

# Tata Elxsi Limited



**TATA Elxsi Limited**
**Growth across the segments, expect some large deal wins in Q2FY24.**

|                        |                           |                                    |  |                              |   |
|------------------------|---------------------------|------------------------------------|--|------------------------------|---|
| CMP<br><b>INR 7535</b> | Target<br><b>INR 8406</b> | Potential Upside<br><b>~ 11.6%</b> | Market Cap (INR Mn)<br><b>INR 4,69,460</b> | Recommendation<br><b>BUY</b> | Sector<br><b>Internet Software &amp; Services</b> |
|------------------------|---------------------------|------------------------------------|--|------------------------------|---|

**Result Highlights:**

- Tata Elxsi Ltd reported a YoY revenue growth of 17.12% to INR 8,502 mn in Q1FY24, compared to INR 7,259 mn in Q1FY23. Sequentially, revenue increased marginally by 1.47% from INR 8,379 mn in Q4FY23.
- The EBIT for Q1FY24 was INR 2,300 mn, reflecting a YoY growth of 4.02% from INR 2,211 mn in Q1FY23. On a QoQ basis, it increased marginally by 0.61% from INR 2,286 mn. The OPM for the quarter stood at 27.05%, indicating a decline of 341 basis points (bps) YoY and 25 bps QoQ.
- Net profit for the quarter was INR 1,888 mn, showing a YoY growth of 2.22% from INR 1,847 mn in Q1FY23. However, on a sequential basis, it declined by 6.30% from INR 2,015 mn due to an increase in the effective tax rate. The net profit margin (NPM) for Q1FY24 stood at 22.20%, which declined by 324 bps YoY and 185 bps sequentially. The earnings per share (EPS) for the quarter stood at INR 30.32, compared to INR 29.66 YoY and INR 32.36 QoQ.
- During Q1FY24, the company added 422 net employees, crossing the 12,000-employee mark. The attrition rate further declined to 15.60% in Q1FY24.

**MARKET DATA**

|                   |              |
|-------------------|--------------|
| Shares outs (Mn)  | 62           |
| Mkt Cap (INR Mn)  | 4,69,460     |
| 52 Wk H/L (INR)   | 10,760/5,708 |
| Volume Avg (3m K) | 712.0        |
| Face Value (INR)  | 10           |
| Bloomberg Code    | TELX IN      |

**KEY FINANCIALS**

| (INR Mn) | Q1FY24 | Q4FY23 | Q1FY23 | QoQ      | YoY      |
|----------|--------|--------|--------|----------|----------|
| Revenue  | 8,502  | 8,379  | 7,259  | 1.47%    | 17.12%   |
| EBIT     | 2,300  | 2,286  | 2,211  | 0.61%    | 4.02%    |
| PAT      | 1,888  | 2,015  | 1,847  | -6.30%   | 2.22%    |
| OPM (%)  | 27.05% | 27.30% | 30.46% | -25 bps  | -341 bps |
| NPM(%)   | 22.20% | 24.05% | 25.44% | -185 bps | -324 bps |

Source: Company, KRChoksey Research

**Despite the challenging macro environment, the company posted a strong growth:**

The company achieved healthy revenue growth of 17.12% YoY, driven by a strong deal pipeline, delivery excellence, and differentiated design. The transportation segment recorded impressive growth of 22.30% YoY, supported by significant wins in EVs, software-defined vehicles (SDV), and connected vehicles. The healthcare segment also showed sequential improvement of 3.40% due to new product development and digital health initiatives. However, the media and communication segment experienced a slowdown in spending from North American and European markets. Nonetheless, management expects a rebound in spending in this segment during Q2FY24. They anticipate strong growth in the medical and IDV (Integrated Design and Verification) segments, along with the closure of large deals in Q2FY24.

**Margins to improve on a sequential basis:**

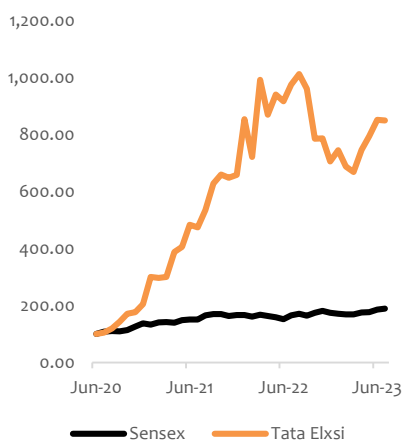
Although the operating margin declined by 341 bps YoY and 25 bps sequentially to 27.05% due to higher employee costs and sub-contracting expenses, management expects margins to improve on a sequential basis. This improvement will be driven by higher utilization rates and reduced sub-contracting expenses.

**Deal momentum to rebound from Q2FY24**

Tata Elxsi is actively pursuing big opportunities with global automotive companies, as evidenced by the selection of their TETHER Connected Vehicle Platform by top 5 automotive OEMs. The company has witnessed some slowdown in deal wins in the transportation segment but remains confident in closing large deals in Q2FY24. Additionally, Tata Elxsi has entered into a strategic development partnership for Software Development Vehicles (SDV) with a leading Asian OEM, with plans to ramp up this partnership in the coming quarters.

**Investment in Human capital continues**

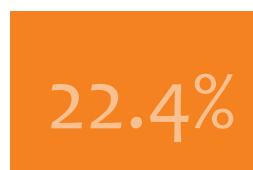
The company continues to invest in its human capital, adding 422 employees in Q1FY24 and planning to hire 1800-2000 employees for FY24. Tata Elxsi aims to improve utilization rates to 80% over the next few quarters, up from the current level of 72.5%. The attrition rate has also declined to 15.6%, which is one of the lowest in the IT industry. Despite the uncertain demand outlook, management remains optimistic about strong deal wins and clients' transformation in the industry.

**SHARE PRICE PERFORMANCE**

**MARKET INFO**

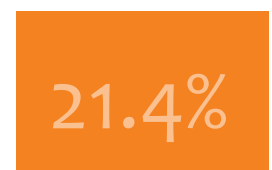
|        |        |
|--------|--------|
| SENSEX | 66,760 |
| NIFTY  | 19,742 |

**SHARE HOLDING PATTERN (%)**

| Particulars | Mar-31 | Dec 22 | Sept 22 |
|-------------|--------|--------|---------|
| Promoters   | 43.92  | 43.92  | 43.92   |
| FIIIs       | 13.85  | 13.89  | 15.37   |
| DIIIs       | 3.55   | 3.43   | 3.91    |
| Others      | 38.68  | 38.75  | 36.80   |
| Total       | 100    | 100    | 100     |



Revenue CAGR between FY23 and FY25E



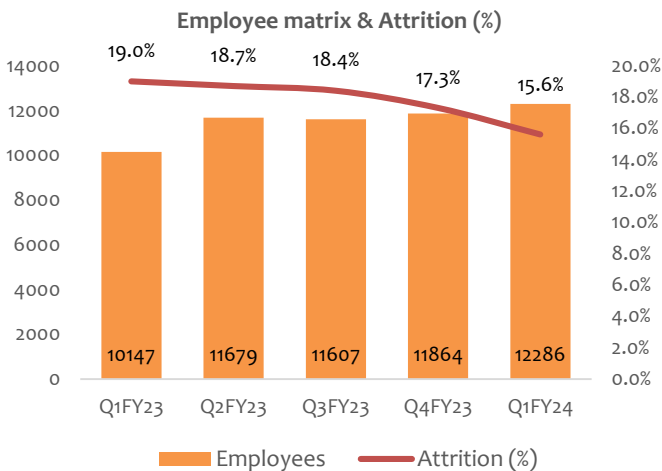
PAT CAGR between FY23 and FY25E

## TATA Elxsi Limited

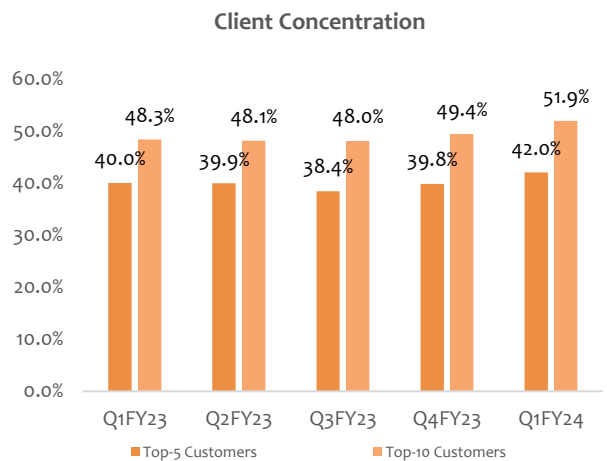
**Key Concall Highlights:** (i) While the overall macro environment remains challenging, Tata Elxsi reported healthy revenue growth of 17.1% on a YoY basis. (ii) The healthcare segment recorded sequential growth of 3.4%, which is a significant improvement over the last two quarters, owing to new product engineering, digital health, and intelligent connected devices. (iii) Tata Elxsi has partnered with ISRO and will continue to strengthen its space offering. (iv) In the transportation segment, deal closure is taking a longer time, but management remains confident about closing many large deals in Q2FY24 and subsequent quarters going ahead. (v) The utilization rate for Q1FY24 stood at 72.5%, and management aims to improve the rate to around 80% over the next few quarters. (vi) The North American market has shown a decline due to a slowdown in the Communication and Media segment. (vii) The company expects to hire 1800-2000 employees for FY24. (viii) 70% of the headcounts have received wage hikes in Q1FY24. (ix) Tata Elxsi will continue to invest in geographies like North America and Europe. (x) The effective tax rate has been increasing in Q1FY24, which has impacted net profit margins, and management expects tax rates to remain in the same range going forward. (xi) The company added 422 employees during Q1FY24, while the attrition rate declined to 15.6%.

### Valuation and view

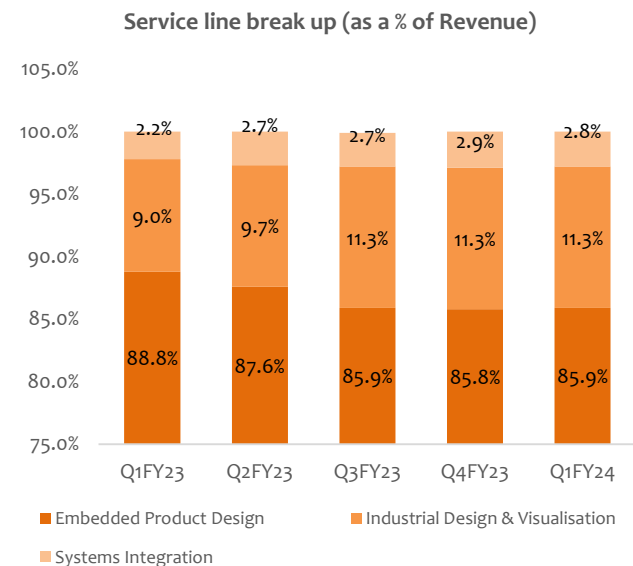
TELX is currently trading at a valuation with a P/E multiple of 55.0x/42.1x on FY24E/FY25E earnings. We expect strong deal momentum across verticals, the addition of new clients from newer geographies, a higher focus on IDV, especially in design-led digital projects, and a multi-year tailwind in EPD. Therefore, we are assigning a P/E multiple of 47.0x to the FY25 estimated EPS of INR 178.8. This calculation leads us to a target price of INR 8,406 per share, representing an upside of around 11.6% over the current market price (CMP). Please note that we have revised our target price from INR 8,878 because the management has indicated that the tax rate would be high, resulting in a reduction in the FY25E EPS from 188.9 to 178.8. Consequently, we have adjusted our rating to "ACCUMULATE" from "BUY" for this stock.



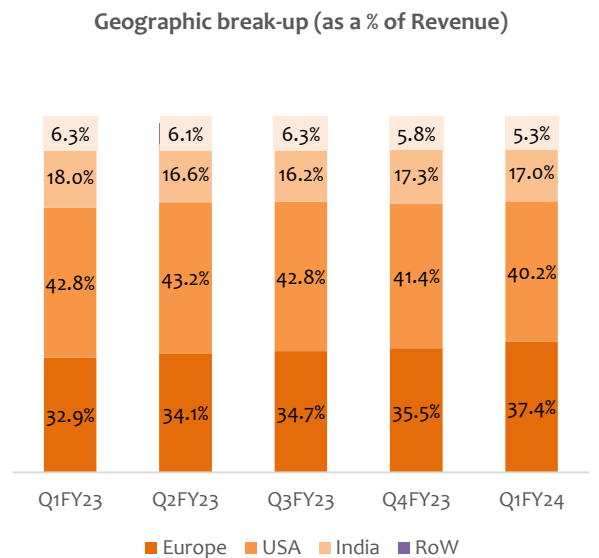
Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

**TATA Elxsi Limited**
**KEY FINANCIALS**
**Exhibit 1: Balance Sheet**

| Particulars (INR Mn)                 | FY21          | FY22          | FY23          | FY24E         | FY25E         |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Property, Plant and Equipment        | 860           | 1,268         | 1,597         | 1,689         | 2,127         |
| Right-of-use Asset                   | 651           | 1,244         | 1,577         | 1,938         | 2,276         |
| CWIP                                 | 73            | 221           | 70            | 70            | 70            |
| Intangible Assets                    | 186           | 203           | 162           | 295           | 494           |
| Deferred Tax Asset, Net              | 100           | 90            | 129           | 129           | 129           |
| Long term Loans & Advances           | 0             | 0             | 0             | 0             | 0             |
| <b>Total non current assets</b>      | <b>3,253</b>  | <b>4,735</b>  | <b>4,500</b>  | <b>6,782</b>  | <b>8,329</b>  |
| Inventory                            | 1             | 6             | 4             | 5             | 6             |
| Cash & equivalent                    | 1,004         | 1,511         | 1,339         | 2,429         | 5,745         |
| Trade Receivables                    | 4,894         | 6,728         | 9,764         | 11,790        | 14,615        |
| Short Term Loans and Advances        | 9             | 10            | 18            | 27            | 33            |
| Other Current Assets                 | 291           | 418           | 977           | 1,180         | 1,463         |
| <b>Total current assets</b>          | <b>13,914</b> | <b>16,957</b> | <b>23,135</b> | <b>26,558</b> | <b>33,122</b> |
| <b>Total Assets</b>                  | <b>17,167</b> | <b>21,692</b> | <b>27,635</b> | <b>33,340</b> | <b>41,451</b> |
| Equity Share Capital                 | 623           | 623           | 623           | 623           | 623           |
| Other Equity                         | 12,899        | 15,386        | 20,235        | 25,773        | 32,456        |
| <b>Total Equity</b>                  | <b>13,522</b> | <b>16,009</b> | <b>20,858</b> | <b>26,396</b> | <b>33,078</b> |
| Deferred Tax Liability,(Net)         | 0             | 0             | 0             | 0             | 0             |
| Lease Liability                      | 605           | 1,183         | 1,537         | 1,647         | 1,934         |
| Long term Provision                  | 396           | 398           | 455           | 552           | 671           |
| <b>Total non current liabilities</b> | <b>1,001</b>  | <b>1,580</b>  | <b>1,992</b>  | <b>2,199</b>  | <b>2,605</b>  |
| Trade Payables                       | 561           | 843           | 1,032         | 1,245         | 1,564         |
| Lease Liability                      | 128           | 202           | 285           | 315           | 370           |
| Other Current Liabilities            | 831           | 1,498         | 1,531         | 1,461         | 1,811         |
| Short term Provisions                | 126           | 126           | 256           | 190           | 231           |
| <b>Total Current Liabilities</b>     | <b>2,645</b>  | <b>4,102</b>  | <b>4,786</b>  | <b>4,744</b>  | <b>5,768</b>  |
| <b>Total liabilities</b>             | <b>17,167</b> | <b>21,692</b> | <b>27,635</b> | <b>33,340</b> | <b>41,451</b> |

Source: Company, KRChoksey Research

**TATA Elxsi Limited**
**KEY FINANCIALS**
**Exhibit 2: Profit & Loss Statement**

| Particulars (INR Mn)        | FY21         | FY22         | FY23          | FY24E         | FY25E         |
|-----------------------------|--------------|--------------|---------------|---------------|---------------|
| Revenue                     | 18,262       | 24,708       | 31,447        | 37,973        | 47,073        |
| Total Operating expenses    | 12,167       | 15,789       | 19,971        | 24,156        | 29,220        |
| <b>EBITDA</b>               | <b>6,095</b> | <b>8,919</b> | <b>11,476</b> | <b>13,817</b> | <b>17,853</b> |
| Depreciation                | 444          | 553          | 814           | 886           | 1,140         |
| <b>EBIT</b>                 | <b>5,651</b> | <b>8,366</b> | <b>10,662</b> | <b>12,931</b> | <b>16,714</b> |
| Finance Cost                | 59           | 94           | 162           | 174           | 219           |
| Other income, net           | 398          | 445          | 738           | 700           | 781           |
| <b>Pre-tax Income</b>       | <b>5,312</b> | <b>8,015</b> | <b>10,086</b> | <b>12,405</b> | <b>16,151</b> |
| Income tax expense          | 1,437        | 1,958        | 1,823         | 2,686         | 3,318         |
| <b>Net profit Before MI</b> | <b>5,119</b> | <b>7,455</b> | <b>9,375</b>  | <b>11,212</b> | <b>14,456</b> |
| Minority Interest           | 0            | 0            | 0             | 0             | 0             |
| <b>Net profit</b>           | <b>3,681</b> | <b>5,497</b> | <b>7,552</b>  | <b>8,526</b>  | <b>11,138</b> |
| Diluted EPS (INR)           | 59.1         | 88.3         | 121.3         | 136.9         | 178.9         |

Source: Company, KRChoksey Research

**Exhibit 3: Free Cash Flow Analysis**

| Particulars (INR Mn)                              | FY21   | FY22   | FY23   | FY24E  | FY25E  |
|---|--------|--------|--------|--------|--------|
| Net Cash Generated From Operations                | 4,374  | 4,830  | 4,869  | 4,884  | 8,982  |
| Net Cash Flow from/(used in) Investing Activities | -4,377 | -1,083 | -2,019 | -771   | -1,333 |
| Net Cash Flow from Financing Activities           | -1,265 | -3,261 | -3,031 | -3,023 | -4,332 |
| Net Inc/Dec in cash equivalents                   | -1,268 | 486    | -182   | 1,090  | 3,316  |
| Opening Balance                                   | 6,642  | 8,596  | 10,076 | 11,886 | 14,366 |
| Closing Balance Cash and Cash Equivalents         | 1,004  | 1,511  | 1,339  | 2,429  | 5,745  |

Source: Company, KRChoksey Research

**Exhibit 4: Ratio Analysis**

| Key Ratio             | FY21  | FY22  | FY23  | FY24E | FY25E |
|-----------------------|-------|-------|-------|-------|-------|
| EBIT Margin (%)       | 26.2% | 25.9% | 28.0% | 28.1% | 29.5% |
| Tax rate (%)          | 28.1% | 28.0% | 19.4% | 24.0% | 23.0% |
| Net Profit Margin (%) | 20.2% | 20.2% | 24.0% | 22.5% | 23.7% |
| RoE (%)               | 30.1% | 28.8% | 36.2% | 32.3% | 33.7% |
| EPS (INR per share)   | 59.1  | 88.3  | 121.3 | 136.9 | 178.8 |

Source: Company, KRChoksey Research

**TATA Elxsi Limited**

| TATA Elxsi Limited |           |         |                | Rating Legend (Expected over a 12-month period) |                |
|--------------------|-----------|---------|----------------|---|----------------|
| Date               | CMP (INR) | TP(INR) | Recommendation | Our Rating                                      | Upside         |
| 18-July-23         | 7535      | 8406    | ACCUMULATE     | <b>Buy</b>                                      | More than 15%  |
| 19-May-23          | 7023      | 8878    | BUY            | <b>Accumulate</b>                               | 5% – 15%       |
| 25-Jan-23          | 6,597     | 8884    | BUY            | <b>Hold</b>                                     | 0 – 5%         |
| 17-Oct-22          | 7783      | 8884    | ACCUMULATE     | <b>Reduce</b>                                   | -5% – 0        |
| 16-Jul-22          | 8056      | 8884    | ACCUMULATE     | <b>Sell</b>                                     | Less than – 5% |
| 21-Apr-21          | 7904      | 8884    | ACCUMULATE     |   |                |

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