



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

TATA ELXSI

WHAT WE LIKE

UNIQUE CAPABILITIES IN A DIGITAL WORLD

Tata Elxsi works on design and technology (**Industrial Design & System Integration**) that allows an organization to look at digital the right way – not just to infuse technology or obtain incremental operational efficiency gains, but rather as a **transformation opportunity to overhaul at the entire delivery of the service and experience.**

OPERATING IN IN-DEMAND TECH SEGMENTS

Tata Elxsi has started operating in the **medical devices industry** since last year and has seen good growth in this segment due to **greater demand for medical devices from COVID-19.** It is also seeing good demand for its offerings in the **media & comms space** especially those solutions geared towards **OTT space** which has also gained since the start of COVID-19.

DEBT FREE BALANCE SHEET & HIGH CASH GENERATION

Tata Elxsi is **completely debt free.** It generates a high cash flow from its operation which is consistently increasing on a yearly basis. **Avg CFO of last three yrs is Rs. 223 Cr.** TE also maintains a healthy dividend payout of around 28%.

ADAPTING FAST TO COVID-19

Tata Elxsi is one of the first companies to adapt fast to the pandemic and **move to increase offshoring.** Increasing offshoring which not only helps the company to **reduce expenses but also helps clients whose budgets have been impacted** from COVID-19. The management has also stated that TE can also move to **100% offshoring** as long as the customer is satisfied with the quality of remote work.

REDUCING DEPENDENCE ON AUTO SECTOR

In FY19, **60% of revenues were from auto / transportation sector.** The company was then hit hard from the **global auto sector slowdown** especially the decline of its biggest client Jaguar Land Rover. **The company has since been concentrating on developing other areas to reduce dependence on JLR and transport sector.** The transport sector now accounts for **42% of revenues.** TE is also **expanding into transport adjacent sectors like rail** to leverage its existing capability in transport sector.

WHAT WE DON'T LIKE

CUSTOMER CONCENTRATION RISK

The Top 10 customers account for 48% of revenues for the company. Thus any external damage to these key clients may prove to be stumbling block for the company. The company has already experienced this with JLR and is working to expand this list of key customers to reduce dependence on single large customers.

HIGH EXPOSURE TO TRANSPORTATION INDUSTRY

In FY19, **60% of the revenue came from the transportation industry.** As the industry is witnessing a severe slow-down, the contribution has come down sharply to **42% in Q1FY21.** Furthermore, the management expects **only 5-10% growth from this segment in FY21,** which is the lowest expectations among all of the company's operating segments.

MERGER TALKS WITH TCS

News of TE getting merged with TCS is doing the rounds for a long time on financial media. There has been no confirmed reports of that happening as of now. However, if that happens, **Tata Elxsi would lose its independent identity of expertise in niche areas.** Valuations at the time of merger would play an important role for investors of TE at that time. This is a risk in our assessment which one needs to be aware of.

TECHNOLOGICAL DISRUPTION

IT space always deals with new technology and disruptions all along the way. **Fate of any tech company largely depends upon its ability to keep re-inventing itself and stay ahead of the changing trends.** And this is easier said than done.

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