

Tata Elxsi Ltd.

CMP : ₹1,028.45 | **Target price: ₹1530** | **HP* : Upto 3 years**

Tata Elxsi is a specialized service provider for product design and engineering services. Company has presence in emerging technologies in the fields of automotive and broadcasting. It generates 87% of revenue from outside India, while the delivery is based out of India. The Eurozone continues to remain an important geography for the company. However, the exposure to the currencies is well-distributed between the euro, GBP and USD. Company. We see this company as a growth company as it has been able to accelerate its net profit by 50% CAGR over last 5 years with ROE of 39.13%.

The company currently has onsite revenues of 40%, while offshore revenues comprise ~60%. However, less than 25% of its workforce is onsite. The company is also looking to hire more people and train, so we expect utilisation level to fall to 78-79% from the current 81%. This can be seen as an investment in building capability in the new fields of IOT and artificial intelligence.

The key levers of growth we see are -

New areas of growth due to technological changes: The company is investing in AI and analytics. The transition to electric/autodriven cars, app-based and seamless access to media and information content and shift towards 5G presents the company with opportunities. It is investing to build capabilities in these areas and any breakthrough can lead to new revenue stream.

Presence in upcoming technologies than maintenance software: the company distinguishes itself due to its presence in product design and engineering services where the company works towards providing the next generation technological transformation. Due to this, the company sees higher growth than traditional IT companies. Nasscom's Chandrasekhar expects big growth in digital business, which currently contributes 20 per cent and cited global projections by Gartner and Forrester who have predicted that digital spending by companies could grow to \$310 billion by 2020 from the present \$180 billion.

Automotive and broadcast to continue to present opportunities: New client wins, reducing dependence on JLR and working on new autonomous driving platform can help the company improve its revenue growth trajectory. Also, the new tie-up with ZEE as ZEE5 brand for seamless distribution of content via mobiles, set-top box and internet TV further establishes its position in the industry.

Management outlook optimistic: The company is aiming for 10% sequential quarterly growth which is good and we expect the company to achieve 6% sequential growth as it progresses in the direction.

*HP : Holding Period

Company Details

Industry	IT - Software
Chairman	N Ganapathy Subramaniam
Managing Director	Madhukar Dev
Company Secretary	G Vaidyanathan
ISIN	INE670A01012
Bloomberg Code	TELX IN
BSE Code	500408

Key Market Indicators (Standalone)

Latest Date	12-Dec-2018
Latest Price (Rs)	1003.35
Previous Close (Rs)	978.75
1 Day Price Var%	2.51
1 Year Price Var%	5.79
52 Week High (Rs)	1491.75
52 Week Low (Rs)	885.00
Beta	0.96
Face Value (Rs)	10.00
Industry PE	21.30
TTM Period	201809
TTM EPS(Rs)	45.88
TTM CEPS(Rs)	49.83
Price/TTM CEPS(x)	20.13
TTM PE (x)	21.87
Price/BV(x)	7.75
EV/TTM EBITDA(x)	12.74
EV/TTM Sales(x)	3.89
Dividend Yield%	1.10
MCap/TTM Sales(x)	4.15
Latest Book Value (Rs)	129.54
Market Cap (Rs. In Crores)	6248.51
EV (Rs. In Crores)	5854.16
Latest no. of shares (In Crores)	6.23

Share Holding Pattern as on 201809

Promoter No of shares (In Crores)	2.78
Promoter %	44.57
FII No of Shares (In Crores)	
FII %	
Total No of Shares (In Crores)	6.23
Free Float %	55.43

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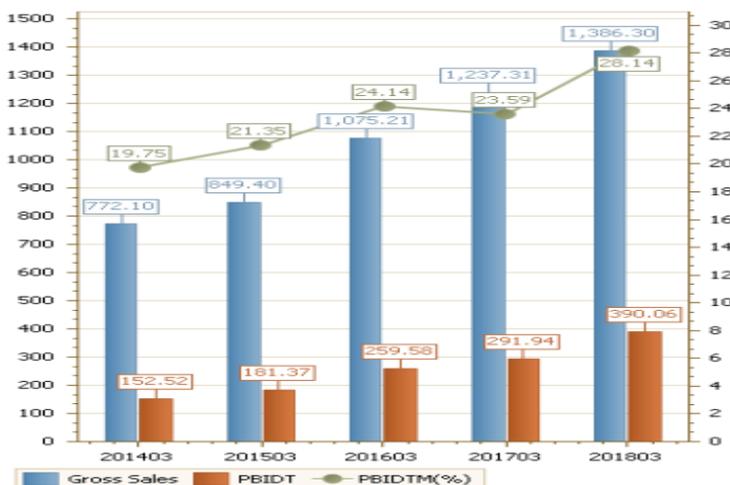
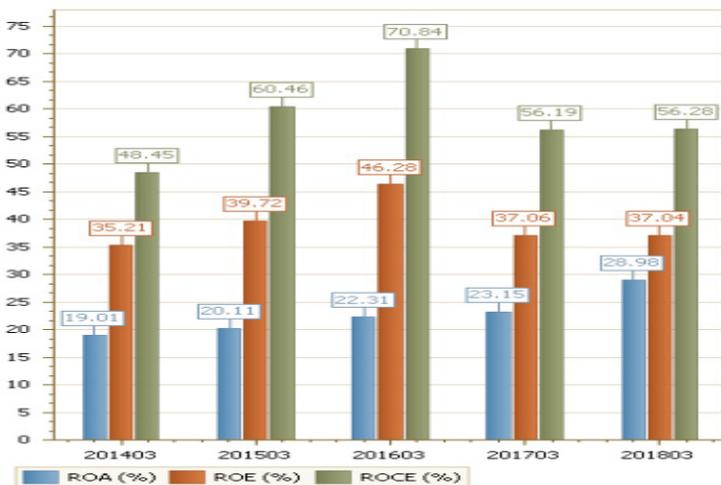
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CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

DSJI INVESTMENT ADVISORY UNIT (CRU)

Outlook

The management is eyeing sequential quarterly growth of 10% which it believes will be driven by new engagements in the engineering and electronics space. We believe the same currency growth will be in the range of 5-7%, while forex can add another 2-3% to the revenue growth. Along with this, if the company is able to sustain margins of 24-25%, then it can substantially add to the bottomline. The sectors company operates in are the emerging technologies and a secular trend is seen in them due to disruptive technologies like autonomous driving and broadcasting. We would be more keen to see yearly developments and client engagements yielding returns than quarterly performance. Company is trading at P/E of 21.8x which looks reasonable as a entry point post its correction from levels of Rs.1450. **We urge investors to invest in tranches to average the entry price and beat market volatility. We expect company to reach target price of Rs.1530 over a period of 3 years.**



Company working on some futuristic concepts of early diagnostics and detection using AI-ML based platforms In partnership with Hemex health to develop a Point of Care Solution for detecting malaria and sickle cell disease



CB Insights report says 46 companies including carmakers such as General Motors, Audi and Ford, besides components makers such as Bosch, Continental and Delphi, are working on autonomous cars or enabling technologies for such vehicles

New areas of investment

The company has been investing through Centres of Excellence in areas such as AI and analytics, extended reality and automation. This complements the integrated technology and design services offerings and helps create greater value for customers across industries.

Emerging technologies such as IoT (Internet of Things) and analytics are creating new opportunities to drive operational efficiency, reduce costs, deliver new services to consumers and enable new streams of revenues for operators and product manufacturers.

In the autonomous driving space, the company is vying for generating IP-related revenue and other stream being service level agreements to develop the same for the client. The cars can be run in a controlled environment and leads to licensing of sub-components to car makers.

Technology and environmental norms is leading to disruption in the automobile space due to increasing shift towards electric vehicles, which presents an opportunity for the company. Also, in the telecommunications space, the shift to 5G is going to lead to changes in SDN which provides opportunities for future growth.

The company is also exploring opportunities in the medical field and expects that to be a significant revenue driver.

New collaborative approach and client wins to yield benefits over long term

The company is developing a tool in collaboration with Hyundai Mobis for testing in the autonomous driving area. This will be eventually jointly licensed, which can help the companies to increase revenues.

The company is developing a product design for Panasonic for the domestic and global markets.

For ZEE, the company has been instrumental in the developing platform ZEE5 to deliver on multiple platforms.

Industry embracing more software in vehicles

Most automobile manufacturers will have to embed software in their vehicles to manage the complex system of hardware such as sensors, processors, and storage devices. This is a great opportunity for Indian IT and auto-component players, many of whom have started developing a global play to gain the first-mover advantage. Software per vehicle has increased from 2% in 2000 to 15% in 2017-18 and is expected to reach 20% by 2020. Also, offshoring of this can lead to major cost saving for car manufactures to the tune of 20-30%.

This is largely due to need for higher sensors and advanced driver assistance systems which are getting mandatory even in basic model to ensure safety standards. Increasing emphasis of government on meeting crash test requirement, air bags and safety has also making it mandatory for people to invest in the embedded software.

Financial performance

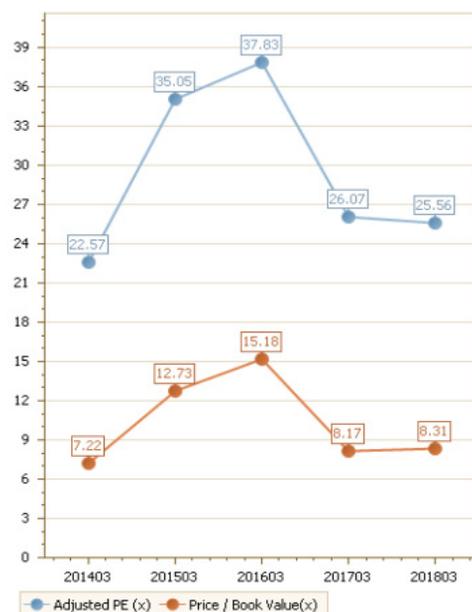
The company's revenue increased by 16 % yoy from Rs.1232 cr to Rs.1429 cr in FY17-18. Its profit before tax (PBT) increased by 38% yoy from Rs.264 cr to Rs.364 cr. Also, profit after tax (PAT) increased by 38 % from Rs.175 cr in the previous year to Rs.240 cr. Revenue in H1FY19 increased by 18% yoy to Rs.232 cr.



Company has built an autonomous vehicle middleware platform, Autonomai, designed to help OEMs and system suppliers build, test and deploy autonomous vehicle applications



Company investing in SDN - a network agnostic software solution that an combine - ethernet, MPLS, internet, 4G, 5G or future technologies to create one or several virtual networks



Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	1386.30	1237.31	1075.21	849.40	772.10
Total Income	1431.13	1255.66	1087.07	859.88	812.13
Total Expenditure	1041.07	963.72	827.49	678.51	659.60
PBIDT	390.06	291.94	259.58	181.37	152.52
PAT	240.04	174.78	154.81	102.90	75.11
Dividend %	110.00	160.00	140.00	110.00	90.00
Adj. EPS(Rs)	38.54	28.07	24.86	16.52	12.06

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	402.78	382.04	5.43	342.15	17.72
Total Expenditure	296.06	275.52	7.46	258.14	14.69
PBIDT (Excl OI)	106.72	106.52	0.19	84.01	27.03
PAT	82.18	70.50	16.58	57.24	43.58
PBIDTM% (Excl OI)	26.50	27.88	-4.95	24.55	7.94
PBIDTM%	32.29	29.94	7.85	27.15	18.93
PATM%	20.40	18.45	10.57	16.73	21.94
Adj. EPS(Rs)	13.20	11.32	16.61	9.19	43.63

Segmental performance

Software development and services grew by 14% to Rs.1171cr with more than proportionate increase in profits by 37% to Rs.290 cr. In this segment, it continues to maintain its leadership position globally in automotive and broadcast industries.

In the automotive segment, it derives 22-24% of revenue from JLR in the field of electronics engineering. For JLR, Brexit can be seen to decelerate the pace of the growth and can be a key risk. However, the day-to-day operations should not be impacted by Brexit and JLR's spend on R&D. The key markets where the company is targeting growth are Europe, Japan and the US.

In the broadcast segment, the company continues to see opportunities in infotainment and opportunities in making care electronically efficient. Also, it is looking at opportunity in transition to internet TV as there is lot of movement towards OTT which enables internet TV.

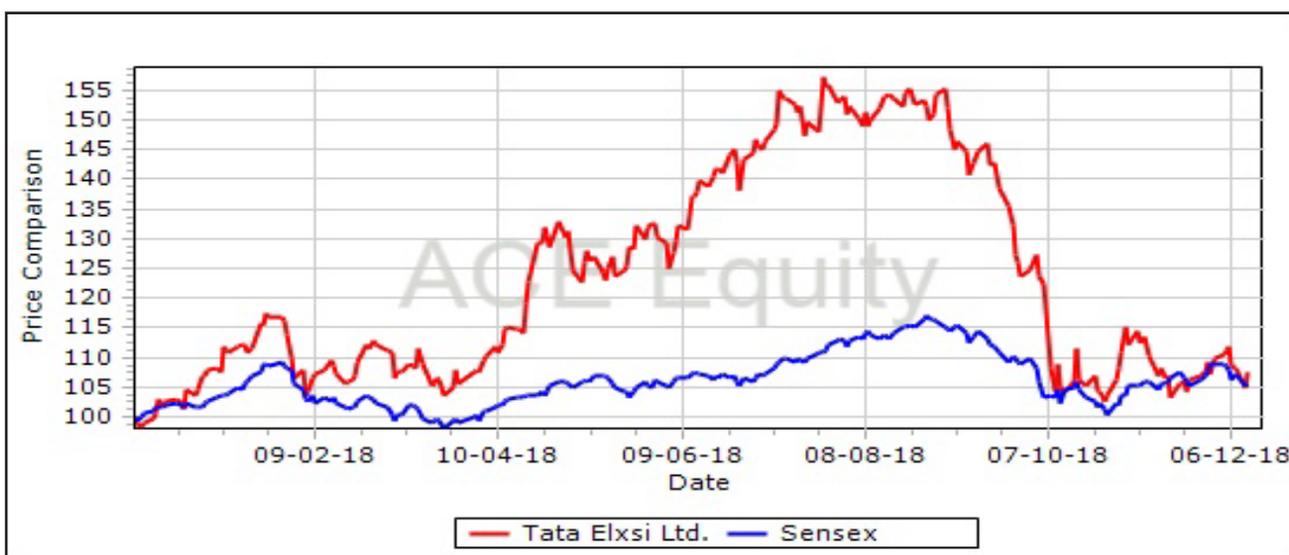
Industrial design, which was seeing flat trends, has been

able to see some traction in Q2FY19 and since it is not integrated as core part of the complete solution, it can lead to benefits in future.

The systems integration and support segment reported a turnover of Rs.57 cr and profit of Rs.8 cr

About the company

Tata Elxsi is amongst the world's leading providers of design and technology services for product engineering and solutions across industries, including broadcast, communications and automotive. It provides technology consulting, new product design, development, and testing services. Tata Elxsi also provides solutions and services for emerging technologies such as IoT (Internet of Things), big data analytics, cloud, mobility, virtual reality and artificial intelligence. Its revenue mix includes embedded product design (86.7%), industrial design and visualization (10.4%) and system integration (2.9%).



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