



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q3 FY18 Result Update@ Dalal&Broacha

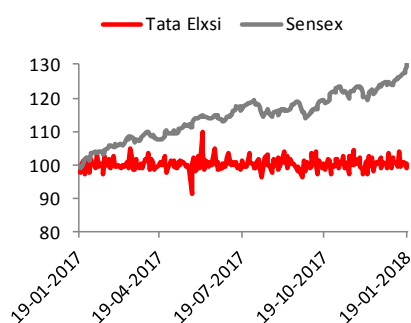
HOLD

Current Price	1,081
Target Price	1,173
52 Week Range	1,142/934

Key Share Data

Market Cap (Rs.bn)	67.1
Market Cap (US\$ mn)	1051
No of o/s shares (mn)	62
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos	736,000
BSE Code	500408
NSE Code	TATAELXSI
Bloomberg	TELX IN

Price performance



Revenue off-target due to order delays whereas profitability in-line with estimates

- Tata Elxsi reported its Q3FY18 numbers which were below our estimates on the revenue front whereas beat our estimate on the profitability front.
- The company reported revenues of INR 3,455 Mn, which was up 1% qoq and 11.7% yoy but 2.4% below our estimate of INR 3,540 Mn.
- EBITDA was reported at INR 935 Mn, up 11.3% qoq and 26.5% yoy mainly due to a reduction of 28.8% in Cost of Raw Materials and 3.9% reduction in SG&A expenses. EBITDA margins were reported at a record 27.1% vis-a-vis 24.6% in Q2FY18 and 21.6% in Q3FY17 and 268 bps above our margin estimate of 24.4%
- PAT was 6.7% above our estimate of INR 588 Mn and was reported at INR 628 Mn despite a 23.3% fall in other income. Company reported an EPS of INR 10.1.

IPs and services revolving around them to pave the way ahead

- As of Q3FY18, Falcon and Autonomai, Tata Elxsi's flagship platforms, contribute 5% to overall revenues. We believe that there is immense scope and potential for the company to develop these platforms in terms of client engagements. Management has also indicated that it plans to introduce new IPs and services around them
- Furthermore, newer application areas of the existing solutions can be a major trigger for revenue growth
- Believe that new solutions in the Electric Vehicle space can be a huge growth driver

Key Concall Takeaways

- Margin expansion in the quarter was largely a result of change in onsite offshore mix and not a structural change, 25% should be a sustainable EBITDA margin
- Plan to increase client engagements based on introduction of new IPs and services around them
- Management plans to introduce Autonomai as a platform to new application areas such as fleet transportation, consumer electronics and segments beyond automotive
- Company is working on a couple of solutions for EV which should be commercially viable by FY19E end
- In Q3, Falcon was licensed by a large European vendor and expect higher penetration in the forthcoming quarters

Valuation:

Stock is currently trading at 24.5x and 20.6x FY19E and FY20E EPS. We assign a HOLD rating on the stock with a target price of INR 1,173.

% Shareholding	Dec-17	Sept-17
Promoters	44.57	44.57
Public	55.43	55.43
Others	-	-
Total	100.00	100.00

Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	10752	26.6%	2471	23.0%	1548	14.4%	49.7	21.7x	43.6%	44.0%
FY17	12330	14.7%	2720	22.1%	1733	14.1%	55.7	19.4x	34.7%	35.5%
FY18E	13792	11.9%	3434	24.9%	2297	16.7%	36.9	29.3x	34.1%	35.9%
FY19E	15842	14.9%	3952	24.9%	2744	17.3%	44.1	24.5x	31.7%	34.3%
FY20E	18111	14.3%	4565	25.2%	3275	18.1%	52.6	20.6x	29.9%	32.4%



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Quarterly Result Analysis

YE March (Rs mn)	Q3 FY18	Q2 FY18	Q-o-Q change %	Q3 FY17	Y-o-Y change %	Q3 FY18 Estimates	Deviation %
Revenues (\$)	53	53	0.4%	46	17.0%	55	(3.0%)
Revenues (INR)	3,455	3,422	1.0%	3,094	11.7%	3,540	(2.4%)
Cost of Raw Material	153	209	(26.6%)	152	1.1%	215	(28.8%)
Gross Profit	3,302	3,213	2.8%	2,942	12.2%	3,325	(0.7%)
Direct Costs	2,367	2,373	(0.2%)	2,203	7.4%	2,462	(3.9%)
EBITDA	935	840	11.3%	739	26.5%	863	8.3%
Depreciation & Amortisation	63	64	(2.5%)	69	(9.3%)	67	(5.8%)
EBIT	872	776	12.4%	670	30.2%	796	9.5%
Other Income, net	68	89		-8		92	
PreTax Income	940	864	8.8%	662	42.0%	888	5.9%
Adjusted Pretax Income	940	864	8.8%	662	42.0%	888	
Tax	313	251	24.4%	224	39.4%	300	
Share of Minority Interest							
Net Profit	628	613	2.4%	438	43.3%	588	6.7%
Adjusted Net Profit	628	613	2.4%	438	43.3%	588	6.7%
Diluted EPS (Rs)	10.1	9.2	9.7%	14.1		9.4	
Adjusted Diluted EPS	10.1	9.2	9.7%	14.1		9.4	6.7%
No.of Shares (mn) - Diluted	62	62		31		62	
Margin Analysis (%)			Change in bps		Change in bps		
Gross Profit Margin (%)	95.6%	93.9%	167	95.1%	46	93.9%	164
Operating Profit Margin (%)	25.2%	22.7%	257	21.6%	360	22.5%	274
EBITDA Margin (%)	27.1%	24.6%	250	23.9%	317	24.4%	268
Net Profit Margin (%)	18.2%	17.9%	24	14.2%	401	16.6%	155
Adjusted NPM (%)	18.2%	17.9%	24	14.2%	401	16.6%	155
Effective Tax rate (%)	33.2%	29.1%	417	33.9%	(61)	33.8%	(55)

Source: Company, Dalal & Broacha Research



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YE March (Rs. mn)	Profit & Loss A/c				
	FY16	FY17	FY18E	FY19E	FY20E
Total Revenue	10752	12330	13792	15842	18111
Less:					
Cost of Sales	700	747	717	828	946
Personnel Expenses	5765	6693	7528	8633	9823
Admin and Selling Expenses	1817	2169	2113	2429	2777
Total Operating Expenditure	8281	9610	10359	11889	13546
EBIDTA	2471	2720	3434	3952	4565
Less: Depreciation	226	269	259	317	362
EBIT	2245	2451	3174	3635	4202
Non-operating Income	119	164	309	475	543
Profit Before tax	2363	2615	3483	4111	4746
Tax	815	882	1186	1366	1471
Net Profit	1548	1733	2297	2744	3275
Adjusted Profit	1548	1733	2297	2744	3275

YE March	Cash Flow Statement					
	FY16	FY17	FY18E	FY19E	FY20E	
PAT	1,548	1,733	2,297	2,744	3,275	
Less: Non Operating Income	-119	-164	-309	-475	-543	
Add: Depreciation	226	269	259	317	362	
Tax Adjustment						
Operating Profit before Working Capital Changes (Inc)/Dec in Current Assets	1,656	1,838	2,247	2,586	3,093	
Inc/(Dec) in Current Liabilities	-766	-428	-271	-507	-561	
Changes in Working Capital	245	-591	179	229	230	
Net Cash Generated From Operations	1,100	1,247	2,155	2,308	2,763	
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	-243	-230	-350	-350	-350	
(Inc)/Dec in Investment (Strategic)	3	-12	-30	-30	-30	
Add: Non Operating Income	119	164	309	475	543	
Net Cash Flow from/(used in) Investing Activities	-250	-22	-102	65	133	
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	75	9	60	38	22	
Dividend Paid	343	454	602	719	858	
Net Cash Flow from Financing Activities	-353	-534	-541	-681	-836	
Net Inc/(Dec) in cash equivalents	497	691	1,512	1,693	2,061	
Opening Balance	1,328	1,825	2,515	4,027	5,720	
Closing Balance Cash and Cash Equivalents	1,825	2,515	4,027	5,720	7,781	

YE March	Free Cash Flow Statement				
	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	2,471	2,720	3,434	3,952	4,565
Add: Depreciation Tax Shield	78	91	88	105	112
Working Capital Changes	-518	-1,019	-92	-278	-330
Less: Inc in FC Investment	-243	-230	-350	-350	-350
Taxes Paid	-824	-902	-1,186	-1,366	-1,471
Total Free Cash Flows	963	661	1894	2064	2525

YE March (Rs. mn)	Valuation Ratios				
	FY16	FY17	FY18E	FY19E	FY20E
P/E (x)	21.7x	19.4x	29.3x	24.5x	20.6x
P/BV (x)	8.7x	6.0x	9.2x	7.2x	5.7x
EV/EBIDTA (x)	14.3x	12.8x	20.0x	17.0x	14.2x
EV/Sales	3.0x	2.5x	4.6x	3.9x	3.3x
Market Cap./ Sales (x)	3.1x	2.7x	4.9x	4.2x	3.7x
Dividend Yield (%)	1.0%	1.3%	0.9%	1.1%	1.3%

YE March (Rs. mn)	Balance Sheet				
	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	311	311	623	623	623
Reserves & Surplus	3546	5278	6662	8688	11105
Equity	3857	5590	7285	9311	11727
Net Worth	3857	5590	7285	9311	11727
Total Loans	182	191	251	290	312
Capital Employed	4039	5781	7536	9600	12039
Assets					
Gross Block	1854	2083	2433	2783	3133
Less: Depreciation	977	1160	1419	1736	2098
Net Block	877	923	1014	1047	1035
Capital WIP	19	10	40	70	100
Investments	358	370	400	430	460
Intangible Assets	193	155	155	155	155
Others - A	13	32	32	32	32
Current Assets					
Sundry Debtors	2152	2448	2645	3038	3473
Cash and Bank Balance	1825	2515	4027	5720	7781
Loans and Advances	228	198	213	245	279
Other Current Assets	333	495	554	636	727
Total Current Assets	4538	5656	7440	9639	12261
Less: Current Liabilities & Provisions					
Sundry Creditors	765	752	823	945	1076
Provisions	707	164	237	273	294
Other Current Liabilities	485	450	485	557	634
Total Current Liabilities & Provisions	1957	1366	1545	1775	2005
Miscellaneous Assets					
Capital Applied	4039	5781	7535	9599	12038

YE March (Rs. mn)	Key Ratios				
	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	20.9%	19.9%	23.0%	22.9%	23.2%
Tax / PBT (%)	34.5%	33.7%	34.1%	33.2%	31.0%
Net Profit Margin (%)	14.4%	14.1%	16.7%	17.3%	18.1%
RoE (%)	43.6%	34.7%	34.1%	31.7%	29.9%
RoCE (%)	44.0%	35.5%	35.9%	34.3%	32.4%
Current Ratio (x)	2.3x	4.1x	4.8x	5.4x	6.1x
Dividend Payout (%)	26.5%	31.3%	26.2%	26.2%	26.2%
Book Value Per Share (Rs.)	123.9	179.5	117.0	149.5	188.3

Growth Indicators %					
Growth in Gross Block (%)	15.1%	12.4%	16.8%	14.4%	12.6%
Sales Growth (%)	26.6%	14.7%	11.9%	14.9%	14.3%
EBITDA Growth (%)	47.8%	9.2%	29.5%	14.5%	15.6%
Net Profit Growth (%)	50.4%	11.9%	32.5%	19.5%	19.3%
Diluted EPS Growth (%)	50.4%	11.9%	-33.7%	19.5%	19.3%

Turnover Ratios					
Debtors (Days of net sales)	73	72	70	70	70
Creditors (Days of Raw Materials)	34	29	29	29	29



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