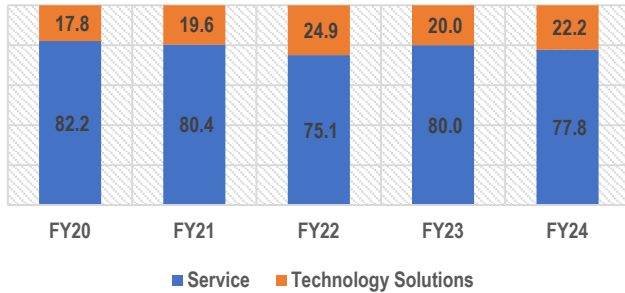
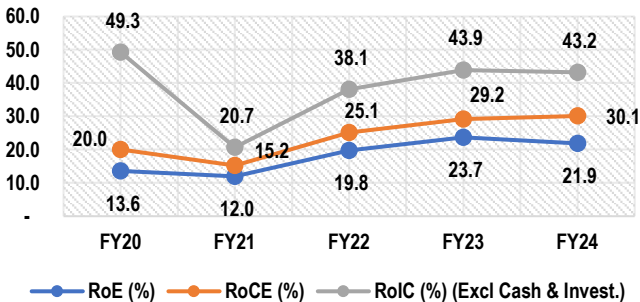
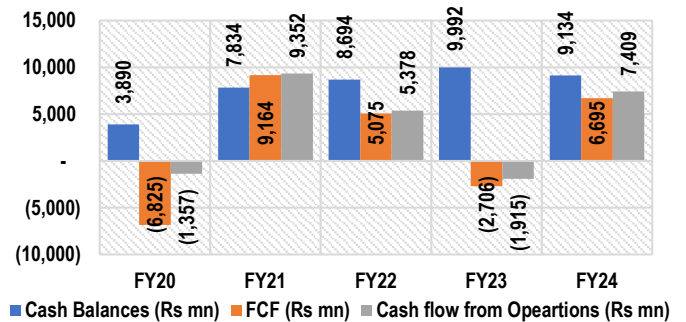
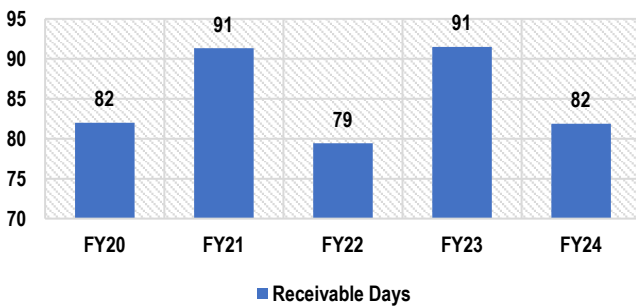
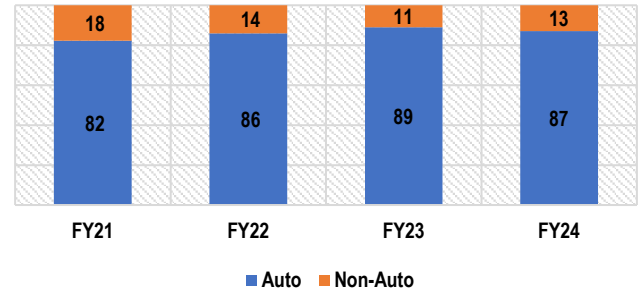
Revenue mix (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Onshore	68.0	63.8	63.8	63.2	60.5	62.3	61.0
Offshore	32.0	36.2	36.2	36.8	39.5	37.7	39.0

Services: Customer pyramid (LTM)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
+50mn	3	3	3	3	3	3	2
10-50mn	3	5	3	3	3	5	6
5-10mn	4	3	3	4	4	3	3
1-5mn	24	30	27	28	29	30	29

Employee metrics	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Headcount	11,081	11,616	11,833	12,451	12,623	12,688	12,505
Voluntary attrition, LTM	23.5%	21.7%	18.7%	17.2%	15.4%	14.5%	13.7%

Liquidity metrics	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
DSO: Billed + unbilled	94	87	96	92	95	83	84
Cash & Balances (USD mn)	164.3	180	141	120	126.5	146.3	131.4
FCF	1,929	2,222	2,246	1,920	2,198	2,124	2,217

Source – Company, Way2Wealth

PAST PERFORMANCE
Revenue 16% CAGR FY20-24

Expenses have been stable

EBITDA 19% CAGR FY20-24

PAT 28.2% CAGR FY20-24

Revenue Mix (%) by Services

Service Revenue Mix (%) by Industry


Source - Company, Way2Wealth

TECHNICAL VIEW
Daily Chart


Tata Technologies Limited IPO had a very robust listing on 30th November 2023, debuting with a bumper premium of 140 percent at ₹1200 over the IPO price of ₹500 per share. It further surged to a record high of ₹1400 on intraday, resulting in a potential gain of 180 percent from the IPO price.

After testing an all-time high of ₹1400, TATATECH witnessed profit-booking by market participants, leading to a healthy correction of 30 percent from its record highs. Since then, the stock has been observed accumulating among market participants within a falling channel chart pattern with active seller's participation at every rise. Presently, TATATECH has strongly bounced back around its key psychological level of ₹1000, forming an inverse head and shoulders chart pattern on the daily chart which is considered a bearish-to-bullish trend reversal. Additionally, the stock has experienced a positive breakout from the descending channel pattern, accompanied by a surge in buying volume on the breakout candle, suggesting a positive bias. From a technical standpoint, TATATECH might encounter resistance at ₹1160/1180 levels. A breach above ₹1180 price level could propel the stock towards ₹1225/1340/1400 levels. On the downside, support for the stock can be identified at ₹1020 -1000/970 levels.

Technical Indicators/Overlays

Bollinger Bands (Upper - Lower)	1313 / 875
Short Term - 20 & 50 Days EMA	1153 & 1231
Long Term - 100 & 200 Days EMA	1268 & 1289
Annualised Volatility	24.65
ADX	0.00
MACD	19.56
RSI	59.74
Average True Range(ATR)	97.1
AD Line	4.38 Cr
Standard Deviation	0.00
Pivot Levels - R1, R2	1129 & 1164
Pivot Point	1087
Pivot Levels - S1, S2	1052 & 1010
ROC (%)	6.69

S. Devarajan

Head – Technical & Derivatives Research

devarajan.s@way2wealth.com

91-22-4019 2996

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Disclosure of Interest Statement: TATA TECHNOLOGIES LTD. as on 24th September 2024

Name of the Security	TATA TECHNOLOGIES LTD.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained.	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes (10 Nos, 10Jan24)
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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