

Industry IT
Bloomberg TELX:IN
BSE CODE 500408

Margin moving toward guided range of 24% to 25% for FY19

RATING	BUY
CMP	970
Price Target	1312
Potential Upside	35%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	1491/926
Mkt Capital (Rs Cr)	6040
Free float (%)	55%
Avg. Vol 1M (,000)	784
No. of Shares (Cr)	6
Promoters Pledged (Cr)	0

Research Analyst

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Key Highlights-

- ❑ 3QFY19 posted a muted performance with revenue growth of 1% QoQ (in line with the expectation) and PAT (below expectation) declined by 20%QoQ mainly due to negative other income.
- ❑ Software development & services revenue reported a slower than expected growth (grew by 0.5% QoQ to Rs394crore) whereas System integration & support services revenue grew by 19.1% QoQ to Rs13crore.
- ❑ Other income was negative on account of exchange loss of Rs12crore in Q3FY19 vs. gain of Rs15cr in Q2FY19.
- ❑ 4QFY19 is expected to better than 3QFY19 as seasonality is behind and management is actively working to improve automotive segment (ex JLR account).
- ❑ We still expect top line to post double digit growth in FY19 led by continued growth in engineering space however softness is expected in margins for next few quarters as per the investment plan of the management (addition in workforce).

3Q FY19 Result Update

TataElxsi reported a muted set of number for Q3FY19 where revenue grew by 1.0% QoQ to Rs407crore mainly led by slower than expected growth in Software development & services revenue (grew by 0.5% QoQ to Rs394crore). However System Integration showed a strong growth of 19.1%QoQ .EBITDA came in at Rs103 crore (in line with our expectation).Margin decline 110 bps mainly due to investment made for workforce addition. Reported PAT declined by 19.7% QoQ to Rs66cr due to negative other income (Rs3cr) in Q3FY19 as compared to Rs 23 crore in 2QFY19.

View and Valuation

Going forward, TataElxsi is expected to clock a revenue growth of 18% YoY in FY19e led continued growth in automotive segment (excluding JLR) and improved performance from Industrial design (both are part of software development &service vertical).Also continued opportunities in android & OTT space (Broadcast) and expansion of business with customers like Hyundai Motor, Bharti Airtel and Panasonic will aid growth in long term. 4QFY19 is expected to better than 3QFY19 as seasonality is behind and management is actively working to improve automotive segment (ex JLR account).Also industrial design which was expected to improve in 3QFY19 onward posted a growth of 2%YoY(after a stagnant performance in last few quarters), is now expected to grow as new engagements are ramping up .System integration (other segment which contributes 3% of revenue) is expected to continue to improve in 4QFY19 (grew 19.7% in 3QFY19) as reselling business historically remains strong in 2H of the year. On the margin , lower investment than our expectation resulted in overall margins for FY19 to improve 20bps however for FY20 margin are likely to be unchanged. We have taken into consideration the investment plan and have executed in the margins.

We expected TataElxsi to post revenue and PAT growth of 17%/19% CAGR over FY18-20E.However JLR issue and management commentary on margins going forward will keenly be monitored .**We value the stock at target price of 1312(24x FY20EPS) and recommend BUY.**

Key Risks to our rating and target

- ❑ Slower than expected growth across segments.
- ❑ Challenge in JLR revenue.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1075	1233	1386	1636	1909
EBITDA	247	293	346	426	496
EBIT	224	266	321	401	468
PAT	155	173	240	290	340
EPS (Rs)	25	28	39	47	55
EPS growth (%)	50%	12%	39%	21%	17%
ROE (%)	46	37	37	34	31
ROCE (%)	67	56	49	47	42
BV	62	90	119	155	200
P/B (X)	15	8	8	6	5
P/E (x)	38	26	26	21	18

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3QFY19 Results

Muted performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales /	346	375	382	403	407	17.8%	1.0%	1,233	1,386	12.4%
Other Income	7	20	8	23	(3)	-140%	-112%	(5)	43	-998%
COGS	15	22	23	23	23	51%	3%	75	77	3%
Employee	184	202	196	214	218	19%	2%	669	749	11.9%
Other Exp	53	56	56	59	62	18%	6%	196	214	9.5%
EBITDA	93	95	107	107	103	11%	-3%	293	346	18.0%
Dep	6	6	6	6	6	-1%	2%	27	25	-5.9%
EBIT	87	89	100	101	97	11%	-4%	266	321	20.4%
Interest	-	-	-	-	-					
PBT	94	109	108	124	94	0%	-24%	261	364	39.2%
Tax	31	38	38	42	28	-9%	-32%	88	124	40.4%
PAT	63	70	71	82	66	5%	-19.7%	173	240	39%

Muted Revenue performance

Company 3QFY19 performance was in line with the expectation. Revenue grew 1%QoQ and 17.8%YoY slower than expected in Embedded Product Design (part of Software Development & Services segment). Software Development & Services which contributes ~97% of revenue continued to grow 0.5% QoQ and 17%YoY (earlier use to growth at 20%YoY) led by slow growth in automotive and industrial design business. However System Integration showed a strong growth of 19.7%QoQ basically as this portion involves re-sale component which typically post higher growth in the 2H of the year.

Slower than expected growth in automotive segment

Segments (in crore)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY %
Software Development & Services									
EPD	266	285	296	314	328	349	352	1%	19%
Industrial design	43	39	40	46	41	42	41	-2%	2%
System Intregation	15	18	9	15	13	12	13	15%	44%

Margin impacted due to employee addition

EBITDA for the quarter declined by 3.2% QoQ however on YoY bases it rose by 10.5 % to Rs. 103.32 crore as against Rs. 93.4 crore in the corresponding quarter last year. Margin for the quarter stood at 25.4%(contraction of 110bps) as per expectation. Employee expenses grew 1.7% QoQ in 3QFY19. Even other income grew 70bps to 15.3% as compared to 14.7% last quarter.

Margin moving toward guidance of 24% to 25%

Tata Elxsi in its earlier management commentary has cleared stated that it intends to maintain the PBT margin in the range of 24-25% and plough the extra benefits into business to fuel further growth. Thus clearly going by the plan company is increasing its employee expenses every quarter.

Forex losses impacted the PAT

Other income decline 112%QoQ to negative 3 crore as compared to 23 crore in 2QFY19 led by forex loss of 12 crore in 3QFY19. PAT for the quarter stood at Rs66 crore (decline by 19.7% QoQ) due to decline in other income. However some portion of PAT growth was supported by lower tax (30.1% of the quarter as compared to 33.7% in 2QFY19).

Exhibit: Revenue trend

Revenue below the expectation of 20% YoY

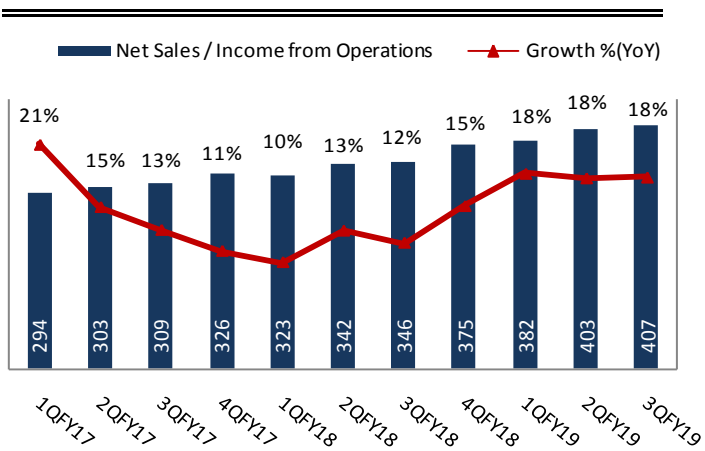


Exhibit: SDS Revenue trend

Slower than expected growth from EPD impacted the overall performance.

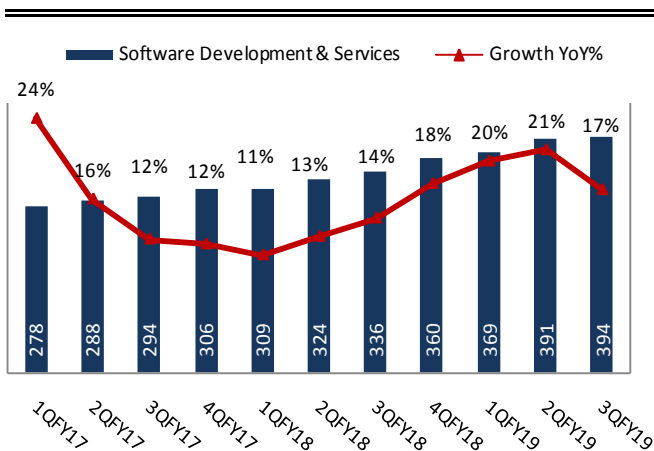


Exhibit: System integration Revenue trend

SI business recovered in 3QFY19

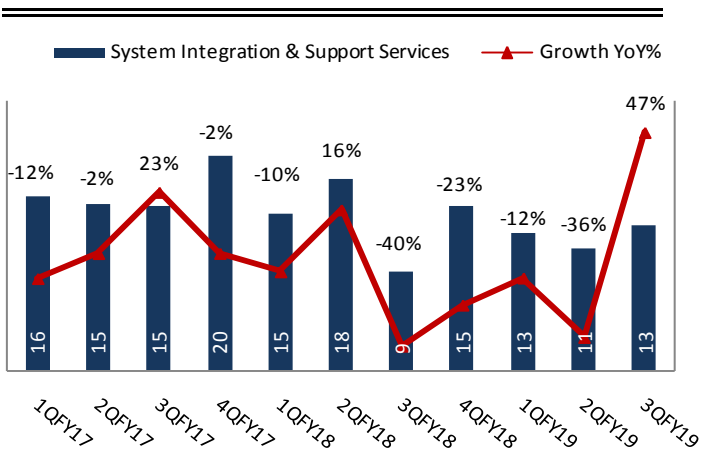


Exhibit: Ebitda margin

Margin impacted by investment plan.

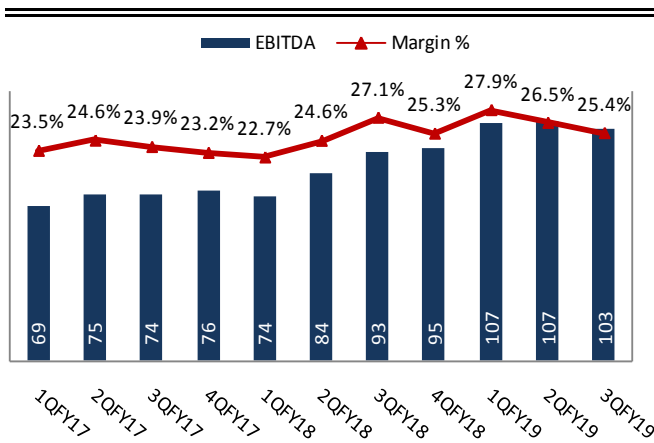


Exhibit: Other Income

Forex losses resulted in negative other income.

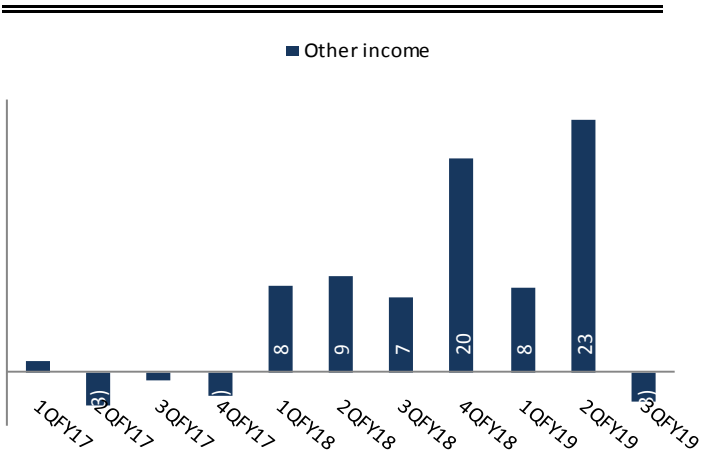
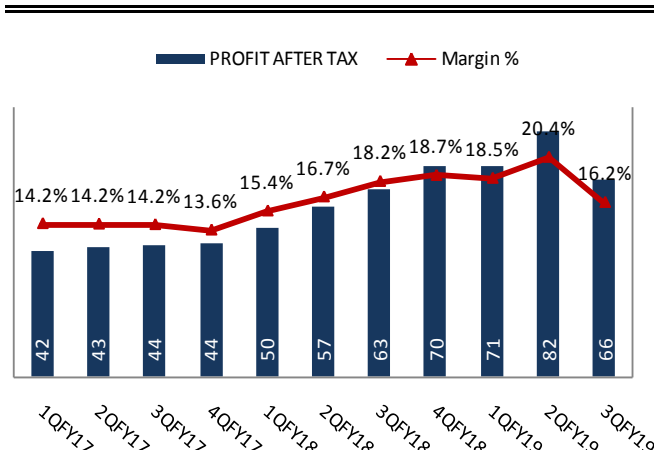


Exhibit: PAT and PAT Margin

Other income impacted the PAT growth



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	31	31	31	31	31	62	62	62
Reserves	161	204	252	355	528	676	906	1,184
Networth	192	235	283	386	559	738	968	1,246
Debt	59	-	-	-	-	-	-	-
Other Non Current Liab	9	12	11	18	19	19	19	19
Total Capital Employed	251	235	283	386	559	738	968	1,246
Net Fixed Assets (incl CWIP)	120	109	101	109	109	96	91	86
Non Current Investments	0	-	0	-	-	-	-	-
Other Non Current Assets	-	-	-	-	-	2	2	2
Non Current Assets	175	150	138	146	149	140	135	129
Inventory	0	-	0	-	-	-	-	-
Debtors	135	156	154	215	245	307	362	422
Cash & Bank	20	50	133	182	252	394	589	828
Short-term loans and advances	10	12	15	23	20	1	1	1
Other Current Assets	16	19	26	33	50	32	38	44
Current Assets	181	237	328	454	566	809	1,064	1,370
Creditors	50	65	66	77	75	49	57	67
Provisions	24	46	68	89	35	17	18	19
Other Current Liabilities	27	34	48	49	45	58	69	81
Curr Liabilities	97	140	171	196	137	191	212	234
Net Current Assets	85	96	157	258	429	617	852	1,136
Total Assets	356	387	465	600	715	949	1,199	1,499

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	605	772	849	1075	1233	1386	1636	1909
Change (%)	18%	28%	10%	27%	15%	12%	18%	17%
	-	-	-	-	-	-	-	-
EBITDA	69	136	177	247	293	346	426	493
Change (%)	3%	97%	30%	40%	19%	18%	23%	16%
Margin (%)	11%	18%	21%	23%	24%	25%	26%	26%
Depr & Amor.	24	35	25	23	27	25	25	28
EBIT	45	101	152	224	266	321	401	464
Int. & other fin. Cost	4	2	0	-	-	-	-	-
Other Income	6	16	4	12	(5)	43	33	48
EBT	45	101	152	224	266	321	401	464
Exp Item	16	-	-	-	-	-	-	-
Tax	11	40	53	82	88	124	145	174
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	21	75	103	155	173	240	290	338
Adjusted PAT	21	75	103	155	173	240	290	338
Change (%)	-38%	258%	37%	50%	12%	39%	21%	17%
Margin(%)	3%	10%	12%	14%	14%	17%	18%	18%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	11	35	40	46	37	37	34	31
ROCE	24	47	59	67	56	49	47	42
Asset Turnover	5	7	8	10	11	14	18	22
Debtor Days	81	74	66	73	72	81	81	81
DPS	5	9	11	14	16	11	11	11
Payable Days	22	22	22	22	22	22	22	22
Book Value Per Share	31	38	45	62	90	119	155	200
Earnings Per Share	3	12	17	25	28	39	47	55
P/E	28	23	35	38	26	26	21	18
Price / Book Value	3	7	13	15	8	8	6	5
EV/EBITDA	9	12	20	23	15	17	14	11
EV/Sales	1	2	4	5	4	4	4	3

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	32	115	156	236	261	364	434	512
Depreciation				23	27	25	25	28
Int Paid (+)	31	41	18	-	-	-	-	-
Non Cash Op Exp				(5)	(1)	(21)	-	-
Tax Paid	(17)	(17)	(39)	(76)	(96)	(114)	(145)	(174)
(inc)/Dec in Working Capital	(8)	(12)	9	(57)	(46)	(32)	(41)	(44)
CF from Op. Activities	37	126	143	121	144	197	255	322
(inc)/Dec in FA & CWIP	0	0	0	(38)	(26)	(12)	(20)	(23)
Free Cashflow				83	118	185	235	299
(Pur)/Sale of Inv		-	-	0	-	(250)	-	-
others	(31)	(20)	(27)	(29)	(13)	(247)	(20)	(23)
CF from Inv. Activities	(31)	(20)	(27)	(29)	(13)	(247)	(20)	(23)
inc/(dec) in NW				-	-	-	-	-
inc/(dec) in Debt				-	-	-	-	-
Int. Paid	(4)	(2)	(0)	-	-	-	-	-
Div Paid (inc tax)	(25)	(18)	(32)	(41)	(52)	(60)	(60)	(60)
others	18	(59)	-	-	-	-	-	-
CF from Fin. Activities	(11)	(79)	(32)	(41)	(52)	(60)	(60)	(60)
Inc(Dec) in Cash	(5)	28	85	51	78	(110)	175	239
Add: Opening Balance	23	20	45	128	169	193	83	259
Closing Balance	18	47	130	179	248	83	259	498

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