

Industry	IT
Bloomberg	TELX:IN
BSE CODE	500408

Expansion in newer markets to drive growth in coming years

RATING	BUY
CMP	913
Price Target	1312
Potential Upside	44%

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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3QFY19 Concall Highlights-

- ❑ **Unusual quarter:** 3QFY19 faced lot of challenges (foreseen and unforeseen challenges). Billing loss occurred due to furlough getting extended, onshore work was suspended for few days and major impact was seen due to change in exchange rate.
- ❑ **Momentum continued in largest segment:** Automotive is largest business in EPD business, the management continues to see good traction in areas like active safety, Automotive driving activity, instrument equipment and Infotainment. The management is seeing strong opportunity in the areas like automotive testing .Overall deal pipeline in automotive continues to good and expected to have steady progress in the business going forward.
- ❑ **OTT in broadcast moving beyond india:** Company is working in RDK and android space in Operator side. The company is seeing steady growth in Broadcast segment and expects good traction from android space .AI and analytic is an area where the management is seeing opportunities coming from operator customers. After success of OTT in India, company now plans to take it to global market and the company is expecting good traction coming in next few quarters in OTT space.
- ❑ **5G to play out in coming years:** Communication business is facing lot of changes. The 5G rollout will eventually happen. Thus the company is seeing good opportunities from test and measurement equipment customers who are getting early orders for the equipment for 5G rollout, thus management is keenly focusing of these areas. lot is another big area for the company in this business.
- ❑ **Next growth engine for the company:** Medical segment posted robust performance for the company in 3QFY19 (as per the company expectation). The company is seeing good opportunities in the MDR space in Europe and the management is completely focus on these space and it is expected to be the growth story for the company in medical electronic space going forward.
- ❑ **Expansion plan in other market:** The Company has been predominantly focused in Europe, US and Japan market. Now, the company is seeing opportunities to expand its penetration into new markets like china (automotive segment), south East Asia (media and entertainment etc.)
- ❑ **Macro challenges persists :** The management finds it's hard to say anything on JLR (which now contributes 20% of revenue) and brexit impact and continues to see uncertainty for now.
- ❑ **Continuing to add fresher in workforce:** Fresher hired in last few months are not expecting to generate revenue (6 months to 12 months) in short term but is planned for long term. The hiring will continue going ahead. Total employee at the end of the quarter was at 6100. The company is looking for 800 fresher to add for next year.
- ❑ **Outlook:** The Company maintains its outlook for 20% prevailing currency growth of the year. Also the company wants to maintain 25% margin despite expansion and investment plan.

View and Valuation

Going forward, we expect furloughs issues to settle down in next quarter itself and expects TATAELXSI to clock 17% revenue growth in FY20 led by strong growth in automotive segment (excluding JLR) where recently the management is facing challenges due to issue with JLR business, however with new strategy of expansion in new geographies (china) and growing account excluding JLR account will result in improvement in automotive segment going ahead. Even in the broadcast segment where the company saw success in OTT space in India, is now plans to take it to global market and thus company is expecting good traction coming in next few quarters in OTT space. Medical which is still a small portion of the business is seeing strong traction and management is expecting it to be growth story in coming year. However some macro challenges still persists like Brexit where the management is still not clear about the impact. However it is working continuously to mitigate the impact going ahead. On margin front, investment plan will hold the margin in guided range (24% to 25%). We expected Tataelxsi to post PAT growth of 17% CAGR over FY18-20E. However JLR issue and Brexit will keenly be monitored .

We are cautiously positive on the stock and value it at target price of 1312(24x FY20EPS) and recommend BUY.

Key Risks to our rating and target

- ❑ Slower than expected growth across segments.

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3Q FY 19 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%	1233.04	1386.26	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 19.1%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	14.5449	18	9	15	13	12	13	15%	44%

Margin impacted by 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. 93.48 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.

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 core 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.

Exhibit: Revenue trend

Revenue below the expectation of 20% YoY

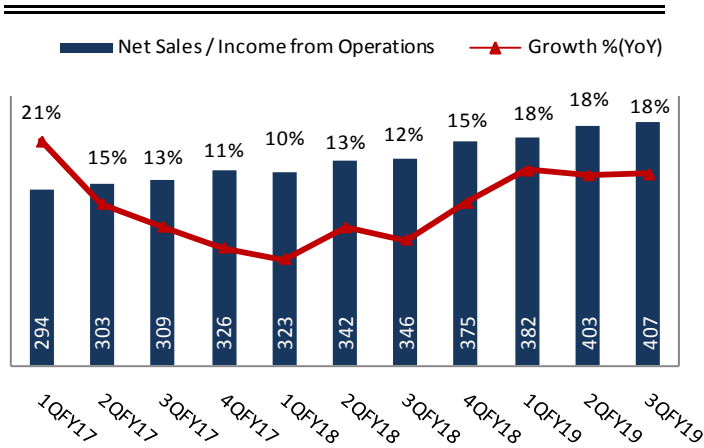


Exhibit: SDS Revenue trend

Slower than expected growth from EPD impacted the overall performance.

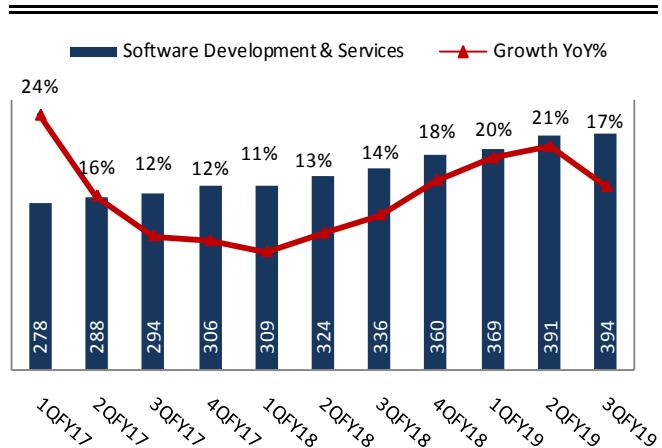


Exhibit: System integration Revenue trend

SI business recovered in 3QFY19

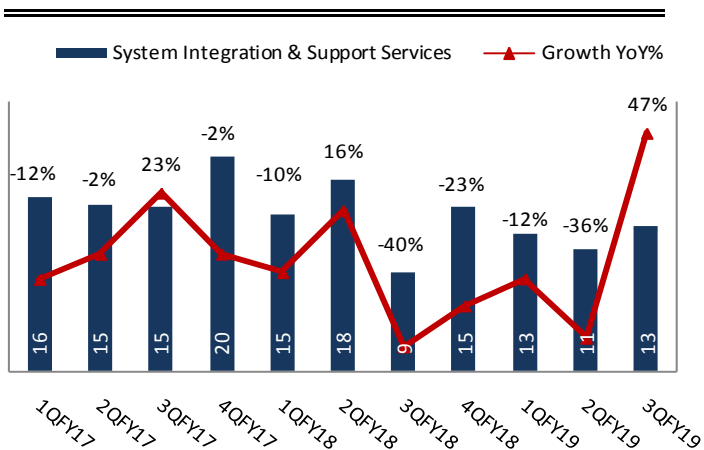


Exhibit: Ebitda margin

Margin impacted by investment plan.

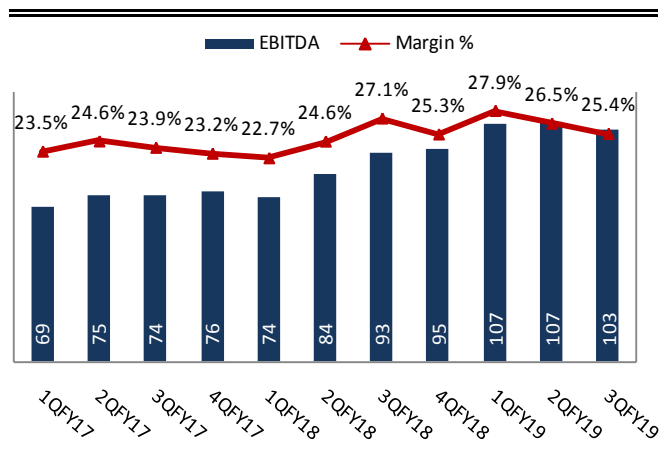


Exhibit: Other Income

Forex losses resulted in negative other income.

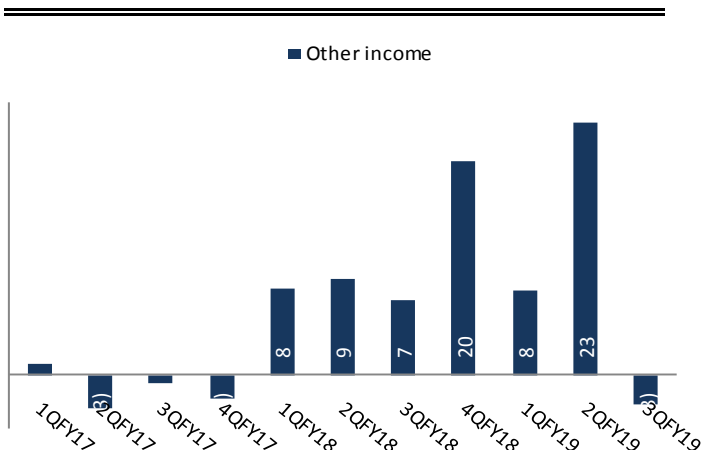
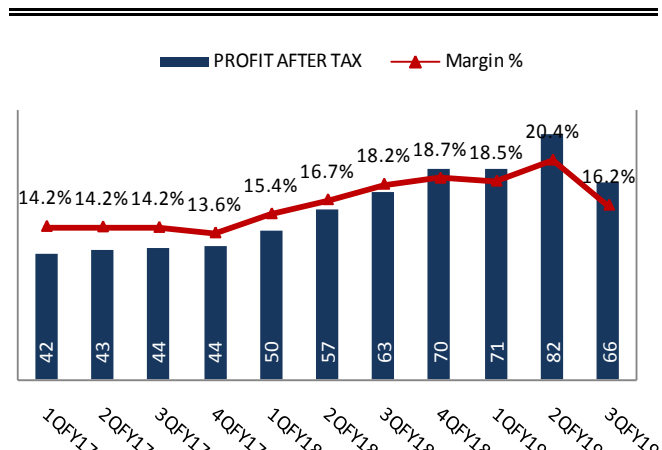


Exhibit: PAT and PAT Margin

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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