

Tata Elxsi reported a robust Q2FY22 performance which was largely in-line with our estimates

- INR revenue came in at INR 5,953 Mn, +6.8% qoq / +38.6% yoy and -0.1% below our estimates
- EBITDA was reported at INR 1,836 Mn, +22.4% qoq / +55.6% yoy and +1.3% above our estimates
- EBITDA margins stood at 30.8%, vs 26.9% / 27.4% in Q1FY22 / Q2FY21 respectively and was in-line with our estimate of 30.4%.
- PAT came in at INR 1,253.3 Mn, +10.6% qoq / +58.9% yoy and -8.3% below our estimates
- EPS at INR 20.1 in Q2FY22 vs 18.2 / 12.7 in Q1FY22 / Q2FY21 respectively

Industry-wise:

- Transportation (41.4% of revenue) grew 13% qoq / 33% yoy
- Media & Comms (45.1% of revenue) grew 8% qoq / 34% yoy
- Healthcare (13.4% of revenue) grew 7% qoq / 96% yoy

Services-wise:

- Embedded Product Design (EPD) (86% of revenue) business grew 10% qoq and 33% yoy
- Industrial Design & Visualization business (11% of revenue) reported a de-growth of 15% qoq and growth of 94% yoy

Top Accounts:

- Top account (13% of revenue) grew 16% qoq / 39% yoy
- Top 5 accounts (37% of revenue) was down 2% qoq and +38% yoy
- Top 10 accounts grew +1% qoq / +35% yoy

Geographical Trends:

- North America (42% of topline) grew 2% qoq / 67% yoy
- Europe (33% of revenue) grew 7% qoq / 21% yoy
- India (16% of revenue) grew 26% qoq / 88% yoy
- ROW (9% of rev) grew at 3% qoq / -22% yoy

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	15,969	16,099	18,261	24,582	29,557
EBITDA	4,150	3,430	5,224	7,299	8,649
Adjusted net profit	2,902	2,571	3,687	5,067	6,347
Free cash flow	2,130	2,186	4,174	4,340	6,047
EPS (Rs)	46.6	41.3	59.2	81.4	101.9
growth (%)	21%	-11%	43%	37%	25%
P/E (x)	124.5	140.5	98.0	71.3	56.9
P/B (x)	38.3	33.1	26.7	21.8	17.7
EV/EBITDA (x)	91.3	118.6	74.0	51.8	43.7
D/E	0.0	0.1	0.1	0.0	0.0
ROCE (%)	35.5	26.9	27.2	31.6	34.9
RoE (%)	32.9	24.1	26.9	31.6	32.2
Dividend yield (%)	0.2	0.3	0.8	0.6	0.7

Source: Company

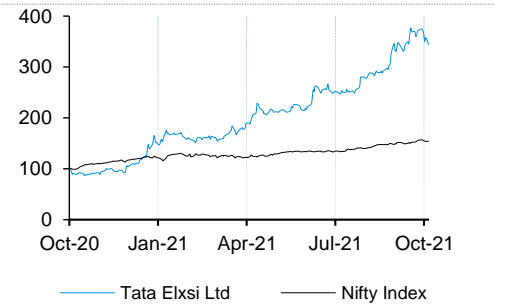
Rating	TP (Rs)	Up/Dn (%)
SELL	5,504	-5

Market data

Current price	Rs	5,809
Market Cap (Rs.Bn)	(Rs Bn)	362
Market Cap (US\$ Mn)	(US\$ Mn)	4,820
Face Value	Rs	10
52 Weeks High/Low	Rs	6,610 / 1,443
Average Daily Volume	('000)	327
BSE Code		500408
Bloomberg		TELX:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	44.53	44.53
Public	55.47	55.47
Total	100	100

Source: BSE

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Conference Call KTAs

- Growth 7.5% qoq in cc terms was entirely volume led
- Transportation: Seeing significant growth in Automotive market driven by large deals by OEMs and suppliers in the EV autonomous technology space. Won a multi-million-dollar software development deal from an OEM in the APAC region and also won a software platform development for level 3 autonomy from a North American supplier
- Seeing good organic growth in the Media & Communications space. The ITS platform in the Media and Communications space is enabling strong deal wins and expect good traction going ahead
- ROW (Japan, China and Korea) has been muted for the past few quarters as it was automotive heavy and travel restrictions also damped project starts but seeing revival from here [20% of Transportation is from ROW]. Going ahead, Tata Elxsi has won a systems software development deal from a leading Japanese Tier 1 supplier which will ramp up from this quarter.
- ID business: de-grew during the quarter due to shift in program timeline for a large ongoing design-led innovation project with a US customer (which is in Top 5 customers). Have finished phase 1 of the project but the phase 2 has been deferred and expect it to resume in the next 1-2 quarters
- Entering the 3rd Quarter with a strong order book and healthy pipeline across industries and verticals.
- Impact of salary hike on this quarter was to the tune of INR 14-15 Cr
- Top Client (JLR): Good growth in the last 2 quarters but nowhere close to the peak so long way to go. Believe that as JLR pivots into EV portfolio – portfolio contribution to Tata Elxsi will be able to cross previous peaks
- Don't see shortage of semiconductors impact Tata Elxsi business
- Headcount: Added highest ever headcount of 705 during Q2. Hiring momentum will continue for next 2 quarters as company needs more resources due to the rate at which company is growing. There is huge demand in the marketplace and need to hire more to match the demand. Will cross the 10K headcount mark over the next 2 quarters, will add 1500 to 2500 employees per quarter for next 2 quarters. 6-7% of employees are working from office. Over the next few months, will start bringing in employees – at least senior staff
- H1FY22 margins are sustainable in the long term
- Platforms have helped Tata Elxsi win customers, especially in the Media & Comms space. Will continue to invest into Platforms as they help in cross-selling Services also

- As per industry reports and expectations, see current demand sustaining for the next 2-3 years. Current orderbook gives strong visibility for next 6 – 9 months
- Utilization stood at 80% in Q2
- No wage hike in Q3
- Onsite: offshore mix: 75:25 right now. In the short term, offshore mix will remain in 75-77 range. As economies open, might tilt marginally towards online.

Quarterly Performance Analysis

Exhibit 1

YE March (Rs mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %	Q1 FY22 Est.	Deviation %
Revenues (INR)	5,953	5,583	6.6%	4,302	38.4%	5,962	(0.1%)
Cost of Raw Material	303	397	(23.7%)	191	59.0%	328	(7.6%)
Gross Profit	5,650	5,186	9.0%	4,111	37.4%	5,634	0.3%
Direct Costs	3,814	3,686	3.5%	2,931	30.1%	3,822	(0.2%)
EBITDA	1,836	1,500	22.4%	1,181	55.6%	1,812	1.3%
Depreciation & Amortisation	135	119	13.3%	112	20.4%	127	6.1%
EBIT	1,701	1,381	23.2%	1,068	59.2%	1,685	1.0%
Other Income, net	24	175	(86.1%)	44	(44.8%)	187	(87.0%)
Interest Paid	16	16		13		16	
PreTax Income	1,726	1,556	10.9%	1,113	55.1%	1,872	(7.8%)
Adjusted Pretax Income	1,710	1,539	11.1%	1,100	55.5%	1,855	
Tax	457	406	12.6%	311	46.9%	489	
Share of Minority Interest							
Net Profit	1,253	1,134	10.6%	789	58.9%	1,366	(8.3%)
Adjusted Net Profit	1,253	1,134	10.6%	789	58.9%	1,366	(8.3%)
Diluted EPS (Rs)	20.1	18.2	10.6%	12.7		21.9	
Adjusted Diluted EPS	20.1	18.2	10.6%	12.7		21.9	(8.3%)
No.of Shares (mn) - Diluted	62	62		62		62	
Margin Analysis (%)			Change in bps		Change in bps		
EBIT Profit Margin (%)	28.6%	24.7%	385	24.8%	374	28.3%	32
EBITDA Margin (%)	30.8%	26.9%	398	27.4%	340	30.4%	45
Net Profit Margin (%)	21.1%	20.3%	75	18.3%	272	22.9%	(187)
Adjusted NPM (%)	21.1%	20.3%	75	18.3%	272	22.9%	(187)
Effective Tax rate (%)	26.5%	26.1%	38	27.9%	(147)	26.1%	34
Cost Analysis (%)			Change in bps		Change in bps		
Direct cost as % of Sales	5.1%	7.1%	(202)	4.4%	66	5.5%	(41)
SG&A as % of Sales	64.1%	66.0%	(196)	68.1%	(406)	64.1%	(4)

Tata Elxsi reported a strong growth for the 3rd straight quarter driven by a broad-based growth across industries and verticals.

Industrial Design vertical de-grew qoq due to deferral of a project. Management expects to resume that project in the next quarter or 2.

Management has indicated that H1FY22 average EBITDA margins of 28.9% are sustainable in the long term.

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Tata Elxsi is currently trading at 71.3x / 56.9x FY22e / FY23e EPS. Q2FY22 was the 3rd consecutive quarter of robust performance. Current order-book indicates that the growth momentum can be maintained for 3 quarters and management commentary indicates that demand should sustain for another 2-3 years.

Admittedly, Tata Elxsi is firing on all cylinders as far as verticals, services, clients or geographic performance is concerned coupled with an upcycle in tech spending.

However, the stock is extremely expensive at 56.9x FY23e.

We expect the topline to grow at 27% CAGR and assign a 2x PEG ratio to its growth to arrive at a target P/E multiple of 50x considering that it is the leader in the domestic ER&D space and in the top 3 globally.

Despite a 2x PEG ratio and 50x PE multiple, it translates into a target price of INR 5,504, a downside of 5% from CMP. Although we increase the target price to INR 5,504 (from INR 4,077 earlier), we downgrade to rating from HOLD to SELL based on extremely expensive valuations.

Financial

YE March (Rs. mn)	Profit & Loss A/c				
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Total Revenue	15969	16099	18261	24582	29557
Less:					
Cost of Sales	989	811	870	1390	1773
Personnel Expenses	8426	9509	10245	12698	14554
Admin and Selling Expenses	2404	2349	1922	3196	4581
Total Operating Expenditure	11819	12669	13037	17283	20908
EBITDA	4150	3430	5224	7299	8649
Less: Depreciation	251	434	444	550	739
EBIT	3899	2996	4780	6749	7910
Growth Y-o-Y (%)	22%	-23%	60%	41%	17%
Non-operating Income	435	584	398	253	813
Profit Before tax	4334	3524	5119	6937	8659
Tax	1431	954	1432	1870	2312
Net Profit	2902	2571	3687	5067	6347
Adjusted Profit	2902	2571	3687	5067	6347
Growth Y-o-Y (%)	21%	-11%	43%	37%	25%
EPS	46.6	41.3	59.2	81.4	101.9
Growth Y-o-Y (%)	21%	-11%	43%	37%	25%
EBITDA Margin (%)	26%	21%	29%	30%	29%
EBIT Margin (%)	24%	19%	26%	27%	27%
PAT Margin (%)	18%	16%	20%	21%	21%

YE March (Rs. mn)	Valuation Ratios				
	FY 19	FY 20	FY 21	FY 22E	FY 23E
P/E (x)	124.5x	140.5x	98.0x	71.3x	56.9x
P/BV (x)	38.3x	33.1x	26.7x	21.8x	17.7x
EV/EBITDA (x)	91.3x	118.6x	74.0x	51.8x	43.7x
EV/Sales	22.3x	22.1x	19.4x	14.2x	11.7x
Market Cap./ Sales (x)	22.6x	22.4x	19.8x	14.7x	12.2x
Dividend Yield (%)	0.2%	0.3%	0.8%	0.6%	0.7%

YE March (Rs. mn)	Key Ratios				
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Key Operating Ratios					
EBIT Margin (%)	24.4%	18.6%	26.2%	27.5%	26.8%
Tax / PBT (%)	33.0%	27.1%	28.0%	27.0%	26.7%
Net Profit Margin (%)	18.2%	16.0%	20.2%	20.6%	21.5%
RoE (%)	32.9%	24.1%	26.9%	31.6%	32.2%
RoCE (%)	35.5%	26.9%	27.2%	31.6%	34.9%
Current Ratio (x)	5.4x	5.5x	5.3x	6.0x	6.0x
Dividend Payout (%)	29.0%	40.0%	81.1%	40.0%	40.0%
Book Value Per Share (Rs.)	151.4	175.0	217.1	266.0	327.1

Growth Indicators %					
Growth in Gross Block (%)	21.3%	10.1%	14.8%	18.8%	15.8%
Sales Growth (%)	15.2%	0.8%	13.4%	34.6%	20.2%
EBITDA Growth (%)	21.6%	-23.2%	59.6%	41.2%	17.2%
Net Profit Growth (%)	20.9%	-11.4%	43.4%	37.4%	25.3%
Diluted EPS Growth (%)	20.9%	-11.4%	43.4%	37.4%	25.3%

YE March(Rs. mn)	Balance Sheet				
	FY 19	FY 20	FY 21	FY 22E	FY 23E
Liabilities					
Equity Capital	623	623	623	623	623
Reserves & Surplus	8805	10278	12899	15941	19751
Equity	9428	10900	13522	16563	20373
Net Worth	9428	10900	13522	16563	20373
Total Loans	124	816	1001	162	201
Capital Employed	9565	11716	14522	16726	20574
Assets					
Gross Block	1471	1620	1859	2209	2559
Less: Depreciation	599	797	999	1549	2288
Net Block	872	823	860	660	271
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					
Sundry Debtors	3565	3924	4023	5051	5830
Cash and Bank Balance	5158	6642	8596	11890	15945
Other Current Assets	1332	1420	1285	1533	1733
Total Current Assets	10080	12012	13914	18509	23551
Less: Current Liabilities & Provisions					
Sundry Creditors	555	471	561	947	1375
Total Current Liabilities & Provisions	1869	2174	2645	3060	3910
Capital Applied	9565	11716	14522	16726	20574

YE March	Cash Flow Statement				
	FY 19	FY 20	FY 21	FY 22E	FY 23E
PAT	2,902	2,571	3,687	5,067	6,347
Less: Non Operating Income	-435	-584	-398	-253	-813
Add: Depreciation	251	434	444	550	739
Tax Adjustment					
Operating Profit before WC Changes	2,719	2,476	3,792	5,428	6,337
(Inc)/Dec in Current Assets	-798	-447	36	-1,279	-981
Inc/(Dec) in Current Liabilities	-8	305	471	416	849
Changes in Working Capital	-823	-143	523	-887	-137
Net Cash Generated From Operations	1,896	2,334	4,316	4,542	6,200
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	253	813
Net Cash Flow from Investing Activities	216	-154	-1,202	1,672	403
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	-51	678	185	-838	38
Dividend Paid	841	1028	2989	2025	2537
Net Cash Flow from Financing Activities	-1,142	-419	-2,864	-2,928	-2,562
Net Inc/(Dec) in cash equivalents	970	1,761	250	3,286	4,040
Opening Balance	3,943	5,158	6,642	8,596	11,890
Closing Balance Cash	4,914	6,919	6,892	11,883	15,930

YE March	Free Cash Flow Statement				
	FY 19	FY 20	FY 21	FY 22E	FY 23E
EBITDA	4,150	3,430	5,224	7,299	8,649
Add: Depreciation Tax Shield	83	117	124	148	197
Working Capital Changes	-414	-259	496	-887	-137
Less: Inc in FC Investment	-258	-149	-239	-350	-350
Taxes Paid	-1,431	-954	-1,432	-1,870	-2,312
Total Free Cash Flows	2130	2186	4174	4340	6047

Source: Dalal & Broacha Research, Company

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