

Tata Elxsi reported a robust Q1FY22 performance with a beat across all our estimates

- INR revenue came in at INR 5,583.2 Mn, +7.7% qoq / +39.4% yoy and 1.4% above our estimates
- EBITDA was reported at INR 1,499.9 Mn, 10.7% qoq / +61.8% yoy and 14.7% below our estimates
- EBITDA margins stood at 26.9%, vs 32.4% / 23.1% in Q4FY21 / Q1FY22 respectively and was below our estimate of 31.9%. EBITDA looks optically weak, however there was a onetime bonus component (to tide over the COVID pandemic) of INR 330 Mn in the Employee Benefit Expenses
- PAT came in at INR 1,133.7 Mn, 1.6% qoq / +64.6% yoy and 9.9% below our estimates
- EPS at INR 18.2 in Q1FY22 vs 18.5 / 11.1 in Q4FY21 / Q1FY22 respectively
- **Industry-wise:**
 - Transportation (40.3% of revenue) grew 3.3% qoq
 - Media & Comms (45.9% of revenue) grew 8% qoq
 - Healthcare (13.8% of revenue) grew 11.8% qoq
- **Services-wise:**
 - Embedded Product Design (EPD) (84% of revenue) business grew 7% qoq and 31% yoy
 - Industrial Design & Visualization business (14% of revenue) grew 14% qoq and 132% yoy
- **Top Accounts:**
 - Top account (12% of revenue) was grew 13% qoq / 38% yoy
 - Growth was driven by Top 5 (40% of rev) and Top 10 clients (50% of rev) - grew 19% qoq / 13% qoq
- **Geographical Trends:**
 - North America (44% of topline) grew 17% qoq / 69% yoy
 - Europe (33% of revenue) grew 5% qoq / 30% yoy
 - India (14% of revenue) grew 3% qoq / 48% yoy
 - ROW (9% of rev) reported a dismal performance at -13% qoq / -17% yoy

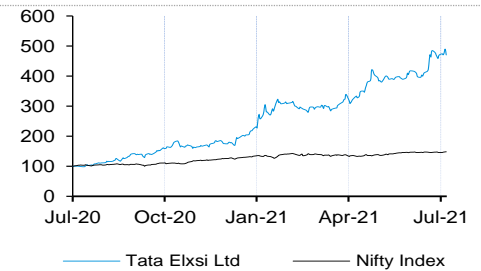
Rating	TP (Rs)	Up/Dn (%)
HOLD	4077	-6

Market data

Current price	Rs	4315
Market Cap (Rs.Bn)	(Rs Bn)	268
Market Cap (US\$ Mn)	(US\$ Mn)	3595
Face Value	Rs	10
52 Weeks High/Low	Rs	4575/879
Average Daily Volume	('000)	413
BSE Code		500408
Bloomberg		TELX:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	44.53	44.53
Public	55.47	55.47
Others	0.50	0.48
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	15,969	16,099	18,262	22,826	26,212
EBITDA	4,150	3,430	5,224	6,654	7,331
Adjusted net profit	2,903	2,571	3,687	4,767	5,215
Free cash flow	2,130	2,186	3,450	4,335	5,097
EPS (Rs)	46.6	41.3	59.2	76.6	83.7
growth (%)	21%	-11%	43%	29%	9%
P/E (x)	69.1	78.1	54.4	42.1	38.5
P/B (x)	21.3	18.4	17.2	13.8	11.4
EV/EBITDA (x)	50.2	65.0	40.5	31.4	28.1
D/E	0.0	0.1	0.0	0.0	0.0
ROCE (%)	35.5	26.9	30.1	37.1	33.1
RoE (%)	32.9	24.1	28.9	34.0	30.5
Dividend yield (%)	0.4	0.5	1.5	0.9	1.0

Source: Company

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Conference Call KTAs

Operational Highlights

- Growth was predominantly volume led
- Quarter saw good mining in Top 5 customers
- Entering Q2 with strong Order Book and healthy pipeline which gives confidence on the growth momentum
- Headcount addition of 552 during the quarter is to build capacity to address the strong order book
- Wage hike will be to the tune of 7-8% and will be effective from July 1st for key people
- Confident that margins would be in-line with this quarter
- US outperformed other markets as company has invested in sales and consultants in US for some time. Additionally, Automotive business is largely US centric.
- Healthcare and Media and Comms is Europe concentrated.
- Europe growth was relatively lower compared to US, but management is working on recovery in Europe and should recover on the back of higher spend from Automotive spend
- Utilization improved to 79% during the quarter
- Onsite Offshore mix stood at 10%:90% – offshore % has gone up drastically during lockdown. Once lockdowns open up, onsite would increase but not to pre-COVID levels.
- Top client now is in the Media and Communications space

Quarterly Performance Analysis

Exhibit 1

YE March (Rs mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %	Q1 FY22 Est.	Deviation %
Revenues (INR)	5,583	5,184	7.7%	4,005	39.4%	5,505	1.4%
Cost of Raw Material	397	308	28.8%	153	159.3%	275	44.3%
Gross Profit	5,186	4,876	6.4%	3,852	34.6%	5,230	(0.8%)
Direct Costs	3,686	3,195	15.4%	2,925	26.0%	3,472	6.2%
EBITDA	1,500	1,680	(10.7%)	927	61.8%	1,758	(14.7%)
Depreciation & Amortisation	119	113	5.5%	108	10.1%	138	(13.4%)
EBIT	1,381	1,567	(11.9%)	819	68.6%	1,620	(14.8%)
Other Income, net	175	68	156.5%	134	30.1%	165	6.0%
Interest Paid	16	19		14		19	
PreTax Income	1,556	1,636	(4.9%)	953	63.2%	1,786	(12.9%)
Adjusted Pretax Income	1,539	1,617	(4.8%)	939	63.8%	1,767	
Tax	406	465	(12.8%)	251	61.7%	508	
Share of Minority Interest							
Net Profit	1,134	1,152	(1.6%)	689	64.6%	1,258	(9.9%)
Adjusted Net Profit	1,134	1,152	(1.6%)	689	64.6%	1,258	(9.9%)
Diluted EPS (Rs)	18.2	18.5	(1.6%)	11.1		20.2	
Adjusted Diluted EPS	18.2	18.5	(1.6%)	11.1		20.2	(9.9%)
No. of Shares (mn) - Diluted	62	62		62		62	
Margin Analysis (%)			Change in bps		Change in bps		
EBIT Profit Margin (%)	24.7%	30.2%	(551)	20.4%	428	29.4%	(471)
EBITDA Margin (%)	26.9%	32.4%	(555)	23.1%	372	31.9%	(507)
Net Profit Margin (%)	20.3%	22.2%	(191)	17.2%	311	22.9%	(255)
Adjusted NPM (%)	20.3%	22.2%	(191)	17.2%	311	22.9%	(255)
Effective Tax rate (%)	26.1%	28.4%	(236)	26.3%	(23)	28.5%	(239)
Cost Analysis (%)			Change in bps		Change in bps		
Direct cost as % of Sales	7.1%	5.9%	117	3.8%	329	5.0%	211
SG&A as % of Sales	66.0%	61.6%	438	73.0%	(700)	63.1%	296

EBITDA margins adjusted for one time bonus of INR 330 Mn stood at 32.8% vs reported margins of 26.9%. This is the 3rd consecutive quarter that Tata Elxsi has beat its margin guidance band of 22-28%.

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Tata Elxsi is currently trading at 53.9x / 44x FY22e / FY23e EPS. Q1FY22 performance was robust on the top of an already brilliant Q4FY21. Management commentary indicates that the current momentum can be maintained which translates into industry leading performance not only domestically, but globally as well. Therefore, Tata Elxsi will always command premium valuations vs peers as it has consistently reported the highest profitability and leading growth in the global ER&D pack.

We believe that Tata Elxsi will stand to be a big beneficiary of EV / Autonomous Car wave – both in the Research phase and even more as the tech is adopted by the masses and therefore, we are extremely positive on the stock in the very long-term scenario.

However, the stock has rallied 41% in the last 3 months and we do not find comfort in recommending a BUY at current levels.

Therefore, we maintain our rating to HOLD rating on the stock but increase the target price from INR 2,931 to INR 4,077 as we increase the applied multiple from 35x to 40x FY23e EPS as well as increase our EPS estimates from INR 76.6 / 83.7 to INR 83.2 / 101.9

Financial

YE March (Rs. mn)	Profit & Loss A/c				
	FY 19	FY20	FY21	FY22E	FY23E
Total Revenue	15969	16099	18262	24248	30294
Less:					
Cost of Sales	989	811	870	1233	1818
Personnel Expenses	8426	9509	10245	13032	15020
Admin and Selling Expenses	2404	2349	1922	3100	4847
Total Operating Expenditure	11819	12669	13037	17365	21685
EBITDA	4150	3430	5224	6883	8609
Less: Depreciation	251	434	444	518	757
EBIT	3899	2996	4780	6366	7852
Growth Y-o-Y (%)	22%	-23%	60%	33%	23%
Non-operating Income	435	584	398	760	833
Profit Before tax	4334	3524	5119	7060	8619
Tax	1431	954	1432	1876	2271
Net Profit	2903	2571	3687	5184	6348
Adjusted Profit	2903	2571	3687	5184	6348
Growth Y-o-Y (%)	21%	-11%	43%	41%	22%
EPS	46.6	41.3	59.2	83.2	101.9
Growth Y-o-Y (%)	21%	-11%	43%	41%	22%
EBITDA Margin (%)	26%	21%	29%	28%	28%
EBIT Margin (%)	24%	19%	26%	26%	26%
PAT Margin (%)	18%	16%	20%	21%	21%

YE March (Rs. mn)	Valuation Ratios				
	FY 19	FY20	FY21	FY22E	FY23E
P/E (x)	92.3x	104.2x	72.7x	51.7x	42.2x
P/BV (x)	28.4x	24.6x	19.8x	16.1x	13.1x
EV/EBITDA (x)	67.4x	87.5x	54.5x	40.2x	32.1x
EV/Sales	16.5x	16.3x	14.3x	10.6x	8.3x
Market Cap./ Sales (x)	16.8x	16.6x	14.7x	11.0x	8.8x
Dividend Yield (%)	0.3%	0.4%	1.1%	0.8%	0.9%

YE March (Rs. mn)	Key Ratios				
	FY 19	FY20	FY21	FY22E	FY23E
Key Operating Ratios					
EBIT Margin (%)	24.4%	18.6%	26.2%	26.3%	25.9%
Tax / PBT (%)	33.0%	27.1%	28.0%	26.6%	26.3%
Net Profit Margin (%)	18.2%	16.0%	20.2%	21.4%	21.0%
RoE (%)	32.9%	24.1%	26.9%	32.2%	32.0%
RoCE (%)	35.5%	26.9%	27.2%	34.4%	34.8%
Current Ratio (x)	5.4x	5.5x	5.3x	6.0x	5.9x
Dividend Payout (%)	29.0%	40.0%	81.1%	40.0%	40.0%
Book Value Per Share (Rs.)	151.4	175.0	217.1	267.1	328.3
Growth Indicators %					
Growth in Gross Block (%)	21.3%	10.1%	14.8%	18.8%	15.8%
Sales Growth (%)	15.2%	0.8%	13.4%	32.8%	24.9%
EBITDA Growth (%)	21.6%	-23.2%	59.6%	33.2%	23.3%
Net Profit Growth (%)	20.9%	-11.4%	43.4%	40.6%	22.5%
Diluted EPS Growth (%)	20.9%	-11.4%	43.4%	40.6%	22.5%

YE March (Rs. mn)	Balance Sheet				
	FY 19	FY20	FY21	FY22E	FY23E
Liabilities					
Equity Capital	623	623	623	623	623
Reserves & Surplus	8805	10278	12899	16011	19822
Equity	9428	10900	13522	16634	20445
Net Worth	9428	10900	13522	16634	20445
Total Loans	124	816	1001	163	197
Capital Employed	9565	11716	14522	16797	20642
Assets					
Gross Block	1471	1620	1859	2209	2559
Less: Depreciation	599	797	999	1516	2274
Net Block	872	823	860	693	285
Capital WIP	4	9	73	49	64
Investments	151	168	1224	241	271
Intangible Assets	139	129	186	139	139
Others - A	186	748	911	186	186
Current Assets	3565	3924	4023	4983	5976
Sundry Debtors	5158	6642	8596	12024	15950
Cash and Bank Balance	1332	1420	1285	1520	1762
Other Current Assets	10080	12012	13914	18562	23732
Total Current Assets	10080	12012	13914	18562	23732
Less: Current Liabilities & Provisions					
Sundry Creditors	555	471	561	952	1426
Total Current Liabilities & Provisions	1869	2174	2645	3074	4037
Capital Applied	9565	11716	14522	16797	20642

YE March	Cash Flow Statement				
	FY 19	FY20	FY21	FY22E	FY23E
PAT	2,903	2,571	3,687	5,184	6,348
Less: Non Operating Income	-435	-584	-398	-760	-833
Add: Depreciation	251	434	444	518	757
Tax Adjustment					
Operating Profit before WC Changes (Inc)/Dec in Current Assets	2,719	2,476	3,793	5,007	6,338
Inc/(Dec) in Current Liabilities	-798	-447	36	-1,197	-1,238
Changes in Working Capital	-8	305	471	429	963
Net Cash Generated From Operations	1,896	2,334	4,316	4,216	6,057
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-258	-149	-239	-350	-350
(Inc)/Dec in Investment (Strategic)	-9	-17	-1,056	983	-30
Add: Non Operating Income	435	584	398	760	833
Net Cash Flow from Investing Activities	216	-154	-1,202	2,180	423
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	-51	678	185	-838	34
Dividend Paid	841	1028	2989	2072	2537
Net Cash Flow from Financing Activities	-1,142	-419	-2,864	-2,976	-2,569
Net Inc/(Dec) in cash equivalents	970	1,761	250	3,420	3,912
Opening Balance	3,943	5,158	6,642	8,596	12,024
Closing Balance Cash	4,914	6,920	6,892	12,016	15,935

YE March	Free Cash Flow Statement				
	FY 19	FY20	FY21	FY22E	FY23E
EBITDA	4,150	3,430	5,224	6,883	8,609
Add: Depreciation Tax Shield	83	117	124	138	200
Working Capital Changes	-414	-259	496	-791	-281
Less: Inc in FC Investment	-258	-149	-239	-350	-350
Taxes Paid	-1,431	-954	-1,432	-1,876	-2,271
Total Free Cash Flows	2130	2186	4174	4004	5907

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