

Industry  
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TECHNOLOGY  
TELX IN  
500408

## Strong margin performance in 4Q, Weakness continued in Auto vertical

RATING	ACCUMULATE
CMP	725
Price Target	804
Potential Upside	11%

Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	1098/501
Mkt Capital (Rs Cr)	4513
Free float (%)	55%
Avg. Vol 1M (,000)	50
No. of Shares (Crs)	6.2
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY18	FY19	FY20
Net Sales	1,386	1,597	1,610
EBITDA	346	415	343
EBIT	321	390	300
PAT	240	290	256
EPS (Rs)	39	47	41
EPS growth (%)	39%	21%	-12%
ROE (%)	37	35	25
ROCE (%)	48	46	29
BV	119	151	179
P/B (X)	8	6	4
P/E (x)	26	21	18

### 4QFY20 Result Update

- Tata Elxsi reported a mixed set of numbers in 4Q result. Revenue grew by 3.6%QoQ to Rs Rs439 (in line) primarily led by strong growth in communication and Industrial Design business which grew 8.6% /7.6%QoQ.
- PBT for the quarter grew by 7.6%QoQ to Rs 110 crore. PBT Margin stood at 25% (surpassing our estimates), an expansion of 90 bps mainly attributable to lower other expenses which reduced 250bps to 12.7 vs .15.2% last quarter.
- ETR for the quarter came 25.2% which is lower than 3QFY20.
- PAT during quarter stood at Rs 82 crore, a growth of 8.9% mainly aided by lower ETR and better margin play.

### Communication drove growth while transportation segment remained muted

- The Company saw good quarter across EPD and Industrial design division while System Integration (SI) remained weak.
- EPD division grew about 4.1%QoQ and 10.6%YoY. Also Industrial design and business grew 7.6%QoQ and 5.4%YoY. However the company's SI (system integration) business declined 18.3% sequentially due to delays in hardware and software shipment and installation process.
- Within EPD, the growth was driven by Media & Communications vertical which grew 8.6%QoQ. Transportation vertical was flat (0.9%QoQ growth) showing initial signs of Covid-19 impact. Medical & Healthcare remained soft and declined 3.4%QoQ after growing 40.1%QoQ last quarter.

### View and Valuation

As a niche player among E&RD companies, Tata Elxsi has always managed to outperform among most its peers. However last 9MFY20 came as challenging phase for the company as its major vertical (Automotive) got hard hit with demand slowed down. But 4Q revenue growth of 3.6%QoQ has marked as growth trajectory coming back. Going forward in near term, revenue is expected to plunge as delay in deals due to COVID crisis will continue to impact Auto segment. Even medical business growth pace will see some temporary impact with the push in European MDR timeframe. However we expect the decline in revenue to lesser than its last fiscal year (declined 11%QoQ in 1QFY20). Post Covid crisis, We expect traction in OTT, growth in Broadband will continue to drive growth in Broadcast vertical. Even medical will Drive growth in FY21, partially mitigating the Auto vertical impact.

Post result, seeing uncertain environment and prolonged weakness in auto segment, we have reduced our revenue and pat estimates by 5%/ 5.4% respectively. Thus we value the stock at reduced target price of Rs 804 and recommend ACCUMULATE.

### Key Risks to our rating and target

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

### RESEARCH ANALYST

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## 4QFY20 Results

### Mixed performance

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	405	362	386	423	439	8.3%	3.6%	1596.9	1609.9	0.8%
Other Income	15	12	12	21	13	-10.6%	-34.8%	43	58	34.4%
COGS	30	15	23	22	21	-32.2%	-7.3%	99	81	-18.0%
Employee Exp	214	218	237	243	254	18.6%	4.6%	843	951	12.9%
Other Expenses	62	59	55	65	56	-10.3%	-13.3%	240	235	-2.3%
EBITDA	98	70	70	94	109	10.3%	15.3%	415	343	-17.4%
Depreciation	7	10	11	11	11	61.3%	-3.8%	25	43	73.0%
EBIT	92	59	59	83	98	6.6%	17.9%	390	300	-23.2%
Interest	-	1	1	1	1	-	0.0%	-	-	-
PBT	107	70	70	102	110	2.8%	7.6%	433	352	-18.7%
Tax	35	21	21	27	28	-22.0%	3.9%	143	96	-32.8%
PAT	71	49	50	75	82	15.1%	8.9%	290	256	-11.7%

## Concall Highlights

- **WFH update:** About 98% of employees of Tata Elxsi are working from home. The company has managed to have no impact to any of the customers despite the current situation.
- **Segment performance**
  - EPD grew about 1%QoQ and 10.6%YoY. Industrial design and business grew 7.6%QoQ and 5.4%YoY. However the company's SI(system integration) business was impacted this quarter primarily because of national wide lockdown in the quarter. There were delays in hardware and software shipment and installation process.
  - In the automotive segment, the management is seeing existing softness continuing in the auto segment and further it is now amplified with COVID 19. The management is seeing muted sales forecast for OEMs and anticipate delays in deals from OEMs and suppliers as well.
  - As Most of the markets are still closed, the management is unsure of when the full recovery is expected to bounce back. However the management hopes to recover after 1Q.
- **Lesser impact on Medical and Communication**
  - The company sees lesser impact on Media and communication businesses as well as healthcare business despite current challenges. 4Q growth majorly came from the Media business. The company sees earlier investments in sub segments of media and healthcare will drive growth in this fiscal year as well as growth in coming years.
  - However as the company caters in regulatory and compliance 1Q will see some impact in medical (temporary situation) as all regulation rules in Europe have been pushed due to the current situation. But the management remain confident of strong growth coming in medical in FY21.
  - In media business growth is expected to come from broadband growth, OTT and operates will start to take network transformation and digital transformation, all this will be the growth areas for the company
- **On cost reduction aspect**
  - The company is not planning of retrenching any of its employees. All the offers released will be honoured by the company.
  - However the hiring (especially lateral hiring) will take slow this year. Also the company will control all the other costs to boost the profitability.
  - NO proposal on giving salary hike. The Company will wait and see how the economy recovers to take a call on that.
- **Outlook**
  - While the market remains uncertain and the full impact of COVID on industries, markets and business in 1Q and beyond is still not clear. But having been through such a situation last year and recovered well, the company is confident in its capability to beat this challenge too.
  - However does not see mass cancellation of deals due to COVID19. The management sees some negotiation from clients in the auto segment on terms, credit terms, rates and volume discounts.
  - For margin, the long term target is to stay in 22% to 24% margin level.

## Revenue Mix

## SOLID GROWTH IN ID WHILE SI IMPACTED BY DELAYS

SEGMENTS (CRORE)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
EPD	349	352	347	318	335	368	383	4%	10%
Industrial Design	42	41	42	33	37	41	44	8%	5%
SI	12	13	16	10	13	14	11	-18%	-30%

## Revenue by industry

## MUTED GROWTH IN TRANSPORTATION, COMMUNICATION DROVE THE QUARTER

INDUSTRY VERTICAL (CRORE)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Transportation	192	189	185	148	162	179	180	1%	-3%
Broadcast s	123	128	125	131	137	144	157	9%	26%
Healthcare	14	16	18	25	22	31	30	-3%	64%
Others	21	19	19	14	14	14	17	17%	-10%

## Revenue by Geography

## BOUNCE BACK OF EUROPE WITH DOUBLE DIGIT GROWTH, US REMAINED SOFT

GEOGRAPHY (CRORE)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Europe	176	183	169	154	154	176	175	-1%	4%
USA	126	127	124	124	135	143	156	9%	26%
India	43	47	62	41	48	53	50	-5%	-19%
Row	58	49	50	42	49	52	58	12%	15%

## Revenue by Customer Concentration

## GROWTH IMPROVED ACROSS CLIENTS

CLIENT (%)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Top	93	90	86	60	63	66	69	4%	-20%
Top 5	166	168	166	141	148	160	171	7%	3%
Top10	214	210	211	183	196	215	222	3%	5%

## Employee Metrics

## ADDED APPROX 188 EMPLOYEES, LOWEST ATTRITION

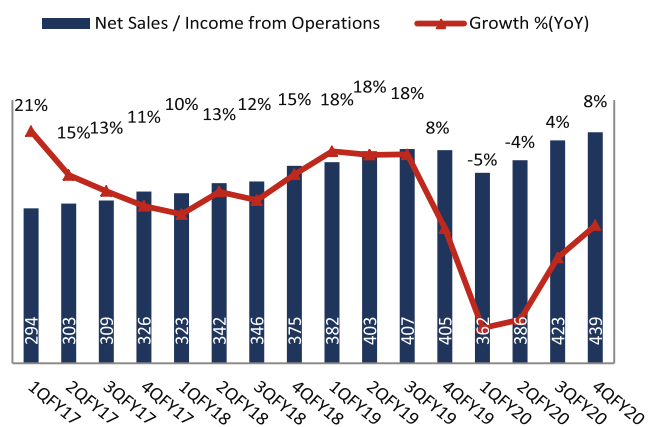
EMPLOYEE METRICS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Employee Metrics	5932	6061	6060	5981	5947	6389	6577	188	517
Attrition	13%	12%	11%	14%	12%	9%	7%	-2%	-3%

## Revenue - Onsite Offshore Mix

REVENUE MIX	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	QoQ %	YoY %
Onsite	41.7%	41.4%	41.1%	44.7%	42.6%	40.3%	42.1%	2%	1%
Offshore	58.3%	58.6%	58.9%	55.3%	57.4%	59.7%	57.9%	-2%	-1%

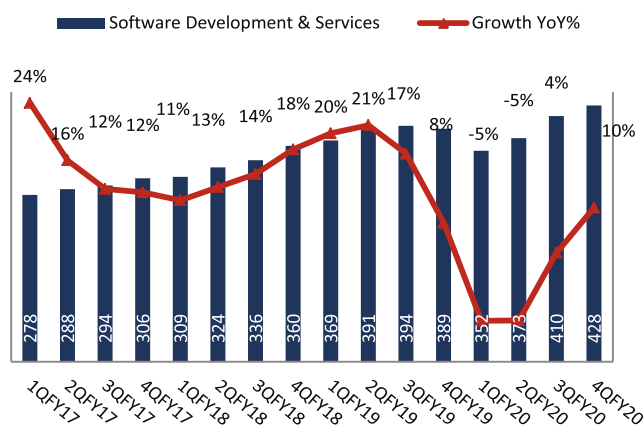
## Exhibit: Revenue trend

Strong growth in communication and IDV led the growth, partially offset by weak SI.



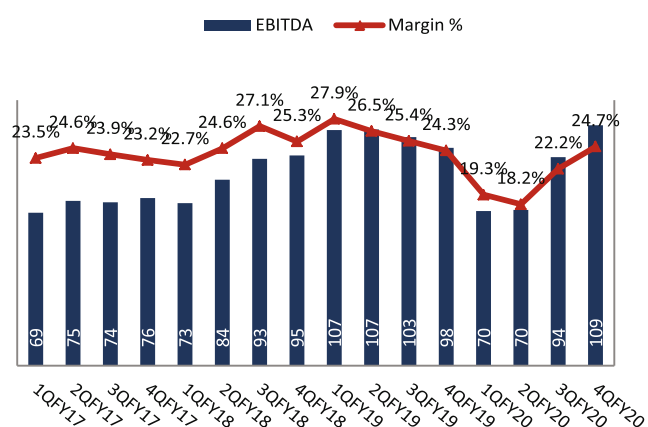
## Exhibit: SDS Revenue trend

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



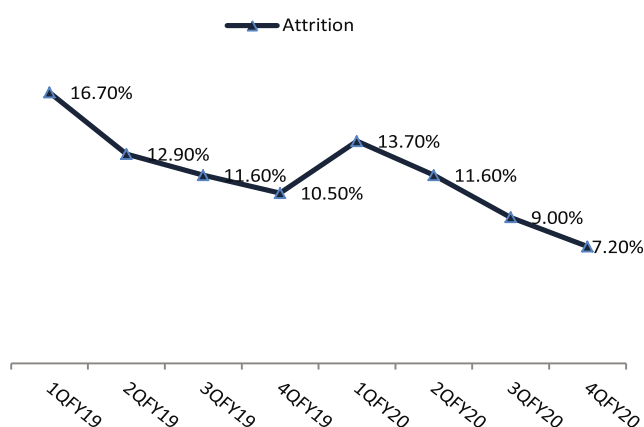
## Exhibit: Margin Trend

Better margin execution seen in 4Q, 90 bps improvement.



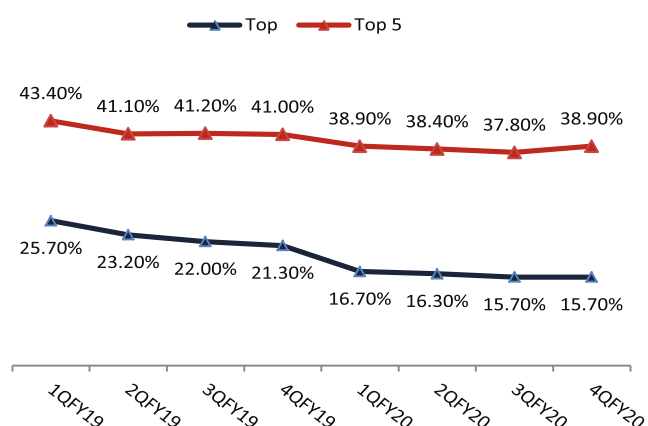
## Exhibit: Attrition trend

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	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	31	31	31	31	31	62	62	62
Reserves	161	204	252	355	528	676	880	1,054
<b>Networth</b>	<b>192</b>	<b>235</b>	<b>283</b>	<b>386</b>	<b>559</b>	<b>738</b>	<b>943</b>	<b>1,116</b>
Debt	59	-	-	-	-	-	-	-
Other Non Current Liab	9	12	11	18	19	19	14	14
<b>Total Capital Employed</b>	<b>251</b>	<b>235</b>	<b>283</b>	<b>386</b>	<b>559</b>	<b>738</b>	<b>943</b>	<b>1,116</b>
Net Fixed Assets (incl CWIP)	120	109	101	109	109	96	102	90
Non Current Investments	0	-	0	-	-	-	2	-
Other Non Cur Asst	-	-	-	-	-	2	3	3
<b>Non Current Assets</b>	<b>175</b>	<b>150</b>	<b>138</b>	<b>146</b>	<b>149</b>	<b>140</b>	<b>135</b>	<b>124</b>
Inventory	0	-	0	-	-	-	2	-
Debtors	135	156	154	215	245	307	357	359
Cash & Bank	20	50	133	182	252	394	516	689
Short-term loans and advances	10	12	15	23	20	1	1	1
Other Curr Assets	16	19	26	33	50	32	69	70
<b>Curr Assets</b>	<b>182</b>	<b>237</b>	<b>328</b>	<b>454</b>	<b>566</b>	<b>809</b>	<b>1,008</b>	<b>1,193</b>
Creditors	50	65	66	77	75	49	55	56
Provisions	24	46	68	89	35	17	10	10
Other Curr Liab	27	34	48	49	45	58	61	62
<b>Curr Liabilities</b>	<b>97</b>	<b>140</b>	<b>171</b>	<b>196</b>	<b>137</b>	<b>191</b>	<b>187</b>	<b>188</b>
<b>Net Curr Assets</b>	<b>85</b>	<b>96</b>	<b>157</b>	<b>258</b>	<b>429</b>	<b>617</b>	<b>821</b>	<b>1,006</b>
<b>Total Assets</b>	<b>357</b>	<b>387</b>	<b>465</b>	<b>600</b>	<b>715</b>	<b>949</b>	<b>1,143</b>	<b>1,317</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
<b>Revenue from Operation</b>	<b>605</b>	<b>772</b>	<b>849</b>	<b>1075</b>	<b>1233</b>	<b>1386</b>	<b>1597</b>	<b>1610</b>
Change (%)	18%	28%	10%	27%	15%	12%	15%	1%
<b>EBITDA</b>	<b>69</b>	<b>136</b>	<b>177</b>	<b>247</b>	<b>293</b>	<b>346</b>	<b>415</b>	<b>343</b>
Change (%)	3%	97%	30%	40%	19%	18%	20%	-17%
Margin (%)	11%	18%	21%	23%	24%	25%	26%	21%
Depr & Amor.	24	35	25	23	27	25	25	43
<b>EBIT</b>	<b>45</b>	<b>101</b>	<b>152</b>	<b>224</b>	<b>266</b>	<b>321</b>	<b>390</b>	<b>300</b>
Int. & other fin. Cost	4	2	0	-	-	-	-	6
Other Income	6	16	4	12	(5)	43	43	58
<b>EBT</b>	<b>45</b>	<b>101</b>	<b>152</b>	<b>224</b>	<b>266</b>	<b>321</b>	<b>390</b>	<b>300</b>
Exp Item	16	-	-	-	-	-	-	-
Tax	11	40	53	82	88	124	143	96
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>21</b>	<b>75</b>	<b>103</b>	<b>155</b>	<b>173</b>	<b>240</b>	<b>290</b>	<b>256</b>
<b>Adjusted PAT</b>	<b>21</b>	<b>75</b>	<b>103</b>	<b>155</b>	<b>173</b>	<b>240</b>	<b>290</b>	<b>256</b>
Change (%)	-38%	258%	37%	50%	12%	39%	21%	-12%
Margin(%)	3%	10%	12%	14%	14%	17%	18%	16%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	11	35	40	46	37	37	35	25
ROCE	20	40	56	64	54	48	46	29
Asset Turnover	5	7	8	10	11	14	16	18
Current Ratio	2	2	1.9	2.3	4.1	4.2	5.4	6.4
Debtor Days	81	74	66	73	72	81	81	81
Book Value Per Share	31	38	45	62	90	119	151	179
Payable Days	30	31	28	26	22	13	13	13
Earnings Per Share	3	12	17	25	28	39	47	41
P/E	28.4	22.6	35.0	37.8	26.3	25.6	20.7	17.6
Price / Book Value	3.1	7.2	12.7	15.2	8.2	8.3	6.4	4.0
EV/EBITDA	9	12	20	23	15	17	14	13
EV/Sales	1	2	4	5	4	4	4	3

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	32	115	156	236	261	364	290	352
(inc)/Dec in Working Capital	-	-	-	23	27	25	25	43
Non Cash Op Exp	31	41	18	0	0	0	0	0
Int Paid (+)	-	-	-	-5	-1	-21	-24	0
Tax Paid	-17	-17	-39	-76	-96	-114	-143	-96
(inc)/Dec in Working Capital	-8	-12	9	-57	-46	-32	-97	-12
<b>CF from Op. Activities</b>	<b>37</b>	<b>126</b>	<b>143</b>	<b>121</b>	<b>144</b>	<b>197</b>	<b>215</b>	<b>174</b>
(inc)/Dec in FA & CWIP	0	0	0	-38	-26	-12	-32	-32
Free Cashflow	-	-	-	83	118	185	183	142
(Pur)/Sale of Inv	-	0	0	0	0	-250	-150	0
others	-31	-20	-27	-29	-13	-247	-159	-32
<b>CF from Inv. Activities</b>	<b>-31</b>	<b>-20</b>	<b>-27</b>	<b>-29</b>	<b>-13</b>	<b>-247</b>	<b>-159</b>	<b>-32</b>
inc/(dec) in NW	-	-	-	0	0	0	0	0
inc/(dec) in Debt	-	-	-	0	0	0	0	0
Int. Paid	-4	-2	0	0	0	0	0	0
Div Paid (inc tax)	-25	-18	-32	-41	-52	-60	-83	-83
others	18	-59	0	0	0	0	0	0
<b>CF from Fin. Activities</b>	<b>-11</b>	<b>-79</b>	<b>-32</b>	<b>-41</b>	<b>-52</b>	<b>-60</b>	<b>-83</b>	<b>-83</b>
<b>Inc(Dec) in Cash</b>	<b>-5</b>	<b>28</b>	<b>85</b>	<b>51</b>	<b>78</b>	<b>-110</b>	<b>-26</b>	<b>59</b>
Add: Opening Balance	23	20	45	128	169	193	83	54
<b>Closing Balance</b>	<b>18</b>	<b>47</b>	<b>130</b>	<b>179</b>	<b>248</b>	<b>83</b>	<b>54</b>	<b>112</b>



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