

Tata Elxsi Q1FY21

Financial Results & Highlights

Introduction

Tata Elxsi provides product design and engineering services to the consumer electronics, communications & transportation industries and systems integration and support services for enterprise customers. It also provides digital content creation for media and entertainment industry.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	414	374	10.70%	452	-8.41%
PBT	94	70	34.29%	110	-14.55%
PAT	69	49	40.82%	82	-15.85%

Detailed Results:

1. The company saw revenues rise 10.7% YoY in Q1.
2. The PAT for the company rose 41% YoY in Q1.
3. The company gained Rs 4.55 Cr from foreign exchange gains.
4. EPD division grew 13.2% YoY.
5. Media & Communications vertical grew 3.3% QoQ & 23.3% YoY.
6. Healthcare division grew 5.3% QoQ & 26.5% YoY.
7. Revenue distribution by geography is as follows:
 - o EU: 35.8%
 - o USA: 36%
 - o India: 13.1%
 - o Rest of the World: 15.1%
8. The top 10 customers now account for 48.6% of the total sales.
9. Transportation vertical earnings remain under pressure due to muted sales from the auto industry worldwide.

Investor Conference Call highlights:

1. The management has stated that additional expenses are still high since a number of the company's employees are stuck in overseas locations.
2. The company will not be making any new hires or office expansions in FY21.

3. The management has guided that discretionary expenses like travel should stay low going forward as the industry and company adjust and adapts to the new normal of remote working.
4. The auto sector demand is expected to stay muted. Although the company is winning large deals in this space, most of these are getting pushed back by a quarter or so.
5. The company is looking at the Middle East as the new frontier for deals in the media and broadcasting segment.
6. The utilization rate in QA1 was at 75%.
7. The company has not moved forward with its plans for acquisition but it remains on the lookout for any potential opportunities.
8. The management has assured that the company will continue to derisk and remove dependence on a single customer and the transportation vertical.
9. The company has not undertaken any salary hikes and will not do so for the rest of the year.
10. The management has stated that in the long run, the company will rethink overall infrastructure requirements and office space requirements which will lead to further cost savings.
11. The company had 2 deal wins in Q1, one in the transportation sector and the other in the medical sector.
12. In the long term, the management envisions revenue distributions as 40% from the transportation sector, 40% from media and communications & 20% from medical devices space.
13. The company indeed has some platforms under development for remote management of assets in the studio and telecom industry. These platforms are seeing good traction and interest due to COVID-19.
14. The company has gone forward with the model of more offshoring due to reduced budgets of its existing customers due to COVID-19. The company is also looking to enhance security measures when working from home as much as possible and are evaluating best-in-class security architectures available for data security at homes.
15. The management has stated that as long as the customer is satisfied that the company can work remotely, it may take up offshoring all the way up to 100%.
16. The company has around Rs 250 Cr of reserves and it will not be distributing this through dividends as it needs these funds to finance any possible acquisitions in the near future.
17. The management maintains PBT guidance of 22-24% and states that there may be further improvement in margins due to a big reduction of travel expenses.
18. Overall revenues in USD is \$55 million in Q1.
19. The management expects a 5-10% growth in the transportation vertical. The transport adjacent verticals account for 4-5% of revenues and the management expects it to become 15-20% of revenues in the next 3 years.

20. The company is building T-Play, which is a new platform that enables the rapid launch of new OTT services. All in all, the company has filed 8-9 patents in the last 1-2 years.

21. The management has stated that the company can reach 70% offshore by the end of FY21.

Analyst Views:

The company had a good quarter with stable revenue growth and robust PBT growth. The company continues to see good growth in the emerging medical space and the media & communications space. It has also managed to improve its offshore ratio and keep travel expenses minimal which has helped boost PBT growth. The auto segment continues to be subdued due to the COVID-19 situation. It remains to be seen how the company's major clients cope with the disruption caused by the pandemic and what impact it shall have on the company's performance going forward. Nonetheless, given the company's strong technological capabilities and its resilient performance in the last year, Tata Elxsi remains a good technology stock to watch out for, particularly given the rising demand for its services in the broadband and media & communications spaces.

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