

Tata Elxsi's Q4FY21 revenue was in line with our estimates while profitability was a big beat vs our est.

- **INR revenue came in at INR 5,183.9 Mn, +8.7% qoq / +15.4% yoy** and in-line above our estimates
- **EBITDA was reported at INR 1,680.4 Mn, +17% qoq / +54.7% yoy** and +14.8% above our estimates
- **EBITDA margins stood at 32.4%, vs 30.1% / 24.7% in Q3FY21 / Q4FY20** respectively
- **PAT came in at INR 1,151 Mn, +9.4% qoq / +40.3% yoy** and 7.7% above our estimates
- **EPS at INR 18.5 in Q4FY21 vs 16.9 / 13.2 in Q3FY21 / Q4FY20** respectively

Industry-wise

- **Transportation (40.3% of revenue)** grew 3.2% qoq
- **Media & Comms (44.7% of revenue)** grew 5.8% qoq
- **Healthcare (9.9% of revenue)** grew 11.8% qoq

Services-wise

- **Embedded Product Design (EPD) (85.4% of revenue)** business grew 5% qoq and 15.5% yoy
- **Industrial Design & Visualization business (11.9% of revenue)** grew 40.1% qoq and 39.2% yoy

Top Accounts

- **Top account (11% of revenue)** was grew 6% qoq / -14% yoy
- **Growth was driven by Top 5 and Top 10 clients** - each grew 11% qoq

Geographical Trends

- **North America (40% of topline)** grew 21% qoq / 33% yoy
- **Europe (34% of revenue)** grew 2% qoq / 1% yoy
- **India (15% of revenue)** grew 21% qoq / 50% yoy
- **ROW reported a dismal performance** at -15% qoq / 0% yoy

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	15,969	16,099	18,262	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

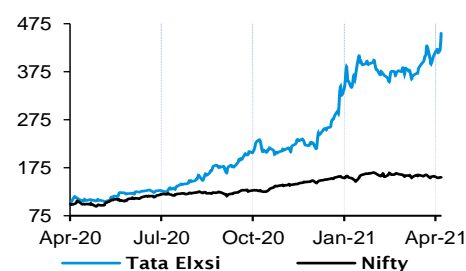
Rating	TP (Rs)	Up/Dn (%)
HOLD	2931	-8

Market data

Current price	Rs	3,192
Market Cap (Rs.Bn)	(Rs Bn)	199
Market Cap (US\$ Mn)	(US\$ Mn)	2656
Face Value	Rs	10
52 Weeks High/Low	Rs	721/3340
Average Daily Volume	('000)	225
BSE Code		500408
Bloomberg		TELX:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	44.53	44.53
Public	55.47	55.47
Others	0.00	0.00
Total	100	100

Source: BSE

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Conference Call Key Highlights

Operational Highlights

- Continued growth across all offerings, industries & geographies and **the growth was entirely volume-led growth with 9.1% in CC terms.**
- Topline growth was driven by strong performance in key division (Embedded Product Design)** as design business continues with a healthy growth led by flow of new deals as well as cross selling to existing customers.
- Gross Margin improved by +260 bps QoQ (43%) which was led by adoption of new business models** and innovative way of delivering to the customers.
- Utilization for Q4FY21 stood at 77%. 700-710 (10% of the Headcount) employees** are onsite and balancing figure is offshore from total headcount.

EBIT Margin Improvement was led by certain levers such as Increased Offshoring, more long-term projects & engagements, increased realizations & cost-cutting measures (one-offs).

Vertical Highlights

- System Integration business Margins are significantly higher this quarter** due to large proportion of services involved in one of the large projects.
- Transportation segment may face some short-term headwinds due to increase in covid cases which has led to shutting down of factories affecting the automotive companies.** However, growth remains sustainable over the longer-term duration.
- Healthcare & Medical Devices growth was led by few levers such as excellent product development strategy (different medical devices, diagnostic equipment), bullish on regulatory aspects (framework & IPs being the key differentiator) and showing tremendous value to customers.**

Industrial Design business growth was due to some strategic changes such as change in leadership, changed in front-end sales and back-end, integration in offerings, etc. and many other transformational changes which has led to robust growth.

Other Highlights

- Organic Opportunities for Business:** Opening New Accounts / Logos as well as mining existing large client accounts (growth across top accounts), investing in key consultants and industry experts and starting new initiatives across (investing in growth initiatives eg. In Healthcare investing in Digital Health).
- Inorganic Opportunities for Business:** Identifying areas that need to be strong along with ongoing talks with different companies for inorganic opportunities.
- Shortage in Semi-conductor space has not affected any of the current clients in the business.
- Top Customer are growing well with new deal wins and addition of new logos** which will help in ramping up the overall business.
- 8-9% of Revenues come from Japan whereby the firm does business with Automotive companies (OEMs & Tier 1).**

- **New client won in the transportation space is for connected car services which is built an inhouse platform on cloud.** The client is a global OEM and for a specific geography. This is the 2nd client won for the same platform (Tata Motors was the 1st client bagged last year).

Outlook

- **Salary Hike will be given in July 2022 and one-time 1 month bonus will be given in Q1FY22.** Bonus will be divided between Q1FY22 and Q3FY22
- Extremely bullish on Industrial Design business and will witness accelerated growth in this segment which will be the key differentiator and drive business growth in upcoming quarters.

Margins were at the higher end but these are not sustainable going ahead. Cost-cutting measures have augmented margins however, once travel resumes margin will go back to prior levels (pre-covid).

Quarterly Performance Analysis

Exhibit 1

YE March (Rs mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %	Q4 FY21 Est.	Deviation %
Revenues (INR)	5,184	4,771	8.7%	4,389	18.1%	5,225	(0.8%)
Cost of Raw Material	308	218	41.2%	206	49.9%	239	29.0%
Gross Profit	4,876	4,553	7.1%	4,183	16.6%	4,986	(2.2%)
Direct Costs	3,195	3,117	2.5%	3,097	3.2%	3,522	(9.3%)
EBITDA	1,680	1,436	17.0%	1,086	54.7%	1,464	14.8%
Depreciation & Amortisation	113	111	2.2%	108	4.7%	121	(6.7%)
EBIT	1,567	1,326	18.2%	978	60.2%	1,343	16.7%
Other Income, net	68	151	(54.8%)	134	(49.0%)	157	(56.5%)
Interest Paid	19	13		14		13	
PreTax Income	1,636	1,476	10.8%	1,112	47.1%	1,500	9.0%
Adjusted Pretax Income	1,617	1,463	10.5%	1,098	47.3%	1,487	
Tax	465	411	13.3%	277	68.1%	417	
Share of Minority Interest							
Net Profit	1,152	1,052	9.4%	821	40.3%	1,069	7.7%
Adjusted Net Profit	1,152	1,052	9.4%	821	40.3%	1,069	7.7%
Diluted EPS (Rs)	18.5	16.9	9.4%	13.2		17.2	
Adjusted Diluted EPS	18.5	16.9	9.4%	13.2		17.2	7.7%
No. of Shares (mn) - Diluted	62	62		62		62	
Margin Analysis (%)			Change in bps		Change in bps		
EBIT Profit Margin (%)	30.2%	27.8%	245	22.3%	795	25.7%	453
EBITDA Margin (%)	32.4%	30.1%	232	24.7%	767	28.0%	439
Net Profit Margin (%)	22.2%	22.1%	16	18.7%	351	20.5%	175
Adjusted NPM (%)	22.2%	22.1%	16	18.7%	351	20.5%	175
Effective Tax rate (%)	28.4%	27.8%	62	24.9%	355	27.8%	62
Cost Analysis (%)			Change in bps		Change in bps		
Direct cost as % of Sales	5.9%	4.6%	137	4.7%	126	4.6%	137
SG&A as % of Sales	61.6%	65.3%	(369)	70.6%	(893)	67.4%	(576)

Revenue stood at INR 5,184 Mn, which largely in-line with our estimates

EBITDA stood at INR 1,680 Mn, which beat our estimates by 14.8%. Margins stood at 32.4%

Management indicated that, despite having several levers, such high margins were not sustainable going ahead as Travel related expenses, facility expenses, etc. return in a post-COVID time

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Tata Elxsi is currently trading at 42.1x / 38.5x FY22e / FY23e EPS. Q4FY21 performance indicates that the company is firing on all cylinders. Management commentary on Broadcast & Communications and Healthcare and Medical Devices continues to be extremely encouraging whereas Transportation performance would be volatile on account COVID related lockdowns (mgmt. has stated that semicon related shortage has not affected their client base but can create a disturbance).

The company has delivered as expected and shown mettle as it has bounced back. Going ahead, margins may soften on account of reversal of travel related expenses, facility expenses, etc. in a post-COVID world and should revert to long term equilibrium range of 22-28%. Admittedly, Tata Elxsi will always command premium valuations vs peers as it has consistently reported the highest profitability and leading growth in domestic ER&D pack.

We increase our EBITDA margin estimates (from mid to the higher end of the long-term sustainable margin band) from 25% / 25% to 29.2% / 28% for FY22e / FY23e due to various factors 1) Weaker INR in FY22e, 2) Utilization can be still used as a lever and 3) Company's offshoring capability. In-line with improved estimates, our target price increase from INR 2,437 to INR 2,931.

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. However, at current levels the stock has rallied 30% in the last 3 months and 91% in the last 6 months and we do not find comfort in recommending a BUY and therefore we downgrade our rating to HOLD.

Financial

Profit & Loss A/c					
YE March (Rs. mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Total Revenue	15969	16099	18262	22826	26212
Less:					
Cost of Sales	989	811	870	1026	1175
Personnel Expenses	8426	9509	10245	11946	13906
Admin and Selling Expenses	2404	2349	1922	3200	3801
Total Operating Expenditure	11819	12669	13037	16172	18882
EBIDTA	4150	3430	5224	6654	7331
Less: Depreciation	251	434	444	571	655
EBIT	3899	2996	4780	6083	6675
<i>Growth Y-o-Y (%)</i>	<i>22%</i>	<i>-23%</i>	<i>60%</i>	<i>27%</i>	<i>10%</i>
Non-operating Income	435	584	398	685	721
Profit Before tax	4334	3524	5119	6692	7320
Tax	1431	954	1432	1925	2106
Net Profit	2903	2571	3687	4767	5215
Adjusted Profit	2903	2571	3687	4767	5215
<i>Growth Y-o-Y (%)</i>	<i>21%</i>	<i>-11%</i>	<i>43%</i>	<i>29%</i>	<i>9%</i>
EPS	46.6	41.3	59.2	76.6	83.7
<i>Growth Y-o-Y (%)</i>	<i>21%</i>	<i>-11%</i>	<i>43%</i>	<i>29%</i>	<i>9%</i>
EBITDA Margin (%)	26%	21%	29%	29%	28%
EBIT Margin (%)	24%	19%	26%	27%	25%
PAT Margin (%)	18%	16%	20%	21%	20%

Valuation Ratios					
YE March (Rs. mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
P/E (x)	69.1x	78.1x	54.4x	42.1x	38.5x
P/BV (x)	21.3x	18.4x	17.2x	13.8x	11.4x
EV/EBIDTA (x)	50.2x	65.0x	40.5x	31.4x	28.1x
EV/Sales	12.3x	12.1x	10.6x	8.4x	7.2x
Market Cap./ Sales (x)	12.6x	12.5x	11.0x	8.8x	7.7x
Dividend Yield (%)	0.4%	0.5%	1.5%	0.9%	1.0%

Key Ratios					
YE March (Rs. mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Key Operating Ratios					
EBIT Margin (%)	24.4%	18.6%	26.2%	26.7%	25.5%
Tax / PBT (%)	33.0%	27.1%	28.0%	28.8%	28.8%
Net Profit Margin (%)	18.2%	16.0%	20.2%	20.9%	19.9%
RoE (%)	32.9%	24.1%	28.9%	34.0%	30.5%
RoCE (%)	35.5%	26.9%	30.1%	37.1%	33.1%
Current Ratio (x)	5.4x	5.5x	5.5x	5.6x	5.7x
Dividend Payout (%)	29.0%	40.0%	80.0%	40.0%	40.0%
Book Value Per Share (Rs.)	151.4	175.0	186.9	232.8	283.1

Growth Indicators %					
Growth in Gross Block (%)	21.3%	10.1%	34.0%	16.1%	13.9%
Sales Growth (%)	15.2%	0.8%	13.4%	25.0%	14.8%
EBITDA Growth (%)	21.6%	-23.2%	59.6%	27.3%	9.7%
Net Profit Growth (%)	20.9%	-11.4%	43.4%	29.3%	9.4%
Diluted EPS Growth (%)	20.9%	-11.4%	43.4%	29.3%	9.4%

Balance Sheet					
YE March(Rs. mn)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Liabilities					
Equity Capital	623	623	623	623	623
Reserves & Surplus	8805	10278	12490	15350	18479
Equity	9428	10900	13113	15973	19102
Net Worth	9428	10900	13113	15973	19102
Total Loans	124	816	124	167	183
Capital Employed	9565	11716	13237	16140	19285
Assets					
Gross Block	1471	1620	2171	2521	2871
Less: Depreciation	599	797	1241	1811	2467
Net Block	872	823	930	710	404
Capital WIP	4	9	34	49	64
Investments	151	168	211	241	271
Intangible Assets	139	129	139	139	139
Others - A	186	748	186	186	186
Current Assets					
Sundry Debtors	3565	3924	4053	4690	5171
Cash and Bank Balance	5158	6642	8624	11495	14933
Other Current Assets	1332	1420	1307	1490	1626
Total Current Assets	10080	12012	14011	17708	21769
Less: Current Liabilities & Provisions					
Sundry Creditors	555	471	643	886	1242
Total Current Liabilities & Provisions	1869	2174	2276	2894	3550
Capital Applied	9565	11716	13237	16140	19285

Cash Flow Statement					
YE March	FY 19	FY 20	FY 21	FY 22E	FY 23E
PAT	2,903	2,571	3,687	4,767	5,215
Less: Non Operating Income	-435	-584	-398	-685	-721
Add: Depreciation	251	434	444	571	655
Tax Adjustment					
Operating Profit before WC Changes	2,719	2,476	3,793	4,729	5,225
(Inc)/Dec in Current Assets	-798	-447	-16	-823	-618
Inc/(Dec) in Current Liabilities	-8	305	102	619	655
Changes in Working Capital	-823	-143	85	-208	34
Net Cash Generated From Operations	1,896	2,334	3,877	4,521	5,259
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	-258	-149	-551	-350	-350
(Inc)/Dec in Investment (Strategic)	-9	-17	-43	-30	-30
Add: Non Operating Income	435	584	398	685	721
Net Cash Flow from Investing Activities	216	-154	315	275	311
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	-51	678	-692	43	16
Dividend Paid	841	1028	2950	1906	2084
Net Cash Flow from Financing Activities	-1,142	-419	-3,700	-1,939	-2,145
Net Inc/(Dec) in cash equivalents	970	1,761	492	2,857	3,425
Opening Balance	3,943	5,158	6,642	7,149	10,021
Closing Balance Cash	4,914	6,920	7,135	10,006	13,446

Free Cash Flow Statement					
YE March	FY 19	FY 20	FY 21	FY 22E	FY 23E
EBITDA	4,150	3,430	5,224	6,654	7,331
Add: Depreciation Tax Shield	83	117	124	164	188
Working Capital Changes	-414	-259	85	-208	34
Less: Inc in FC Investment	-258	-149	-551	-350	-350
Taxes Paid	-1,431	-954	-1,432	-1,925	-2,106
Total Free Cash Flows	2130	2186	3450	4335	5097

Source: Dalal & Broacha Research, Company

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