

Retail Equity Research

Tata Elxsi Ltd.

ITES

BSE CODE : 500408

NSE CODE: TATAELXSI

BLOOMBERG CODE: TELX:IN

SENSEX : 71,942

Buy

12 Months Investment Period

Rating as per Mid cap

CMP Rs.7,693 TARGET Rs. 8,989 RETURN 17% ↑

(Closing: 29-01-2024)

KEY CHANGES:
TARGET ↑

RATING ↑

EARNINGS ↓

Long term revenue visibility.

Tata Elxsi (TELX) is a leading provider of IT ER&D (engineering, research and development) services. TELX has capabilities across Automotive, Broadcast & Communications, and Healthcare industries.

- Despite the slowdown, TELX reported revenue growth of 12% YoY and 3.7% QoQ in Q3FY24. The growth was driven by large deals in the healthcare & life science division, which grew by 4.6% QoQ.
- The Transportation segment witnessed steady growth of 1.9% QoQ. While there has been some delay in deal closure due to holidays.
- Operating margin came marginally below estimate at 29.6% (-62bps) due to wage hikes, sales promotions, and training, while a reduction in outsourcing contracts and a lower attrition rate to support margin.
- TELX's business outlook continues to be solid, based on the top 10 customers for engineering services. Despite weak macro headwinds, overall hiring improved 2.7% QoQ, with a net headcount of 13,221.
- We expect that the industry is likely to witness a pickup by the second half of the year on account of the increase in US IT spending. We rollover and value at 45x FY26E EPS, factoring in strong earnings CAGR growth over FY24E-26E.

Despite macro challenges revenue moderated QoQ.

During Q3FY24, TELX's revenue grew 12% YoY to Rs. 914 crore (3.7% QoQ). EPD, the company's largest division, grew by 1.5% QoQ CC, the SIS (system integration and support) division grew by 14.6% CC, and IDV (industrial design and visualization) grew by 11.7% QoQ CC. PAT growth was 6.1% YoY. Margin came marginally below estimate at 29.6% (-62 bps) due to wage hikes, sales promotions, and training. However, a reduction in outsourcing contracts and a lower attrition rate will support margin. Despite weak macro headwinds, overall hiring improved by 2.7% QoQ, with a net headcount of 13,221 as of December 24. Management plans to add 2,000-2,300 new employees this year. The company also stated that 1,800 will be fresh graduates and 450-500 will be experienced hires. The hiring plan reflects the company's outlook regarding growth aspirations and expansion. Unlike the industry trend, the attrition rate was low, at 12.9% sequentially.

Strong growth across all verticals.

In CC terms, all three verticals of the EPD division reported moderate growth. The transportation vertical (contributing 46.2% of total revenue) grew by 6.9% QoQ, while the media and communication vertical (contributing 38.4% of total revenue) de-grew by marginally -0.4% QoQ due to the deferment of some new projects. and Healthcare & Medical Devices (contributing 15.4% of total revenue) reported 3.2%. The company's onsite-offshore mix was reported at 25.3%-74.2%, helping TELX to maintain high margins. TELX's revenue mix from Europe, India, and RoW improved, while that from the United States declined by 5.5% QoQ. The deals from the top five and top ten clients came in marginally lower due to furloughs and holidays.

Strong deal momentum and new strategic partnerships.

We expect the business outlook to continue to be strong for transportation, with multimillion-dollar wins from leading Japanese automotive suppliers for connected infotainment and digital cockpits. Order from the leading multinational medical device leader for leveraging the latest AI technology and algorithms to enhance their efficiency in the global regulatory service and identify potential risks and anomalies. Despite the global headwinds, the company's hiring plan to continue to be optimal with a blend of freshmen and lateral employees will be ready in the next 6 months for newer project developments in transport, medical, and media.

Outlook and valuation

We believe that the growth in the transportation vertical will persist in the coming years, given the need for transformation in the automobile industry. TELX is well positioned to capture the opportunities due to its deep domain knowledge and work on its clients' long-term strategic projects. We expect strong deal wins and a focus on specialized IDV, and a positive outlook on the EPD division is likely to support valuation. We expect that the industry is likely to witness pick-up by second half of the year on account of increase in US IT spending. We rollover and value at 45x FY26E EPS, factoring in strong earnings CAGR growth over FY24E-26E.

Company Data

Market Cap (Rs.cr)	51,040
Enterprise Value (Rs.cr)	50,099
Outstanding Shares (cr)	6.2
Free Float	0.56
Dividend Yield	0.7%
52 week high (Rs.)	9,191
52 week low (Rs.)	5,883
6m average volume (cr)	0.01
Beta	0.9
Face value Rs.	10.0

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	43.9	43.9	43.9
FII's	13.9	14.2	15.0
MFs/Insti	3.5	4.0	2.7
Public	38.7	37.9	38.4
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	8.6%	13.3%	23.1%
Absolute Sensex	9.9%	6.2%	15.5%
Relative Return	-1.2%	7.1%	7.7%

***over or under performance to benchmark index**


Standalone (cr)	FY24E	FY25E	FY26E
Sales	3,571	4,305	5,238
Growth (%)	13.5	20.6	21.7
EBITDA	1,053	1,313	1,598
EBITDA Margin (%)	29.5	30.5	30.5
Adj. PAT	798	1,006	1,238
Growth (%)	7.7	26.1	23.1
Adj. EPS	128.7	162.3	199.7
Growth (%)	8.2	26.1	23.1
P/E	59.6	47.3	38.4
P/B	18.2	14.2	11.0
EV/EBITDA	44.0	34.8	28.2
ROE (%)	33.9	33.6	32.2
D/E	0.1	0.1	0.0

Saji John
 Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr.	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	QoQ Growth (%)
Sales	914	818	11.8	882	3.7	2646	2307	14.7
EBITDA	270	247	9.5	264	2.6	786	712	10.4
EBITDA margins(%)	29.6	30.2	-62bps	29.9	-32bps	29.7	30.8	-115bps
Depreciation	25	21	18.8	25	1.8	72	60	19.2
EBIT	245	225	8.6	239	2.7	714	651	9.6
EBIT margins(%)	27	28	-78bps	27	-27bps	27	28	-126bps
Interest	6	4	24.2	6	-4.4	15	12	26.5
Other Income	35	19	82.5	31	-	88	48	83.4
Exceptional Items	-	-	-	-	-	0	0	-
PBT	274	240	14.2	264	4.0	787	687	14.5
Tax	68	45	48.9	64	6.0	191	134	42.9
Share of profit from Associate	-	-	-	-	-	0	0	0.0
Reported PAT	207	195	6.1	200	3.3	0	0	-
Adjustments	-	-	-	-	-	0	0	0.0
Adj PAT	207	195	6.1	200	3.3	596	554	7.6
No. of Shares	6	6	-	6	-	6	6	-0.4
EPS (Rs)	33.2	31.3	6.1	32.1	3.3	95.7	88.9	7.6

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,608	4,468	3,571	4,305	-1.0	-3.6
EBITDA	1,075	1,363	1,053	1,313	-2.0	-3.7
Margins (%)	29.8	30.5	29.5	30.5	-30bps	0bps
Adj. PAT	815	1,048	798	1,006	-2.1	-4.0
EPS	131.5	169.0	128.7	162.3	-2.1	-4.0

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,827	2,471	3,145	3,571	4,305	5,238
% change	12.7	35.2	27.3	13.5	20.6	21.7
EBITDA	524	776	958	1,053	1,313	1,598
% change	50.6	48.2	23.5	10.0	24.7	21.7
Depreciation	44	55	81	96	106	114
EBIT	479	721	877	957	1,208	1,483
Interest	6	9	16	22	22	22
Other Income	39	35	63	118	142	173
PBT	512	746	923	1,053	1,328	1,634
% change	45.3	45.7	23.8	14.0	26.1	23.1
Tax	144	196	182	255	321	395
Tax Rate (%)	0.3	0.3	0.2	0.2	0.2	0.2
Reported PAT	368	550	742	798	1,006	1,238
Adj*	0.0	0.0	1.1	0.0	0.0	0.0
Adj PAT	368	550	741	798	1,006	1,238
% change	43.8	49.4	34.7	7.7	26.1	23.1
No. of shares (cr)	6	6	6	6	6	6
Adj EPS (Rs.)	59.1	88.3	119.2	128.7	162.3	199.7
% change	44	49	35	8	26	23
DPS (Rs.)	16.5	48.0	42.5	42.5	42.5	42.5
CEPS (Rs.)	66	97	132	144	179	218

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	413	605	823	894	1112	1353
Non-cash adj.	18	-3	13	22	22	22
Changes in W.C	12	-100	-310	-175	-197	-263
C.F. Operation	431	480	473	741	937	1112
Capital exp.	-39	-71	-64	-50	-50	-50
Change in inv.	0	0	0	0	0	0
Other invest.CF	-399	-37	-138	0	0	0
C.F - Investment	-438	-108	-202	-50	-50	-50
Issue of equity	0	0	0	0	0	0
Issue/repay debt	-24	-27	-38	1	1	1
Dividends paid	-103	-299	-265	-263	-263	-263
Other finance.CF	0	100	0	-22	-22	-22
C.F - Finance	-126	-326	-303	-284	-285	-285
Chg. in cash	-133	46	-32	407	602	777
Closing cash	100	100	134	541	1143	1920

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	860	965	1,192	1,599	2,201	2,978
Accounts Receivable	404	563	865	783	944	1,148
Inventories	0	1	0	29	29	36
Other Cur. Assets	135	182	265	293	354	431
Investments	0	0	0	0	0	0
Gross Fixed Assets	251	408	529	579	629	679
Net Fixed Assets	151	251	317	271	215	151
CWIP	7	22	7	7	7	7
Intangible Assets	19	20	16	16	16	16
Def. Tax (Net)	12.6	18.0	21.9	21.9	21.9	21.9
Other Assets	139	171	97	267	322	392
Total Assets	1,727	2,193	2,781	3,287	4,110	5,180
Current Liabilities	193	342	377	300	348	407
Provisions	106	103	127	175	206	241
Debt Funds	73	139	182	183	184	185
Other Liabilities	2.6	9.0	9.1	9.1	9.1	9.1
Equity Capital	62	62	62	62	62	62
Reserves & Surplus	1290	1539	2023	2558	3301	4276
Shareholder's Fund	1,352	1,601	2,086	2,620	3,363	4,338
Total Liabilities	1,727	2,193	2,781	3,287	4,110	5,180
BVPS (Rs.)	214	254	332	418	537	694

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	28.7	31.4	30.5	29.5	30.5	30.5
EBIT margin (%)	26.2	29.2	27.9	26.8	28.0	28.3
Net profit mgn.(%)	20.1	22.3	23.6	22.4	23.4	23.6
ROE (%)	30.1	37.2	40.2	33.9	33.6	32.2
ROCE (%)	20.9	26.3	30.3	24.5	24.5	23.7
W.C & Liquidity						
Receivables (days)	80.0	71.4	82.8	84.2	73.2	72.9
Inventory (days)	0.2	0.0	0.1	1.5	2.5	2.3
Payables (days)	10.4	11.8	12.0	11.1	10.1	9.0
Current ratio (x)	5.1	4.0	4.8	6.4	7.2	8.1
Quick ratio (x)	4.6	3.6	4.2	5.6	6.4	7.3
Turnover & Leverage						
Gross asset T.O (x)	7.9	7.5	6.7	6.4	7.1	8.0
Total asset T.O (x)	1.2	1.3	1.3	1.2	1.2	1.1
Int. coverage ratio (x)	80.8	76.4	54.1	43.6	54.8	66.9
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1	0.0
Valuation						
EV/Sales (x)	25.7	19.0	14.9	13.0	10.6	8.6
EV/EBITDA (x)	89.7	60.5	48.8	44.0	34.8	28.2
P/E (x)	129.8	86.8	64.5	59.6	47.3	38.4
P/BV (x)	35.3	29.8	22.9	18.2	14.2	11.0



Recommendation Summary (Last 3 years)



Dates	Rating	Target
26-Oct-2021	Accumulate	6,513
31-Jan-2022	Hold	7,482
27-April-2022	Hold	8,423
19-Aug-2022	Reduce	9,983
17-Oct-2022	Sell	7,524
01-Feb-2023	Accumulate	7,611
08-June-2023	Hold	8,445
30-January-2024	Buy	8,989

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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