

TATA Elxsi Limited



Result Update

16th July, 2022

TATA Elxsi Limited.

Consistent execution and better strategy played on supply side

CMP INR 8,056	Target INR 8,884	Potential Upside 10.3%	Market Cap (INR Mn) INR 501,690	Recommendation ACCUMULATE	Sector Internet Software & Services
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Synopsis:

TATA Elxsi Ltd (TELX) Q1FY23 performance was slightly lower than our estimate. Rupee revenue grew by 6.5% CC QoQ to INR 7,259Mn, powered by Embedded Product Design (EPD) growing at 6% QoQ, while Industrial Design and Visualization (IDV) grew smartly at 9.3% QoQ. Operating margin for the quarter stood at 30.5%. The overall growth was fueled by digital and platform-led deals. Significant growth in the automotive market helped TELX to win large and strategic deals with both OEM and suppliers in EV and autonomous technologies. Reported Net profit grew by 15.4% QoQ to INR 1,847Mn with margin of 25.4%. In spite of the ongoing talent crunch, margins expanded in the near term, led by higher offshoring/utilization, deeper customer mining, large sustainable deals, rebalancing vertical/geographical mix and operating leverage. The deal pipeline remains robust with a good mix of deals and has seen traction in Transportation and Medical & Healthcare segment. Our target price of INR 8,884 is based on 64x Mar-24E EPS with EPS CAGR of 25.4% over FY22-24E.

MARKET DATA

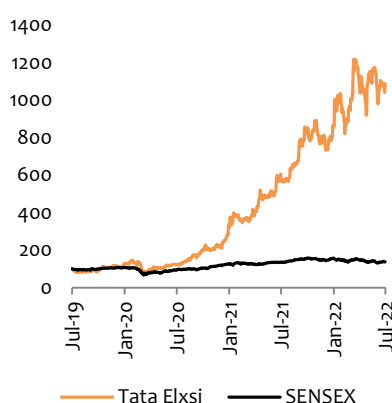
KEY FINANCIALS

Shares outs (Mn)	62
Mkt Cap (INR Mn)	5,01,690
52 Wk H/L (INR)	9420/4106
Volume Avg (3m K)	712.0
Face Value (INR)	10
Bloomberg Code	TELX IN

(INR Mn)	Q1FY23A	Q4FY22A	Q1FY22A	QoQ	YoY	KRChoksey Est.	Variance (%)
Revenue	7,259	6,817	5,583	6.5%	30.0%	7,295	-0.5%
EBIT	2,211	2,054	1,381	7.6%	60.1%	2,137	3.5%
PAT	1,847	1,600	1,134	15.4%	62.9%	1,650	11.9%
OPM (%)	30.5%	30.1%	24.7%	33 bps	572 bps	29.3%	116 bps
NPM(%)	25.4%	23.5%	20.3%	197 bps	513 bps	22.6%	283 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Robust growth across verticals led to the overall growth of the business

TATA Elxsi Ltd (TELX) Q1FY23 performance was slightly lower than our estimate. Rupee revenue grew by 6.5% CC QoQ to INR 7,259Mn, remains strongest among the peers and showed strength for the eight straight quarter with a growth run rate of +6% CC growth. The revenue rate was up by 75% and has successfully doubled its earnings in the last two years. Embedded Product Design (EPD) grew by 6% QoQ (88.8% of the revenue), Industrial Design and Visualization (IDV) grew at a higher pace of 9.3% QoQ and contributes 9% of the total revenue and remaining came from System Integration & Support (SIS). The overall growth was fueled by digital and platform-led deals as we see significant growth in the automotive market, with large and strategic deals with both OEMs and suppliers in EV and auto technologies. Embedded Product Design (EPD), the company's largest division, has fueled the company's growth, backed by Transportation (+7.8% cc QoQ), Media & communication (+3.7% cc QoQ) and Healthcare & Medical Devices (+7.4% cc QoQ). Offshoring stood at 74.9% and attrition came to 19%, down 180bps QoQ, in Q1FY23.

Strong deal wins to drive growth across geographies

TELX growth was broad based, fueled by EPD and ISV segment. EPD segment was driven by transportation and Medical & Healthcare segment. The deal pipeline remains robust with a good mix of deals and hiring outlook for FY23 (3k-3.5k fresher and 1k-1.5k laterals for FY23E) supports the thesis of near-term growth momentum/ deal pipeline. TELX is uniquely positioned with the clients for digital transformation/customer experience capabilities. Deeper customer engagement/mining of Top 10 clients have played well for TELX and has contributed ~48.3% of the total revenue.

Industry best attrition to comfort the EBIT margin

In Q1FY23, the company registered EBIT margin of 30.5% which was up 33 bps QoQ, backed by better utilization and price increase. TELX has successfully managed the issues like ongoing talent crunch, supply side challenges, wage hikes, increasing sub-contracting costs and higher intake of fresher with better strategy which leads to some additional comfort at the margin level in the near term.

MARKET INFO

SENSEX	53,760.8
NIFTY	16,049.2

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	43.9	44.1	44.3
FIIIs	15.2	13.2	11.9
DIIIs	4.2	4.9	5.6
Others	36.7	37.8	38.2
Total	100	100	100

23.3%

Revenue CAGR between FY22 and FY24E

25.4%

PAT CAGR between FY22 and FY24E

TATA Elxsi Limited.

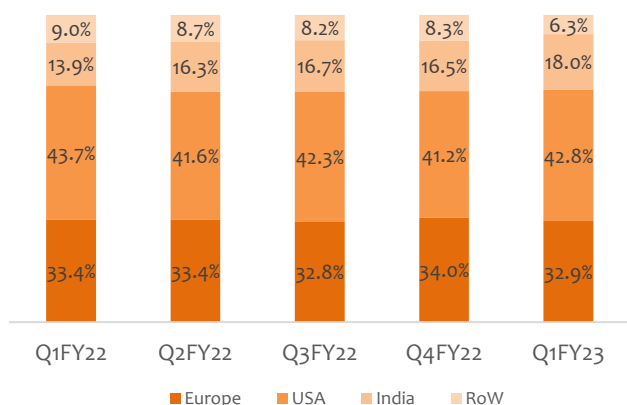
Key Concall Highlights:

(i) Industrial design and visualization (IDV) business witnessed a strong growth of 6.6% QoQ, fueled by design led deals and AR/VR deals. (ii) The deal pipeline remains robust with a good mix of deals (iii) Hiring outlook for FY23 (3k-3.5k fresher and 1k-1.5k laterals for FY23E) supports the thesis of near-term growth momentum (iv) There is a good traction in OEM business as we see a multi-year tailwind in OEM & EV business (v) Medical & Healthcare business is also witnessing a lot of traction (~INR 1000Mn business per quarter; ~3x growth in 2 years) and also expects to see a multi-year tailwind (vi) Net addition during the quarter was 131, taking the total employee headcount to ~10k (vii) TELX has moved some of the operations to SEZ which boosted the PAT(viii) Company is optimizing the cost through higher utilization, higher offshore mix and price hikes (ix) System integration business has grown substantially which came entirely from India.

Valuation and view

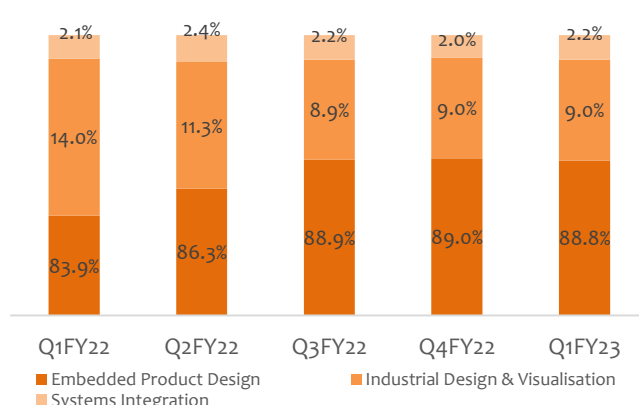
TELX is currently trading at a valuation with a P/E multiple of 71.6x/58.0x on FY23E/FY24E earnings. We expect strong deal momentum across verticals, addition of new clients from newer geographies, higher focus on IDV especially in design-led digital projects, and multi-year tailwind in EPD and hence we are assigning a P/E multiple of 64x to the FY24 estimated EPS of INR 138.8 to arrive at a target price of INR 8,884 per share, an upside of 10.3% over the CMP. Accordingly, we maintain our rating to an “ACCUMULATE” to the stock.

Geographic break-up (as a % of Revenue)



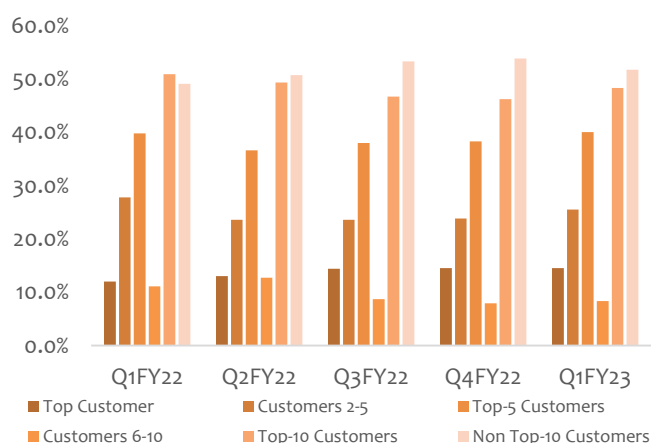
Source: Company, KRChoksey Research

Service line break up (as a % of Revenue)



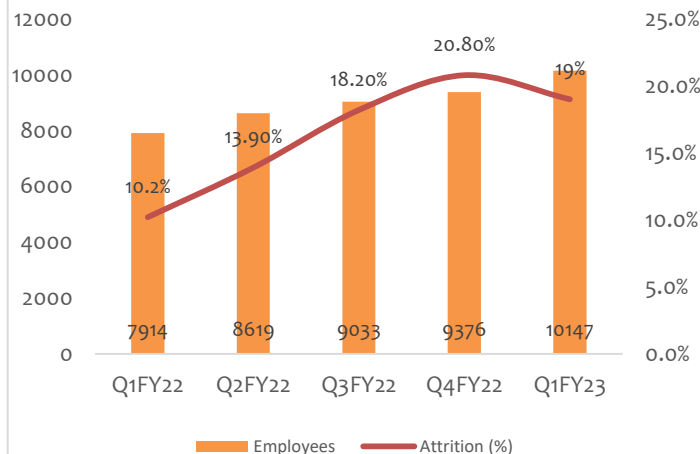
Source: Company, KRChoksey Research

Client Concentration



Source: Company, KRChoksey Research

Employee matrix & Attrition (%)



Source: Company, KRChoksey Research

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KEY FINANCIALS
Exhibit 1: Balance Sheet

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	817	872	823	860	884	879	858
Right-of-use Asset	0	0	518	651	651	651	651
CWIP	21	4	9	73	73	73	73
Intangible Assets	126	139	129	186	186	186	186
Deferred Tax Asset, Net	41	60	88	100	100	100	100
Long term Loans & Advances	393	278	310	1,384	1,384	1,384	1,384
Total non current assets	1,398	1,354	1,878	3,253	3,277	3,272	3,251
Inventory	0	17	17	1	1	1	1
Cash & equivalent	3,943	5,158	6,642	8,596	10,076	11,886	14,366
Trade Receivables	3,067	3,565	3,924	4,023	4,940	6,067	7,084
Unbilled Revenue	705	819	902	924	1,162	1,483	1,791
Short Term Loans and Advances	8	8	9	9	9	9	9
Other Current Assets	327	513	518	361	361	361	361
Total current assets	8,051	10,080	12,012	13,914	16,549	19,806	23,611
Total Assets	9,449	11,434	13,890	17,167	19,826	23,078	26,862
Equity Share Capital	623	623	623	623	623	623	623
Other Equity	6,761	8,805	10,278	12,899	15,640	18,845	22,476
Total Equity	7,384	9,428	10,900	13,522	16,262	19,468	23,099
Deferred Tax Liability,(Net)	91	0	0	0	0	0	0
Lease Liability	0	0	450	605	605	605	605
Long term Provision	97	124	366	396	396	396	396
Total non current liabilities	189	124	816	1,001	1,001	1,001	1,001
Trade Payables	450	555	471	561	459	482	610
Lease Liability	0	0	133	128	128	128	128
Other Current Liabilities	1,358	1,244	1,469	1,830	1,830	1,830	1,830
Short term Provisions	69	84	101	126	147	170	195
Total Current Liabilities	1,877	1,882	2,174	2,645	2,563	2,610	2,762
Total liabilities	9,449	11,434	13,890	17,167	19,826	23,078	26,862

Source: Company, KRChoksey Research

TATA Elxsi Limited.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	13,863	15,969	16,099	18,262	24,708	30,836	37,579
Total Operating expenses	10,403	11,819	12,669	13,037	17,051	21,172	25,741
EBITDA	3,460	4,150	3,430	5,224	7,657	9,663	11,838
Depreciation	254	251	434	444	553	579	705
EBIT	3,207	3,899	2,996	4,780	7,104	9,084	11,133
Other income, net	432	435	584	398	445	543	647
Finance costs	0	0	56	59	94	95	97
Pre-tax Income	3,639	4,334	3,524	5,119	7,455	9,533	11,684
Income tax expense	1,239	1,434	963	1,437	1,958	2,526	3,038
Net profit Before MI	2,400	2,900	2,561	3,681	5,497	7,006	8,646
Minority Interest	0	0	0	0	0	0	0
Net profit Before MI	2,400	2,900	2,561	3,681	5,497	7,006	8,646
Diluted EPS (INR)	38.54	46.56	41.12	59.11	88.26	112.51	138.83
Shares in Million	62	62	62	62	62	62	62

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

Particulars (INR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	3,495	3,776	3,802	6,086	5,217	6,114	7,594
Net Cash Flow from/(used in) Investing Activities	-1,997	-2,550	-2,366	-3,009	-3,737	-4,304	-5,114
Net Cash Flow from Financing Activities	0	0	0	0	0	0	0
Others	-70	-11	48	-1,122	0	0	0
Net Inc/Dec in cash equivalents	1,428	1,215	1,484	1,954	1,480	1,810	2,480
Opening Balance	2,515	3,943	5,158	6,642	8,596	10,076	11,886
Closing Balance Cash and Cash Equivalents	3,943	5,158	6,642	8,596	10,076	11,886	14,366

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBIT Margin (%)	23.1%	24.4%	18.6%	26.2%	28.8%	29.5%	29.6%
Tax rate (%)	34.0%	33.1%	27.3%	28.1%	26.3%	26.5%	26.0%
Net Profit Margin (%)	17.3%	18.2%	15.9%	20.2%	22.2%	22.7%	23.0%
RoE (%)	37.0%	34.5%	25.2%	30.1%	36.0%	36.3%	35.6%
RoCE (%)	32.6%	31.0%	21.4%	28.2%	34.3%	34.6%	33.9%
RoIC (%)	41.7%	44.3%	32.2%	43.5%	54.1%	55.5%	56.9%
EPS (INR per share)	38.5	46.6	41.1	59.1	88.3	112.5	138.8

Source: Company, KRChoksey Research

TATA Elxsi Limited.

TATA Elxsi Limited				Rating Legend (Expected over a 12-month period)	
				Our Rating	Upside
Date	CMP (INR)	TP(INR)	Recommendation	Buy	More than 15%
16-Jul-22	8056	8884	ACCUMULATE	Accumulate	5% – 15%
21-Apr-21	7904	8884	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
19-Jan-21	6980	7504	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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