

Focusing on key verticals for growth...

About the stock: Tata Elxsi, incorporated in 1989, is among the world's leading providers of design and technology services across industries including automotive, broadcast, communications, healthcare and transportation.

- Tata Elxsi is helping customers reimagine their products and services through design thinking and the application of digital technologies such as Internet of Things (IoT), Cloud, Mobility, Virtual Reality, Artificial Intelligence, etc
- Embedded product design forms 88% of the revenue mix, out of which transportation, media & communications and healthcare & medical devices form 41.5%, 43.1%, 15.4% mix, respectively. Geography wise America region contribute 42% of revenue while Europe region contributes 33%

Management meet Highlights

- It is leveraging on its expertise in key verticals of auto, media & communications, healthcare for the next leg of growth and targeting 40%, 40%, 20% revenue mix, respectively, in the long term from these verticals
- In auto, its investments in platform are largely to cater to future opportunities in terms of EV, autonomous and connected vehicles while in media & communications, it focuses on investments in platforms, which take care of all technology aspects of the content right from content delivery, subscriber lifecycle management, analytics, payment gateway and in vendor management. In healthcare, it has a platform, which provides latest regulatory updates from major regulatory bodies across the globe. The company also has three platforms, which are catering to omni channel care solutions for patients as well as remote patient monitoring
- Tata Elxsi is looking to participate in the larger deals of US\$100 million (mn) in the future from their current large deals in the range of US\$20-25 mn. The offshore delivery model will continue, which will help in sustaining margins at current levels

Key triggers for future price performance:

- The company is a key beneficiary growth in ER&D outsourcing especially in digital, software & electronics
- Tata Elxsi is aspiring to participate in large deals (~US\$100 mn) in future
- Continued focus on offshore delivery model, which is expected to enhance margin profile



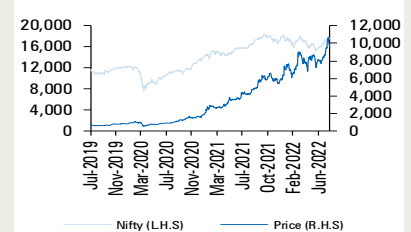
Particulars

Particular	Amount
Market Cap (₹ crore)	58,211.9
Total Debt (₹ crore)	118.3
Cash and Investment (₹ crore)	965.8
EV (₹ crore)	57,364.4
52 week H/L	10760/ 4750
Equity Capital (₹ crore)	62.0
Face Value	₹ 10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	44.4	44.3	44.1	43.9
FII	12.7	11.9	13.2	15.2
DII	5.0	5.6	4.9	4.2
Public	8.3	38.2	37.8	36.7

Price Chart



Recent event

- Launch of new platforms in healthcare vertical in US i.e. TEngage
- Collaborations in automotive segments

Research Analyst

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22) %
Net Sales	1,237.3	1,386.3	1,596.9	1,609.9	1,826.2	2,470.8	14.8
EBITDA	296.6	346.0	415.2	343.0	522.4	765.7	20.9
EBITDA Margins (%)	24.0	25.0	26.0	21.3	28.6	31.0	
Net Profit	174.8	240.0	290.1	256.1	368.1	549.7	25.8
EPS (₹)	28.1	38.5	46.6	41.1	59.1	88.3	
P/E (x)	351.1	255.8	211.7	239.7	166.8	111.7	
RoE (%)	31.3	32.5	30.8	23.5	27.2	34.3	
RoCE (%)	45.3	48.1	45.4	30.1	35.2	42.4	

Source: Company, ICICI Direct Research

Management Meet Highlights

CEO commentary

- Before the new CEO took over in FY19, the company had certain strategic opportunities in terms of i) established presence in two largest E&D verticals i.e. auto and media+ telecom, ii) growth in ER&D outsourcing especially in software & electronics, iii) under-served US market where the company was generating 30% of its revenue vs. 50-60% for peers, iv) potential to accelerate medical devices business. At the same time, there were certain strategic risks: i) Brexit uncertainties in Europe, especially UK, which represents significant revenues, ii) protectionist policies in the US, especially for outsourcing and visas, iii) currency risks, iv) dependency on large customer, 22% of revenue
- Tata Elxsi made following strategic growth vectors: a) increase in market share through leadership in established verticals by offering differentiated designs, which are largely based on software & electronics, a key differentiator vs. peers, which was focusing on mechanical designs and also focusing on expansion in US market, b) increased market size by expanding into adjacencies such as rail, new media, digital health, c) increasing wallet share through dedicated accounts team and also focusing on winning large deals
- **Increasing market share:** The company has been leveraging its deep expertise in three verticals of auto, media, healthcare and started investing in future growth areas such as
 - Auto: EV, Connected Car, autonomous cars
 - Broadcast & Communications: OTT, Network Transformation
 - Healthcare: Regulatory Intelligence
- **Increase in market size:** Tata Elxsi had started investing in three adjacent verticals apart from its core three verticals
 - Rail, offload: Smaller but less volatile markets
 - Media, new media: Rise of D2C and a new generation of media technologies including AdTech
 - Pharma, digital health: Leverage device capabilities for pharma drug delivery systems
- **Increase in wallet share:**
 - Focus on large deals and annuity business
 - Advanced consultative sales training for entire sales force
 - Key account management – Focus on accounts with growth potential
- The company had witnessed balanced growth in its three verticals in the last 12 quarters, where media & communications, auto and healthcare grew 6.3%, 4.8% and 10.4% CQGR, respectively
- Tata Elxsi has set following long term goals: 40:40:20 geo mix across US, Europe, RoW and 40:40:20 vertical mix across transportation, media & communication, Healthcare, respectively
- The company is also focusing on offshore delivery model to enhance its margin profile. Offshoring delivery location has increased from 58% in Q1FY20 to 76% in Q1FY23, which plays key role in industry leading margins

Head of Transportation

- The company has been focusing on investing in mega trends in the automotive segment
- As per management, by 2030, 96% of new vehicles will have built in connectivity, 79% of vehicles will have L2 autonomy or higher and 32% of new vehicles will be of EV including hybrids
- The company has services and solutions portfolio across all three future technologies
- Tata Elxsi has connected vehicle platform called 'TETHER', which provides certain *beyond wheel* features such as parking locator, driver behaviour monitoring, vehicle diagnostics etc and *on wheel* features such as remote lock/unlock, navigation, SOS in emergency, etc
- It also has some key EV partnerships and alliances. **Collaboration with Renesas**: The company indicated that it has entered into a collaboration with Renesas Electronics Corporation, a premier supplier of advanced semiconductor solution for setting up a state-of-the-art design centre for developing targeted solutions for electric vehicles. The company indicated that initially it will start with solutions for 2-W & light commercial vehicles and expand to 4-W in future. It has also formed an alliance with CHARIN for CCS global standards for EV charging
- It is also investing in adjacencies such as farming, mining, construction, rail (driverless trains, obstacle detection, collision avoidance, energy consumption reduction)

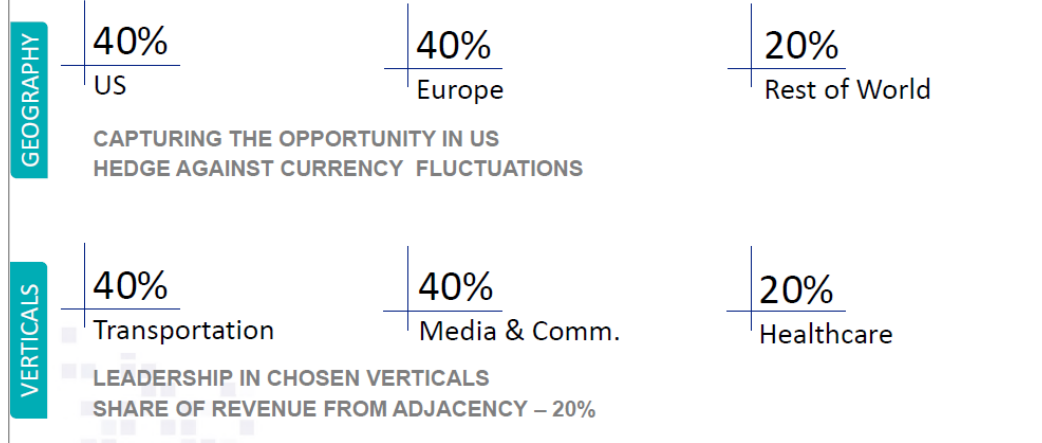
Head of Media & communications

- In this segment, it works with MSOs (cable, satellite, telcos), media/new media (broadcasters, studios, OTT players) and suppliers (silicon companies)
- Some of the mega trends in this segment are open technology adoption such as android, RDK (RDK customisable open source software solution that standardises core functions used in video, broadband, and IoT devices. It drastically reduces development cycles, encourages collaboration and enhances innovation), AdTech, workflow automation, CX management
- The company provides design and develop platforms for content management, end to end customer subscription management, vendor management, payments, etc
- TEPLAY: It is an end to end video delivery platform. It is a pre-integrated, highly scalable, secure end-to-end OTT video delivery platform, enabling faster time-to-market, smooth operations and lasting video experience. It is designed to bring business value to its customers by driving customer engagement and growth

Head of Healthcare & Life sciences

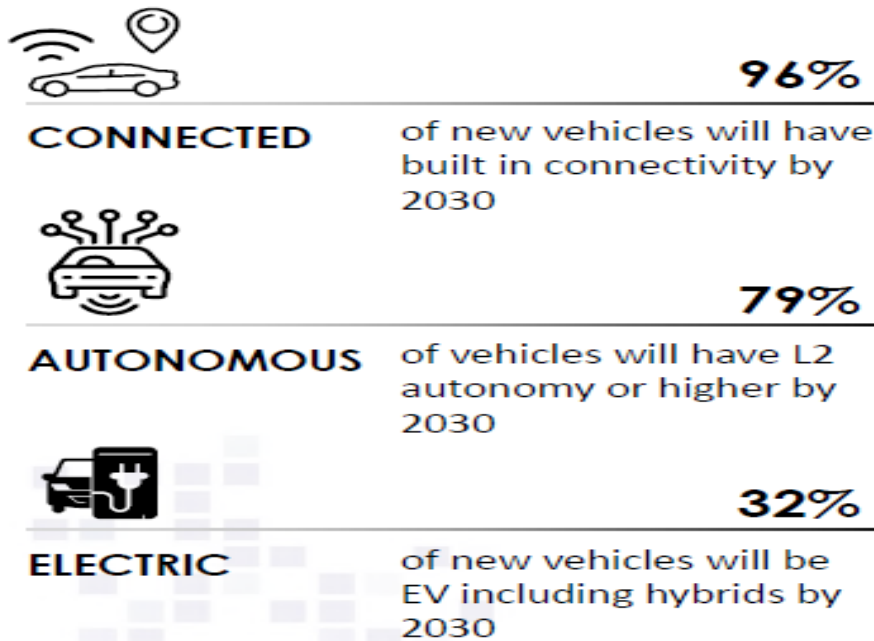
- Some of the macro trends driving the R&D priorities in the healthcare and life sciences industry, which is helping global businesses to move closer to the patient are
 - Product engineering
 - Digital health platforms
 - Software as a medical device/ digital therapeutics
- TEDREG is a global regulatory intelligence platform, which aggregates and organises latest regulatory updates from all majority regulatory bodies across the world and also provides actionable insights to the manufacturers for new market launches and product sustenance in existing markets
- It also has three other platforms viz. TEngage, TEcare, TEmpower for omnichannel care solutions, patient assistance program solution

Exhibit 1: Long term goals



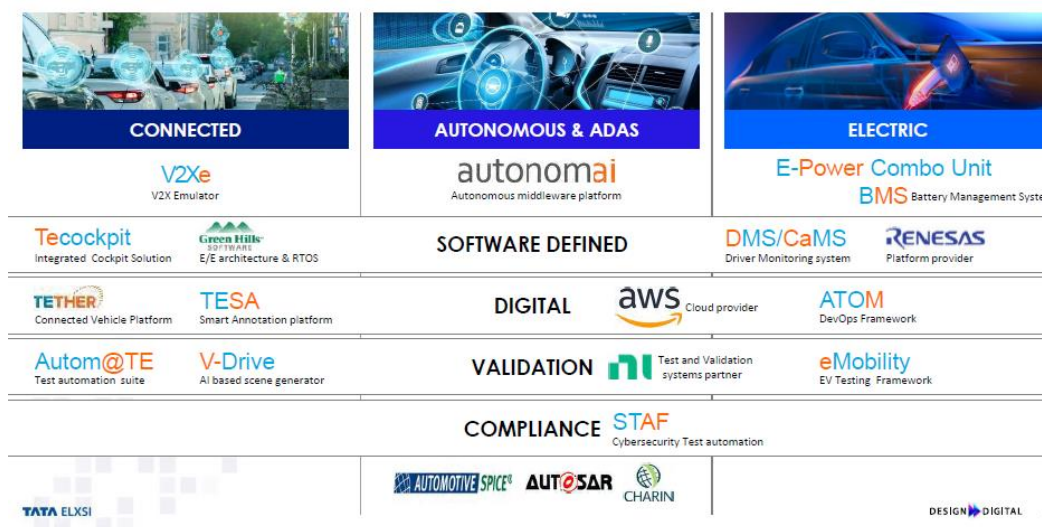
Source: Company, ICICI Direct Research

Exhibit 2: Mega trends in auto



Source: Company, ICICI Direct Research

Exhibit 3: Services & solutions portfolio in transportation verticals



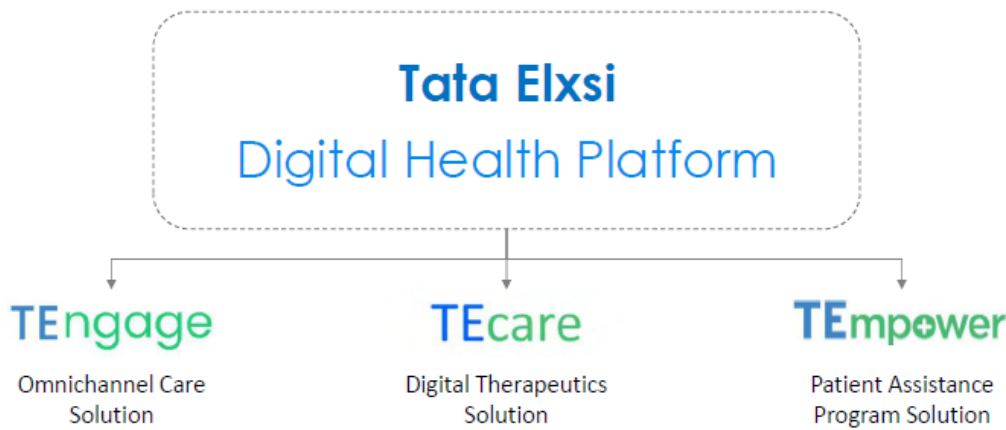
Source: Company, ICICI Direct Research

Exhibit 4: Platforms in media & communication



Source: Company, ICICI Direct Research

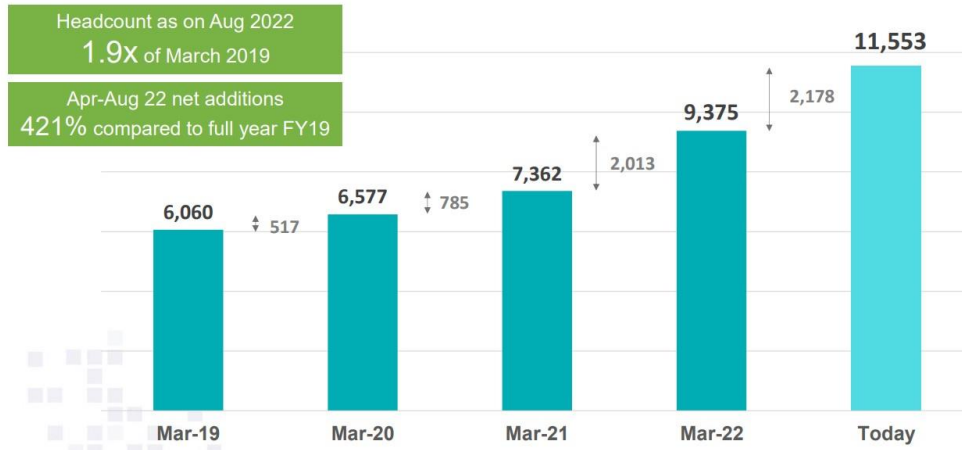
Exhibit 5: Platforms in healthcare & life sciences



Source: Company, ICICI Direct Research

Exhibit 6: Strong employee addition in recent years

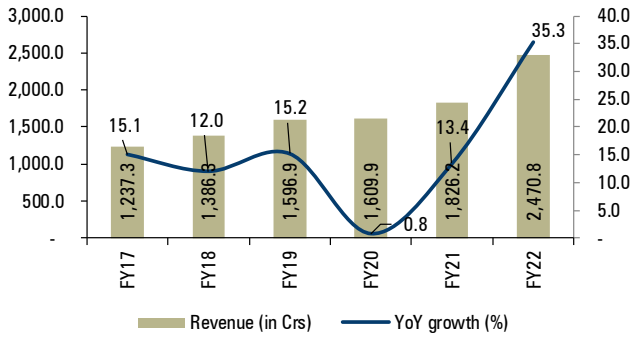
People - Investing in Scale



Source: Company, ICICI Direct Research

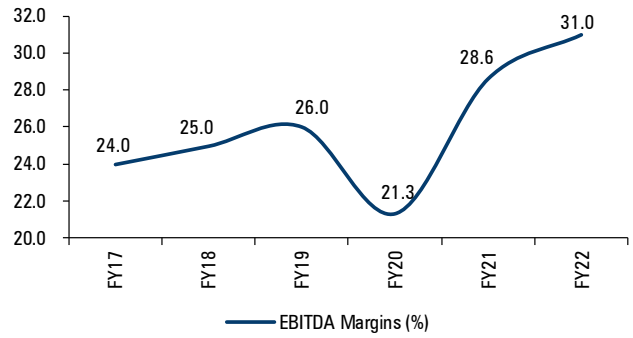
Key annual trends

Exhibit 7: Revenue grows at 14.8% CAGR over FY17-22



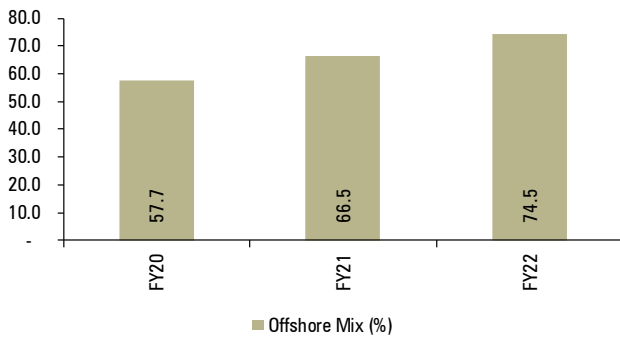
Source: Company, ICICI Direct Research

Exhibit 8: Offshoring helps in margin improvement



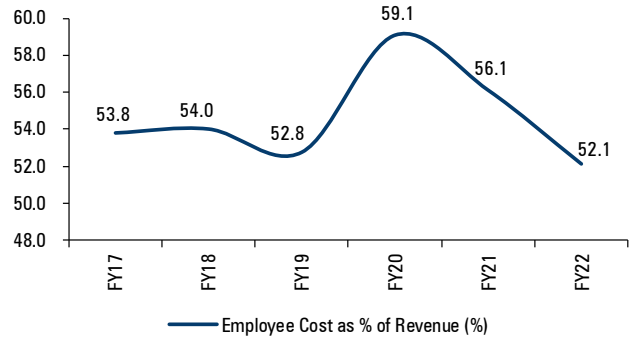
Source: Company, ICICI Direct Research

Exhibit 9: Offshoring trend



Source: Company, ICICI Direct Research

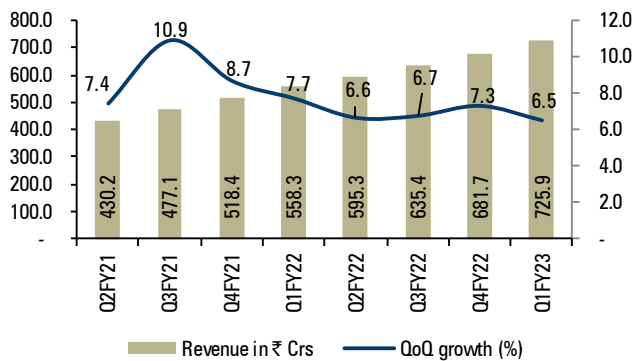
Exhibit 10: Employee cost as percentage of sales



Source: Company, ICICI Direct Research

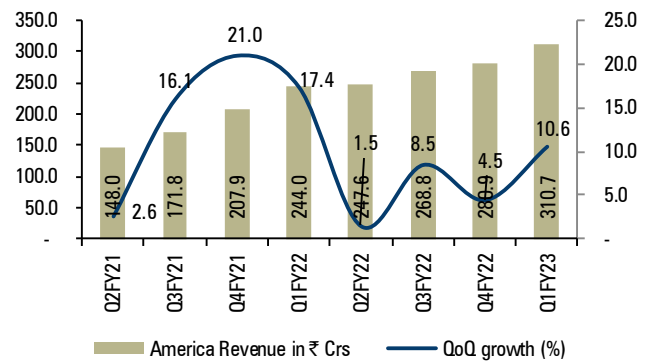
Key quarterly trends

Exhibit 11: Revenue growth QoQ



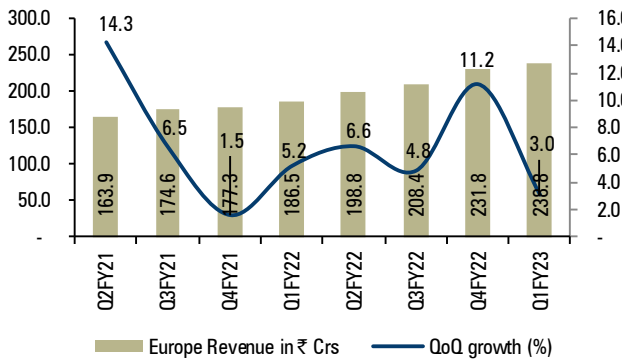
Source: Company, ICICI Direct Research

Exhibit 12: America region revenue trend



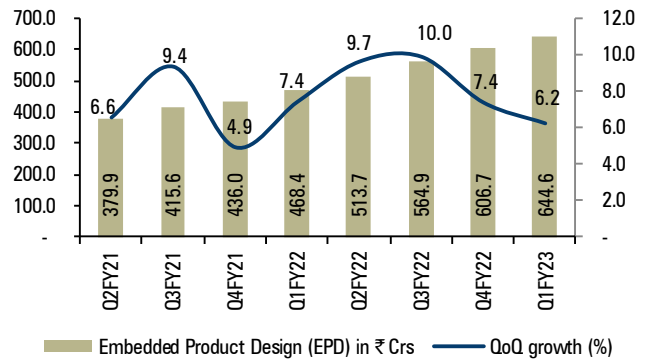
Source: Company, ICICI Direct Research

Exhibit 13: Europe region revenue trend



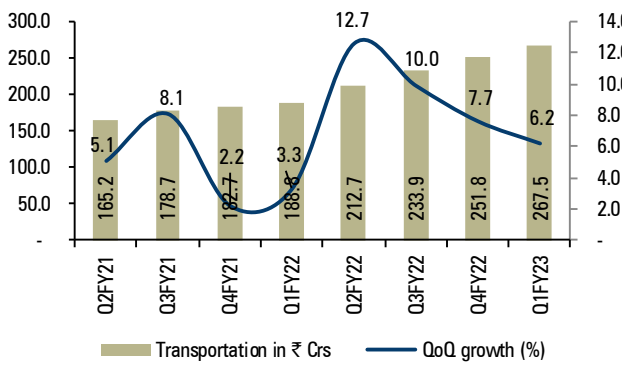
Source: Company, ICICI Direct Research

Exhibit 14: EPD vertical revenue trend



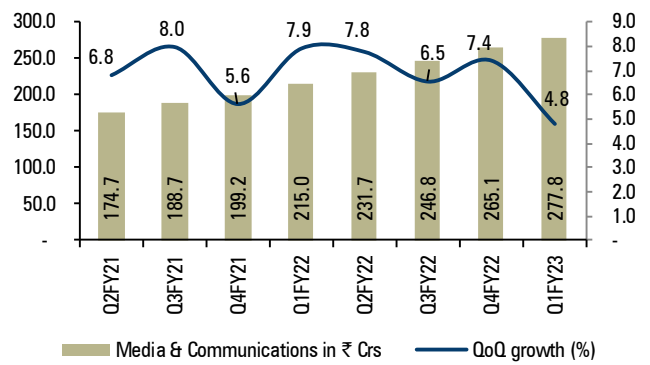
Source: Company, ICICI Direct Research

Exhibit 15: Transportation sub-vertical growth trend



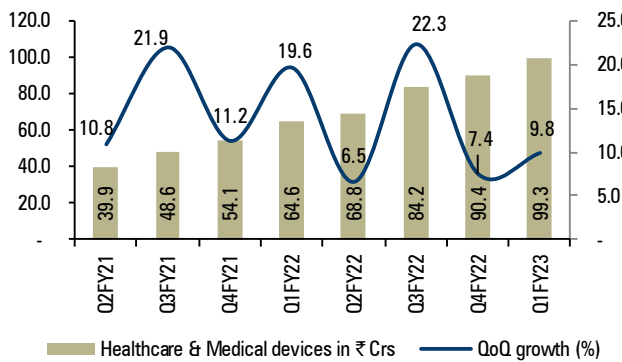
Source: Company, ICICI Direct Research

Exhibit 16: Media sub-vertical growth trend



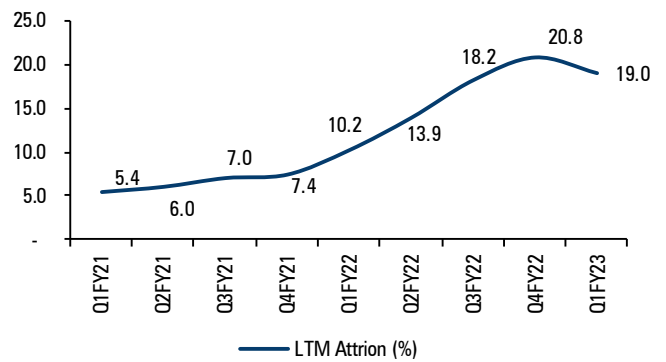
Source: Company, ICICI Direct Research

Exhibit 17: Healthcare sub-vertical growth trend



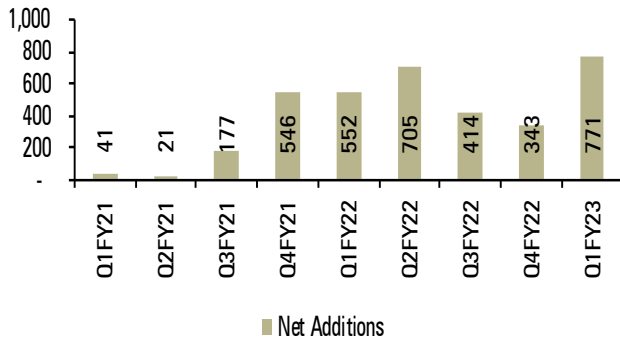
Source: Company, ICICI Direct Research

Exhibit 18: LTM attrition trend



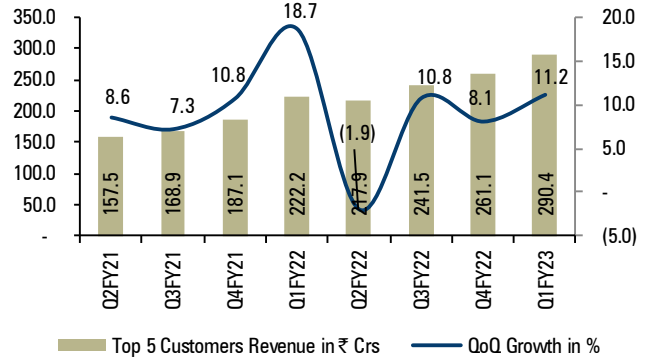
Source: Company, ICICI Direct Research

Exhibit 19: Net additions trend



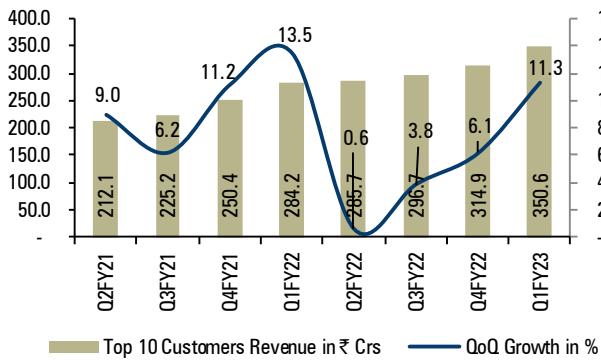
Source: Company, ICICI Direct Research

Exhibit 20: Top 5 customers' contribution to revenue trend



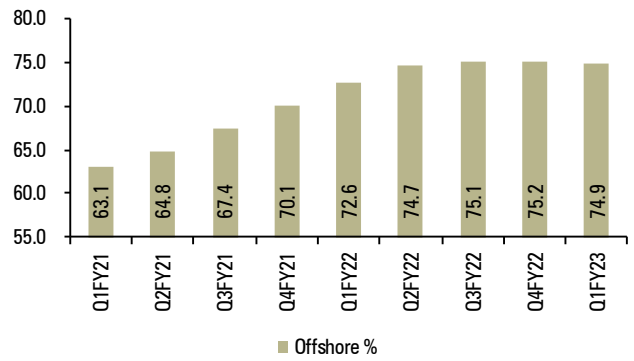
Source: Company, ICICI Direct Research

Exhibit 21: Top 10 customers' contribution to revenue trend



Source: Company, ICICI Direct Research

Exhibit 22: Offshore mix (quarterly)



Source: Company, ICICI Direct Research

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Sell: <-15%



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