



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

Analyst: Mayank Babla (022) 67141412

## Q3 FY20 Result Update@ Dalal&Broacha

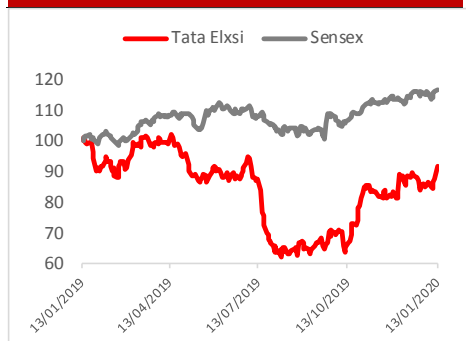
### BUY

Current Price	907
Target Price	1,123
Upside	24%
52 Week Range	593/1089

### Key Share Data

Market Cap (Rs.Bn)	56.50
Market Cap (US\$ Mn)	807.14
No of o/s shares (Mn)	62.27
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) ('000)	1133.11
BSE Code	500408
NSE Code	TATAELXSI
Bloomberg	TELX:IN

### Price performance



% Shareholding	Dec-19	Sept-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>

### Tata Elxsi reported its Q3FY20 performance which beat our estimates across all fronts

- **Revenue** came in at INR 4234 Mn, +9.7% qoq / +4% yoy and 2% above our est.
- **EBITDA** at INR 942 Mn, +33.9% qoq / -8.8% yoy and 7.6% above our est.
- **EBITDA margin** stood at 22.2% vs 18.2% / 25.4% in Q2FY20 / Q3FY19 respectively. **EBITDA margin** came 116 bps above our estimates
- **PAT** came in at INR 754 Mn, +51.4% qoq / +14.3% yoy and 15.2% above our est.
- **EPS** stood at INR 12.1 vs INR 8 / INR 10.6 in Q2FY20 / Q3FY19 respectively.

### Financial Highlights

- Tata Elxsi's Q3FY20 performance was broadbased with Engineering & Product Development – EPD (87% of revenue), Industrial Design – ID (10% of revenue) and Systems Integration (7% of topline) growth at 10%, 10% and 7% QoQ respectively
- Geography-wise Europe (42% of revenue) and India (13% of revenue) outperformed with a 15% qoq and 10% qoq growth respectively
- Industry-wise – Transportation (49% of revenue) and Healthcare and Medical Devices (8% of topline) reported strong performance of 10% qoq and 40% qoq growth respectively.

### Concall Key Takeaways:

(i) Growth mainly driven by volumes, strong execution and ramp ups (ii) Salary hikes were rolled out during the quarter and completely absorbed. Approximately 8% hike given for Onsite Employees and 1-2% hike for Off-shore employees (iii) Management believes that JLR has bottomed out during the last quarter and expects JLR account performance to recover over the next few quarters (based on outlook given by JLR) (iv) Very early to comment on revival of auto segment and not completely convinced the sustain current performance, therefore management remains cautiously optimistic (v) Management is extremely bullish on Healthcare & Medical Devices business (8% of revenue) and plans to shift revenue mix with increased focus on this segment and drive contribution to 20-25% of total revenue over the next 3 years. Notably, margins in Medical devices business are comparatively superior to other businesses. (vi) Management not completely convinced whether current growth in Automotive (vii) Expect margins to remain in the 22-24% band going ahead (viii) Won good deals in Automotive space in US & Europe, however “Too early to say whether the industry is completely out of the woods” (ix) Company holds INR 600 cr of cash balance (x) Plan to add 700-800 employees over the next 1 year (xi) Do not see any major issues from Brexit and therefore have a neutral stance on the same (xii) Expect Medical and Broadcast segment (39% of revenue) to continue steady and strong performance going ahead. [For reference, Medical Devices segment grew at 40% qoq and Broadcast and Comms grew at 5% qoq in Q3FY20]

### Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY18	13863	12.4%	3460	25.0%	2400	17.3%	38.5	23.5x	35.1%	38.3%
FY19E	15969	15.2%	4150	26.0%	2903	18.2%	46.6	19.5x	32.9%	35.5%
FY20E	16151	1.1%	3330	20.6%	2532	15.7%	40.7	22.3x	23.7%	27.9%
FY21E	18613	15.2%	4111	22.1%	3340	17.9%	53.6	16.9x	25.9%	30.8%
FY22E	20777	11.6%	4802	23.1%	3886	18.7%	62.4	14.5x	25.0%	29.6%

Source: Company, Dalal&Broacha Research



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

Analyst: Mayank Babla (022) 67141412

## Q3 FY20 Result Update@ Dalal&Broacha

### Quarterly Deviation Analysis

YE March (Rs mn)	Q3 FY20	Q2 FY20	Q-o-Q change %	Q3 FY19	Y-o-Y change %	Q3 FY20 Est.	Deviation %
Revenues (\$)	59	55	8.4%	56	5.3%	58	2.0%
<b>Revenues (INR)</b>	<b>4,234</b>	<b>3,858</b>	<b>9.7%</b>	<b>4,070</b>	<b>4.0%</b>	<b>4,151</b>	<b>2.0%</b>
Cost of Raw Material	222	231	(3.9%)	232	(4.2%)	250	(11.3%)
Direct Costs	3,071	2,924	5.0%	2,805	9.5%	3,025	1.5%
<b>EBITDA</b>	<b>942</b>	<b>704</b>	<b>33.9%</b>	<b>1,033</b>	<b>(8.8%)</b>	<b>875</b>	<b>7.6%</b>
Depreciation & Amortisation	112	110	2.3%	62	80.4%	83	35.1%
<b>EBIT</b>	<b>830</b>	<b>594</b>	<b>39.7%</b>	<b>971</b>	<b>(14.6%)</b>	<b>792</b>	<b>4.7%</b>
Other Income, net	205	124	65.6%	-27		133	54.0%
Interest Paid	14	14				0	
<b>PreTax Income</b>	<b>1,035</b>	<b>718</b>	<b>44.2%</b>	<b>944</b>	<b>9.6%</b>	<b>926</b>	<b>11.8%</b>
<b>Adjusted Pretax Income</b>	<b>1,021</b>	<b>704</b>	<b>44.9%</b>	<b>944</b>	<b>8.1%</b>	<b>926</b>	
Tax	266	206	29.1%	284	(6.3%)	271	
Share of Minority Interest							
<b>Net Profit</b>	<b>754</b>	<b>498</b>	<b>51.4%</b>	<b>660</b>	<b>14.3%</b>	<b>654</b>	<b>15.2%</b>
<b>Adjusted Net Profit</b>	<b>754</b>	<b>498</b>	<b>51.4%</b>	<b>660</b>	<b>14.3%</b>	<b>654</b>	<b>15.2%</b>
<b>Diluted EPS (Rs)</b>	<b>12.1</b>	<b>8.0</b>	<b>51.4%</b>	<b>10.6</b>		<b>10.5</b>	
<b>Adjusted Diluted EPS</b>	<b>12.1</b>	<b>8.0</b>	<b>51.4%</b>	<b>10.6</b>		<b>10.5</b>	<b>15.2%</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 (%)	19.6%	15.4%	420	23.9%	(426)	19.1%	51
EBITDA Margin (%)	22.2%	18.2%	401	25.4%	(314)	21.1%	116
Net Profit Margin (%)	17.8%	12.9%	490	16.2%	160	15.8%	204
Adjusted NPM (%)	17.8%	12.9%	490	16.2%	160	15.8%	204
Effective Tax rate (%)	25.7%	28.7%	(300)	30.1%	(437)	29.3%	(355)
<b>Cost Analysis (%)</b>			<b>Change in bps</b>	<b>Change in bps</b>			
Direct cost as % of Sales	5.2%	6.0%	(74)	5.7%	(45)	6.0%	(78)
SG&A as % of Sales	72.5%	75.8%	(326)	68.9%	359	72.9%	(37)

EBITDA came in at INR 942 Mn, 7.6% above our estimate of INR 875 Mn mainly due to higher execution during the quarter.

### Valuation & Outlook

Tata Elxsi reported a healthy 9.7% qoq topline growth in Q3FY20, continuing on its path to growth revival. Q3FY20 was marked with strong execution and healthy deal wins in US and Europe. The stock is currently trading at 16.9x and 14.5x FY21e and FY22e EPS. The stock achieved our earlier target price of INR 824. Based on following factors, we revise our target price and maintain a BUY rating on the stock:

- JLR account (~15.7% of revenues) seems to have bottomed out as reported positive qoq growth for the 2<sup>nd</sup> consecutive quarter in Q3FY20 (growth of 4% qoq and 6% qoq in Q1FY20 and Q2FY20 respectively) after 4 quarters of consistent degrowth between Q2FY19 to Q1FY20
- Management sees early signs of revival in Automotive industry (~49% of revenues including JLR) and has turned cautiously optimistic from a negative outlook earlier
- Management plans to rejig revenue mix with higher focus on Healthcare and Medical Devices (8% of topline currently). Management plans to drive contribution from 8% to 20-25% of revenues over the next 3 years. Notably, Healthcare and Medical devices is a superior margin business and therefore should be margin accretive at a consol level
- EBITDA margins dipped to as low as 18.2% in Q2FY20 and saw a revival in Q3FY20 to 22.2%. Management has called out that 22-24% seems to be a comfortable range going ahead.

We rollover our estimates to FY22e and upgrade our applied multiple to 18x FY22e EPS of INR 62.4 to arrive at a **revised target price of INR 1,123 (which is a 24% upside from CMP)**



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

Analyst: Mayank Babla (022) 67141412

## Q3 FY20 Result Update@ Dalal&Broacha

Profit & Loss A/c				
YE March (Rs. mn)	FY19	FY20E	FY21E	FY22E
<b>Total Revenue</b>	<b>15969</b>	<b>16151</b>	<b>18613</b>	<b>20777</b>
Less:				
Cost of Sales	989	832	953	1064
Personnel Expenses	8426	9522	10715	11747
Admin and Selling Expenses	2404	2466	2835	3165
<b>Total Operating Expenditure</b>	<b>11819</b>	<b>12821</b>	<b>14503</b>	<b>15975</b>
<b>EBIDTA</b>	<b>4150</b>	<b>3330</b>	<b>4111</b>	<b>4802</b>
Less: Depreciation	251	444	493	550
<b>EBIT</b>	<b>3899</b>	<b>2886</b>	<b>3617</b>	<b>4251</b>
Growth Y-o-Y (%)	22%	-26%	25%	18%
Non-operating Income	435	666	902	1007
<b>Profit Before tax</b>	<b>4334</b>	<b>3511</b>	<b>4520</b>	<b>5259</b>
Tax	1431	979	1180	1372
<b>Net Profit</b>	<b>2903</b>	<b>2532</b>	<b>3340</b>	<b>3886</b>
<b>Adjusted Profit</b>	<b>2903</b>	<b>2532</b>	<b>3340</b>	<b>3886</b>
Growth Y-o-Y (%)	21%	-13%	32%	16%
EPS	46.6	40.7	53.6	62.4
Growth Y-o-Y (%)	21%	-13%	32%	16%
<b>EBITDA Margin (%)</b>	<b>26%</b>	<b>21%</b>	<b>22%</b>	<b>23%</b>
<b>EBIT Margin (%)</b>	<b>24%</b>	<b>18%</b>	<b>19%</b>	<b>20%</b>
<b>PAT Margin (%)</b>	<b>18%</b>	<b>16%</b>	<b>18%</b>	<b>19%</b>

Cash Flow Statement				
YE March	FY19	FY20E	FY21E	FY22E
PAT	2,903	2,532	3,340	3,886
Less: Non Operating Income	-435	-666	-902	-1,007
Add: Depreciation	251	444	493	550
Tax Adjustment				
Operating Profit before WC Changes	2,719	2,352	2,931	3,429
(Inc)/Dec in Current Assets	-798	106	-473	-418
(Inc)/Dec in Current Liabilities	-8	196	318	293
Changes in Working Capital	-823	301	-157	-127
<b>Net Cash Generated From Operations</b>	<b>1,896</b>	<b>2,652</b>	<b>2,773</b>	<b>3,302</b>
<b>Cash Flow from Investing Activities</b>				
(Inc)/Dec in Fixed Assets	-258	-350	-350	-350
(Inc)/Dec in Investment (Strategic)	-9	-30	-30	-30
Add: Non Operating Income	435	666	902	1,007
<b>Net Cash Flow from Investing Activities</b>	<b>216</b>	<b>256</b>	<b>492</b>	<b>597</b>
<b>Cash Flow from Financing Activities</b>				
(Inc)/Dec in Total Loans	-51	-39	17	17
Dividend Paid	841	733	967	1126
<b>Net Cash Flow from Financing Activities</b>	<b>-1,142</b>	<b>-814</b>	<b>-950</b>	<b>-1,109</b>
<b>Net Inc/(Dec) in cash equivalents</b>	<b>970</b>	<b>2,094</b>	<b>2,316</b>	<b>2,790</b>
<b>Opening Balance</b>	<b>3,943</b>	<b>5,158</b>	<b>7,267</b>	<b>9,598</b>
<b>Closing Balance Cash</b>	<b>4,914</b>	<b>7,252</b>	<b>9,583</b>	<b>12,388</b>

Key Ratios				
YE March (Rs. mn)	FY19	FY20E	FY21E	FY22E
<b>Key Operating Ratios</b>				
EBIT Margin (%)	24.4%	17.9%	19.4%	20.5%
Tax / PBT (%)	33.0%	27.9%	26.1%	26.1%
Net Profit Margin (%)	18.2%	15.7%	17.9%	18.7%
RoE (%)	32.9%	23.7%	25.9%	25.0%
RoCE (%)	35.5%	27.9%	30.8%	29.6%
Current Ratio (x)	5.4x	5.9x	6.3x	6.8x
Dividend Payout (%)	29.0%	29.0%	29.0%	29.0%
Book Value Per Share (Rs.)	151.4	180.3	218.4	262.7
<b>Growth Indicators %</b>				
Growth in Gross Block (%)	21.3%	23.8%	19.2%	16.1%
Sales Growth (%)	15.2%	1.1%	15.2%	11.6%
EBITDA Growth (%)	21.6%	-26.0%	25.3%	17.5%
Net Profit Growth (%)	20.9%	-12.8%	31.9%	16.3%
Diluted EPS Growth (%)	20.9%	-12.8%	31.9%	16.3%
<b>Turnover Ratios</b>				
Debtors	81	78	75	73
Creditors	17	18	19	20

Balance Sheet				
YE March( Rs. mn)	FY19	FY20E	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	623	623	623	623
Reserves & Surplus	8805	10603	12976	15737
<b>Equity</b>	<b>9428</b>	<b>11226</b>	<b>13599</b>	<b>16359</b>
<b>Net Worth</b>	<b>9428</b>	<b>11226</b>	<b>13599</b>	<b>16359</b>
Total Loans	124	85	102	119
<b>Capital Employed</b>	<b>9565</b>	<b>11325</b>	<b>13715</b>	<b>16492</b>
<b>Assets</b>				
Gross Block	1471	1821	2171	2521
Less: Depreciation	599	1043	1536	2086
<b>Net Block</b>	<b>872</b>	<b>779</b>	<b>635</b>	<b>435</b>
Capital WIP	4	19	34	49
<b>Investments</b>	<b>151</b>	<b>181</b>	<b>211</b>	<b>241</b>
Intangible Assets	139	139	139	139
Others - A	186	186	186	186
<b>Current Assets</b>				
Sundry Debtors	3565	3451	3825	4155
Cash and Bank Balance	5158	7267	9598	12403
Loans and Advances	8	8	9	10
Other Current Assets	1332	1340	1438	1525
<b>Total Current Assets</b>	<b>10080</b>	<b>12084</b>	<b>14890</b>	<b>18116</b>
<b>Less: Current Liabilities &amp; Provisions</b>				
Sundry Creditors	555	632	755	875
Provisions	84	98	118	137
Other Current Liabilities	1230	1334	1509	1663
Total Current Liabilities & Provision	1869	2064	2382	2675
Miscellaneous Assets				
<b>Capital Applied</b>	<b>9565</b>	<b>11325</b>	<b>13715</b>	<b>16492</b>

Free Cash Flow Statement				
YE March	FY19	FY20E	FY21E	FY22E
EBITDA	4,150	3,330	4,111	4,802
Add: Depreciation Tax Shield	83	124	129	144
Working Capital Changes	-414	301	-157	-127
Less: Inc in FC Investment	-258	-350	-350	-350
Taxes Paid	-1,431	-979	-1,180	-1,372
<b>Total Free Cash Flows</b>	<b>2130</b>	<b>2426</b>	<b>2552</b>	<b>3096</b>

Valuation Ratios				
YE March (Rs. mn)	FY19	FY20E	FY21E	FY22E
P/E (x)	19.5x	22.3x	16.9x	14.5x
P/BV (x)	6.0x	5.0x	4.2x	3.5x
EV/EBITDA (x)	13.2x	17.1x	13.0x	10.4x
EV/Sales	3.2x	3.1x	2.5x	2.1x
Market Cap./ Sales (x)	3.5x	3.5x	3.0x	2.7x
Dividend Yield (%)	1.5%	1.3%	1.7%	2.0%



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

Analyst: Mayank Babla (022) 67141412

## Q3 FY20 Result Update@ Dalal&Broacha

### Disclaimer

**Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B** (CIN\_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.dalal-broacha.com](http://www.dalal-broacha.com)

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

### Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

### Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed



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

Analyst: Mayank Babla (022) 67141412

### Q3 FY20 Result Update@ Dalal&Broacha

to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141135	Mid cap
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T/Media
Mr. Avinash Tanawde	avinash.tanawde@dalal-broacha.com	022 67141149	BFSI
Ms. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021. Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092  
E-mail: equity.research@dalal-broacha.com