



(Investment Idea)

Tata Elxsi (TEL)

TEL, a niche IT Company with core focus on Product Designing Services and Industrial / Engineering Designing Services space, has posted good set of numbers for Q4 FY 2007. Net Sales grew @ 25.6% to Rs 89.1 crore (Rs 71 crore). OPM% enhanced to 24.3% (21.9%) due to higher PBIT% margin of 29.3% (17.1%) from System Integration & Support Services. PBT jumped to Rs 19.1 crore (Rs 13.9 crore) and PAT shoot up by 37.9% to Rs 16 crore (Rs 11.6 crore).

In FY 2007, Net Sales grew @ 30.7% to Rs 307.96 crore (Rs 235.63 crore) driven by 39.1% growth in Software Development Services @ Rs 262.58 crore (Rs 188.82 crore). OPM% grew to 22.4% (19.8%) due to higher margin from Software Development Services @ 23.5% (21.4%). PBT jumped to Rs 60.53 crore (Rs 40.4 crore) and PAT zoomed by 51.8% to Rs 52.12 crore (Rs 34.33 crore).

Global spending for engineering and designing services is currently estimated at \$ 750 bn p.a. By 2020, worldwide spending on engineering services is expected to increase to more than \$ 1 trillion. Of the \$ 750 bn spent today, only \$ 10-15 bn is currently being outsourced of which India's share is 12%. With its strong presence and proven execution skills, strong brand name of Tata and huge & experienced talent pool, the Company is all set to reap the benefits of engineering outsourcing story.

TEL is among world's 1st product solution providers to come out with mobile TV on laptop and has built in rich IP portfolio of ready-to-develop product frameworks and reusable software components in the areas of multimedia, networking, semiconductors, storage, WiMax and Mobile TV. Company is also strengthening its presence in India by adding 2 development centres and expanding some of its existing 4 development centres within next 18 months. Company is looking to double its headcount from the current level of 2300+ employees within next 24 months. Going forward, Company expects Industrial Designing, Animation, Telecommunication and Embedded Software to be the major growth drivers.

At CMP of Rs 329.30, share is trading at 19.7 times FY 2007 EPS of Rs 16.7 and 13.3 times FY 2008 expected EPS of Rs 24.7. We recommend "BUY" at CMP considering excellent growth prospects.

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