



Report Date	October 20, 2008
Company Name	Tata Elxsi
Recommendation	BUY

CMP – Rs. 107/-	Target Price – Rs. 135/-	Mkt. Cap. - Rs. 333.2 crore
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Investment Rationale

- Tata Elxsi, technology arm of Tata Group, has reported excellent performance for Q2 FY 2009. Q-o-q, Net Sales increased by 13.4% to Rs. 109.68 crore (Rs. 96.7 crore in Q1 FY 2009) led by 17.3% increase in Software Development Services (SDS) Income to Rs. 99.76 crore (Rs. 85.07 crore in Q1 FY 2009). However, System Integration (SI) revenue declined by 14.6% to Rs. 9.93 crore (Rs. 11.6 crore). OPM% improved significantly to 20.37% (13.08%) as PBIT% of SDS business jumped to 19.4% (11.2%). Consequently, PBT zoomed to Rs. 39.51 crore and PAT more than doubled to Rs. 15.61 crore (Rs. 7.11 crore).
- Y-o-y, Net sales rose by 8.7% to Rs. 109.68 crore, OPM% jumped to 20.4%. Consequently, PAT soared up by 71.8% to Rs. 15.61 crore (Rs. 9.09 crore in Q2 FY 2008).
- SDS, which accounted for ~ 90% of sales in H1 FY 2009, has three major sub divisions –
 - ✦ Product Design services (PDS) – Here it designs technology products and associate hardware & software. This segment is showing good growth. Company serves 4 major verticals viz Consumer Electronics, Multimedia, Wireless Communication and Automotive Electronics. In a minor way, it also serves medical electronics and semiconductor industries. TEL works with British car brands Jaguar and Land Rover (JLR), and now that the brands have come within its promoter group, management expects JLR business to grow at least three-fold.
 - ✦ Design and Engineering services (DES) - involves industrial design and engineering (ex. new auto models, FMCG cartons etc). Company has opened up a studio in UK, which will offer innovative and creative design solutions across wide range of industries. Italy and UK are the best industrial design centres of the world. Company can do the same work that it is doing in India over there and get much higher billing rates.
 - ✦ Visual Computing Labs (VCL) creates visual special affects & animation for films and commercials. Company has signed 3 films deal with Yash Raj Films, of which first film (Road side Romeo, first animated film co-produced by Yash Raj Films and Walt Disney Company) is nearing completion in Q3 FY 2009 and 2nd film is expected to be completed by December 2009. It has got order for one more film in India. It is UTV motion pictures' animated project "Arjun". Part of this multi-crore film or even the entire film itself is going to be outsourced to VCL division of the company. Thus, this fastest growing arm is expected to contribute 20% (5%) of company's revenues in 3 years time.
- In SI, company works in niche hi-tech segments, which have grown over time but not as much as overall plain vanilla SI market. Here TEL's strategy in is two fold:
 - ✦ Trying to increase service component and also exploring to increase share of annuity based revenues therein.
 - ✦ Attempting to build competence in specialised areas like storage systems, news room consultancy in Indian market which offerings company cab later on take to international markets.
- Thus, company is all set for exciting future.

Valuation

- At CMP, share is trading at 5.6 times FY 2009 expected EPS of Rs 19/- and 4. 5 times FY 2010 expected EPS of Rs 23.9. In view of decent growth prospects, we recommend "BUY" at CMP.

Financial Summary Rs. Crore

	FY 2009	FY 2008	%	FY 2009	%	FY 2008
	Q2		change	Q1	change	12 mths
Net Sales	109.68	100.88	8.7%	96.70	13.4%	401.55
Other Operating Income	0.05	0.47	-89.5%	0.00	920.7%	1.90
Total Expenses	87.34	86.54	0.9%	84.06	3.9%	326.91
Operating Profit	22.34	14.34	55.8%	12.65	76.6%	74.64
EBITDA (%)	20.4%	14.2%		13.1%		18.6%
Interest Expenses / (Income)	1.14	0.41	174.1%	0.80	42.5%	2.13
Depreciation	4.04	3.13	28.8%	3.80	6.4%	13.44
Other Income	-	-	N.A.	0.00	N.A.	0.37
P.B.T. before Extra Ordinary Items	39.51	25.14	57.2%	20.70	90.9%	133.34
Net Profit	15.61	9.09	71.8%	7.11	119.8%	52.67
Equity Capital (Rs 10/-)	31.14	31.14		31.14		31.14
EPS for the period (Rs)	20.06	11.68	71.8%	9.13	119.8%	16.91

Disclosures

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