




Industry  
Bloomberg  
BSE CODE

TECHNOLOGY  
TELX IN  
500408

## Challenges in auto industry dragging near term growth

RATING	ACCUMULATE
CMP	732
Price Target	819
Potential Upside	12%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	1492/723
Mkt Capital (Rs Cr)	4556
Free float (%)	55%
Avg. Vol 1M (,000)	723
No. of Shares (Cr)	6
Promoters Pledged %	0%

### 1QFY20 Result Update

- TATAELXSI posted weak performance in its 1QFY20 result .Revenue declined 5%YoY ( a way beyond our estimates of growth of 9.2%YoY) which is lowest in last 17 quarters. EBITDA stood at Rs70crore, decline of 34%YoY mainly led revenue miss and currency headwind. PAT for the quarter stood Rs49 crore, a decline of 30.8%YoY .
- Software development & services revenue reported a de growth 4.7%YoY primarily impacted by EPD segment which declined 3% YoY owing to weakness in JLR account(revenue declined from 18% to 14.5%) and decline in IP revenue(from 25 to 30 crore last quarter to 2 crore in 1QFY20).However some de growth of EPD was offset by strong growth in Broadcast &communication and Medical business unit which posted 10%QoQ/35%QoQ during the quarter .Even industrial design declined 19% YoY , dragging the overall revenue growth.
- System integration (~2.8% of overall revenue) which is not focus area also declined 23.5%YoY , thus further aiding to revenue decline.
- Despite lot of challenges during the quarter, there was significant uptake in new order booking as compared to last quarter.
- The Company feels the funnel which they have will help to soon get back to normal revenue growth for FY20

### View and Valuation

The year begins with a disappointing note for Tata Elxsi. Revenue declined 5%YoY which is way beyond its normal growth of double digit. Even margin deteriorated 500bps to 19.3% which is lowest in last several years.

Going forward, we expect Tata Elxsi to get back to normal growth rate (double digit ) after few quarters as the auto industry start to see improvement and as the decision making on deal ramp up return back to normal trend. However, the recent trend reflected continued challenge at least for 1HFY20 as automotive segment sees pressure both in JLR account and non JLR account as pace of decision making is taking more time. Broadcast and medical is expect to continue to post strong growth in coming quarters but still as it remain to be small portion which cannot cover up the Automotive decline.

On margin, we expect the margin to improve from 19% in1QFY20, however, margin is by-product of revenue, and revenue growth is expected to be laggard. We expect gradual growth in margins in FY20.

Despite near terms challenges, recent correction in stock price and lower valuation makes it attractive .Thus we value the stock at Rs819 (17x FY20EPS) and recommend Accumulate.

### Key Risks to our rating and target

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

### RESEARCH ANALYST

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1233	1386	1597	1697	1967
EBITDA	293	346	415	372	461
EBIT	266	321	390	338	425
PAT	173	240	290	300	346
EPS (Rs)	28	39	47	48	56
EPS growth (%)	12%	39%	21%	3%	15%
ROE (%)	37	37	35	29	27
ROCE (%)	56	49	46	32	33
BV	90	119	151	186	228
P/B (X)	8.2	8.3	6.4	3.9	3.2
P/E (x)	26.3	25.6	20.7	15.2	13.2

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## Revenue misses estimates

### 1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	382	403	407	405	362	-5.3%	-10.7%	1,386	1,597	15.2%
Other Income	8	23	(3)	15	12	54.4%	-19.2%	43	43	0.5%
COGS	23	23	23	30	15	-33.2%	-49.7%	77	99	
Employee	196	214	218	214	218	10.9%	1.7%	749	843	12.5%
Other Exp	56	59	62	62	59	4.7%	-5.2%	214	240	12.2%
EBITDA	107	107	103	98	70	-34.4%	-29.1%	346	415	20.0%
Deprication	6	6	6	7	10	71.3%	56.2%	25	25	-1.0%
EBIT	100	101	97	92	59	-40.9%	-35.3%	321	390	21.6%
Interest	0	0	0	0	1					
PBT	108	124	94	107	70	-35.2%	-34.3%	364	433	19.1%
Tax	38	42	28	35	21	-43.3%	-39.7%	124	143	15.8%
PAT	71	82	66	71	49	-30.8%	-31.6%	240	290	20.8%

### 1QFY20 Performance: Revenue misses estimates

- Tata Elxsi revenue for 1QFY20 stood at Rs362 crore , decline of 11%QoQ and 5YoY.The reason for the decline mainly came due to JLR issue and no revenue from IP.JLR account declined 28.1%QoQ to Rs52 crore as compared to Rs73 crore last quarter. Even IP revenue which came at RS25 crore last quarter was missing during the quarter.
- Software development & services revenue reported a de growth 4.7%YoY and 9.5%QoQ primarily impacted by EPD segment which declined 3% YoY and 8.2%QoQ.However some de growth of EPD was offset by strong growth in Broadcast &communication and Medical business unit which posted 10%QoQ/35%QoQ during the quarter .Even industrial design declined 19% YoY and 21%QoQ , dragging the overall revenue growth. Even System integration (~2.8% of overall revenue) which is not focus area also declined 23.5%YoY , thus further aiding to revenue decline.

### Slower than expected growth in automotive segment

VERTICALS ( CRORE )	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY %
Software Development									
EPD	296	314	328	349	352	347	318	-8.2%	-3.0%
Industrial design	40	46	41	42	41	42	33	-21.0%	-18.6%
System Intregation	9	15	13	12	13	16	10	-37.5%	-22.0%
<b>Total</b>	<b>346</b>	<b>375</b>	<b>382</b>	<b>403</b>	<b>407</b>	<b>405</b>	<b>362</b>	<b>-10.7%</b>	<b>-5%</b>

### Margin contracted due to revenue miss

- EBITDA stood at Rs70crore, decline of 34%YoY .Margin declined 500 bps to 19.3% mainly led revenue miss and currency headwind. The company saw a drop of utilization to 65% during the quarter.
- PAT for the quarter stood at Rs 49 crore , a decline of 30.8%YoY mainly led by revenue and margin miss.

### Other highlights of the quarter:

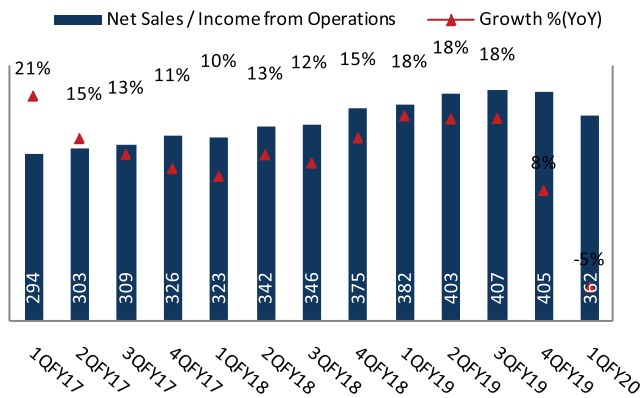
- Utilization: The company saw a drop of utilization to 65% during the quarter .
- Onsite /offshore mix: and 44% for onsite.
- In automotive segment , the company has 60 customer excluding the JLR account.
- Medical business contributing 7% to 8%.
- 92% to 93% revenue comes from existing customers.

## Concall highlights

- **Margin performance in 1QFY20:** The Company saw steep decline in margin which was majorly attributable to revenue miss. Currency Impact during the quarter was 200 bps .
- **Positives and negatives events during the quarter:** The Company saw a tough quarter in 1QFY20. However sees the numbers bit exaggerated as there were some positive aspects too that occurred during the quarter.
  - Positive: In terms of new order booking there was significant uptake as compared to last quarter and also two of business unit (broadcast & communication and medical business unit both clocked 10%QoQ and 35%QoQ in 1QFY20) grew higher than they have grown in two consecutive quarters.
  - Negative: Though there were some positive aspects that came in, there was lot of challenges that persisted during the quarter.
    - One of challenge was the JLR issue (now contributing 14.5%-15% vs. 18% last quarter) however the drag in the JLR revenue for the company was more than expected. JLR challenges was basically coming in as the company has stop the work than coming from conversion of offshore .Going forward as the company has got into the preferred supplier list The Company think that as soon as JLR will start giving out work in a significant way, the company will make up for the setback suffered. Also the company expects JLR account to not further decline from 14%.
    - Also decline in revenue came from IP revenue which was not repeat during the quarter (25 to 30 crore last quarter to 2 crore in 1QFY20), thus resulting in significantly declined of IP revenue to roughly 1% of revenue from of 3% to 5%.Part of not repeating IP revenue came on account of slow down in the Pace of decision making.
- **Contribution of segment:** During the quarter the Transport business came down to 50% to 51% as compared to 60% last quarter.
- **Slow down in Non JLR account:** The Company saw a steep decline in JLR account, also there was decline in No JLR account in automotive segment. The reason for the decline mainly resulted from speed of decision making got slowed. The company expects Automotive to improve as soon as the auto industry improves.
- **Macro challenges:** The Company impacted not by the budget cut (ex JLR account) but is majorly impacted by the speed of the decision. The company sees global trends of deferral in E&RD spend as temporary blip and expect to recover in some time.
- **Hiring:** The Company has a plan to hire fresh graduates over the next six months, some are on boarded and others will be hired in phases. Total 500 employees are hired in FY20.
- **Salary hike:** The company will go for salary revision form 1 july2019, thus reflecting in 2QFY20.
- **Looking for other vertical:** the company is constantly evaluating other verticals and plan to enter in other verticals in next few quarters. However sees it as premature to speak on.
- **Open for acquisition:** the company has sufficient cash balance in the books, thus company sees to go for acquisition if they get right company.
- **Outlook for FY20:** The Company feels the funnel which they have will help to soon get back to normal revenue growth. However the company sees slow Pace of decision making as temporary blip and hope to see change in the trend. The company is sticking to 22% to 24% margins for FY20.

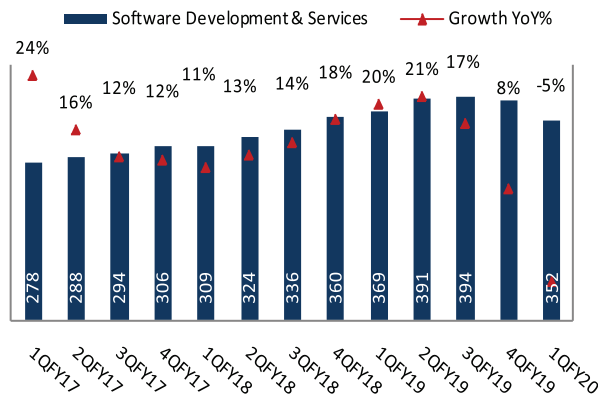
## Exhibit: Revenue trend

Steep decline in revenue growth due to macro challenges.



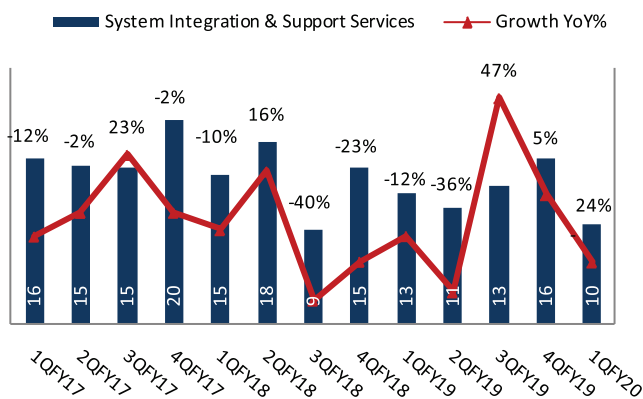
## Exhibit: SDS Revenue trend

Slower than expected growth from EPD and industrial design impacted the overall performance.



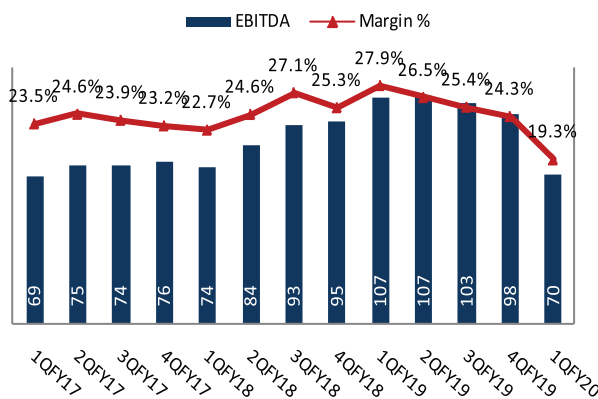
## Exhibit: System integration Revenue trend

SI business decline further aided to degrowth of overall revenue in 1QFY20



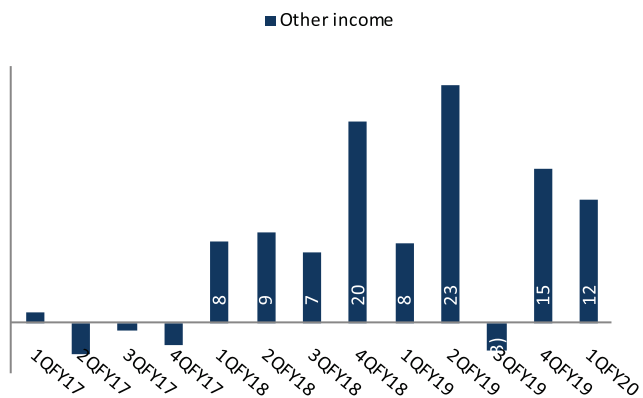
## Exhibit: Ebitda margin

Margin impacted by miss in revenue growth.



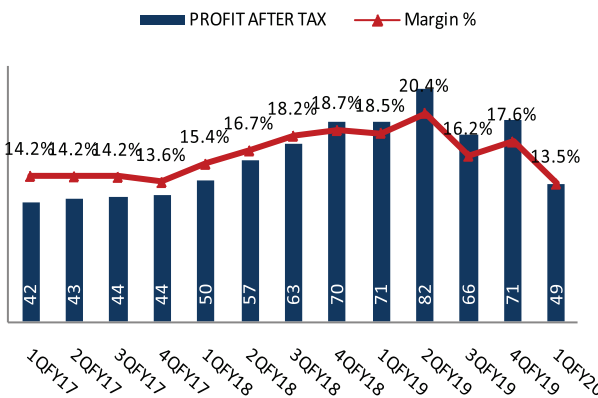
## Exhibit: Other Income

Other income remained stable in 1QFY20.



## Exhibit: PAT and PAT Growth

Revenue and margin miss led to lowest PAT in last few years,



## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	31	31	31	31	62	62	62	62
Reserves	204	252	355	528	676	880	1,097	1,360
<b>Networth</b>	<b>235</b>	<b>283</b>	<b>386</b>	<b>559</b>	<b>738</b>	<b>943</b>	<b>1,160</b>	<b>1,423</b>
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	12	11	18	19	19	14	14	14
<b>Total Capital Employed</b>	<b>235</b>	<b>283</b>	<b>386</b>	<b>559</b>	<b>738</b>	<b>943</b>	<b>1,160</b>	<b>1,423</b>
Net Fixed Assets (incl CWIP)	109	101	109	109	96	102	105	100
Non Current Investments	-	0	-	-	-	2	-	-
Other Non Current Assets	-	-	-	-	2	3	3	3
<b>Non Current Assets</b>	<b>150</b>	<b>138</b>	<b>146</b>	<b>149</b>	<b>140</b>	<b>135</b>	<b>139</b>	<b>134</b>
Inventory	-	0	-	-	-	2	-	-
Debtors	156	154	215	245	307	357	379	439
Cash & Bank	50	133	182	252	394	516	701	929
Short-term loans and advances	12	15	23	20	1	1	1	1
Other Curr Assets	19	26	33	50	32	69	74	85
<b>Current Assets</b>	<b>237</b>	<b>328</b>	<b>454</b>	<b>566</b>	<b>809</b>	<b>1,008</b>	<b>1,229</b>	<b>1,518</b>
Creditors	65	66	77	75	49	55	59	68
Provisions	46	68	89	35	17	10	10	12
Other Current Liabilities	34	48	49	45	58	61	65	76
<b>Curr Liabilities</b>	<b>140</b>	<b>171</b>	<b>196</b>	<b>137</b>	<b>191</b>	<b>187</b>	<b>195</b>	<b>216</b>
<b>Net Current Assets</b>	<b>96</b>	<b>157</b>	<b>258</b>	<b>429</b>	<b>617</b>	<b>821</b>	<b>1,035</b>	<b>1,302</b>
<b>Total Assets</b>	<b>387</b>	<b>465</b>	<b>600</b>	<b>715</b>	<b>949</b>	<b>1,143</b>	<b>1,368</b>	<b>1,652</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>772</b>	<b>849</b>	<b>1,075</b>	<b>1,233</b>	<b>1,386</b>	<b>1,597</b>	<b>1,697</b>	<b>1,967</b>
Change (%)	28%	10%	27%	15%	12%	15%	6%	16%
<b>EBITDA</b>	<b>136</b>	<b>177</b>	<b>247</b>	<b>293</b>	<b>346</b>	<b>415</b>	<b>372</b>	<b>461</b>
Change (%)	97%	30%	40%	19%	18%	20%	-10%	24%
Margin (%)	18%	21%	23%	24%	25%	26%	22%	23%
Depr & Amor.	35	25	23	27	25	25	33	36
<b>EBIT</b>	<b>101</b>	<b>152</b>	<b>224</b>	<b>266</b>	<b>321</b>	<b>390</b>	<b>338</b>	<b>425</b>
Int. & other fin. Cost	2	0	-	-	-	-	-	-
Other Income	16	4	12	(5)	43	43	75	49
<b>EBT</b>	<b>101</b>	<b>152</b>	<b>224</b>	<b>266</b>	<b>321</b>	<b>390</b>	<b>338</b>	<b>425</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	40	53	82	88	124	143	114	128
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	75	103	155	173	240	290	300	346
<b>Adjusted PAT</b>	<b>75</b>	<b>103</b>	<b>155</b>	<b>173</b>	<b>240</b>	<b>290</b>	<b>300</b>	<b>346</b>
Change (%)	3	37%	50%	12%	39%	21%	3%	15%
Margin(%)	10%	12%	14%	14%	17%	18%	18%	18%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	35	40	46	37	37	35	29	27
ROCE	47	59	67	56	49	46	32	33
Asset Turnover	7	8	10	11	14	16	16	20
Current Ratio	2	2	2	4	4	5	6	7
Debtor Days	74	66	73	72	81	81	81	81
Book Value Per Share	38	45	62	90	119	151	186	228
Payable Days	31	28	26	22	13	13	13	13
Earnings Per Share	12	17	25	28	39	47	48	56
P/E	23	35	38	26	26	21	15	13
Price / Book Value	7	13	15	8	8	6	4	3
EV/EBITDA	12	20	23	15	17	14	12	9
EV/Sales	2	4	5	4	4	4	3	2
Dividend Payout%	75%	67%	44%	50%	29%	24%	23%	20%

### Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	115	156	236	261	364	290	414	474
(inc)/Dec in Working Capital			23	27	25	25	33	36
Non Cash Op Exp	41	18	-	-	-	-	-	-
Int Paid (+)			(5)	(1)	(21)	(24)	-	-
Tax Paid	(17)	(39)	(76)	(96)	(114)	(143)	(114)	(128)
others	(12)	9	(57)	(46)	(32)	(97)	(28)	(40)
<b>CF from Op. Activities</b>	<b>126</b>	<b>143</b>	<b>121</b>	<b>144</b>	<b>197</b>	<b>215</b>	<b>191</b>	<b>215</b>
(inc)/Dec in FA & CWIP	0	0	(38)	(26)	(12)	(32)	(37)	(32)
Free Cashflow			83	118	185	183	154	183
(Pur)/Sale of Inv	-	-	0	-	(250)	(150)	-	-
others	(20)	(27)	(29)	(13)	(247)	(159)	(37)	(32)
<b>CF from Inv. Activities</b>	<b>(20)</b>	<b>(27)</b>	<b>(29)</b>	<b>(13)</b>	<b>(247)</b>	<b>(159)</b>	<b>(37)</b>	<b>(32)</b>
inc/(dec) in NW			-	-	-	-	-	-
inc/(dec) in Debt			-	-	-	-	-	-
Int. Paid	(2)	(0)	-	-	-	-	-	-
Div Paid (inc tax)	(18)	(32)	(41)	(52)	(60)	(83)	(83)	(83)
others	(59)	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>(79)</b>	<b>(32)</b>	<b>(41)</b>	<b>(52)</b>	<b>(60)</b>	<b>(83)</b>	<b>(83)</b>	<b>(83)</b>
Inc(Dec) in Cash	28	85	51	78	(110)	(26)	71	100
<b>Add: Opening Balance</b>	<b>20</b>	<b>45</b>	<b>128</b>	<b>169</b>	<b>193</b>	<b>83</b>	<b>54</b>	<b>125</b>
Closing Balance	47	130	179	248	83	54	125	226

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