FINBITS
INDIA

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MARKET
COMMENTARY

Making Young India Financially Literate

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At FinBits, we aspire to be the pioneers of a learning ecosystem, focused in finance, that augments the way our readers consume content online. We aim to provide relevant snippets of information that cater to most interests. Our articles go one step beyond the mundane affairs of the world; we hope to take our readers on an elaborate journey, where we serve golden nuggets of information to help you increase your financial literacy.

We work to ensure that we build ourselves as an important pit-stop in our readers' need for staying updated and insightful. FinBits provides a weekly dose of easily-digestible content on the latest in current affairs, as well as a deep dive into strategies of the hottest game-changers.

We strive to ensure we stay ahead of the curve and provide you a holistic learning experience.

Going one step further in ensuring the youth of today top the world in terms of financial literacy, we present "FinBits India Market Commentary. We hammer into the chosen company's data (as available in public domain, of course) and simplify technicalities into simple, understandable info-nuggets. Each month, we curate an all-in-one investors handbook to help make some decisions easier for the upcoming vultures in venture-capital, aka teen-vestors.

Happy Investing!

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01

COMPANY OVERVIEW

Tata Elxsi:
About the Company

Market Data

CMP	5459.95
NSE Code	TATA ELXSI
BSE Code	500408
Mkt Cap (Cr ₹)	33,960.88
Face value	10
No of eq Shares(Cr.)	6.23Cr
52 w H/L(Rs.)	5600/1161.35
P/E Ratio	92.95
P/S Ratio	18.60
EV/EBITDA	63.36
P/FCF	85.21

Corporate Actions

Dividend History

Ex-Date	Dividend Amount	Dividend Type
17 Jun 2021	24	FINAL
17 Jun 2021	24	SPECIAL
13 Jul 2020	16.5	FINAL
08 Jul 2019	13.5	INTERIM
16 Jul 2018	11	INTERIM

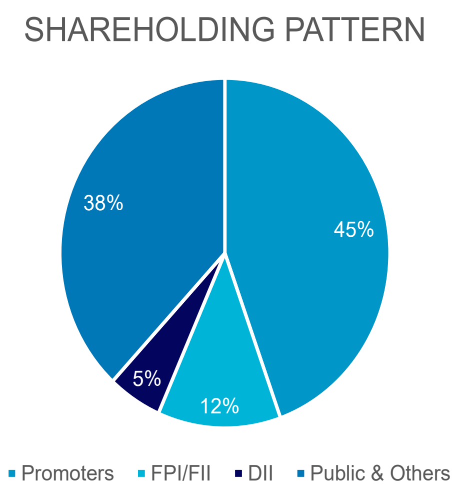
Bonus History

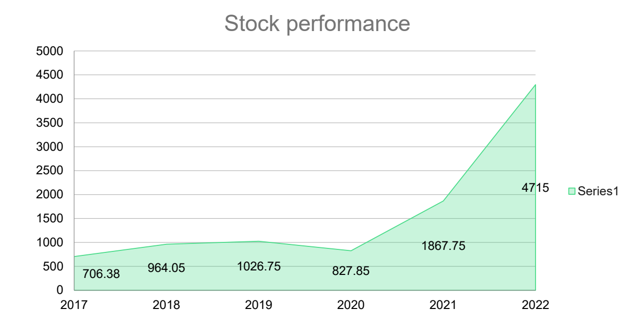
Ex-Date	Bonus Ratio
18 Sep 2017	1 : 1

Tata Elxsi, from the house of the multi-billion dollar Tata group is arguably the most futuristic listed company in the Indian stock market. Incorporated in 1989, Tata Elxsi has been one of the most successful ventures of the Tata group. Starting out as a manufacturer of multi processor based computer systems the company has come a long way. It now operates in 3 verticals namely Embedded Product and Design (EPD), Industrial Design and Visualization (IDV) and Systems Integration and Support (SIS) with its clientele spanning across transportation, media, broadcasting and healthcare sectors. The company had a brief stint in the VFX business making VFX shots for many hollywood and bollywood movies one of them being Dhoom 3. Headquartered in Bangalore, the company has over 7300 employees and operates in 35+ locations worldwide. With a market capitalization of more than 30000 crores the company recently transitioned from a small cap to a top tier mid cap stock.

Dividend and bonus history

The company has been very generous in distributing its profits among shareholders. The company has given dividends every year for the past 14 years starting from 2007. The company recently declared a special dividend of Rs.24 along with a final dividend of Rs.24 on 17th June 2021. The company has declared only 1 Bonus after its listing. The only bonus issue came on 18th Sep 2017 in a 1:1 ratio.





Promoters:

The Tata's being the promoters own about 44.8% of the company.Over the years their shareholding has broadly remained the same.

FPI/FII:

Foreign investors seem to really like this stock as they have grown their shareholding to 12.07% from 9.56% in 2 years.

DII(Domestic institutions):

Mutual funds have been increasing their shareholding gradually from the past 2 years. Axis equity advantage fund-Series 2 is one of the key funds holding this stock.A total of 14 Mutual funds hold this stock as per the latest declaration.

Public and Others:

The so-called Retail float has gone down by around 2.56% over the past 2 years but still remains at 38.1% of the total holding.

Innovation. Technology. Design. Research. Development.

These are some of the words that define the company.

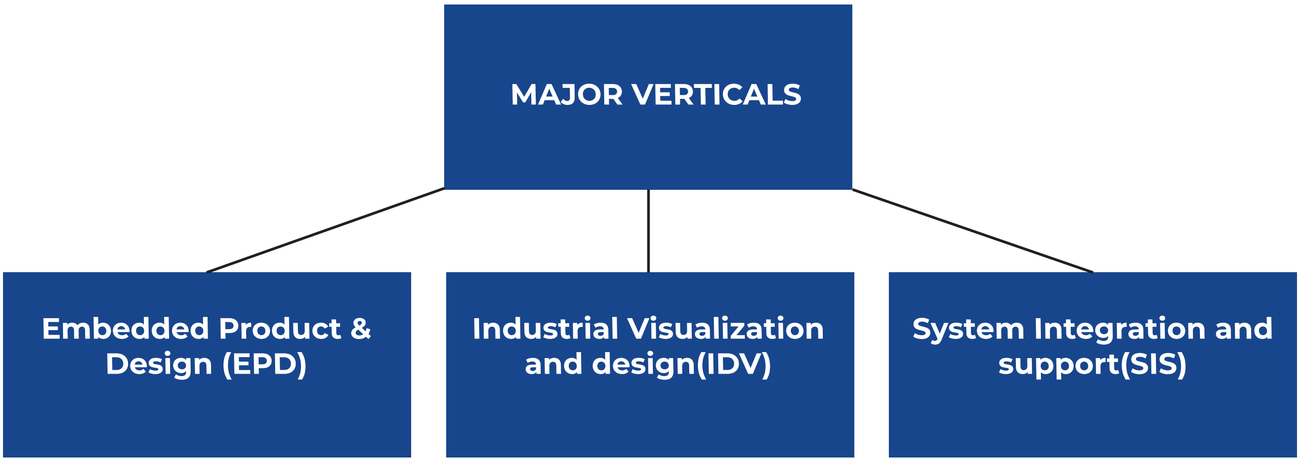
Key Business Verticals:

The company operates in almost all the happening sectors of today's world.

1. Electric Vehicles (EV)
2. OTT
3. Hi-tech Medical Devices
4. 3D Printing
5. Artificial Intelligence (AI)
6. Machine Learning (ML)
7. Robotics
8. Virtual Reality (VR)
9. Cloud

U NAME IT AND THE COMPANY IS PRESENT IN THAT FIELD!!.

Keeping this in mind let's take a deep dive into the verticals that Tata Elxsi operates in:-



Let's start with the biggest vertical of the company namely the EPD division:

1. Embedded product & design(EPD):

The Embedded Product Design (EPD) division provides technology consulting, new product design, development and testing services for the Transportation, Media, Broadcast & Communication and Healthcare.

The EPD division is further split into 3 industries

1. Transportation

• The Company is a preferred partner for leading car manufacturers, OEMs and suppliers to develop electronics and software for powertrain, infotainment, connectivity, active safety and comfort.

• This encompasses the entire product development lifecycle, including product and design engineering, testing and validation, and vehicle program management .

• It provides R&D, design, and product engineering services to leading global automotive and transportation industry players.

• The company has started to invest in building capabilities for the rail sector, working with metro and rail authorities.

• Key Highlights: Opening of a Global Engineering Center (GEC) focussed on innovation and drive digital transformation and growth for Schaeffler group.

2. Media, Broadcast & Communications.

• Tata Elxsi addresses the entire product development lifecycle for Media, Broadcast, Communications, and Consumer Electronics, from R&D to new product development, testing, and maintenance engineering.

• It partners with leading broadcasters and operators to build connected services and deliver superior customer experience.

• The company supports leading telecom operators in their digital and network transformation efforts, helping with integration, process automation and new service rollout.

• Your Company offers better customer engagement through the user-centric design and AI-based video analytics for hyper-personalization for rich interaction with users.

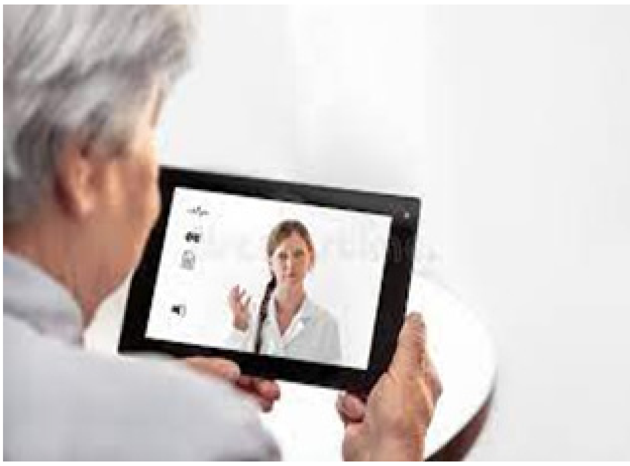
• Key Highlights: Google Widevine has chosen the company as a 3PL certification partner to offer safe premium content protection for Broadcast, Media, Consumer Electronics and Automotive applications which will help the company increase its offerings across this sector.

3. Healthcare

• Tata Elxsi supports global medtech, digital health, pharmaceuticals and biotech businesses conceptualize, launch, and sustain products in one of the most regulated industries in the world.

• The company engages with customers to design next-generation products in critical care, patient monitoring and drug delivery.

• Key highlights:The company was selected by Aesculap AG, a B. Braun company and one of the world's leading manufacturers of medical devices, as its global engineering services partner



2. Industrial Design & Visualization(IDV)

The IDV vertical is the second largest vertical of the company, in this division Tata Elxsi works with customers to develop innovative products, services and experiences that help them establish brands and grow their businesses assisting clients worldwide in bringing new concepts and goods to market by combining design and technology.

- The Company's services span across consumer research and strategy, branding and graphics, product design, service design, user experience design, transportation design, 3D-prototyping, visualization, and manufacturing support
- This business serves the transportation, media and broadcast, healthcare and FMCG industries.
- Key Highlights: The company was Selected by DishTV to develop 'Orbit' the new user interface for both its brands Dish TV & D2H, enabling subscribers with a seamless TV and online viewing experience.
- Sunfeast Mom's Magic - The company Accentuated the biscuit design to communicate its goodness and richness.

3. Systems Integration and Support(SIS)

The System Integration and Support or SIS vertical is the smallest vertical of the company, it implements and integrates complete systems and solutions for specialized applications such as Experience Centers, Training and Safety and Design Visualisation .

- In this vertical the company operates across industries such as Automotive, Aerospace, Entertainment, Manufacturing, Government, and Education

- Professional services for Cloud and Infrastructure Management, Virtual Reality (VR), 3D Printing, and Robotics continue to strengthen the company's solution portfolio to meet evolving technology needs of the customers
- This division is also bringing together Design, Technology, and Content to help corporate brands set up Experience Centres to better communicate their brands and businesses impact on consumers, stakeholders, and the community

Clientele:

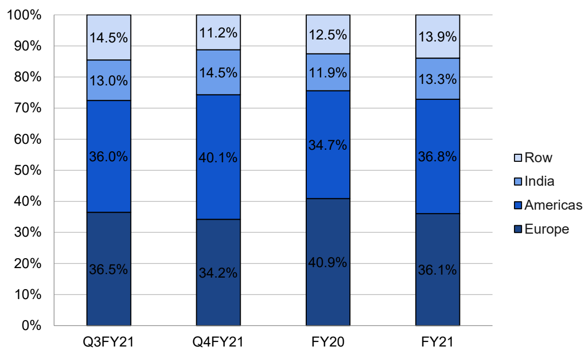
Who Gives Them Business?

The company has loads of reputed clientele spanning across different industries, some of the key names include Jaguar Land Rover, Tata motors, Microsoft, GoogleCloud, Panasonic, Motorola, ZEE, DishTV, Lenovo, Dell, Unreal engine and Unity

02

REVENUE ANALYSIS

Revenue Analysis

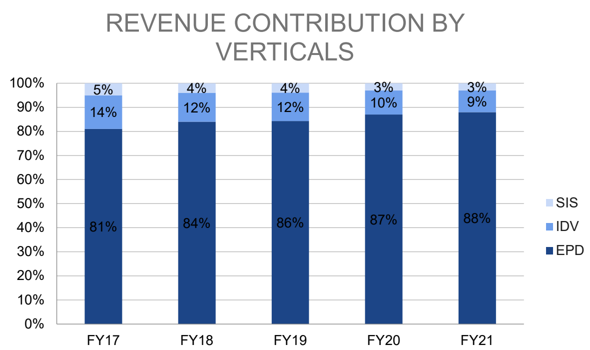


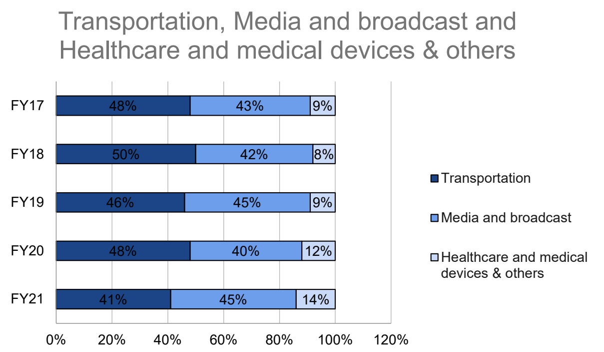
The company is truly global in nature deriving most of its revenue from Europe and the Americas. The European business saw a slowdown in FY20 as it went down from 40.9% in FY20 to 36.1% in FY21 on the back of extension of covid related lockdowns. The Americas business saw a good uptick in FY21 as it increased its contribution by 1.9%YoY and 4.1%QoQ. The India and rest of the world businesses too increased their contribution to the topline on a YoY basis.

The Big gets bigger!

The saying holds true in the case of revenue contribution by the business verticals of Tata Elxsi. The EPD division contributed slightly more than 88% to the topline registering a 9%Yoy and a 12.5% QoQ growth in constant currency. terms(irrespective of International currency fluctuations). The IDV vertical which has been a laggard for years continues to lose its revenue share but there have been positive developments as the vertical registered a staggering 40.2 QoQ growth but only 4% YoY growth, the company has taken some steps in the right direction like increasing focus and leadership change. The smallest vertical namely the SIS division was the worst hit due to COVID as the clients reduced their RnD spends, this vertical registered a -6.9% degrowth and 21.3% QoQ growth and continued losing its revenue share as it fell below by 3%.

Segment	Constant currency growth		
	Q4FY21		FY21
	QoQ	YoY	YoY
Embedded product & Design(EPD)	5.50%	12.50%	9%
Industrial Design and Visualisation (IDV)	40.20%	36.30%	4.10%
Systems integration and support(SIS)	21.30%	23.90%	-6.90%
Tata Elxsi	9.10%	15.20%	8.00%





Now, let's deep dive into the Revenue contribution in EPD vertical by different industries.

• The erstwhile major contributor to the revenue i-e the transportation industry seems to have lost its sheen as its revenue contribution degrew by 6 percent compared to FY20 and around 4.1% compared to Q4FY20, though it grew around 3.9% QoQ, this drawdown is mainly attributable to the global downturn in automotive and transportation industry. The downturn led to a lot of companies capping their R&D spends and Jaguar Land Rover, the largest contributor to Tata Elxsi's revenue, had their own revenue stagnate, but the industry is poised for growth with the fast induction of EVs.

• One of the biggest beneficiaries of COVID led lockdowns were media and broadcast services like OTT(Over the top)streaming services, connected devices etc. On the back of such strong tailwinds, the media and broadcast division registered 5.8% QoQ and 20.5% YoY growth.

• Covid caused all of us to be extra cautious about our health and that led to a very strong demand for good healthcare and medical devices. Riding these tailwinds the healthcare and medical devices division grew by 13.8% QoQ and a staggering 41.8% YoY.

Industry	Constant currency growth		
	Q4FY21		FY21
	QoQ	YoY	YoY
Transportation	3.9%	-4.1%	-6%
Broadcast & Communication	5.8%	22.4%	20.5%
Healthcare and medical devices	13.3%	65.4%	41.8%%
Others	-0.3%	4.1%	11.5%

Revenue by Onsite/Offshore Mix:

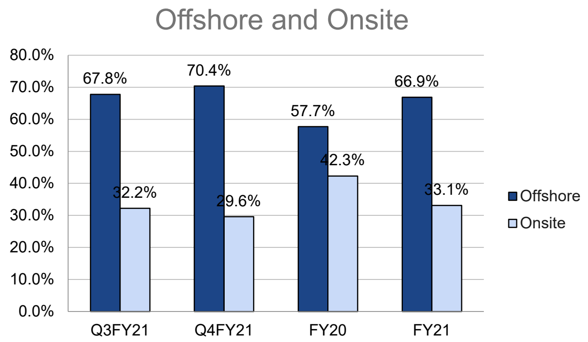
Onsite-Onsite work is to work at the clients location (Or the country where the client is located) which can be in any country.

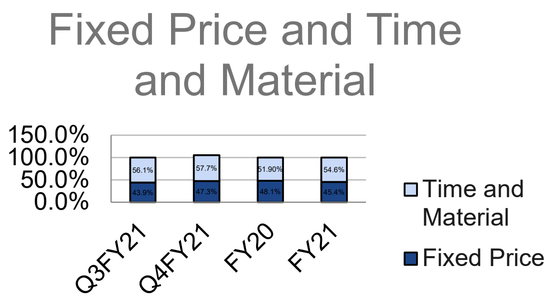
Offshore-Offsite work refers to working in a different country than where the client is based (Mostly the company's home country i-e India).

The offshore revenue mix has increased by 9.2% YoY due to Covid imposed travel restrictions as employees cannot travel abroad. This shift in revenue mix is margin accretive for the company as it saves a lot of costs, this was one of key reasons behind the company's industry beating 30% EBIT margins.

Revenue by Onsite/Offshore Mix:

The company has an even mix of contract types i-e Fixed cost and Time & Material.. Time and material contracts are usually signed for medium and large projects while Fixed costs contracts are signed for smaller contracts .Time and material contracts contributed around 54.6% in FY21 which is almost 3% up on a YoY basis while Fixed contracts contribute 45.4% which is down from about 48.1% in FY20.The trend in the contract type revenue mix indicates that Tata Elxsi is winning long term contracts.





Key Highlights and Observations

CAGR	REV-ENUE	EBIT-DA	PAT	EPS
FY21	1,865.93	522.4	368.12	59.18
FY20	1,668.27	401.41	256.1	41.17
FY19	1,640.39	458.5	289.97	46.62
FY18	1,429.54	389.26	240.04	38.59
FY17	1,228.23	288.42	173.29	56.2
CAGR	8.72%	12.60%	16.26%	16.06%

Quarterly Analysis:

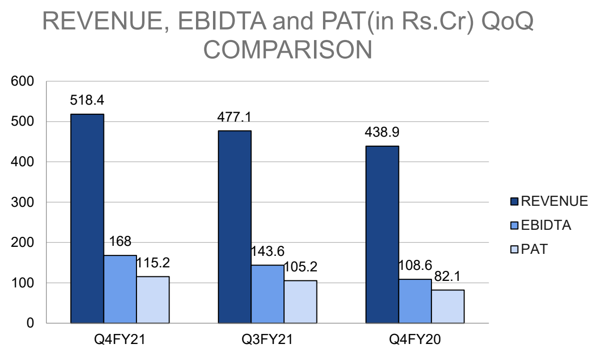
1. Tata Elxsi created history in Q4FY21 by generating its highest ever revenue in a quarter and crossing the 500Cr. mark. On the back of this historic result the revenue is up 8.7%QoQ and 18.1%YoY.

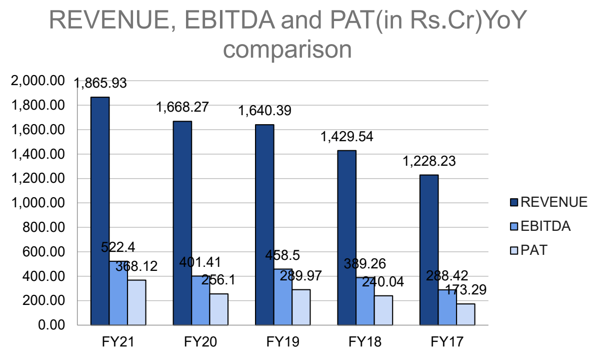
2. The company clocked an EBITDA of 168Cr. which is up 17.0%QoQ and a stunning 54.7%.

3. The company made Rs115.2Cr. of PAT this quarter which is 9.5% more QoQ and 40.3%YoY.

4. In the process the company registered an operating 32.4% and a PAT margin of 21.9% both of which are the highest ever in the history and one of the best in the industry. But however the company expects these to normalise to pre covid levels.

5. All in all Q4FY21 was historic for the company as it crossed a lot of landmarks on the back of strong demand and signing of long term contracts.





Long Term Analysis:

1. The company's long term growth story remains intact as it registered a commendable 13.4%YoY increase in its revenue.

2. The EBITDA and PAT were up 52.3% and 43.7% respectively. Indicating the strong operating leverage at play as the company was able to grow its profits disproportionately compared to the growth in sales.

3. The EBITDA margin shot up to 28.6% from 21.3% and the PAT margin went up from 15.4% to 19.7%, Both these margins are exceptionally high and one of the best in the industry, However the company expects these to normalise to pre covid levels.

4. Revenue, EBITDA and PAT have grown by 8.72%, 12.60% and 16.26% CAGR over the past 5 years.

5. The growth has been subdued as the transportation industry which was the company's highest contributor to revenue was going through a downturn as can be seen in the stagnation of revenue in FY19 and FY20.

6. With all 3 divisions firing on all cylinders, the company expects the growth to kick in very soon, the same can be seen by the large and long term deal wins and constant hiring by the company.

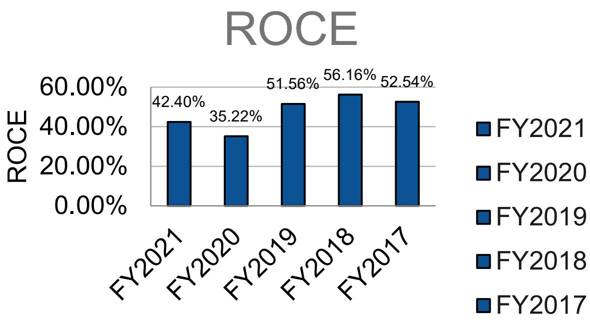
03

RATIO ANALYSIS

The Ratio Scoreboard

Abbreviation	Ratios	How to calculate?	FY21	FY20	FY19	What does it help in?	Observation & Inference
Efficiency Ratios:Efficiency Ratios help us determine how efficiently the company's management is deploying its capital and the quantum of returns it generates on it.Efficiency ratios help ascertain if a company has a strong footing in the sector operates in.A peer to peer comparison within the sector has be to done to know how well the company is executing its business with the capital it has							
ROCE	Return on capital employed	EBIT/ EQUITY+LONG TERM DEBT	42.4%	35.2%	51.6%	It helps us understand how efficiently the company uses its capital and the return it generated on it.	The Company has been maintaining a very high ROCE over the years which is a very good sign.
ROE	Return on equity	NET PROFIT/SHAREHOLDER'S EQUITY	39.5%	25.2%	34.5%	It measures the profitability of a company in relation with its owner's equity.It helps us understand how efficiently the company used it Owner's capital	The company has been reporting a very good Return on equity over the years. The number slightly dipped in FY20 due to lower net profit
ROIC	Return on Invested Capital	NOPAT/(FIXED ASSETS+INTANGIBLE ASSETS+WORKING CAPITAL-CASH	35.47%	29.39%	38.67%	It provides insights into the return generated by the net operational assets used by the company.It helps us compare companies without taking their capital structure into account	ROIC for the company stays strong though it has slipped from near 50% in FY17 to 35% in FY21 as the size of the company increased.
	Asset turn	SALES/TOTAL ASSETS	1.18	1.27	1.53	Asset turnover ratio reflects the efficiency with which the company operates its assets to generate sales.It reflects the each amount earned for each 1rs invested in assets	The current asset turn stands at 1.18 which is mediocre to good according to the industry standards but it has been declining over the years which is a concern.
Valuation ratios:-Valuation ratios are help us understand the relative overvaluation or undervaluation when compared to sectoral peers,it helps us determine the quantum of premium Mr.Market is ready to pay for the stock.Generally high growth companies or companies with market dominance command higher valuation ratios							
P/E	Price to Earnings ratio	MARKET PRICE/EPS	45.5	15.3	20.7	One of the most commonly used valuation ratios,it relates the market price to the company's earnings.It shows the price investors are ready to pay for 1rs of earnings	P/E has gone up by 3 times as the market has richly valued the company looking at its future prospects
P/S	Price to Sales ratio	MARKET PRICE/SALES PER SHARE	9.2	2.4	3.8	This rato helps us understand how much premium are investors willing to pay for every 1rs of sales	Up by almost 4x the company is trading at historical high P/S ratio making it one of the most expensive stock in its sector
PEG	Price to Earnings Growth	MARKET PRICE/EPS GROWTH	1.0	-1.3	1.0	One of the most important ratios to look out for the PEG ratio helps us understand the company's valuation with respect to its earnings growth	The Ratio stays under control as the company is growing at a good pace.
P/B	Price to Book ratio	MARKET PRICE/EQUITY PER SHARE	12.4	3.6	6.4	This ratio compares the valuation of the company with the shareholders investment(owner's equity) and reserves.	Up by almost 4x the P/B ratio ,the company trades at a historically high multiple now making it one of the most expensive stocks in the sector

P/FCF	Price to free cash flow ratio	MARKET PRICE/FCF PER SHARE	42.0	16.8	32.6	P/FCF gives us an idea about the premium investors are willing to pay for 1rs of free cash that the company generates.	Investors are ready to pay almost 3x the price for 1rs of free cash compared to FY20 looking at the growth opportunities that lie ahead
EV/EBITDA	Enterprise value to Earnings before interest,tax ,depreciation & amortization	MARKET CAP+TOTAL DEBT-CASH/NET PROFIT+TAX+INTEREST+DEPRECIATION AMORTIZATION	30.4	11.4	14.2	This ratio takes a more holistic approach to value a company as it considers the debt that company has as well.It compares the buyout value of the company of the company with ebitda the company generated	The company was being given mid teens EV/EBITDA multiple till now,but now the company is available at more than 30x EV/EBITDA as the share price has gone up by 7 times.
Leverage Ratios:-The Leverage ratios help us understand the amount of debt used by a company to fund its operations and to determine if the company can full its financial obligations.While less debt is always preferred some capital intensive industries and fast growing companies might raise capital through debt regularly							
D/E	Debt to equity ratio	TOTAL DEBT/TOTAL EQUITY	0	0	0	It gives us an idea as to how much of the company's operations are funded by debt compared to it's equity.	The company has very low to no debt which is a very good sign .
	Interest coverage ratio	EBIT/INTEREST EXPENSE	87.3	64.4	-	This ratio reflects the ability of the company to pay off the interest on its outstanding debt.	The company has a very strong interest coverage ratio as it has very low to no debt and hence it can pay off the interest on its debt with ease
Liquidity Ratios:-These ratio helps us determine whether or not the company will be able to pay off its short term debt without raising any external capital. Liquidity ratios can be used internally by comparing liquidity over various periods of time or externally with sectoral peers							
	Current ratio	CURRENT ASSETS/CURRENT LIABILITIES	5.26	5.53	5.36	The current ratio indicates whether a business can pay off its liabilities due within 1 year with its current assets	The company has very high liquidity as it can pay off more than 5x its current liabilities with its current assets
	Quick ratio	HIGHLY LIQUID ASSETS/CURRENT LIABILITIES	5.26	5.52	5.35	The Quick ratio takes a more stringent approach towards liquidity by checking if the business can pay off its current liabilities with assets that can be liquified under 3 months	Almost all of the current assets of the company are highly liquid ,hence the company can pay off its current liabilities with ease
Margin Ratios-Margin ratios determine the profitability of the company after accounting for various expenses,it also signifies how efficiently the business is run,whether or not the company can pass on any price hikes in Raw mater material prices.Different sectors command different profitability margins hence we need to do a peer to peer sectoral analysis							
GPM	Gross profit margin	SALES-COST OF GOODS SOLD/SALES	95.23%	94.96%	93.81%	Gross profit margin gives us an idea about the profit margin that a company makes after incurring all the direct costs associated with the selling of their product/service	The Company has been maintaining a gross margin in the range of 23.5% to 30% over the past 5 years. The number has increased in FY21 due to the reduction of expenses
OPM	Operating profit margin	EBIT/SALES	28.35%	22.24%	27.14%	This margin measures the profits generated by the core operations of the company before accounting for Interest and tax.	The operating margin stands at 28.5% for FY21 which is one of the best in the industry.Its been on an improving trajectory for the last 5 years
NPM	Net profit margin	NET PROFIT/SALES	20.16%	15.91%	18.16%	NPM shows the profitability after accounting for all the expenses that business incurred during the year.	The net profit margin has been increased from 14.12% in FY17 to 20.16% in FY21 which is a very good sign for the company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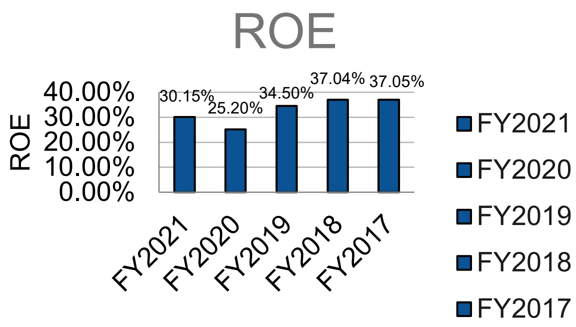
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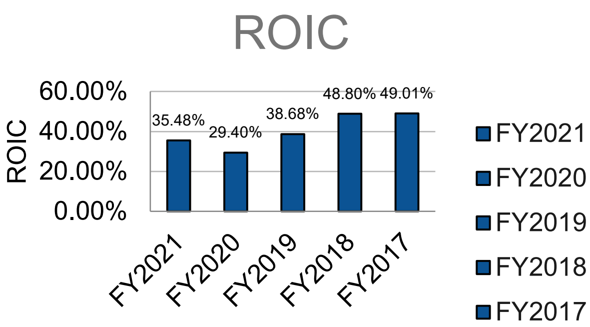
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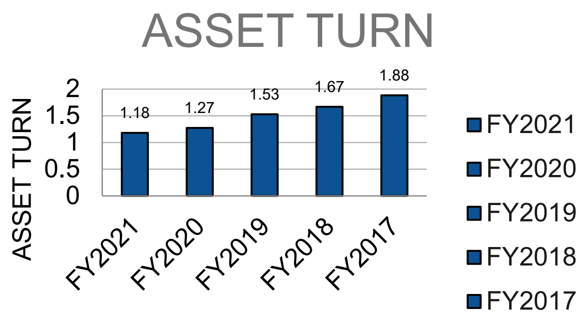
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ASSET TURN
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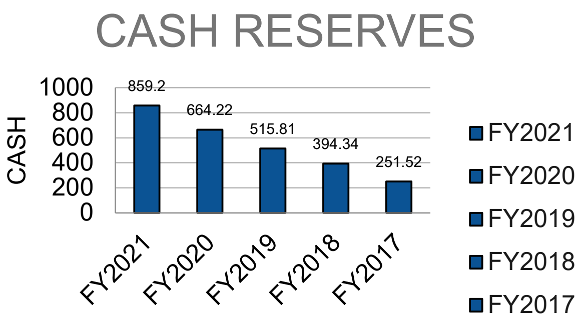
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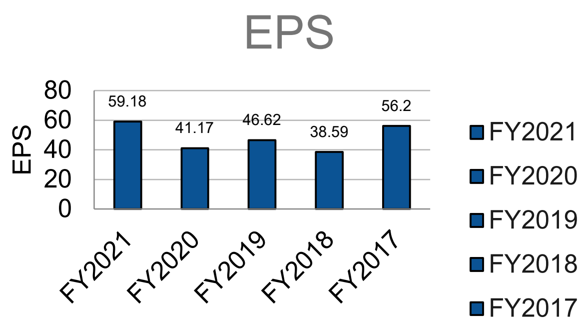
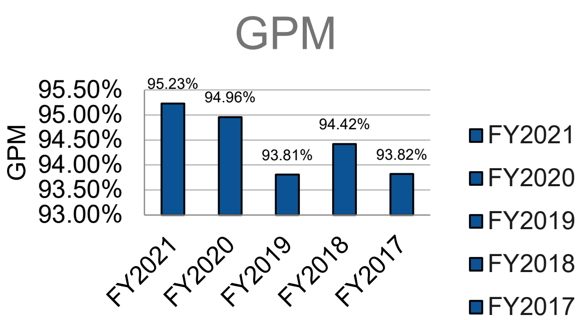
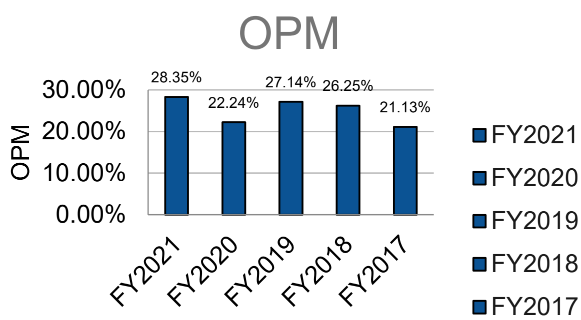
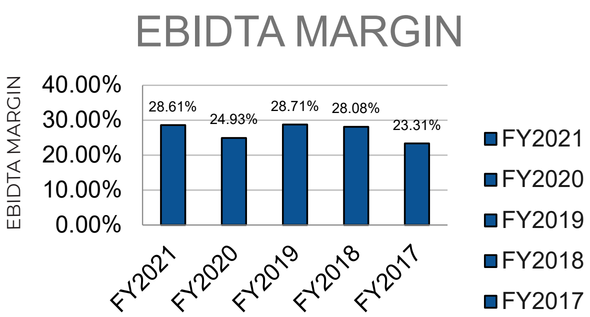
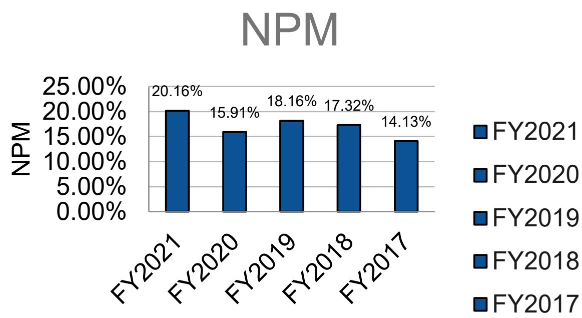
FY2018
FY2017


EPS
EPS
80
60
40
20
0
59.18
41.17
46.62
38.59
56.2
FY2021
FY2020
FY2019
FY2018
FY2017


GPM
GPM
95.50%
95.00%
94.50%
94.00%
93.50%
93.00%
95.23%
94.96%
93.81%
94.42%
93.82%
FY2021
FY2020
FY2019
FY2018
FY2017


OPM
OPM
30.00%
20.00%
10.00%
0.00%
28.35%
22.24%
27.14%
26.25%
21.13%
FY2021
FY2020
FY2019
FY2018
FY2017





Why, What And How Of Cash Flows?

What is Cash Flow??

The cash flow statement measures the amount of cash and cash equivalents moving in and out of the company. It helps us understand how efficiently a company manages its cash to fund its operating expenses, for future growth and to pay its debt. The Cash Flow Statement is considered as a fudge free statement because it's very difficult for the promoters to fudge the actual cash numbers. Profit & loss statements can be artificially inflated by playing around with expenses and booking sales just before the results. Hence Cash Flow Statement is considered as the most reliable statement to look at for forensic accounting.

Cash is King!

Why?

Cash is the real engine behind a company's growth and cash creates earnings. If a company does not have cash and can't maintain liquidity, there won't be any earnings. Hence it becomes very important for us to look at the Cash flow ratios.

Financial Year	FY21	FY20	FY19	Ratio Trends
Cash flow from operations(CFO)(A)	437.39	255.76	214.95	Cash flow from operations is derived after adding all the non cash expenses(Depreciation,amortization etc) to the net profit and subtracting the Working capital changes and CAPEX
Cash flow from Investing activities(CFI)(B)	-437.73	38.98	-158.75	CFI includes the number buying and selling of fixed assets and investments,it also includes the changes in investments and the interest received on investments made
Cash flow from financing activities(CFF)(C)	-126.46	-123.71	-82.59	CFF encompasses the net debt repaid,dividends and interest paid and other financing activities
Capital expenditure (CAPEX)(D)	38.83	22.89	31.35	Capital expenditure or CAPEX is the money that a company spends to buy,acquire or upgrade fixed assets
Net change in Cash(A+B+C)	-126.81	171.03	-26.38	Net change in cash for the year in calculated by adding CFO+CFI+CFC
Free cash Flow(FCF)(A-D)	398.56	232.87	183.6	Free cash flow is the amount left with the company after the company has paid for all the requirements to function(ex. debt,CAPEX costs,operating expenses etc.).It can be used to be distributed among shareholders as dividends or the company can use to fuel future growth.The number might go down if the company incurs a huge CAPEX during a year.
FCF YOY growth	71.15%	26.84%	-0.90%	A growing FCF indicates that the company can generate more cash after all the operating expenses and Capital expenditures which is impressive,it indicates that the profitability has increased and profits are flowing in the form of cash

The Cash Flow Ratio Scoreboard:

Ratios		FY21	FY20	FY19	What does it help in?	Observation & Inference
Asset efficiency ratio	CFO/TOTAL ASSETS	25.0%	19.0%	18.0%	It helps us understand how efficiently a company uses its assets to generate cash	The Ratio has risen over the past few years,We can comfortably deduce that the company is able to use its assets very efficiently
Short term debt coverage ratio	CFO/ CURRENT LIABILITIES	1.65	1.17	1.14	It shows if the company can pay off its long term debt obligations from the cash it generates	The number has increased which is a positive sign and we can infer that the company can pay off its debt easily with the cash it has
Long term debt coverage ratio	CFO/LONG TERM LIABILITIES	4.37	3.13	17.33	It shows if the company can pay off its long term debt obligations from the cash it generates and take on additional debt	The Ratio has decreased because the company picked up some debt in FY2020 but still says very healthy.At the current juncture can pay 4.3x its long term debts from the current cash flows.
Cash conversion Ratio	CFO/EBITDA	83.7%	63.5%	46.7%	It measures the ability of a company to convert its profits into cash	The number has almost doubled from what it was in 2019, From this we can infer that the company can very well convert its profits into cash.

Operating efficiency ratio	CFO/SALES	23.9%	15.9%	13.5%	This ratio enables to gauge the amount of actual cash converted from sales	The conversion from sales to cash has been increasing which is a positive sign,We can deduce that the company is able to convert its sales into cash well.

How do we use these ratios while analysing a company?

1. Compare the ratios with its peers.
2. Observe the direction of the trend.
3. Watch out for any adverse changes.
4. The higher the better.

Cash Flow Statement & Ratio Analysis.

The Company is a Cash Generating Machine.

• The free cash flows have increased by a whopping 71.15% in FY21. It indicates that the company is able to generate a lot of free cash from its business which it can use to grow its earnings.

• The company has been doing CAPEX continuously without it having a huge drag on the FCF which is a very good sign.

• There is a substantial rise in the CFO which implies that the company is increasing its profitability and profits are flowing into cash.

• The Company is very well placed in terms of liquidity as its long term debt coverage ratio and short term debt coverage ratio are strong

• The asset efficiency ratio has been increasing and stands at 25% for FY21 which is excellent.

• The CFO/EBITDA and CFO/Sales ratio are good and that implies that the profits flow in the form of cash.

All in all the analysis tells us that the company can generate good cash flows from its operations which can boost the company's future growth and the company will not face any liquidity issues in the near future.Hence we can conclude that the company has a good cash position and is very well run.

04

COMPANY REVIEW

S.W.O.T NOT S.W.A.T

STRENGTHS:

- Domain Expertise
- Strong Promoters
- Huge Free cash Flows
- Strong Balance Sheet
- Established Company
- Reputed Clientele
- Operating Leverage
- Low attrition & High offshore Mix
- Global Diversification

WEAKNESSES:

- Client concentration(11% from 1 customer)
- Difficult to get Talent
- Highly competitive space
- IDV,SIS divisions underperforming

OPPORTUNITIES:

- Fast adoption of EV,OTT,Medical devices
- Possible acquisition
- Presence in high growth industries
- Rise of demand for connected devices
- Entry in new,high margin tech segments
- Turnaround in IDV,SIS divisions

THREATS:

- Huge dependence on Transportation and Media Broadcast industry
- Foreign currency fluctuations
- Entry of dominant IT players
- Low discretionary spend during COVID
- Continued Underperformace of some segments/Industries

Investor Argument

1.Presence in high growth industries :
The company's presence in hi-tech,upcoming and high growth sectors like Electric vehicles,OTT,Cloud,3D printing,Tele-medicine etc makes it very interesting to look at.The ER&D industry is poised to grow faster than the traditional IT industry.

2.Strong business profile supported by Long standing business relationships,reputed clientele and professional management :
The company's business profile is strong due to its diversified geographical presence,long standing business relationships with its customers,reputed clientele like Jaguar-Land Rover,Tata motors,Google,Lenovo,Microsoft,ZEE etc and superior execution by a highly experienced management team.

3.Extensive domain knowledge and low attrition:
The company has created a strong domain expertise in developing and designing systems and softwares over the years for various industries.The company requires professionals with high level domain expertise but still the company possesses one of the lowest attrition rates in the industry.

4.Robust finances:
The company has very high profitability with revenues at 1865cr and net profits at 368cr with industry beating OPM(28.5%).The company has negligible to no debt with very strong cash flows and also a sound cash reserve of around 859Crs.

5.Increase in RnD spends by OEMs:
The RnD spends by OEM has been low over the past few years due to the headwinds in some industries.The RnD spends are expected to increase over the next few years as the companies come out of the slowdown and start innovating.

6.Increased Competition:
In the Indian context companies like LTTS and KPIT operate in a similar domain while worldwide there are a lot of major companies like HCL,Google,Alten and Altran operating in this domain.Due to increased competition the company may face pricing pressure.

7. High dependence on the cyclical auto and transport industry:

Any further slowdown in the automotive industry is set to impact the company's bottom line drastically as the company has around 41% dependence on this industry for its revenue.This risk is partially offset by the company's presence in non cyclical and high growth media broadcast and hi-tech healthcare industries.

8. Client Concentration and foreign currency risk:

The company derives around 46% of its revenues from its top 10 clients with its top client alone contributing 11.8% to its topline,loss of any major customer might have an impact on the company's performance.Exports contribute 86% of the company's revenue hence the company is susceptible to any foreign currency fluctuations this is partially offset by the active hedging mechanisms used by the company.

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