



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Red	↔	Red

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Aug 08, 2023

20.79

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

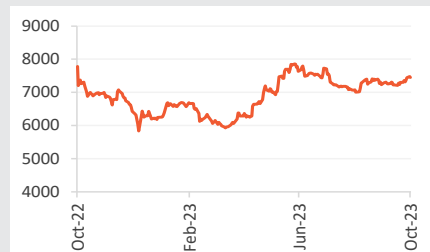
Company details

Market cap:	Rs. 46,391 cr
52-week high/low:	Rs. 7950/5708
NSE volume: (No of shares)	1.4 lakh
BSE code:	500408
NSE code:	TATAELXSI
Free float: (No of shares)	3.5 cr

Shareholding (%)

Promoters	44
FII	14
DII	4
Others	38

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	-3.4	18.5	-4.2
Relative to Sensex	5.1	-3.2	7.6	-18.0

Sharekhan Research, Bloomberg

IT & ITes	Sharekhan code: TATAELXSI		
Reco/View: Hold	↔	CMP: Rs. 7,449	Price Target: Rs. 8,190
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Tata Elxsi reported revenue growth of 3.4% q-o-q and +10.1% y-o-y on constant currency basis beating our estimates of 2.8% q-o-q growth led by the Transportation and Healthcare verticals, up 6.9%/3.2 q-o-q in constant currency respectively.
- EBIT margin was flat at 27.1% but better than our estimate of 26.7% while EBITDA margin improved 31bps q-o-q to 29.9% driven by a strong focus on delivery and operational excellence, key account management and differentiated offerings.
- The company won a landmark multi-year large deal for SDV from one of the leading Automotive OEMs For Q2FY24. Revenue from Top 5 and Top 10 clients grew 9.3% and 5.8% q-o-q respectively.
- The company saw healthy growth and traction in transportation and healthcare verticals with large deal wins adding to revenue visibility. However, Media and communication vertical continues to see challenges in both US and Europe. Hence, we maintain Hold with revised price target (PT) of Rs. 8,190 (increase in PT reflects the roll forward to FY26 E EPS). At CMP, the stock trades at 47.8/40x its FY25/FY26E EPS.

Tata Elxsi reported revenue growth of 3.4% q-o-q and +10.1% y-o-y on constant currency basis beating our estimates of 2.8% q-o-q growth. The company reported Revenues from operations at Rs. 881.7 Cr up 3.7% q-o-q/15.5% y-o-y beating our estimates of Rs 876.5 crore. Revenue growth was led by Transportation and Healthcare, up 6.9%/3.2 q-o-q in constant currency respectively. Segment-wise revenue growth was driven by Embedded Product Design and Industrial Design & Visualization, up 3.4%/4.0% q-o-q in constant currency respectively. EBIT margin was flat at 27.1% better than our estimate of 26.7% while EBITDA margin improved 31 bps q-o-q to 29.9% driven by a strong focus on delivery and operational excellence, key account management and differentiated offerings. Net profit stood at Rs. 200 crore, up 5.9% q-o-q/ 14.8% y-o-y, was above our estimates of Rs 189.7 crore. Net profit was aided by other income, up 40% q-o-q. During the quarter, the company won a landmark multi-year large deal for SDV from one of the leading Automotive OEMs For Q2FY24 while revenue from Top 5 and Top 10 clients grew 9.3% and 5.8% q-o-q respectively. The company added 585 employees on a net basis in the quarter, up 4.8%q-o-q. Attrition moderated to 13.7%, down 190 bps q-o-q. The company is witnessing healthy growth and traction in transportation and Healthcare verticals. Large deal wins in SDV from leading automotive OEM adds to revenue visibility. However, the media and communication vertical continue to see challenges in both US and Europe. Hence, we maintain Hold with revised price target (PT) of Rs 8190 (increase in PT reflects the roll forward to FY26 E EPS). At CMP, the stock trades at 47.8/40x its FY25/FY26E EPS.

Key positives

- Transportation vertical reported strong 6.9% q-o-q growth in constant currency.
- Attrition rate moderated 190 bps q-o-q to 13.7% from 15.6%.
- Net additions improved by 585 taking the total headcount to 12,871.
- Healthcare and life sciences business reported a healthy q-o-q growth of 3.2% in constant currency.

Key negatives

- System Integration & Support reported muted 0.3% q-o-q growth in cc.
- Media & Communication witnessed muted declined 0.4% q-o-q in constant currency.

Management Commentary

- In the Media and & Communication business, the company continues to see challenges in both the key geographies of US and Europe.
- The company is witnessing traction in Automotive business despite more commercial scrutiny and elongated decision making. The Automotive deal pipeline is witnessing conversions at a healthy pace.
- Industrial Design division (IDV) achieved milestone of Rs. 100 crores in revenue in a quarter. The company has invested significantly in IDV and intends to soon reach Rs 500 crore annually.

Revision in estimates – We have fine-tuned our estimates for FY24 /FY25E to factor healthy Q2FY24 performance.

Our Call

Valuation – Maintain Hold with revised PT of Rs 8190: The company is witnessing healthy growth and traction in transportation and Healthcare verticals. Large deal wins in SDV from leading automotive OEM adds to revenue visibility. However, Media and communication vertical continues to see challenges in both US and Europe. We expect Sales/ PAT CAGR of 17%/15% over FY23-26E, respectively. Hence, we maintain Hold with revised price target (PT) of Rs 8190 (increase in PT reflects the roll-forward to FY26 E EPS). At CMP, the stock trades at 47.8/40x its FY25/FY26E EPS.

Key Risks

Rupee appreciation and/or adverse cross-currency movements. Contagion impact of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Total Revenue	2,470.8	3,144.7	3,625.2	4,271.0	5,042.6
EBITDA margin %	31.0	30.6	30.1	30.2	30.5
Adjusted Net Profit	549.7	755.3	822.2	969.7	1,159.0
% y-o-y growth	49.3	37.4	8.9	17.9	19.5
EPS (Rs.)	88.3	121.3	132.0	155.7	186.1
PER (x)	84.4	61.4	56.4	47.8	40.0
P/BV (x)	29.0	22.2	17.7	14.0	11.1
EV/EBITDA	59.3	47.1	40.8	34.1	28.0
ROE (%)	34.3	36.2	31.3	29.2	27.6
ROCE (%)	38.2	42.0	35.2	33.0	31.1

Source: Company; Sharekhan estimates

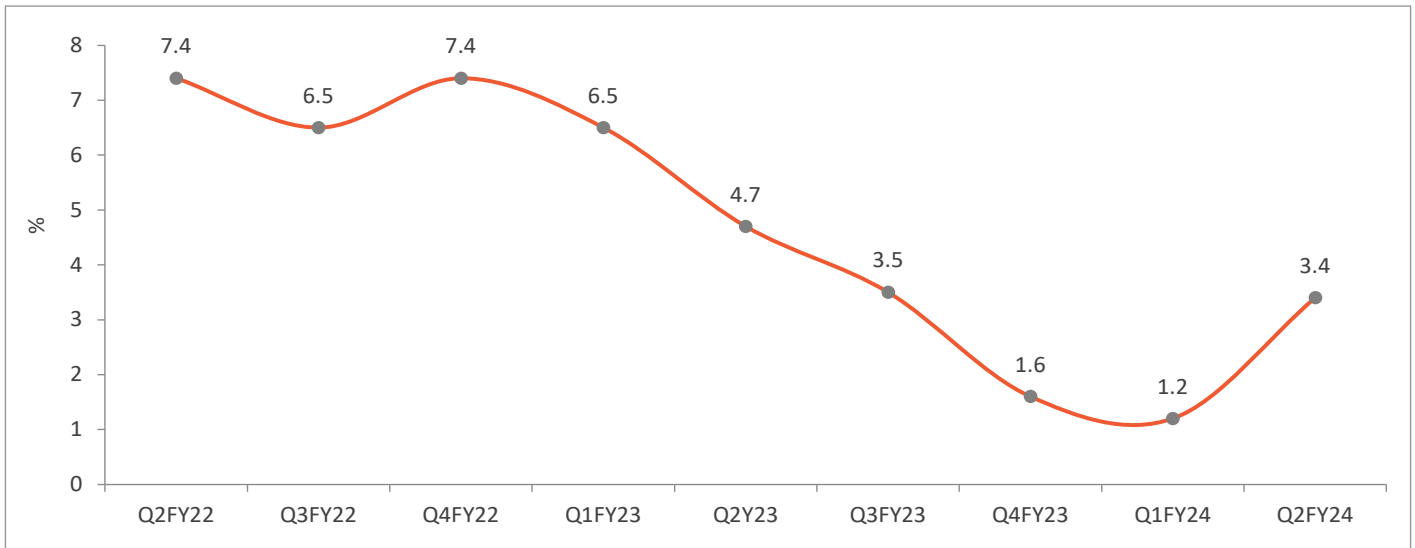
Key earnings call highlights

- ◆ **Healthy revenue growth:** The company reported revenues from operations at Rs. 881.7 Cr up 3.7% q-o-q/15.5% y-o-y beating our estimates of Rs 876.5 crore. Operating revenue grew 3.4% q-o-q and +10.1% y-o-y on constant currency basis beating our estimates of 2.8% q-o-q growth in constant currency. Revenue growth was led by Transportation and Healthcare, up 6.9%/3.2 q-o-q in constant currency terms, respectively.
- ◆ **Margins:** EBIT margin was flat at 27.1% better than our estimate of 26.7%, while EBITDA margins improved 31 bps q-o-q to 29.9 % driven by strong focus on delivery and operational excellence, key account management and differentiated offerings.
- ◆ **Growth across verticals & segments:** The transportation business, which accounts for 46.2% of the vertical revenues, witnessed strong growth of 6.9% q-o-q and 19.1% YoY in constant currency. During the quarter, the company won a landmark multi-year large deal for SDV from one of the leading Automotive OEMs. Healthcare & Lifesciences business reported a healthy growth of 3.2% q-o-q and 4.8% YoY in constant currency. Media & Communication business continues to face a cautious industry environment and has declined marginally by 0.4% q-o-q and 1.3% YoY in constant currency basis. With respect to segments, Embedded Product Design/ Industrial Design & visualisation and System integration and support grew 3.4% /4.0% and 0.3% q-o-q in constant currency.
- ◆ **Growth across geographies and top clients:** Europe grew strongly by 10.4% q-o-q offset by degrowth in India and RoW by 5.9%/6.4% q-o-q respectively. Americas grew 1.7 % q-o-q . For Q2FY24, revenue from Top 5 and Top 10 clients grew 9.3% and 5.8%, respectively.
- ◆ **Hiring & attrition:** The company added 585 employees on a net basis in the quarter, up 4.8%q-o-q. Attrition moderated to 13.7%, down 190 bps q-o-q.
- ◆ **Offshore - Onsite revenue mix:** Offshore mix declined to 74.2 % from 74.7% Q1FY24.

Results	Rs cr				
Particulars	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Revenues in USD (mn)	106.7	95.2	103.4	12.2	3.2
Net sales	881.7	763.2	850.3	15.5	3.7
Employee expenses	477.3	392.2	442.4	21.7	7.9
Total purchases	49.9	41.6	58.2	19.9	-14.3
Other expenses	91.0	102.9	98.2	-11.6	-7.4
EBITDA	263.5	226.6	251.5	16.3	4.8
Depreciation	25.0	21.8	21.4	14.8	16.8
EBIT	238.5	204.8	230.1	16.5	3.7
Other income	31.1	18.7	22.2	66.7	40.2
Finance cost	5.8	4.3	3.9	36.5	48.2
PBT	263.9	219.2	248.3	20.4	6.2
Total tax	63.8	44.9	59.5	42.2	7.3
Net profit	200.0	174.3	188.9	14.8	5.9
EPS (Rs)	32.1	28.0	30.3	14.8	5.9
Margin (%)			BPS		BPS
EBITDA	29.9	29.7	29.6	20	32
EBIT	27.1	26.8	27.1	22	0
NPM	22.7	22.8	22.2	-15	47
Tax rate	24.2	20.5	24.0	372	24

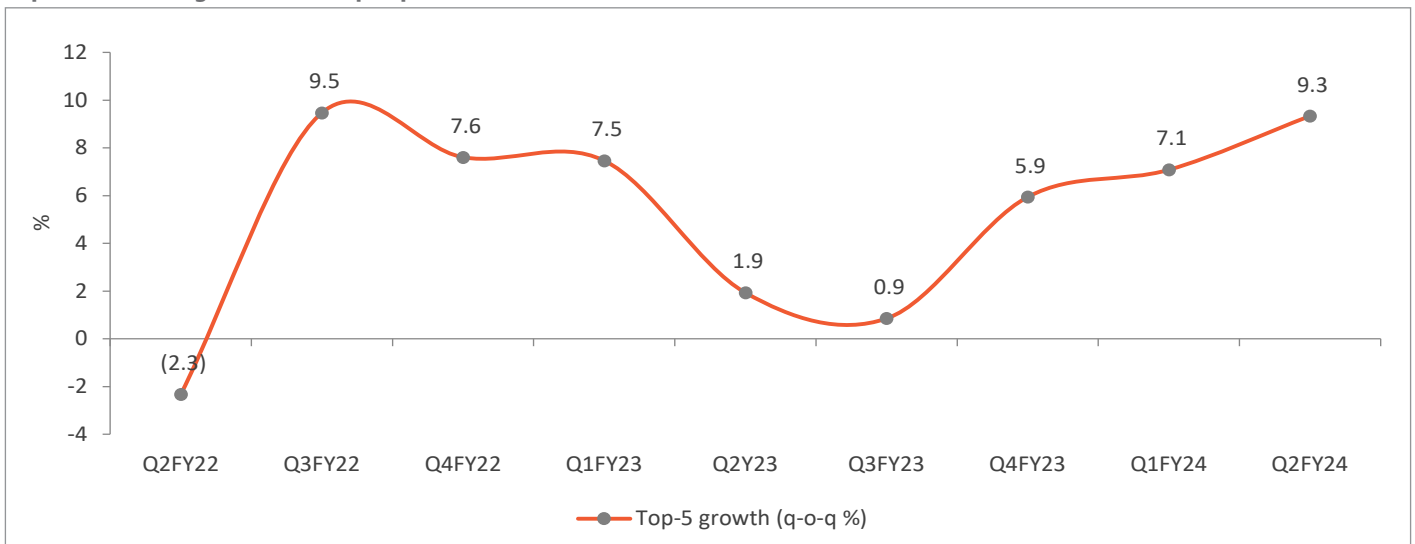
Source: Company, Sharekhan Research

CC revenue growth trend (q-o-q)



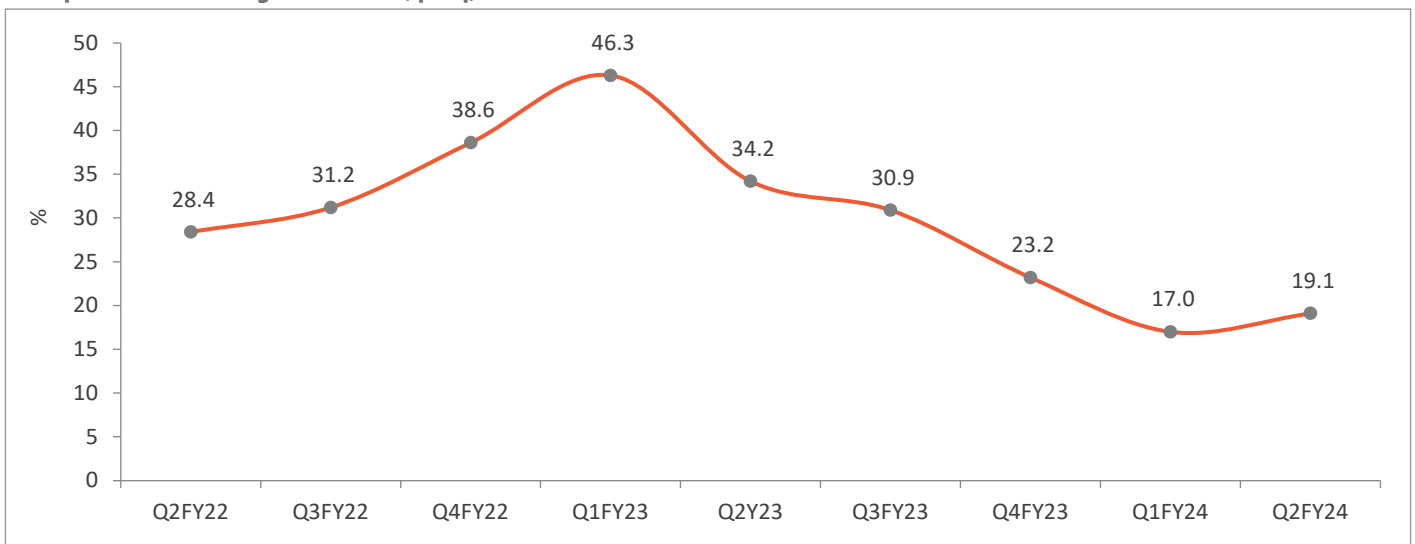
Source: Company, Sharekhan Research

Top five accounts growth trend (q-o-q)



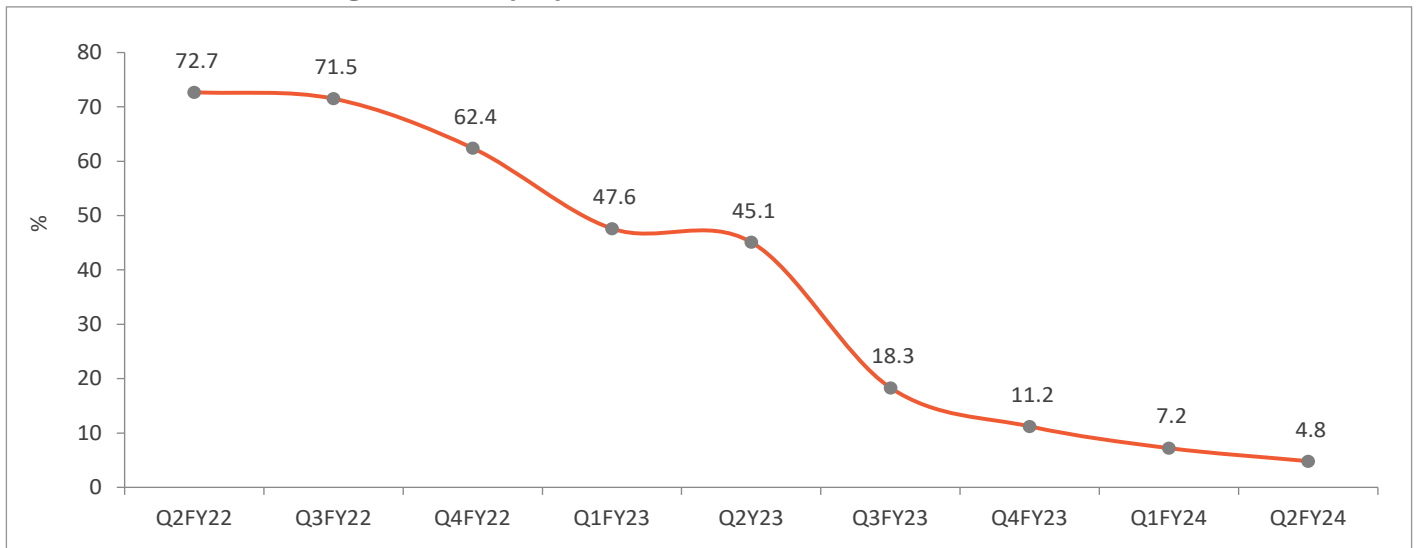
Source: Company, Sharekhan Research

Transportation vertical growth trend (q-o-q)



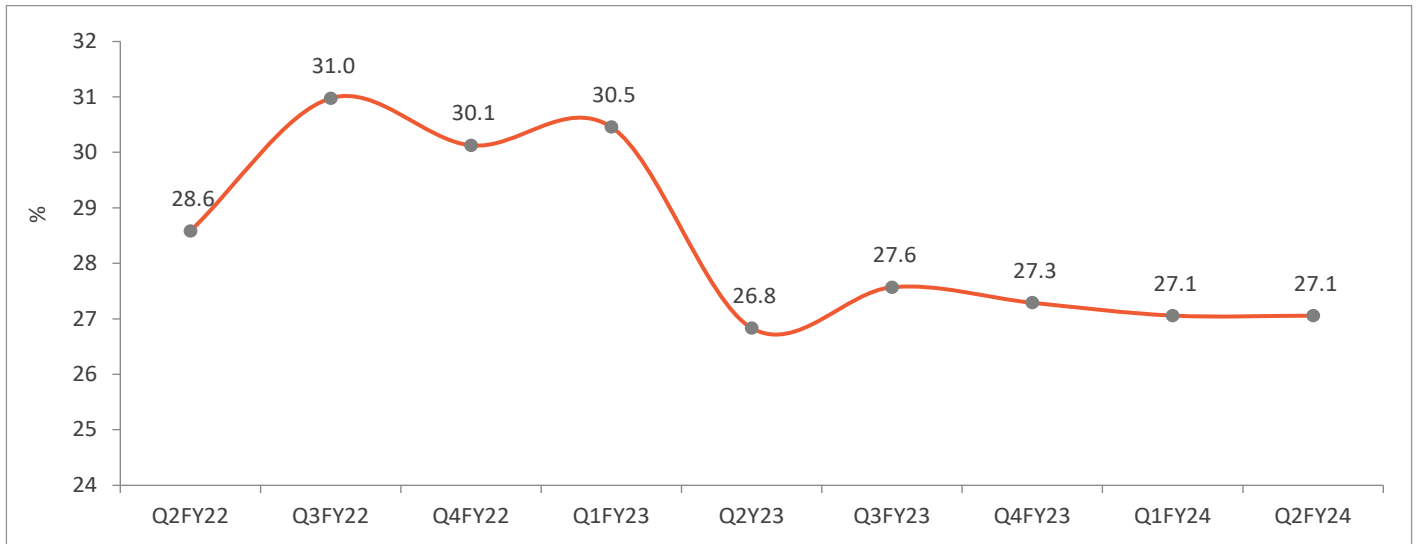
Source: Company, Sharekhan Research

Healthcare and medical devices growth trend (q-o-q)



Source: Company, Sharekhan Research

EBIT margin trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Persisting multiple global headwinds turning outlook for FY24E uncertain

Owing to multiple global headwinds, the outlook for FY24E looks uncertain, and the recovery could be gradual in the coming quarters. Hence, concerns relating to macro headwinds are unlikely to abate anytime soon, thus restricting any material outperformance for Indian IT companies.

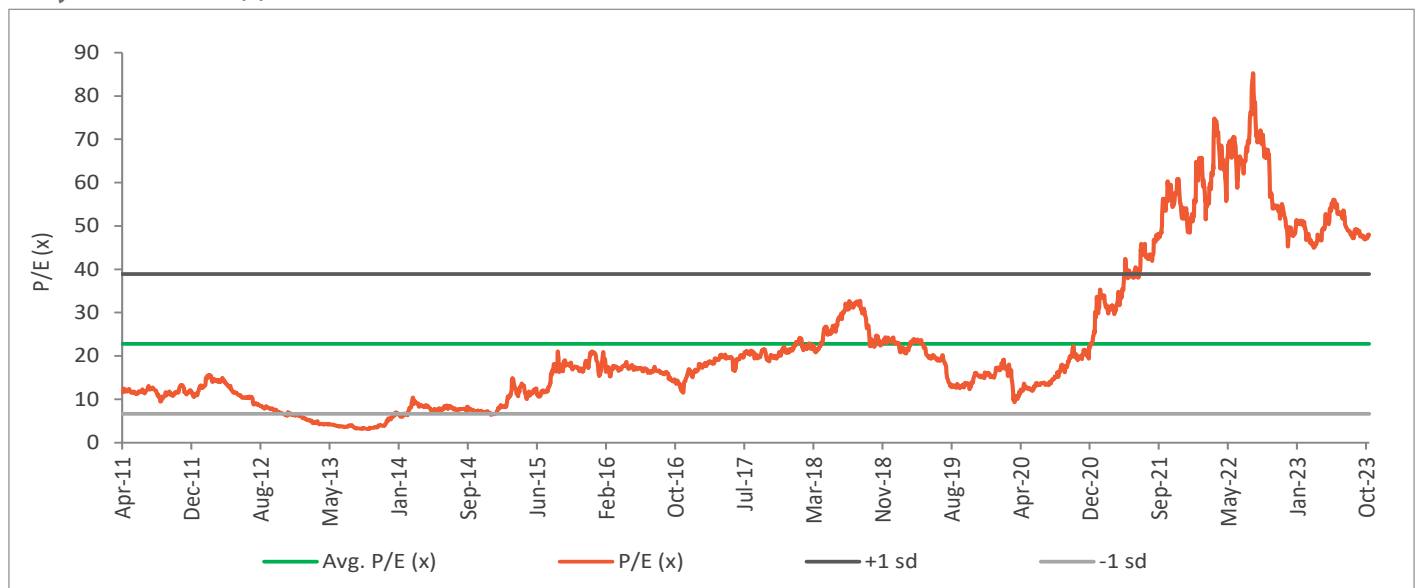
■ Company outlook - Growth prospects promising

TEL's key verticals have a huge growth opportunity, considering an increase in research and development (R&D) spends in automotive, consumer electronics, and medical devices. TEL is a specialist vendor for top OEMs and tier-I suppliers. This along with recent re-allocation of R&D budgets towards electronics and software, a large addressable market, and differentiated product offerings is expected to drive the company's revenue growth going ahead. The company's strong capabilities in digital engineering, domain expertise, and robust platform portfolio have helped it to strengthen its market position and win wallet share from existing customers.

■ Valuation - Maintain Hold with revised PT of Rs 8,190

The company is witnessing healthy growth and traction in transportation and Healthcare verticals. Large deal wins in SDV from leading automotive OEM adds to revenue visibility. However, Media and communication vertical continues to see challenges in both US and Europe. We expect Sales/ PAT CAGR of 17%/15% over FY23-26E, respectively. Hence, we maintain Hold with revised price target (PT) of Rs 8190 (increase in PT reflects the roll-forward to FY26 E EPS). At CMP, the stock trades at 47.8/40x its FY25/FY26E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Incorporated in 1989, Bengaluru-based TEL is a global design and technology services company. The company provides digital design and engineering services and systems integration and support services in India, the US, Europe, and RoW. The company provides solutions and services for emerging technologies such as internet of things (IoT), big data analytics, cloud, mobility, virtual reality, and artificial intelligence and brings together domain experience across infotainment, autonomous driving, telematics, powertrain, and body electronics. TEL also works with leading OEMs and suppliers in the automotive industries for R&D, design, and product engineering services from architecture to launch. The company has been investing in platforms to scale and build efficiencies.

Investment theme

TEL is an integrated engineering services company with strong expertise in the automotive, media, broadcast and communication, and healthcare verticals. The complex innovation requirements for OEMs need to be cost-effective, which makes a good case for offshoring to India due to its capabilities along with cost advantage and talent pool. TEL has a strong debt-free balance sheet with a robust cash balance that provides an inorganic growth opportunity. The company's differentiated technology capabilities, domain expertise, and strong delivery capability enable it to address the emerging opportunities across key verticals.

Key Risks

1) Rupee appreciation and/or adverse cross-currency movements, and 3) Contagion effect of banking crisis, macro headwinds and possible recession in the US are likely to moderate the pace of technology spending.

Additional Data

Key management personnel

NG Subramanian	Non-Executive Chairperson
Manoj Raghavan	Managing Director cum Chief Executive Officer
Nitin Pai	CMO and Chief Strategy Officer
Gaurav Bajaj	Chief Financial Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Vanguard Group Inc/The	2.29
2	BlackRock Inc	1.88
3	Axis Asset Management Co Ltd/India	1.85
4	Norges Bank	0.47
5	Dimensional Fund Advisors LP	0.44
6	FMR LLC	0.21
7	Invesco Asset Management India Pvt	0.19
8	Candriam Investors Group	0.19
9	State Street Corp	0.18
10	Northern Trust Corp	0.16

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed 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, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022 - 41523200/022 - 69920600