



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

TATA ELXSI

WHAT WE LIKE

UNIQUE CAPABILITIES IN A DIGITAL WORLD

Tata Elxsi describes itself as an **engineering services company** 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 reimagine their products & services**.

This is evident from their main revenues lines of **embedded product design (EPD), industrial design & visualization (IDV), and system integration & services (SIS)**.

OPERATING IN IN-DEMAND TECH SEGMENTS

Tata Elxsi operates in multiple in-demand tech-oriented segments in big legacy industries like:

- EPD & SIS for **Media & Comms** sector for content delivery, monetization & analytics
- IDV & EPD services for **medical device makers** & digital health products & solutions for medical institutions
- EPD & IDV for **auto industry** including passenger experience, vehicle systems, eMobility



Other than these, the company is also looking to expand its EPD offerings into many adjacent segments like **Off-Highway vehicles, Consumer Electronics, Rail & Semiconductors**.

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. 303 Cr.** TE also maintains a healthy dividend payout as well. The company has also shown an **impressive 10 yr sales CAGR of 16% and 10 yr PAT CAGR of 28%**.

IMPACT OF COVID-19

The pandemic has brought about a **renewed focus on digital transformation and on increasing offshoring** which has helped the company improve its costs and renewed demand for digital products and services including digital content platforms. Tata Elxsi is well placed to benefit from these industry shifts as its **offshore mix has risen to 75%** and industry demand has also led to greater hiring. The pandemic has also brought about a **renewed demand for digital innovation in the medical services and devices space** which should help the company expand in this rising space as well.

For More details:

<https://smartsyncservices.com/tata-elxsi-ltd/>

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WHAT WE DON'T LIKE

CUSTOMER CONCENTRATION RISK

The **Top 10 customers** still account for **48%** of revenues for the company. Thus any **external damage to these key clients** may prove to be a **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 THE TRANSPORTATION INDUSTRY

In FY19, **60%** of the revenue came from the **transportation industry**. As the industry is witnessing a severe slow-down and Tata Elxsi expanding into other spaces, the contribution has come down sharply with the **media & comms** overtaking it as the **largest customer segment**. Still, the auto industry commands a significant portion of the company's sales, and **Tata Elxsi's growth engine may be hampered in case of any slowdown in the auto sector**.

MERGER TALKS WITH TCS

News of TE getting merged with TCS is doing the rounds for a long time on financial media. There have been no confirmed reports of that happening as of now. **Although the management has time and again refuted any claims or statements of such an event taking place, the chances of it happening will never be zero.**

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. **The 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.

ASTRONOMICAL VALUATIONS

The share price of Tata Elxsi has been on a steady rise in the past 18 months has it has risen over **340%** in the past 1 year from **Rs 1500 in Nov 2020 to over Rs 6500 in Nov 2021.**

It is now trading at a very high valuation of **89.4 times PE** which affords little room for safety for investors currently.



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