

## Tata Elxsi Q4FY21

### 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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	525	452	16.15%	492	6.71%	1866	1668	11.87%
PBT	162	110	47%	146	10.96%	512	352	45.45%
PAT	115	82	40%	105	9.52%	368	256	43.75%

#### Detailed Results:

1. The company saw revenues rise 16% YoY in Q4.
2. FY21 revenues were also up 12% YoY. Revenues from operations in the same period rose 13.4% YoY.
3. The PAT for the company rose 40% YoY in Q4 & 43.7% YoY in the FY21 period.
4. The EBITDA margin was at 32.4% in Q4 and 28.6% in FY21.
5. The company recorded its highest ever yearly PBT of Rs 511.9 Cr.
6. EPD division grew 14.6% YoY in FY21 and 15.5% YoY in Q4.
7. Transportation division fell 4.1% YoY in Q4 & 6.2% YoY in FY21.
8. Media & Communications vertical grew 22.4% YoY in Q4 & 20.5% YoY in FY21.
9. Healthcare division grew 65.4% YoY in Q4 & 41.8% in FY21.
10. IDV grew 9.1% YoY in FY21 & 39.2% YoY in Q4.
11. Revenue distribution by geography for FY21 was as follows:
  - EU: 36.1%
  - Americas: 36.8%
  - India: 13.3%
  - Rest of the World: 13.9%
12. The top 10 customers now account for 46.8% of the total sales while top customer accounted for 11.8% of sales.

13. The company had offshore % at 70.4% in Q4 & 66.9% in FY21.
14. The company is giving out a final dividend of Rs 24 & a special dividend of Rs 24 in Q4 totalling the dividend at Rs 48 per share in the quarter.
15. The company won many key deals from:
  - A leading global automotive OEM with a multi-year and multi-million USD connected vehicle program leveraging IoT.
  - A leading European Tier 1 automotive supplier for cybersecurity.
  - A leading US headquartered medical devices company with a multimillion USD deal for development and regulatory services.
  - A leading US video provider selected Tata Elxsi's FalconEye test automation solution for their next generation of video products and applications.

**Investor Conference Call highlights:**

1. The management states that the reason for margin appreciation in Q4 was the higher proportion of services projects.
2. The management maintains that sensors remain integral to the company's service offerings for more than 15-20 years and will continue to do so.
3. The company is approaching the VR tech space in multiple ways. In the system integration business, it is looking to integrate and sell VR gear for corporates where they're setting up large enterprise visualization setups. On the development and design side, it is working on VR for education, training, and to help customers market new services through VR technology.
4. The margins in VR remain low until it gains mass adoption and large-scale use.
5. The management states that although margin profile may come down once economic recovery happens as normal expenses shall resume, margins should remain on the high side given the trend of increased offshoring is here to stay.
6. The management insists that the turnaround to growth for the EPD division is sustainable and should continue for the coming financial years.
7. The management admits that the company is facing some supply-side issues especially in senior management roles given the rapid expansion in the last 3 quarters. The company is indeed adding as it goes and expects the brand of the company to help attract top talent.
8. The company will undertake the next salary hike in July 2021.
9. The management remains optimistic about the auto segment given emerging themes in this sector like electrification and autonomous vehicles.
10. The management is confident of sustaining the growth in the medical devices business as the company has built its IP and frameworks which help differentiate it from the rest of the industry.
11. The company is indeed pursuing both organic and inorganic opportunities for expanding into a \$1 billion company. The organic growth is to be pursued by developing new segments which are adjacent to existing ones while the inorganic growth will be led by strategic acquisitions.
12. The management states that there are both positives and negatives of engaging with new-age EV players. The positives include the exposure to cutting-edge tech and innovations while the

negatives include the enormous risks involved with such ventures as they are mostly in the R&D stage.

13. The management has identified many key subsegments in its operating divisions which are:
  - a. Auto: Connected, autonomous, shared and electric mobility.
  - b. Media & Comms: Media devices, operators & new media companies.
  - c. Healthcare: Medical devices, pharma & digital health
14. The utilization rate was very high at 97% in Q4.
15. The management is fairly confident that the company's deal pipeline is good enough to help avoid a soft Q1.
16. Around 700 or more employees are currently on-site.
17. The semiconductor shortage represents a very small risk for Tata Elxsi mainly from the auto sector.
18. The number of multi-year deals that Tata Elxsi has won in FY21 is greater than in FY20. The company also is not operating under a standard IT pricing mechanism which is based on the number of hours. This is because the company is often operating in niche segments and thus can avoid pricing competition.
19. The management has stated that the transportation segment is going through a transformative phase with innovations like electrification and autonomous vehicle tech is widely seen as inevitable evolutions and thus there is some uncertainty in the industry. But there is no denying the rising importance of technology in the auto sector especially considering these new industry innovations.
20. 8-9% of revenues for Tata Elxsi come from Japan. The company has been associated with the region since 1996. Because of its long association, it sees the opportunity here as there is marginally less competition due to the language barrier and slow adoption of outsourcing.
21. The company is planning to make at least 700 lateral hires in FY22.
22. The onsite-offshore mix is expected to stay at current levels for the next 3 quarters at least.
23. The effective tax rate is around 25-26% and is expected to reduce as the company expands its business in the SEZ.
24. The management clarifies that cybersecurity is not for enterprise security like McAfee but for cybersecurity for the devices that the company is working on only.

#### **Analyst Views:**

Tata Elxsi had a good quarter with its highest ever quarterly revenues and capped off a remarkable performance in FY21. The company continues to see good growth in in all segments and recovery in transport segment. It has also managed to maintain its offshore ratio and high levels of utilization which has helped boost PBT growth. The company is also identifying both organic and inorganic opportunities for its expansion to achieve its goal of \$1 billion revenues. The auto segment continues to be subdued due to the COVID-19 situation. The company has done well to achieve multiple deal wins in Q4 including a multiyear deal for its connected mobility IoT platform. It remains to be seen how the company's major clients adapt to the new world after COVID-19 and what opportunities will the company explore in its quest to achieve \$1 billion sales. 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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