



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

## Q2 FY20 Result Update@ Dalal&Broacha

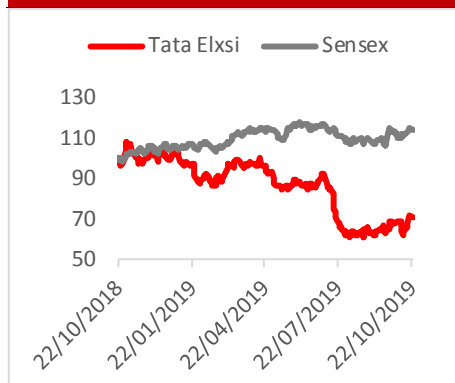
### HOLD

Current Price	702
Target Price	824
Upside	17%
52 Week Range	593/1089

### Key Share Data

Market Cap (Rs.Bn)	43.72
Market Cap (US\$ Mn)	615.77
No of o/s shares (Mn)	62.27
Face Value	10
Monthly Avg. Vol(BSE+NSE) ('000)	
BSE Code	500408
NSE Code	TATAELXSI
Bloomberg	TELX:IN

### Price performance



% Shareholding	Sept-19	Jun-19
Promoters	44.53	44.53
Public	55.47	55.47
Others	0.00	0.00
<b>Total</b>	<b>100</b>	<b>100</b>

### Results in-line with expectation, albeit way below management guidance of 15% yoy growth

- USD revenue was reported at USD 55 Mn, +5.4% qoq/-4.6% yoy and -0.8% below our est.  
 - Revenue in INR terms was reported at INR 3,858 Mn, -0.9% vs our est. and +6.7% qoq/-4.2% yoy  
 - EBITDA was reported at INR 704 Mn, -17.5% vs our est and +0.7% qoq/-34.1% yoy. EBIT Margins were reported 18.2% vs our est. of 21.9%  
 - PAT was reported at INR 498 Mn, -24% vs our est. and +2.1% qoq/-33.7% yoy  
 - EPS came in at INR 8 vs INR 7.8 in Q1FY20 and INR 13.2 in Q2FY19  
 - EBITDA and EBITDA margin was lower than estimates and in comparative periods due to one-off charge of INR 216.3 Mn towards special retiral benefits payable to the ex-MD. Excluding this one off cost, EBITDA margin would have been at 23.8%

### Segmentwise Performance

- EPD segment (87% of revenue) grew at 3% qoq and -4% yoy. Industrial design and visualization (10% of revenue) grew at 10% qoq and -11% yoy. SI business (3% of revenue) grew at 27% qoq and 12% yoy  
 - Transportation (48.3% of EPD) grew at 7% qoq and -16% yoy. Broadcast & Comms (40.9% of EPD business) grew at 2% qoq and 11% yoy. Healthcare and Medical (6.5% of revenue) grew at -13% qoq and 56% yoy.

### Concall Key Takeaways

(i) Margins excluding one-off Special Retirement Benefit to ex-MD stood at 23.8%. Management was confident of maintaining the margin between 22-24% band (ii) Launched the AR V2X product during the quarter which will be of major use in the Autonomous Vehicles space (iii) Signed a new deal in Visualization space for content development with a corporate client. This should provide a steady flow of business and better margins that before (iv) Management stated that clients are delaying spending decisions and large deal closures are being pushed by 2-3 quarters on an average basis (v) Salary hike which was due in Q2FY20 was pushed to Q3FY20. This was mainly because company is controlling costs and wants to give a wage hike only when performance has stabilized. (vi) Company will not be able to achieve 15% yoy growth as initially promised but is striving for double digit growth in H2FY20 as deal pipeline is strong and management is confident of deal closures (vii) Top customer contribution has dropped from 25.7% to 16.3% as IT spend has reduced but wallet share has not been affected. Management expects another quarter or 2 before operations stabilize (viii) Business excluding Automotive, that is Broadcast and Medical segments have been outperforming and will continue healthy growth as there is immense growth and company is also investing in S&M (ix) Management trying to expand business excl Top Client (x) No impact of Brexit on business directly but may impact clients which in turn will impact the company (xi) Long term growth path intact barring short term ups and downs (xii) Growth in Transportation segment excl. JLR is 9% QoQ

### Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY17	12330	14.7%	2720	22.1%	1733	14.1%	55.7	12.6x	34.7%	35.5%
FY18	13863	12.4%	3460	25.0%	2400	17.3%	38.5	18.2x	35.1%	38.3%
FY19	15969	15.2%	4150	26.0%	2903	18.2%	46.6	15.1x	32.9%	35.5%
FY20E	16017	0.3%	3303	20.6%	2344	14.6%	37.6	18.7x	22.1%	25.3%
FY21E	18371	14.7%	4201	22.9%	3019	16.4%	48.5	14.5x	24.0%	27.0%

Source: Company, Dalal&Broacha Research



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### Quarterly Deviation Analysis

YE March (Rs mn)	Q2 FY20	Q1 FY20	Q-o-Q change %	Q2 FY19	Y-o-Y change %	Q2 FY20 Est.	Deviation %
Revenues (\$)	55	52	5.4%	57	(4.6%)	55	(0.8%)
<b>Revenues (INR)</b>	<b>3,858</b>	<b>3,617</b>	<b>6.7%</b>	<b>4,028</b>	<b>(4.2%)</b>	<b>3,892</b>	<b>(0.9%)</b>
Cost of Raw Material	231	153	51.3%	226	2.3%	159	45.1%
Direct Costs	2,924	2,766	5.7%	2,735	6.9%	2,880	1.5%
<b>EBITDA</b>	<b>704</b>	<b>699</b>	<b>0.7%</b>	<b>1,067</b>	<b>(34.1%)</b>	<b>853</b>	<b>(17.5%)</b>
Depreciation & Amortisation	110	104	4.9%	61	80.2%	112	(2.5%)
<b>EBIT</b>	<b>594</b>	<b>594</b>	<b>(0.0%)</b>	<b>1,006</b>	<b>(41.0%)</b>	<b>740</b>	<b>(19.7%)</b>
Other Income, net	124	121	2.4%	233	(46.9%)	130	
Interest Paid	14	13					
<b>PreTax Income</b>	<b>718</b>	<b>715</b>	<b>0.4%</b>	<b>1,240</b>	<b>(42.1%)</b>	<b>870</b>	<b>(17.5%)</b>
<b>Adjusted Pretax Income</b>	<b>704</b>	<b>702</b>	<b>0.4%</b>	<b>1,240</b>	<b>(43.2%)</b>	<b>870</b>	
Tax	206	214	(3.6%)	418	(50.6%)	218	
Share of Minority Interest							
<b>Net Profit</b>	<b>498</b>	<b>488</b>	<b>2.1%</b>	<b>822</b>	<b>(39.4%)</b>	<b>653</b>	<b>(23.7%)</b>
<b>Adjusted Net Profit</b>	<b>498</b>	<b>488</b>	<b>2.1%</b>	<b>822</b>	<b>(39.4%)</b>	<b>653</b>	<b>(23.7%)</b>
<b>Diluted EPS (Rs)</b>	<b>8.0</b>	<b>7.8</b>	<b>2.1%</b>	<b>13.2</b>		<b>10.5</b>	
<b>Adjusted Diluted EPS</b>	<b>8.0</b>	<b>7.8</b>	<b>2.1%</b>	<b>13.2</b>		<b>10.5</b>	<b>(23.7%)</b>
No. of Shares (mn) - Diluted	62	62		62		62	
<b>Margin Analysis (%)</b>			<b>Change in bps</b>	<b>Change in bps</b>			
EBIT Profit Margin (%)	15.4%	16.4%	(103)	25.0%	(959)	19.0%	(362)
EBITDA Margin (%)	18.2%	19.3%	(108)	26.5%	(826)	21.9%	(367)
Net Profit Margin (%)	12.9%	13.5%	(58)	20.4%	(750)	16.8%	(387)
Adjusted NPM (%)	12.9%	13.5%	(58)	20.4%	(750)	16.8%	(387)
Effective Tax rate (%)	28.7%	29.9%	(118)	33.7%	(496)	25.0%	374
<b>Cost Analysis (%)</b>			<b>Change in bps</b>	<b>Change in bps</b>			
Direct cost as % of Sales	6.0%	4.2%	176	5.6%	38	4.1%	190
SG&A as % of Sales	75.8%	76.5%	(69)	67.9%	788	74.0%	178

EBITDA and EBITDA margin was lower than estimates and in comparative periods due to one-off charge of INR 216.3 Mn towards special retiral benefits payable to the ex-MD. Excluding this one off cost, EBITDA margin would have been at 23.8%

### Valuation & Outlook

Tata Elxsi reported a healthy 6.7% qoq topline growth in Q2FY20 after a bad (-10.7% qoq) Q1FY20 performance. In line with peers, management claims that deal closures and decisions are being delayed by 2-3 quarters. However, deal pipeline remains strong and company is confident of closing many pending deals in H2FY20 with an aspiration of double digit growth. We believe that management's efforts of expanding non-top client and ex-Transportation business are bearing fruit as ex-Transportation revenue grew 9% qoq and Broadcast and Comms has been steadily growing at double digits. We believe that as the cycle turns in the automotive sector, Tata Elxsi will benefit from strong broadbased growth. Amongst direct peers, LTTS is estimated to grow at 10% YoY in FY20 while Tata Elxsi is expected to report a flat performance in FY20e while growth in FY21 is estimated to approximately same (12-14%). We therefore recommend a BUY with a target price of INR 824, i.e. 17x (10% discount to LTTS FY21e multiple) FY21E EPS of 48.5.



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YE March (Rs. mn)	Profit & Loss A/c				
	FY17	FY18	FY19	FY20E	FY21E
Net Sales	12330	13863	15969	16017	18371
Sales Growth (Y-o-Y)	14.7%	12.4%	15.2%	0.3%	14.7%
EBIDTA	2720	3460	4150	3303	4201
EBIDTA Growth (Y-o-Y)	10.1%	27.2%	19.9%	-20.4%	27.2%
Net Profit	1733	2400	2903	2344	3019
Net Profit Growth (Y-o-Y)	11.9%	38.5%	20.9%	-19.3%	28.8%
EPS	55.7	38.5	46.6	37.6	48.5
EPS Growth (Y-o-Y)	11.9%	-30.7%	20.9%	-19.3%	28.8%
No of Shares (mn)	31	62	62	62	62
EBIDTA (%)	22.1%	25.0%	26.0%	20.6%	22.9%
Operating Margin %	19.9%	23.1%	24.4%	17.8%	20.0%
NPM (%)	14.1%	17.3%	18.2%	14.6%	16.4%

YE March	Cash Flow Statement				
	FY17	FY18	FY19	FY20E	FY21E
PAT	1,733	2,400	2,903	2,344	3,019
Less: Non Operating Income	-164	-432	-435	-519	-590
Add: Depreciation	269	254	251	457	522
Tax Adjustment					
Operating Profit before WC Changes	1,838	2,221	2,719	2,308	2,950
(Inc)/Dec in Current Assets	-428	-966	-798	701	-618
Inc/(Dec) in Current Liabilities	-591	511	-8	350	166
Changes in Working Capital	-1,019	-455	-823	1,050	-454
Net Cash Flow from/used in Operating Activities	1,247	1,766	1,896	3,358	2,497
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-230	870	-258	-350	-350
(Inc)/Dec in Investment (Strategic)	-12	227	-9	-30	-30
Add: Non Operating Income	164	432	435	519	590
Net Cash Flow from/used in Investing Activities	-22	1,298	216	109	180
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	9	-3	-51	-38	22
Dividend Paid	454	685	841	679	874
Net Cash Flow from Financing Activities	-534	-737	-1,142	-743	-852
Net Inc/(Dec) in cash equivalents	691	2,327	970	2,724	1,824
Opening Balance	1,825	2,515	3,943	5,158	7,902
Closing Balance Cash and Cash Equivalents	2,515	4,842	4,914	7,882	9,727

YE March	Free Cash Flow Statement				
	FY17	FY18	FY19	FY20E	FY21E
EBITDA	2,720	3,460	4,150	3,303	4,201
Add: Depreciation Tax Shield	91	86	83	136	153
Working Capital Changes	-1,019	-172	-414	358	-454
Less: Inc in FC Investment	-230	870	-258	-350	-350
Taxes Paid	-902	-1,251	-1,431	-995	-1,250
Total Free Cash Flows	661	2,994	2,130	2,452	2,300

YE March (Rs. mn)	Key Ratios				
	FY17	FY18	FY19	FY20E	FY21E
<b>Key Operating Ratios</b>					
EBIT Margin (%)	19.9%	23.1%	24.4%	17.8%	20.0%
Tax / PBT (%)	33.7%	34.0%	33.0%	29.8%	29.3%
Net Profit Margin (%)	14.1%	17.3%	18.2%	14.6%	16.4%
RoE (%)	34.7%	35.1%	32.9%	22.1%	24.0%
RoCE (%)	35.5%	38.3%	35.5%	25.3%	27.0%
Current Ratio (x)	4.1x	4.3x	5.4x	5.5x	6.1x
Dividend Payout (%)	31.3%	28.5%	29.0%	29.0%	29.0%
Book Value Per Share (Rs.)	179.5	118.6	151.4	178.1	212.5

<b>Growth Indicators %</b>					
Growth in Gross Block (%)	12.4%	-41.8%	21.3%	23.8%	19.2%
Sales Growth (%)	14.7%	12.4%	15.2%	0.3%	14.7%
EBITDA Growth (%)	9.2%	30.8%	21.6%	-27.0%	29.2%
Net Profit Growth (%)	11.9%	38.5%	20.9%	-19.3%	28.8%
Diluted EPS Growth (%)	11.9%	-30.7%	20.9%	-19.3%	28.8%

<b>Turnover Ratios</b>					
Debtors (Days of net sales)	72	81	81	81	81
Creditors (Days of Raw Materials)	29	16	17	20	17

YE March (Rs. mn)	Balance Sheet				
	FY17	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>					
Equity Capital	311	623	623	623	623
Reserves & Surplus	5278	6761	8805	10470	12614
<b>Equity</b>	<b>5590</b>	<b>7384</b>	<b>9428</b>	<b>11092</b>	<b>13237</b>
<b>Net Worth</b>	<b>5590</b>	<b>7384</b>	<b>9428</b>	<b>11092</b>	<b>13237</b>
Total Loans	191	97	124	86	108
<b>Capital Employed</b>	<b>5781</b>	<b>7572</b>	<b>9565</b>	<b>11192</b>	<b>13359</b>
<b>Assets</b>					
Gross Block	2083	1213	1471	1821	2171
Less: Depreciation	1160	396	599	1055	1577
<b>Net Block</b>	<b>923</b>	<b>817</b>	<b>872</b>	<b>766</b>	<b>594</b>
<b>Investments</b>	<b>370</b>	<b>142</b>	<b>151</b>	<b>181</b>	<b>211</b>
Intangible Assets	155	126	139	139	139
Others - A	32	292	186	186	186
<b>Current Assets</b>					
Sundry Debtors	2448	3067	3565	3554	4077
Cash and Bank Balance	2515	3943	5158	7902	9752
Other Current Assets	495	1032	1332	642	736
<b>Total Current Assets</b>	<b>5656</b>	<b>8051</b>	<b>10080</b>	<b>12124</b>	<b>14593</b>
<b>Less: Current Liabilities</b>					
Sundry Creditors	752	450	555	697	660
Provisions	164	69	84	199	250
Other Current Liabilities	450	1358	1230	1323	1475
Total Current Liabilities	1366	1877	1869	2219	2385
<b>Capital Applied</b>	<b>5781</b>	<b>7572</b>	<b>9565</b>	<b>11192</b>	<b>13359</b>

YE March (Rs. mn)	Valuation Ratios				
	FY17	FY18	FY19	FY20E	FY21E
P/E (x)	12.6x	18.2x	15.1x	18.7x	14.5x
P/BV (x)	3.9x	5.9x	4.6x	3.9x	3.3x
EV/EBIDTA (x)	8.0x	12.4x	9.9x	12.6x	9.3x
EV/Sales	1.6x	2.9x	2.4x	2.2x	1.9x
Market Cap./ Sales (x)	1.8x	3.2x	2.7x	2.7x	2.4x
Dividend Yield (%)	2.1%	1.6%	1.9%	1.6%	2.0%



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