

TATA ELXSI LTD.

Sector

Aug 01, 2022

Buy at CMP: Rs 8689 | Target: Rs 10147 (17%) | SL: Rs 8030 IT



Script Details

BSE Group	A
BSE Code	500408
NSE Code	TATAELXSI
Bloomberg Code	TELX IN
Market Cap (INR Cr.)	54,110
Free Float (%)	56.1%
52wk Low/High	9420/4112
Beta (1yr Nifty 50)	0.88
Face Value (INR)/ D. Yield (%)	10/0.5
Total paid Up Shares (Mn.)	62.3

Share Holding Pattern (%)

Promoters	Public	Others
43.9%	56.1%	-

Share Price Relative Performance



Tata Elxsi is amongst the world's leading providers of design and technology services across industries including Automotive, Broadcast, Communications and Healthcare. Tata Elxsi provides technology consulting, new product design, development, and testing services for the broadcast, consumer electronics, healthcare, telecom and transportation industries.

Investment Rationale

- ◆ **Revenue Drivers in Place Through its Developed Platforms:** Companies Investments in both existing and new platforms such as TEPlay, FalconEye, iCX, QoEtient, and Autonomai have increased its ability to scale and build efficiencies. Apart from customers whom it provides services, the company targets those enterprises who don't have engineering/financial strength to develop platforms and/or potential customers who only look for outsourcing platforms for the offerings to their customers. The business model of these standalone platform deals is subscriber-based and linked to growth.
- ◆ **Resilient Performance with Strong grip on Margins:** Despite of weak margin trend in overall IT space, company beat on the margins at 32.8% (+30bps QoQ) even after wage hike for senior employees during the quarter. The resilient margin performance was led by improved utilization, pyramid balancing, price hikes in certain projects and revenue growth leverage. Employee cost as % of revenues was stable at 50.4% (-20bps QoQ).
- ◆ **Leading Player in ERD segment with Strong Order Book:** Tata Elxsi remains a leading player in the Engineering Research and Development, its transportation segment contributes 37% and Broadcast & telecommunication contributes 39% of Its revenue. During Q1FY23, Company's Deal wins remained healthy as it won a multi-year multi-million-dollar deal from global tier-1 supplier for next-gen e-powertrain development; 2) a multi-million-dollar deal win from an automotive OEM in APAC and deals in areas of new-gen technologies such as smart network operations.
- ◆ **Outlook and Valuations:** In line with guidance, We estimate a 20% CAGR in Topline over FY22-25E, which implies a forward PE (x) of 53.9 for FY 25E. We value it with a earnings multiple of 63x to FY25 earnings estimate which results per share value of Rs 10,147. We recommend BUY on TATAELXSI at CMP of Rs. 8689 with Target price of Rs. 10,147 (17%).
- ◆ **Financial Snapshot:**

Year	Revenue	EBITDA	PAT	PE Ratio (x)	EV/EBITDA (x)
FY22	2,638	852	621	87.1	59.6
FY23E	3,166	1,013	697	77.7	52.5
FY24E	3,799	1,216	836	64.7	43.7
FY25E	4,559	1,459	1,003	53.9	36.4

Source: Company Data, Ace Equity, GEPL Research

TECHNICAL VIEW

Observation

- On Weekly chart of TATAELEXSI we can observe that the stock is in a strong uptrend and respecting the trend line since December 2020.
- At the level around 7500 we can spot change in the polarity by the prices as well.
- Since March 2022 prices saw a pause in the form of Ascending Triangle pattern.
- In the latest week we saw a breakout from the Ascending Triangle, which indicates continuation in the trend.
- Prices took support from the 13 Week EMA and showed a bounce on the upside. The 13 Week EMA has acted as a strong variable support for the prices.
- By looking at the weekly chart we witnessed a positive reversal by the RSI, which suggest that the stock has a strong momentum in its prices.



Inference & Expectations

- The breakout is in sync with indicators evidence and the trend.
- Going ahead we expect the prices to rise higher till the level of 10500.
- We recommend a strict stop loss of 8030, strictly on the closing basis.



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