

Industry
Bloomberg
BSE CODE

TECHNOLOGY
TELX IN
500408

RATING	NEUTRAL
CMP	913
Price Target	982
Potential Upside	8%

Rating Change	↓
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	1010/593
Mkt Capital (Rs Cr)	5680
Free float (%)	55%
Avg. Vol 1M (,000)	69
No. of Shares (Crs)	6.2
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	1,597	1,620	1,979
EBITDA	415	340	473
EBIT	390	296	425
PAT	290	252	340
EPS (Rs)	47	40	55
EPS growth (%)	21%	-13%	35%
ROE (%)	35	25	27
ROCE (%)	46	28	34
BV	151	178	220
P/B (X)	6	5	4
P/E (x)	21	22	17

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Impressive quarter with double digit growth

3QFY20 Result Update

- Tata Elxsi reported mix set of numbers .Revenue grew by 9.8%QoQ to Rs 423 crore (in line)mainly led double digit growth in Transportation and Healthcare verticals While PAT grew by 51.5%QoQ to Rs 75.4 crore (above estimates) owing to higher other income .
- Other income during the quarter grew 65.7% to Rs 20.5 crore vs Rs 12 crore last quarter, owing to forex exchange gain of Rs 11.26crore vs loss in previous quarter.
- PBT for the quarter grew 44.9% QoQ to Rs 102crore.PBT margin came at 24.1%(580bps expansion)mainly led by improvement in utilization (improved 400bps to 75%)while salary hike was completely absorbed in the quarter.
- Onsite wage hike was almost 1% to 2% while offshore 8% was given during the quarter. 440 employees were added during the quarter.
- The Company had insignificant IP contribution during the quarter.

Broad based across segment

- The Company saw good quarter across division and across geographies.
- EPD and Industrial design grew almost close to 10% each.SI also grew by 7%QoQ.
- Within EPD, Transportation vertical grew upward of 10%QoQ and Media &Communication vertical delivered another quarter of steady growth of 5.3% QoQ. Medical remained the fastest growing segment for the company (though from small base) and grew upward of 40%QoQ.
- The performance was led by strong execution and ramps ups in large deals won in previous quarters. The company saw additional customers and wins across multiple segments.

Medical to share large portion in coming years

For 3QFY20, medical business was fastest growing segment for the company (though from small base) and grew upward of 40%QoQ due to deal ramp ups. The management remain bullish on this segment and expects to grow very aggressively in this segment with long term projects and Large TCV wins . In 3 year time frame the management expects medical business to contribute 20% to 25% overall portfolio.

View and Valuation

Tata Elxsi is among few E&RD companies which are positioned well as a niche player in the industry. However last few quarter has been challenging quarters for the company as upheaval in auto industry washed away a major chunk of Tata Elxsi revenues(highly concentrated in passenger cars). But 3QFY20 result is a clear indication of the JLR issue(largest client in auto)is now bottoming out(transportations grew 10.4%QoQ) .Going forward we expect the growth trajectory to continue owing to ramp-ups in deals in the electric vehicles and the OTT segment. Even Medical business which is growing at double digit will continue to drive growth in near to medium term owing large TCV wins .

On margin front, as wage hike and other major headwinds are behind thus we expect a steady margin uptick in coming quarter with increase in medical business revenue . Post result we have raised our FY20/21E revenue by 1% and 5%and PAT by 6.2/7.5% .Despite increase in the target price from Rs 915 to Rs 982, recent rally in the stock has resulted in Neutral rating for the stock with the target price of RS 982

Key Risks to our rating and target

- Prolonged weakness in transportation verticals
- Slow down in order booking.

3QFY20 Results

Mixed performance

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	407	405	362	386	423	4.0%	9.8%	1386.3	1596.9	15.2%
Other Income	(3)	15	12	12	21	862.3%	65.7%	43	43	0.5%
COGS	23	30	15	23	22	-4.2%	-3.9%	77	99	28.0%
Employee Exp	218	214	218	237	243	11.2%	2.4%	749	843	12.5%
Other Expenses	62	62	59	55	65	3.3%	16.4%	214	240	12.2%
EBITDA	103	98	70	70	94	-8.8%	33.9%	346	415	20.0%
Depreciation	6	7	10	11	11	80.6%	2.3%	25	25	-1.0%
EBIT	97	92	59	59	83	-14.6%	39.7%	321	390	21.6%
Interest	-	-	1	1	1	-	6.5%			
PBT	94	107	70	70	102	8.1%	44.9%	364	433	19.1%
Tax	28	35	21	21	27	-6.3%	29.1%	124	143	15.8%
PAT	66	71	49	50	75	14.3%	51.5%	240	290	20.8%

Concall Highlights

- **Quarter performance:** Strong quarter of 9.8%QoQ growth on top line and bottom line improvement .In top line it's the highest ever revenue for the company mainly occurred due to issue now being behind. Revenue grew almost 10%QoQ, significantly coming from volume growth.
- **Margin performance:** PBT margin almost reached 24%.The uptick in margins were owing to improvement in utilization rate which improved 400bps to 75%while salary hike was complete absorbed in the quarter .Onsite wage hike was almost 1% to 2% while offshore 8% was given during the quarter. 440 employees added during the quarter.
- **Top customer performance:** JLR has bottomed out for the company .In fact during the quarter, the company saw a small growth but slower than other customers .Hopefully the company is expecting to see some recovery in subsequent quarters based on their outlook and performance.
- **Demand environment:** In media & broadcast and medical space, the company really doesn't see any issue in decision making. The company see grow happening in these segments in line with the company expectation .For automotive this quarter was pretty solid , deal wins showed up in this quarter (won deal with Tier 1 in US, some OEM wins in APAC).So in automotive deal wins are happening but still industry is not out of the challenges.
- **Automotive and medical industry outlook**
 - **Automotive environment:**
 - ▶ Automotive industry in general had been facing challenges since January last year which reflected in slowdown in decision making in last few quarters resulting in push back of deal wins and ramp up . However turnaround in 3QFY20 was seen owing to some deals wins and started servicing these deals .Management feels it's still early to comment on sustainability on such growth and remain cautiously optimistic going ahead.
 - ▶ However the management will continue to aggressively service the deal won in this segment .Thus expect to continue to grow in subsequent quarters.
 - **Medical business:** The Company has always remained bullish on this segment. The company has stated to grow very aggressively in this segment with long term projects and Large TCV .The outlook remain healthy, good traction across the geographies (primarily in Europe and US where big client lies) , Large opportunities coming in a way.MDR is supporting growth and company expect to see growth to continue in FY21.In 3 year time frame the company expects medical business to contribute 20% to 25% overall portfolio. Margins are higher for this segment . 1 customers in medical space is from top 10 client
- **Revenue Outlook:** The Company expects 5% to 6% QoQ growth can be sustainable. Medical business will grow much faster in this period however with lower base. The management expects flat growth in FY20, however expects 15% growth momentum in FY21E.
- **Margin outlook:** The company expect to remain in 22% to 24% band .Utilization to remain at 75% to 76% range (a slight 1% to 2% up or down).Onsite /offshore is likely to stay at 40: 60 range .Cost control(cut down of events and other expenses) which was tighten last quarter is expected to get back to usual level going ahead. The company expects to hire 700 to 800 for FY21.

Revenue Mix

SOLID GROWTH ACROSS SEGMENTS									
SEGMENTS (CRORE)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
EPD	328	349	352	347	318	335	368	10%	4%
Industrial Design	41	42	41	42	33	37	41	10%	0%
SI	13	12	13	16	10	13	14	7%	4%

Revenue by industry

RECOVERY SEEN IN TRANSPORTATION, MEDICAL DROVE THE QUARTER									
INDUSTRY VERTICAL(CRORE)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Transportation	175	192	189	185	148	162	179	10%	-6%
Broadcast s	119	123	128	125	131	137	144	5%	13%
Healthcare	11	14	16	18	25	22	31	40%	93%
Others	23	21	19	19	14	14	14	0%	-25%

Revenue by Geography

BOUNCE BACK OF EUROPE WITH DOUBLE DIGIT GROWTH , US SHOWED MODERATE GROWTH									
GEOGRAPHY(CRORE)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Europe	179	176	183	169	154	154	176	15%	-4%
USA	111	126	127	124	124	135	143	6%	12%
India	41	43	47	62	41	48	53	10%	12%
Row	52	58	49	50	42	49	52	6%	5%

Revenue by Customer Concentration

GROWTH IMPROVED ACROSS CLIENTS									
CLIENT(%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Top	98	93	90	86	60	63	66	6%	-26%
Top 5	166	166	168	166	141	148	160	8%	-5%
Top10	209	214	210	211	183	196	215	10%	2%

Employee Metrics

ADDED APPROX 450 EMPLOYEES, LOWEST ATTRITION									
EMPLOYEE METRICS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Employee Metrics	5397	5932	6061	6060	5981	5947	6389	442	328
Attrition	17%	13%	12%	11%	14%	12%	9%	-3%	-3%

Revenue - Onsite Offshore Mix

REVENUE MIX	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ %	YoY %
Onsite	39.5%	41.7%	41.4%	41.1%	44.7%	42.6%	40.3%	-2%	-1%
Offshore	60.5%	58.3%	58.6%	58.9%	55.3%	57.4%	59.7%	2%	1%

Exhibit: Revenue trend

Recovery in automotive led to growth in overall revenue

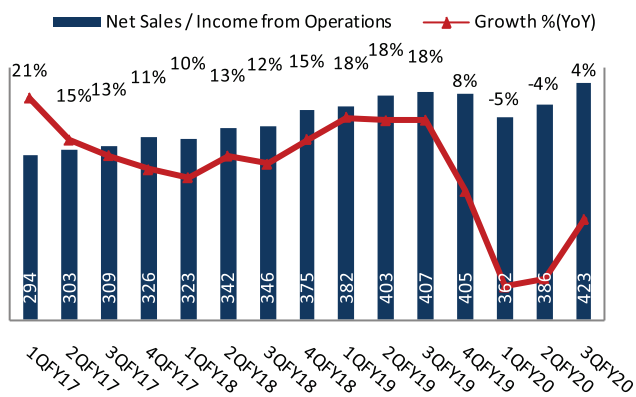


Exhibit: SDS Revenue trend

Strong growth from EPD and industrial design led the overall performance.

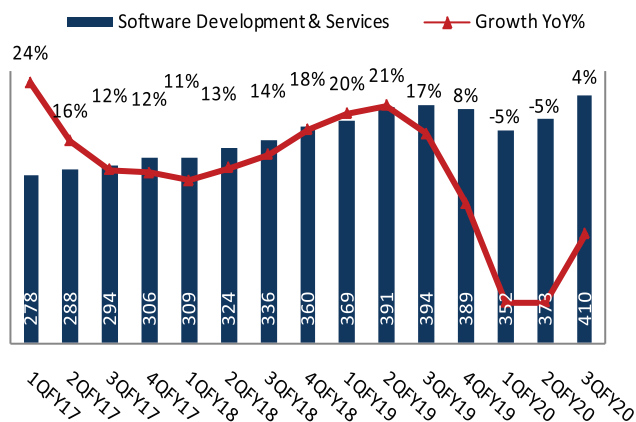


Exhibit: Margin Trend

Despite wage hike margin improved QoQ

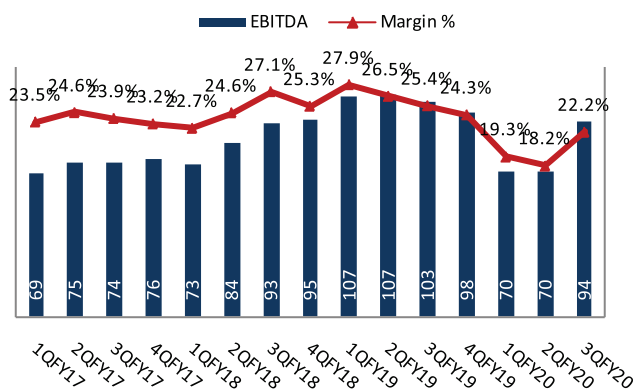


Exhibit: Attrition trend

Attrition lowest in the industry.

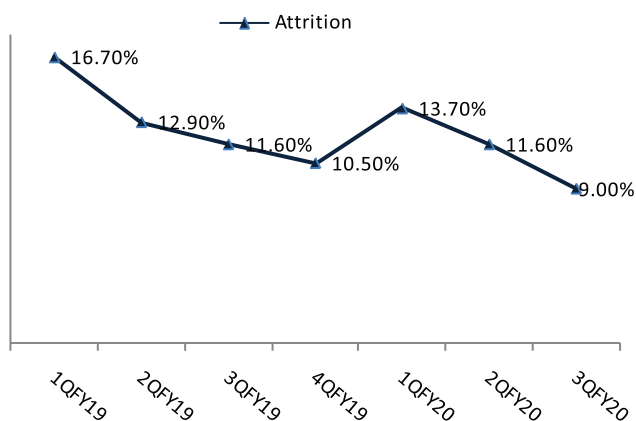
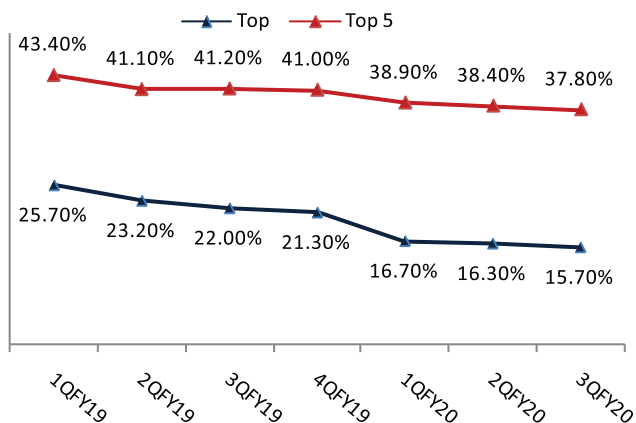


Exhibit: Top client revenue

Recovery yet to come in Top client.



Financial Details

Balance Sheet

Fig in Rs Cr

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	1,049	1,306
Networth	235	283	386	559	738	943	1,111	1,368
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	12	11	18	19	19	14	14	14
Total Capital Employed	235	283	386	559	738	943	1,111	1,368
Net Fixed Assets (incl CWIP)	109	101	109	109	96	102	91	83
Non Current Investments	-	0	-	-	-	2	-	-
Other Non Cur Asst	-	-	-	-	2	3	3	3
Non Current Assets	150	138	146	149	140	135	124	117
Inventory	-	0	-	-	-	2	-	-
Debtors	156	154	215	245	307	357	362	442
Cash & Bank	50	133	182	252	394	516	682	889
Short-term loans and advances	12	15	23	20	1	1	1	1
Other Curr Assets	19	26	33	50	32	69	70	86
Curr Assets	237	328	454	566	809	1,008	1,190	1,482
Creditors	65	66	77	75	49	55	56	69
Provisions	46	68	89	35	17	10	10	12
Other Curr Liab	34	48	49	45	58	61	62	76
Curr Liabilities	140	171	196	137	191	187	189	217
Net Curr Assets	96	157	258	429	617	821	1,001	1,265
Total Assets	387	465	600	715	949	1,143	1,314	1,599

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	772	849	1075	1233	1386	1597	1620	1979
Change (%)	28%	10%	27%	15%	12%	15%	1%	22%
EBITDA	136	177	247	293	346	415	340	473
Change (%)	97%	30%	40%	19%	18%	20%	-18%	39%
Margin (%)	18%	21%	23%	24%	25%	26%	21%	24%
Depr & Amor.	35	25	23	27	25	25	44	47
EBIT	101	152	224	266	321	390	296	425
Int. & other fin. Cost	2	0	-	-	-	-	6	6
Other Income	16	4	12	(5)	43	43	60	52
EBT	101	152	224	266	321	390	296	425
Exp Item	-	-	-	-	-	-	-	-
Tax	40	53	82	88	124	143	99	132
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	75	103	155	173	240	290	252	340
Adjusted PAT	75	103	155	173	240	290	252	340
Change (%)	258%	37%	50%	12%	39%	21%	-13%	35%
Margin(%)	10%	12%	14%	14%	17%	18%	16%	17%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	35	40	46	37	37	35	25	27
ROCE	40	56	64	54	48	46	28	34
Asset Turnover	7	8	10	11	14	16	18	24
Current Ratio	2	2	2.3	4.1	4.2	5.4	6.3	6.8
Debtor Days	74	66	73	72	81	81	81	81
Book Value Per Share	38	45	62	90	119	151	178	220
Payable Days	31	28	26	22	13	13	13	13
Earnings Per Share	12	17	25	28	39	47	40	55
P/E	22.6	35.0	37.8	26.3	25.6	20.7	22.4	16.6
Price / Book Value	7.2	12.7	15.2	8.2	8.3	6.4	5.1	4.1
EV/EBITDA	12	20	23	15	17	14	16	12
EV/Sales	2	4	5	4	4	4	3	3

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	115	156	236	261	364	290	351	472
(inc)/Dec in Working Capital			23	27	25	25	44	47
Non Cash Op Exp	41	18	0	0	0	0	0	0
Int Paid (+)			-5	-1	-21	-24	0	0
Tax Paid	-17	-39	-76	-96	-114	-143	-99	-132
(inc)/Dec in Working Capital	-12	9	-57	-46	-32	-97	-14	-57
CF from Op. Activities	126	143	121	144	197	215	168	203
(inc)/Dec in FA & CWIP	0	0	-38	-26	-12	-32	-33	-40
Free Cashflow			83	118	185	183	135	163
(Pur)/Sale of Inv	0	0	0	0	-250	-150	0	0
others	-20	-27	-29	-13	-247	-159	-33	-40
CF from Inv. Activities	-20	-27	-29	-13	-247	-159	-33	-40
inc/(dec) in NW			0	0	0	0	0	0
inc/(dec) in Debt			0	0	0	0	0	0
Int. Paid	-2	0	0	0	0	0	0	0
Div Paid (inc tax)	-18	-32	-41	-52	-60	-83	-83	-83
others	-59	0	0	0	0	0	0	0
CF from Fin. Activities	-79	-32	-41	-52	-60	-83	-83	-83
Inc(Dec) in Cash	28	85	51	78	-110	-26	52	80
Add: Opening Balance	20	45	128	169	193	83	54	106
Closing Balance	47	130	179	248	83	54	106	186

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