

Tata Elxsi Ltd.

Accumulate

Sector: IT ER&D

06th November 2024

Key Changes	Target ▲	Rating ●	Earnings ▼	Target	Rs. 7,901
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Mid Cap	TELX:IN	79,477	TATAELXSI	500408	12 Months
				CMP	Rs. 7,033
				Return	+12%

Data as of: 05-11-2024

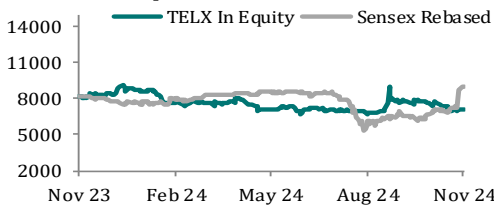
Company Data

Market Cap (Rs.cr)	44,397
52 Week High - Low (Rs.)	9,191 - 6,407
Enterprise Value (Rs.cr)	43,749
Outstanding Shares (cr)	6.2
Free Float (%)	56
Dividend Yield	1.0%
6m average volume (cr)	0.03
Beta	0.9
Face value (Rs)	10.0

Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	43.9	43.9	43.9
FII's	14.6	13.7	13.6
MFs/Insti	6.0	6.2	7.4
Public	35.5	36.2	35.1
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	4.7%	0.1%	-12.7%
Absolute Sensex	1.1%	9.8%	22.8%
Relative Return	3.6%	-9.6%	-35.5%

*over or under performance to benchmark index



Standalone (cr)	FY24A	FY25E	FY26E
Sales	3,552	3,822	4,299
Growth (%)	13.0	7.6	12.5
EBITDA	1,046	1,101	1,247
EBITDA Margin (%)	29.5	28.8	29.0
PAT Adjusted	792	888	1,021
Growth (%)	7.1	12.1	14.9
Adjusted EPS	127.8	143.3	164.6
Growth (%)	7.5	12.1	14.9
P/E	55.6	49.6	43.2
P/B	17.7	14.7	12.1
EV/EBITDA	41.0	38.6	33.6
ROE (%)	34.5	32.2	30.6
D/E	0.1	0.1	0.1

Author: Saji John - Sr. Research Analyst

Recovery expected in later half.

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.

- In Q2FY25, TELX reported an 8% YoY & 3.1% QoQ growth. The growth was aided by large deals in the transportation segment which grew by 4.4% QoQ in constant currency terms. However, the Media & Communication and Healthcare segments were impacted by a delay in the renewal of deals.
- Despite an increase in training expenses, EBITDA margin improved by 70bps to 27.9%, owing to reduction in third party contracts & operational efficiency.
- During Q2FY25, TELX won a landmark \$50Mn multi year deal from a Global Automotive OEM in Europe, which includes multiple domains of automotive engineering.
- The growth from India & RoW continue to witness strong double digit growth. While the US contracted by 300bps QoQ in its revenue mix, largely due to a weakness in the Healthcare & Communication segment.
- Currently, we expect most of the slow down has been factored in the price and we expect recovery by the second half of the year on account of increase in US IT spending in healthcare.

Outlook & Valuation

Despite a general slow down in the automotive sector, we believe that the growth in the transportation vertical will persist in the coming years, given the need for digitization 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 SDS, and a pick up in other verticals is likely to support valuation. **Hence we maintain our valuation at 48x FY26E EPS and recommend Accumulate rating with a target price of Rs.7,901 at CMP.**

Quarterly Financials Consol.

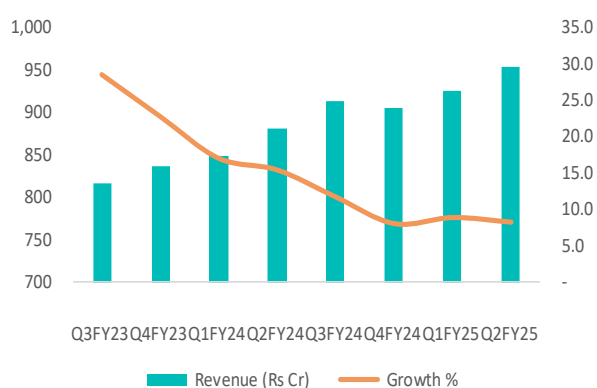
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales	955	882	8.3	926	3.1	1,882	1,732	8.6
EBITDA	266	264	1.1	252	5.6	519	515	0.6
Margin (%)	27.9	29.9	-200bps	27.2	66bps	27.6	29.8	-219bps
EBIT	239	239	0.3	225	6.2	464	469	-1.0
PBT	299	264	13.2	252	18.3	551	513	7.5
Rep. PAT	229	200	14.7	184	24.6	414	389	6.2
Adj PAT	229	200	14.7	184	24.6	414	389	6.2
EPS (Rs)	36.8	32.1	14.7	29.6	24.6	66.4	62.5	6.2



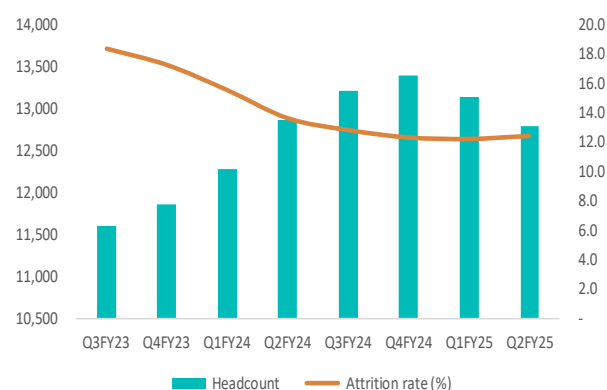
Key Highlights

- Continued focus on expanding business in Japan & Emerging markets, which significantly contributed to growth. Revenue from India and Japan/emerging markets grew by 31.2% & 81.9% YoY. Share of India business grew from 15.5% to 18.8% YoY, whereas, US and Europe grew to 30.3% & 42.7% from 40% & 39.6% respectively.
- Highlighted to enter new verticals including defence and semiconductor sectors, to diversify revenue streams.
- Despite a marginal decline in Media & Communication and 10.4% QoQ decline in Healthcare & Life sciences, TELX remains confident about the future, citing growth by network transformation in AL led services and anticipates recovery in the healthcare sector starting Q3, due to a healthy pipeline deal and growth in key transportation verticals.
- Current utilization rate of 69.5%, indicates sufficient capacity to manage future projects, without immediate increase in headcounts. While the next addition will be a focus on specialized skills.
- The company is committed to deliver double digit revenue growth in constant currency terms for FY25, despite macro economic challenges.
- This strategic product engineering engagement with Qualcomm envisages a long-term roadmap for next-generation features such as high performance Fixed Wireless Access (FWA) solution in Networking & System integration.

Revenue



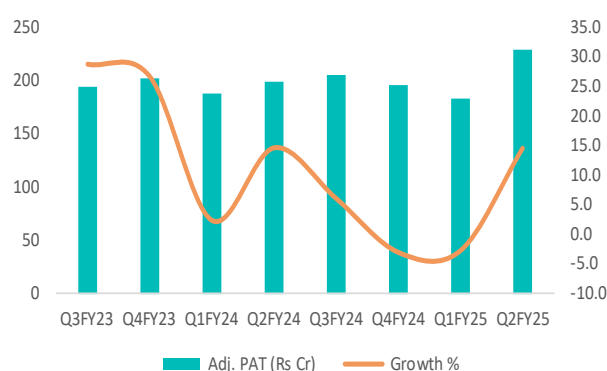
Headcount & Attrition rate



EBITDA



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,043	4,652	3,822	4,299	-5.5	-7.6
EBITDA	1,209	1,419	1,101	1,247	-9.0	-12.1
Margins (%)	29.9	30.5	28.8	29.0	-110bps	-150bps
Adj. PAT	921	1,088	888	1,021	-3.5	-6.2
EPS	149	176	143	165	-3.5	-6.2



Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	2,471	3,145	3,552	3,822	4,299
% change	35%	27%	13%	8%	12%
EBITDA	776	958	1,046	1,101	1,247
% change	48%	23%	9%	5%	13%
Depreciation	55	81	99	103	111
EBIT	721	877	947	998	1,136
Interest	9	16	20	20	20
Other Income	35	63	122	199	236
PBT	746	923	1,049	1,177	1,352
% change	46%	24%	14%	12%	15%
Tax	196	182	256	288	331
Tax Rate (%)	26%	20%	24%	25%	25%
Reported PAT	550	741	792	888	1,021
Adj*	0	1	0	0	0
Adj PAT	550	740	792	888	1021
% change	49%	35%	7%	12%	15%
No. of shares (cr)	6.2	6.2	6.2	6.2	6.2
Adj EPS (Rs.)	88.3	119.0	127.8	143.3	164.6
% change	49%	35%	8%	12%	15%
DPS (Rs.)	48.0	42.5	60.9	60.9	60.9
CEPS (Rs.)	97.2	131.9	143.8	159.8	182.5

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	605	822	892	991	1,132
Non-cash adj.	-3	13	20	20	20
Changes in W.C	-100	-310	-167	-59	-123
C.F. Operation	480	472	745	952	1,029
Capital exp.	-71	-64	-50	-50	-50
Change in inv.	0	0	0	0	0
Other invest.CF	-37	-138	0	0	0
C.F – Investment	-108	-202	-50	-50	-50
Issue of equity	0	0	0	0	0
Issue/repay debt	-27	-38	1	1	1
Dividends paid	-299	-265	-377	-377	-377
Other finance.CF	100	0	-20	-20	-20
C.F – Finance	-326	-303	-397	-397	-397
Chg. in cash	46	-33	299	506	583
Closing cash	100	134	433	938	1,521

BALANCE SHEET

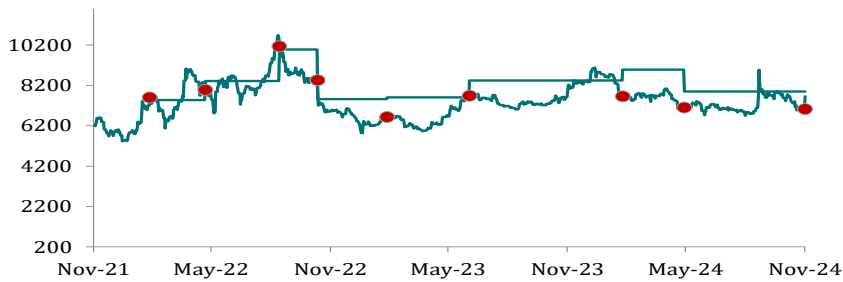
Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	965	1,192	1,490	1,996	2,579
Accounts Receivable	563	865	779	838	942
Inventories	1	0	26	29	32
Other Cur. Assets	182	265	292	314	353
Investments	0	0	0	0	0
Gross Fixed Assets	408	529	579	629	679
Net Fixed Assets	251	317	268	215	154
CWIP	22	7	7	7	7
Intangible Assets	20	16.2	16.2	16.2	16.2
Def. Tax (Net)	18	22	22	22	22
Other Assets	171	97	266	286	322
Total Assets	2,193	2,781	3,166	3,723	4,427
Current Liabilities	342	377	299	323	358
Provisions	103	127	174	195	221
Debt Funds	139	182	183	184	185
Other Liabilities	9	9	9	9	9
Equity Capital	62	62	62	62	62
Reserves & Surplus	1,539	2,023	2,438	2,949	3,592
Shareholder's Fund	1,601	2,086	2,501	3,012	3,655
Total Liabilities	2,193	2,781	3,166	3,723	4,427
BVPS (Rs.)	254	332	399	481	584

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	31.4	30.5	29.5	28.8	29.0
EBIT margin (%)	29.2	27.9	26.7	26.1	26.4
Net profit mgn.(%)	22.3	23.5	22.3	23.2	23.7
ROE (%)	37.2	40.1	34.5	32.2	30.6
ROCE (%)	26.3	30.3	24.8	23.3	22.3
W.C & Liquidity					
Receivables (days)	71.4	82.8	84.4	77.2	75.6
Inventory (days)	0.0	0.1	1.4	2.6	2.6
Payables (days)	11.8	12.0	11.2	11.4	10.9
Current ratio (x)	4.0	4.8	6.1	6.8	7.6
Quick ratio (x)	3.6	4.2	5.3	6.1	6.8
Turnover & Leverage					
Gross asset T.O (x)	7.5	6.7	6.4	6.3	6.6
Total asset T.O (x)	1.3	1.3	1.2	1.1	1.1
Int. coverage ratio (x)	76.4	54.1	46.7	49.4	55.9
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	17.6	13.7	12.1	11.1	9.7
EV/EBITDA (x)	56.0	45.1	41.0	38.6	33.6
P/E (x)	80.5	59.8	55.6	49.6	43.2
P/BV (x)	27.6	21.2	17.7	14.7	12.1



Recommendation Summary (Last 3 years)



Dates	Rating	Target
31.Jan.22	Hold	7,482
27.April.22	Hold	8,423
19.Aug.22	Reduce	9,983
17.Oct.22	Sell	7,524
01.Feb.23	Accumulate	7,611
08.June.23	Hold	8,445
30.Jan.24	Buy	8,989
04.May.24	Accumulate	7,899
06.Nov.24	Accumulate	7,901

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.

Symbols definition:

 Upgrade

 No Change

 Downgrade

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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