

Tata Elxsi reported Q4FY24 revenues at INR9,059mn (-0.6% QoQ and +7.2% YoY in CC terms), de-grew 0.9% sequentially but grew 8.1% YoY. For FY24, it delivered a growth of 9.6% YoY in cc terms and 13% YoY to INR35.5bn despite global macroeconomic uncertainties and volatility in the media and communications industry over the last few quarters. The reported PAT for full year stood at INR7.9bn (+4.9% YoY) representing a net margin of 22.3%. EPS for the year stood at INR127.2.

- Outlook for FY25E:** The management has laid down a strategy of integrating its design business deeply with its key industry verticals, complementing their software and digital business with a design-led proposition. This will enhance its competitive differentiation, provide early visibility into customer product roadmaps, and create larger downstream development deals. Under Transportation segment, management is confident of maintaining its growth trajectory from the SDV programs of 5 global OEMs. Under Healthcare segment, company has established a strong foundation for continued growth with the addition of five market customer logos in the year and expanded capabilities and platforms in new growth areas such as digital therapeutics and connected health. It is making strategic investments and securing contracts for GenAI-driven solutions tailored for the healthcare sector. Management is quite bullish and expects Healthcare segment to lead the organization for next few quarters. Media and Communication segment seems to have bottomed out and is expected to witness recovery from FY25E. There are opportunities in contributing to the revenues through advertising technologies and enabling optics reductions to automation and transformation of network operations. SIS business is pivoting to value-added services, innovation-led projects such as experience centres, and supporting downstream deployment and run management for its products and platforms. Company expects FY25E to be better than FY24.
- GenAI ready:** On the AI and Gen AI front, company continues to invest strongly in solutions, POCs and projects and ramp up the talent across the company. It has created and deployed specialized programs to be able to get 25% of its engineers AI-ready by Q3FY25E. Company is working on experimenting and innovating using GenAI across design and software. It is targeting areas that may be impacted by GenAI in the business, such as coding, automated testing, that is being proactively taken to customers.
- EBITDA Margins to improve:** EBITDA margins for Q4FY24 came at 28.8%, down 70bps QoQ and 100bps YoY due to high training cost in investment capability building. Company aspires to be in the similar range as FY23 with huge headspace in utilization level improvement. Company saw a net addition of 178 new employees in Q4, contributing to a total of 1,535 new Elxsians in FY24 with attrition levels at 12.4%. Looking ahead, the company plans to on-board approximately 1,500 to 2,000 fresh engineers in FY25E depending on demand.

**Valuation:** The management is committed to growth backed by strategic relationships built over the years with key customers, the qualitative change in revenues towards OEMs and SDV programs, entries into new operators and marquee healthcare logos, investments and talents in hiring, investments in strategic technology areas in AI and a strong deal pipeline. We maintain our rating to **BUY** with a revised target price of INR8,095 implying a PE of 45x on FY26E EPS of INR180.

### Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	24,708	31,447	35,521	39,742	46,582
Gross Profit (INR Mn.)	10,565	13,607	14,471	16,663	19,904
EBIT (INR Mn.)	7,104	8,799	9,472	10,885	13,036
EBIT Margin (%)	28.8	28.0	26.7	27.4	28.0
EPS (INR)	88.3	121.3	127.2	150.5	179.9

Source: Company, CEBPL

Apr 24, 2024

CMP (Rs.)	7,394
Target Price (Rs.)	8,095
Potential Upside (%)	9.5

### Company Info

BB Code	TELX IN EQUITY
ISIN	INE670A01012
Face Value (Rs.)	10.0
52 Week High (Rs.)	9,191.1
52 Week Low (Rs.)	6,217.9
Mkt Cap (Rs. bn.)	460.5
Mkt Cap (\$ bn.)	5.5
Shares o/s (Mn.)/Float	62.3/56
FY24 EPS (Rs.)	127.2
FY26E EPS (Rs.)	179.9

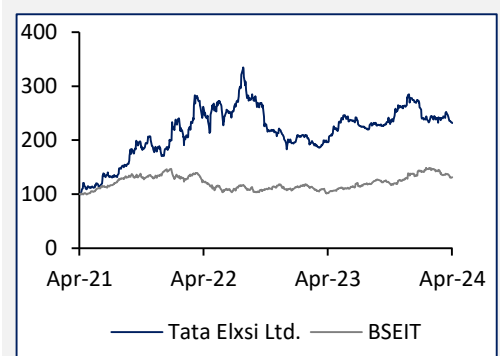
### Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoters	43.92	43.92	43.92
FII's	14.56	15.02	13.80
DII's	6.06	5.71	4.81
Public	35.46	35.35	37.47

### Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	31.3	5.5	29.3
Tata Elxsi	131.6	(11.5)	17.5

### Rebased Price Performance



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## Sequential Operating Performance

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
<b>Income Statement</b>						
Revenues (INR Mn.)	8,177	8,379	8,503	8,817	9,142	9,059
Gross Profit (INR mn.)	3,579	3,529	3,497	3,547	3,739	3,688
Gross Margin (%)	43.8	42.1	41.1	40.2	40.9	40.7
EBIT (INR mn.)	2,254	2,287	2,301	2,388	2,447	2,337
EBIT Margin (%)	27.6	27.3	27.1	27.1	26.8	25.8
PAT (INR mn.)	1,947	2,016	1,889	2,002	2,064	1,969
Basic EPS (INR)	31.3	32.4	30.3	32.2	33.2	31.6
<b>Operating Metrics</b>						
<b>Revenue - Geography (%)</b>						
Americas	42.8	41.4	40.2	39.6	37.4	36.0
Europe	34.7	35.5	37.4	40.0	40.5	40.3
India	16.2	17.3	17.0	15.5	16.4	17.3
RoW	6.3	5.8	5.3	4.9	5.7	6.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>99.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue - Segments (%)</b>						
Embedded Product Design	85.9	85.8	85.9	86.0	86.0	-
Industrial Design & Visualization	11.4	11.3	11.3	11.3	11.3	-
Software and Design Service	-	-	-	-	-	97.2
System Integration & Support	2.7	2.9	2.8	2.7	2.7	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EPD Revenue - Industry (%)</b>						
Transportation	44.3	44.6	44.8	46.2	46.5	51.4
Media & Communications	40.3	40.3	39.8	38.4	37.8	33.6
Healthcare & Medical Devices	15.4	15.1	15.4	15.4	15.7	14.1
Others	-	-	-	-	-	0.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EPD Revenue - Contract Type (%)</b>						
Time & Material	49.9	49.6	48.4	49.7	50.0	52.1
Fixed Price	50.1	50.4	51.6	50.3	50.0	47.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EPD Revenue - Effort Mix (%)</b>						
Onsite	24.6	25.5	25.3	25.8	25.3	26.3
Offshore	75.4	74.5	74.7	74.2	74.7	73.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Employee Metrics</b>						
Total Headcount	11,607	11,864	12,286	12,871	13,221	13,399
Attrition Rate LTM (%)	18.4	17.3	15.6	13.7	12.9	12.4

Source: Company, CEBPL

## CEBPL Estimates vs Actual for Q4FY24

Tata Elxsi (INR Mn.)	Q4FY24	Q4FY23	YoY(%)	Q3FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Revenues	9,059	8,379	8.1	9,142	(0.9)	9,447	(4.1)
Employee Cost	5,371	4,850	10.7	5,403	(0.6)		
Gross Profit (INR mn.)	3,688	3,529	4.5	3,739	(1.4)	3,828	(3.7)
Gross Margin (%)	40.7	42.1	(140) bps	40.9	(19) bps	40.5	19 bps
Other costs	1075	1031	4.3	1038	3.6		
Depreciation	276	211	30.9	255	8.4		
EBIT (INR mn.)	2,337	2,287	2.2	2,447	(4.5)	2,507	(6.8)
EBIT Margin (%)	25.8	27.3	(149) bps	26.8	(97) bps	26.5	(74) bps
Other Income	337	257	31.2	349	(3.6)		
Interest	50	41	20.9	56	(10.5)		
PBT (INR mn.)	2624	2502	4.9	2741	(4.3)		
Tax	655	487	34.5	676	(3.2)		
Adj. PAT (INR mn.)	1,969	2,016	(2.3)	2,064	(4.6)	2,114	(6.8)
Basic EPS (INR)	31.6	32.4	(2.3)	33.2	(4.6)	33.9	(6.8)

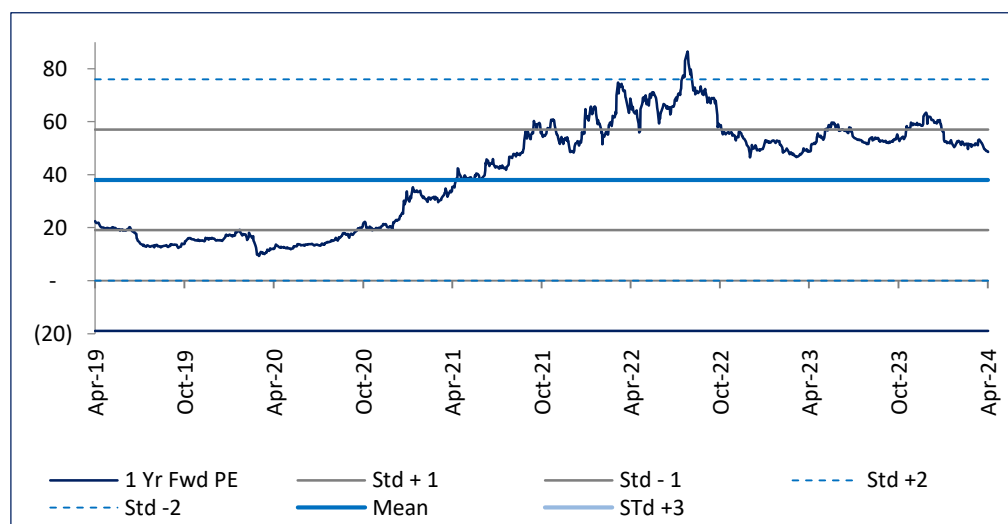
Source: Company, CEBPL

## Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	41,842	39,742	(5.0)	49,810	46,582	(6.5)
Gross Profit	17,545	16,663	(5.0)	21,389	19,904	(6.9)
Gross Profit Margin (%)	41.9	41.9	(0) bps	42.9	42.7	(21) bps
EBIT	11,624	10,885	(6.4)	14,329	13,036	(9.0)
EBIT Margin (%)	27.8	27.4	(39) bps	28.8	28.0	(78) bps
EPS	160.8	150.5	(6.4)	197.6	179.9	(9.0)

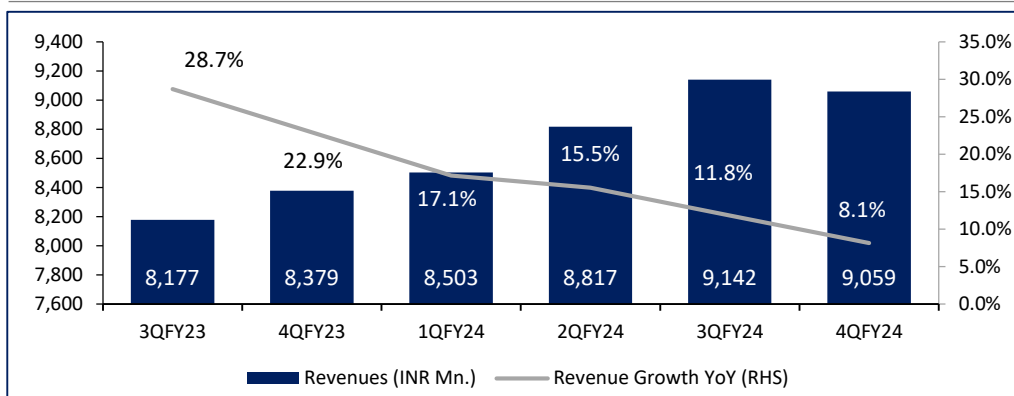
Source: Company, CEBPL

## Historical 1 Yr Fwd PE Band



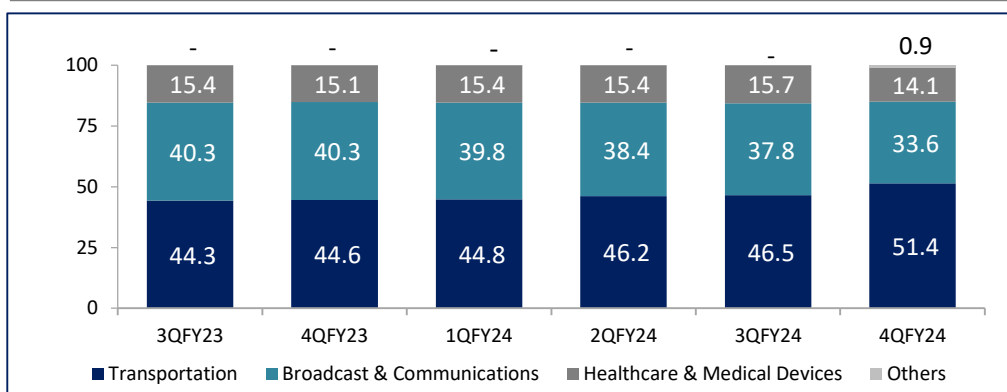
Source: Company, CEBPL

### Decline in Revenue in Q4



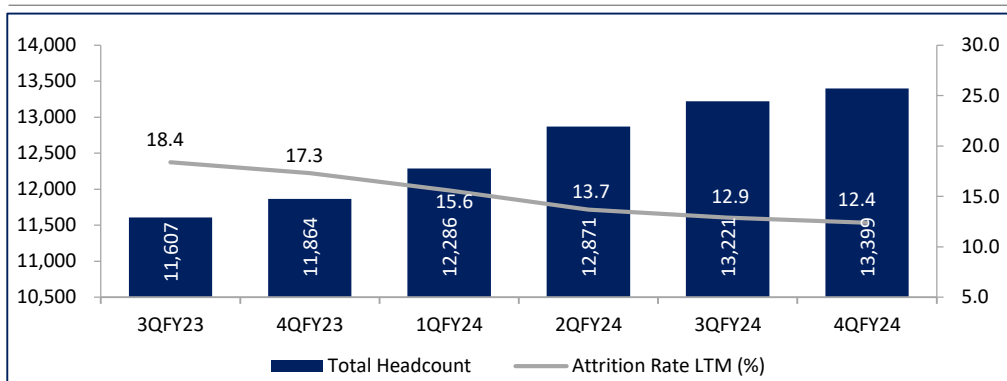
Source: Company, CEBPL

### Industry Vertical Revenue Mix



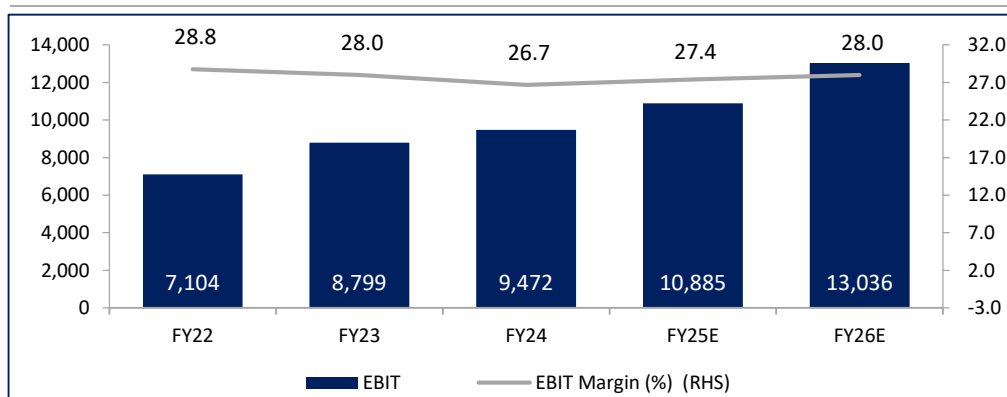
Source: Company, CEBPL

### Attrition rate on a declining trend; Net hiring improved



Source: Company, CEBPL

### Margins to improve



Source: Company, CEBPL

## Management Call - Highlights

- The Board of Directors has proposed a final dividend of INR70 per equity share for the fiscal year ending on March 31st, 2024, pending approval by the shareholders.
- During the financial year, the transportation business experienced robust growth, expanding by 20.5% YoY in cc terms. Presently, it represents nearly half of its total SDS revenues. Within this segment, the services for OEMs constitute more than 56% of the transportation business and have become integral to the SDV programs of five major global OEMs.
- During the quarter, Tata Elxsi secured a significant deal in the rail sector driven by digital technology. This deal involves the development of an advanced collision detection and warning system for a rail operator based in North America.
- In the healthcare and life sciences sector, the business achieved a YoY growth of 7.6% in cc terms for the financial year. Tata Elxsi laid a solid groundwork for sustained expansion by acquiring five new major customer partnerships during the year. Additionally, they broadened its capabilities and platforms in emerging growth areas like digital therapeutics and connected health.
- Tata Elxsi is making strategic investments and securing contracts for Gen-AI-driven solutions tailored for the healthcare sector. This includes pioneering initiatives such as identifying and removing harmful substances from the medical device supply chain. Furthermore, the company is actively developing platforms and clinching agreements for digital therapeutics, showcasing its commitment to advancing healthcare through innovative technology solutions.
- In the media and communication business, there was a decline of 2.6% in constant cc terms over the financial year. Nevertheless, the management foresees potential opportunities to bolster revenue streams through advertising technologies (ad tech) and facilitating cost reductions via the automation and transformation of network operations.
- Tata Elxsi remains committed to strengthening its key customer relationships, as evidenced by notable growth among the top 10 and top 25 customers company-wide. Additionally, the company is proactively investing in talent development, ensuring a robust talent pipeline for future needs.

## Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	24,708	31,447	35,521	39,742	46,582
Gross profit	10,565	13,607	14,471	16,663	19,904
EBITDA	7,657	9,613	10,467	12,133	14,594
Depreciation	553	814	994	1,248	1,558
EBIT	7,104	8,799	9,472	10,885	13,036
Other income	445	738	1,219	1,351	1,584
Interest expense	94	162	203	219	257
PAT	5,496	7,553	7,925	9,373	11,203
EPS	88.3	121.3	127.2	150.5	179.9

Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	1,489	1,667	1,944	2,211	2,543
Goodwill & intangible assets	1,447	1,739	2,037	2,037	2,037
Investments	-	-	-	-	-
Cash & Cash equivalents	9,652	11,916	13,571	15,574	18,179
Other non-current assets	1,799	1,094	2,521	2,647	2,780
Other current assets	7,305	11,219	11,796	12,374	12,993
<b>Total assets</b>	<b>21,692</b>	<b>27,634</b>	<b>31,870</b>	<b>34,844</b>	<b>38,531</b>
Shareholder's funds	16,009	20,858	25,057	27,868	31,229
Borrowings	-	-	-	-	-
Lease liabilities	1,385	1,823	2,240	2,240	2,240
Other non-current liabilities	398	455	542	510	593
Other current liabilities	3,900	4,500	4,031	4,225	4,469
<b>Total equity &amp; liabilities</b>	<b>21,692</b>	<b>27,634</b>	<b>31,870</b>	<b>34,844</b>	<b>38,531</b>

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	6,893	6,717	9,592	10,979	13,527
Cash flows from Investing	(1,083)	(2,019)	(2,701)	(164)	(306)
Cash flows from financing	(3,261)	(3,031)	(4,278)	(6,780)	(8,099)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenues	35.3	27.3	13.0	11.9	17.2
Gross Profit	47.8	28.8	6.4	15.1	19.5
EBITDA	46.6	25.5	8.9	15.9	20.3
EBIT	48.6	23.9	7.6	14.9	19.8
<b>Margin Ratios (%)</b>					
Gross Profit Margin	42.8	43.3	40.7	41.9	42.7
EBITDA Margin	31.0	30.6	29.5	30.5	31.3
EBIT Margin	28.8	28.0	26.7	27.4	28.0
<b>Profitability (%)</b>					
Return on equity	34.3	36.2	31.6	33.6	35.9
Return on invested capital	63.3	59.6	49.2	54.6	61.3
Return on capital employed	39.9	38.0	34.0	35.5	38.3
<b>Valuation</b>					
OCF / Net profit (%)	87.9	64.5	88.5	88.9	92.5
EV / EBITDA (x)	46.9	47.0	42.9	37.0	30.8
Book Value per share (x)	257.1	335.0	402.3	447.5	501.4
Free Cash flow yield (%)	0.8	1.1	1.4	1.6	2.1

Source: Company, CEBPL.

## Historical recommendations and target price: TATA ELSXI Ltd.



### Tata Elxsi Ltd.

1.	21-04-2022	REDUCE,	Target Price 7,415
2.	17-07-2022	NEUTRAL,	Target Price 8,350
3.	17-10-2022	REDUCE,	Target Price 7,953
4.	25-01-2023	ADD,	Target Price 7,114
5.	20-05-2023	ADD,	Target Price 7,933
6.	18-07-2023	ADD,	Target Price 8,100
7.	25-09-2023	NEUTRAL,	Target Price 7,610
8.	18-10-2023	ADD,	Target Price 8,076
9.	24-01-2024	ADD,	Target Price 8,890
10.	18-03-2024	BUY,	Target Price 8,890
11.	24-04-2024	BUY,	Target Price 8,095

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