

BSE SENSEX	S&P CNX
35,981	10,802
Bloomberg	TELX IN
Equity Shares (m)	62
M.Cap.(INRb)/(USD\$)	60.6 / 0.9
52-Week Range (INR)	1492 / 926
1, 6, 12 Rel. Per (%)	-4/-32/-8
Avg Val, INRm	930
Free float (%)	55.4

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	16.3	19.3	22.8
EBITDA	4.3	4.9	5.8
PAT	2.8	3.1	3.6
EPS (INR)	45.6	50.4	58.0
Gr. (%)	17.8	10.5	15.1
BV/Sh (INR)	149.1	221.2	300.9
RoE (%)	34.1	27.2	22.2
RoCE (%)	34.1	40.8	34.3
P/E (x)	21.2	19.2	16.7
P/BV (x)	6.5	4.4	3.2

Estimate change

TP change

Rating change

Under Review

CMP: INR972

Under Review

Deceleration of USD revenue growth disconcerting

- **Brisk deceleration in USD revenue growth:** TELX's revenue grew 17.8% YoY to INR4.07b in 3QFY19, lower than our estimate of +20% YoY. The company delivered INR revenue growth of 1% QoQ, which implies a sequential decline in USD revenue (as INR depreciated by 2%+ QoQ against USD). On a YoY basis too, USD revenue growth decelerated to 5.4% from 19% only three quarters ago. This can partially be attributed to 3Q seasonal weakness. EBITDA margin shrank 110bp QoQ to 25.4%, below our estimate of 26%. PBT margin of 23.2% missed management's guidance of 24-25%, mainly due to forex losses. Consequently, PAT grew by only 5% YoY (-20% QoQ; our estimate: +13.6% YoY) to INR660m due to forex losses of INR117.5m.
- **Software development slows down; SI recovers:** Unlike the previous quarter, 3Q saw a much slower growth in Software development (97% of revenue; +1% v/s +6% in 2QFY19), while System Integration (SI; 3% of revenue) grew 19% QoQ (v/s -12% QoQ in 2QFY19).
- **Margin contraction in line with guidance:** PBT margin came in at 23.2%, lower than our estimate of 26.5%. TELX had cited that it intends to maintain the PBT margin in the range of 24-25% and plough the benefits into business to fuel further growth. The soft margin guidance was due to employee addition in anticipation of growth. That said, employee expenses grew 1.7% QoQ in 3QFY19.
- **Valuation view:** TELX's investment attractiveness was hinged upon its higher-than-peers growth rate due to its offerings in the exciting areas of engineering and design in Automotive and Broadcast. However, the recent trend in growth raises concerns about the sustainability of valuation multiples with ~20x forward earnings. We seek more clarity from management on the business outlook, segmental traction and causes for recent slowdown. Until then, we keep our rating '**Under Review**'.

Consolidated - Quarterly Earning Model

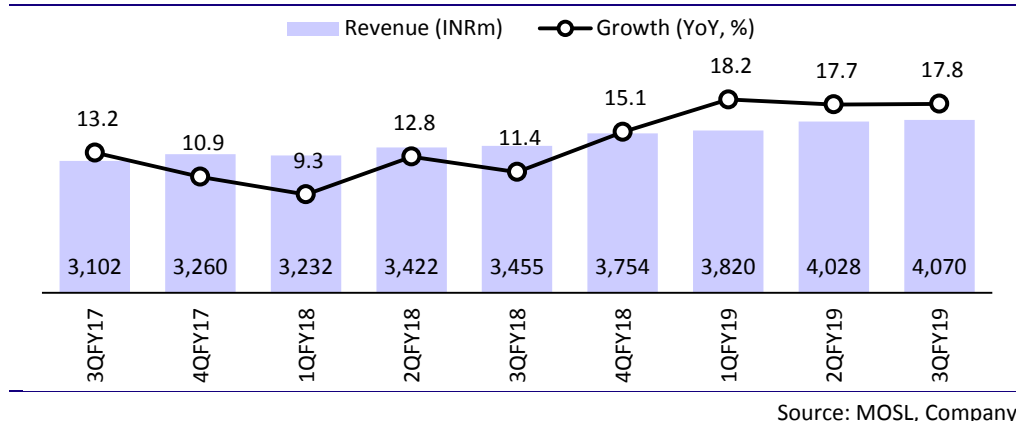
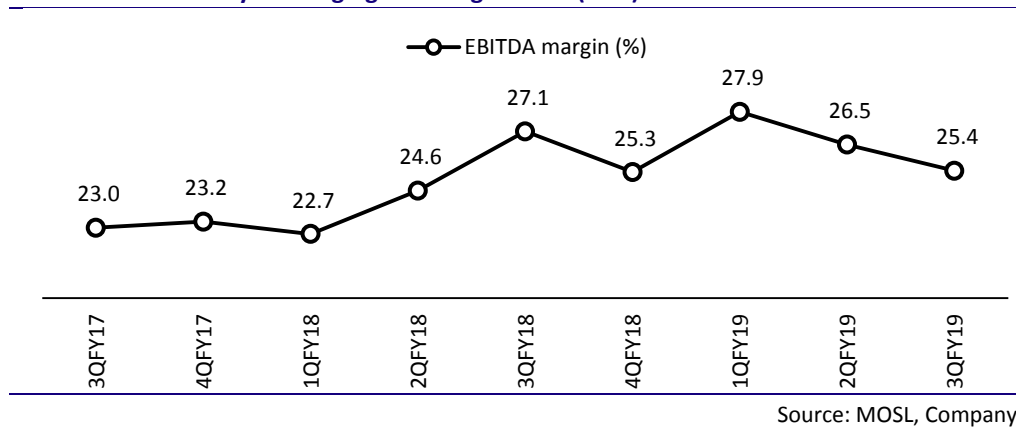
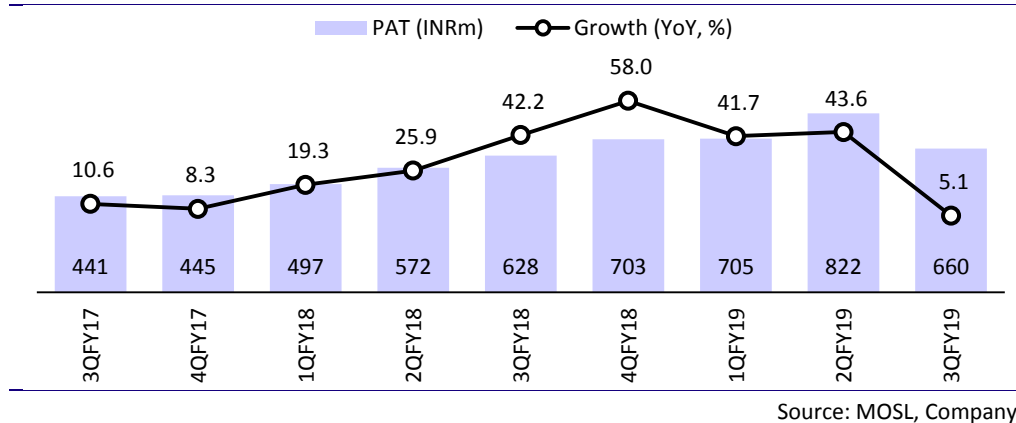
Y/E March	FY18				FY19				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19	FY19	Var (%)
Net Sales	3,232	3,422	3,455	3,754	3,820	4,028	4,070	4,416	13,863	16,334	4,149	-2
YoY Change (%)	9.3	12.5	11.4	15.1	18.2	17.7	17.8	17.6	12.4	17.8	20.1	
Total Expenditure	2,498	2,581	2,520	2,803	2,755	2,961	3,037	3,290	10,403	12,043	3,070	
EBITDA	734	840	935	951	1,065	1,067	1,033	1,126	3,460	4,292	1,079	-4
Margins (%)	22.7	24.6	27.1	25.3	27.9	26.5	25.4	25.5	25.0	26.3	26.0	
Depreciation	65	64	63	61	61	61	62	67	254	251	63	
Other Income	79	89	68	196	78	233	-27	-29	432	256	85	
PBT before EO expense	749	864	940	1,086	1,083	1,240	944	1,029	3,639	4,296	1,101	-14
PBT	749	864	940	1,086	1,083	1,240	944	1,029	3,639	4,296	1,101	-14
Tax	251	292	313	383	378	418	284	363	1,227	1,454	388	
Rate (%)	33.6	33.8	33.2	35.3	34.9	33.7	30.1	35.3	33.7	33.9	35.3	
Reported PAT	497	572	628	703	705	822	660	666	2,412	2,842	713	-7
Adj PAT	497	572	628	703	705	822	660	666	2,412	2,842	713	-7
YoY Change (%)	19.3	25.9	42.2	58.0	41.7	43.6	5.1	-5.2	37.7	17.8	13.6	
Margins (%)	15.4	16.7	18.2	18.7	18.5	20.4	16.2	15.1	17.4	17.4	17.2	

E: MOSL Estimates

Anmol Garg – Research Analyst (Anmol.Garg@MotilalOswal.com); +91 22 6129 1574

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Exhibit 1: Revenue has accelerated, thanks to depreciation of the INR**Exhibit 2: Profitability converging toward guidance (25%)****Exhibit 3: Forex losses taking toll on net profit**

Valuation view

- Despite facing various challenges, TELX delivered revenue growth of 15% YoY CC in FY18. Over the year, it also saw a 120bp improvement in margin, despite investments in building capabilities. This was aided by an improved product mix and higher sales from IP.
- While Automotive segment for TELX appears promising (with OEMs spending freely on R&D to maintain an edge over competition), additional contributors can be the smaller segments like Medical, wherein the company has just about started making inroads.
- The company's efforts to reduce dependency on selected few accounts and significant available opportunities (especially in budding segments) augur well. IP revenue, although small now, has the potential to not only add non-linearity to TELX's financials, but also improve positioning and provide a competitive edge.
- TELX's investment attractiveness was hinged upon its higher-than-peers growth rate due to its offerings in the exciting areas of engineering and design in Automotive and Broadcast. However, the recent trend in growth raises concerns about the sustainability of valuation multiples with ~20x forward earnings. We seek more clarity from management on the business outlook, segmental traction and causes for recent slowdown. Until then, we keep our rating '**Under Review**'.

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Income from Operations	6,217	7,748	8,494	10,752	12,330	13,863	16,334	19,308	22,822
Less: Excise Duty	0	0	0	0	0	0	0	0	0
Total Income from Operations	6,217	7,748	8,494	10,752	12,330	13,863	16,334	19,308	22,822
Change (%)	15.4	24.6	9.6	26.6	14.7	12.4	17.8	18.2	18.2
EBITDA	721	1,365	1,766	2,471	2,932	3,460	4,292	4,873	5,777
Margin (%)	11.6	17.6	20.8	23.0	23.8	25.0	26.3	25.2	25.3
Depreciation	237	350	247	226	269	254	251	295	349
EBIT	483	1,015	1,518	2,245	2,663	3,207	4,040	4,578	5,429
Int. and Finance Charges	39	18	0	0	0	0	0	0	0
Other Income	48	126	41	119	-48	432	256	128	151
PBT bef. EO Exp.	493	1,122	1,560	2,363	2,615	3,639	4,296	4,706	5,580
PBT after EO Exp.	334	1,122	1,560	2,363	2,615	3,639	4,296	4,706	5,580
Current Tax	102	376	535	815	882	1,239	1,454	1,567	1,968
Deferred Tax	8	24	-4	0	-20	-12	0	0	0
Tax Rate (%)	32.9	35.6	34.0	34.5	33.0	33.7	33.9	33.3	35.3
Reported PAT	213	723	1,029	1,548	1,753	2,412	2,842	3,139	3,612
Adjusted PAT	320	723	1,029	1,548	1,753	2,412	2,842	3,139	3,612
Change (%)	-7.6	126.1	42.3	50.5	13.2	37.7	17.8	10.5	15.1
Margin (%)	5.1	9.3	12.1	14.4	14.2	17.4	17.4	16.3	15.8

Consolidated - Balance Sheet

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	311	311	311	311	311	623	623	623	623
Total Reserves	1,640	2,046	2,523	3,546	5,278	6,761	8,664	13,154	18,117
Net Worth	1,952	2,357	2,834	3,857	5,590	7,384	9,287	13,777	18,739
Deferred Liabilities	192	128	0	0	0	293	293	293	293
Total Loans	585	0	0	0	0	0	0	0	0
Capital Employed	2,729	2,485	2,834	3,857	5,590	7,676	9,580	14,069	19,032
Gross Block	2,190	1,821	2,293	2,603	2,881	1,197	1,497	2,247	2,997
Less: Accum. Depn.	1,198	853	1,308	1,534	1,803	381	632	927	1,276
Net Fixed Assets	992	968	985	1,070	1,078	817	865	1,320	1,722
Capital WIP	213	126	26	19	10	21	0	193	228
Curr. Assets, Loans&Adv.	2,449	2,789	3,640	4,895	6,026	8,380	11,508	16,142	21,119
Inventory	3	0	3	0	0	0	0	0	0
Account Receivables	1,567	1,748	1,791	2,152	2,448	3,067	3,047	3,602	4,257
Cash and Bank Balance	233	515	1,333	1,825	2,515	3,943	6,954	10,959	15,201
Loans and Advances	645	526	514	919	1,063	1,369	1,506	1,582	1,661
Curr. Liability & Prov.	1,071	1,458	1,821	2,140	1,557	1,810	3,062	3,855	4,305
Account Payables	830	994	1,139	1,250	1,202	1,643	1,624	1,920	2,270
Provisions	241	463	682	889	355	166	1,437	1,935	2,035
Net Current Assets	1,378	1,331	1,819	2,756	4,469	6,570	8,446	12,287	16,814
Deferred Tax assets	147	59	4	13	32	268	268	268	268
Appl. of Funds	2,729	2,485	2,834	3,857	5,590	7,676	9,580	14,069	19,032

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)									
EPS	5.1	11.6	16.5	24.9	28.1	38.7	45.6	50.4	58.0
Cash EPS	8.9	17.2	20.5	28.5	32.5	42.8	49.7	55.1	63.6
BV/Share	31.3	37.8	45.5	61.9	89.8	118.6	149.1	221.2	300.9
DPS	2.5	4.5	5.5	7.0	8.0	10.0	12.5	18.0	18.0
Payout (%)	85.5	45.3	39.9	33.9	34.2	31.1	33.0	43.0	37.4
Valuation (x)									
P/E		98.6	69.3	46.1	40.7	29.6	21.2	19.2	16.7
Cash P/E		66.5	55.9	40.2	35.3	26.7	19.5	17.6	15.2
P/BV		30.3	25.2	18.5	12.8	9.7	6.5	4.4	3.2
EV/Sales		9.2	8.3	6.5	5.6	4.9	4.0	3.2	2.5
EV/EBITDA		52.2	39.9	28.3	23.6	19.6	15.1	12.5	9.8
Return Ratios (%)									
RoE	16.5	33.6	39.6	46.3	37.1	37.2	34.1	27.2	22.2
RoCE	14.9	30.0	39.6	46.3	37.1	37.2	34.1	40.8	34.3
RoIC	15.1	31.7	60.3	84.3	70.3	62.7	84.3	110.2	107.8
Working Capital Ratios									
Asset Turnover (x)	2.3	3.1	3.0	2.8	2.2	1.8	1.7	1.4	1.2
Debtor (Days)	92	82	77	73	72	81	68	68	68
Leverage Ratio (x)									
Current Ratio	2.3	1.9	2.0	2.3	3.9	4.6	3.8	4.2	4.9
Debt/Equity	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	334	1,122	1,551	2,363	2,615	3,639	4,296	4,706	5,580
Depreciation	237	350	255	226	269	254	251	295	349
Interest & Finance Charges	23	16	-54	0	0	0	0	0	0
Direct Taxes Paid	-177	-174	-392	-815	-902	-1,251	-1,454	-1,567	-1,968
(Inc)/Dec in WC	-89	-99	74	-445	-1,110	-672	1,135	163	-285
CF from Operations	328	1,215	1,434	1,329	873	1,969	4,228	3,597	3,676
Others	51	73	-4	0	684	0	0	0	0
CF from Operating incl EO	379	1,288	1,430	1,329	1,557	1,969	4,228	3,597	3,676
(inc)/dec in FA	3	1	-329	-304	-269	1,673	-279	-943	-785
Free Cash Flow	382	1,289	1,101	1,026	1,288	3,642	3,949	2,654	2,891
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0	0
Others	-307	-221	38	0	0	0	0	0	0
CF from Investments	-304	-221	-290	-304	-269	1,673	-279	-943	-785
Issue of Shares	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	183	-585	0	0	0	0	0	0	0
Interest Paid	-39	-18	0	0	0	0	0	0	0
Dividend Paid	-218	-156	-321	-525	-600	-750	-938	1,351	1,351
Others	-35	-26	0	-9	3	0	0	0	0
CF from Fin. Activity	-109	-786	-321	-534	-597	-750	-938	1,351	1,351
Inc/Dec of Cash	-34	282	818	492	691	2,892	3,011	4,005	4,242
Opening Balance	267	233	515	1,333	1,825	2,516	3,943	6,954	10,959
Closing Balance	233	515	1,333	1,825	2,516	5,407	6,954	10,959	15,201

E: MOSL Estimates

NOTES

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Investment Rating	Expected return (over 12-month)
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-38281085.

Registration details: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. *Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products.

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