

Tata Elxsi Ltd.

Sector: IT ER&D

18th July 2025
SELL

Key Changes	Target	Rating	Earnings	Target	Rs. 5,519
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Mid Cap	TELX:IN	82,259	TATAELXSI	500408	12 Months
				CMP	Rs. 6,197
				Return	-11%

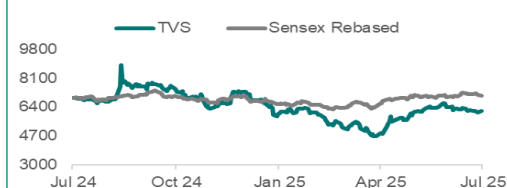
Data as of: 17-07-2025, 18:00hrs

Company Data			
Market Cap (Rs.cr)	38,445		
52 Week High - Low (Rs.)	9,083 - 4,601		
Enterprise Value (Rs.cr)	37,035		
Outstanding Shares (cr)	6.2		
Free Float (%)	56		
Dividend Yield (%)	1.2		
6m average volume (cr)	0.03		
Beta	1.3		
Face value (Rs)	10.0		

Shareholding (%)	Q3FY25	Q4FY25	Q1FY26
Promoters	43.9	43.9	43.9
FII's	13.6	13.3	12.7
MFs/Insti	7.4	7.5	8.5
Public	35.1	35.3	34.8
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30.9%	4.3%	-8.1%
Absolute Sensex	0.0%	0.9%	-3.7%
Relative Return	30.9%	3.5%	-4.4%

*over or under performance to benchmark index



Standalone (cr)	FY25A	FY26E	FY27E
Sales	3,729	3,655	4,189
Growth (%)	5.0	-2.0	14.6
EBITDA	974	903	1,047
EBITDA Margin (%)	26.1	24.7	25.0
PAT Adjusted	786	717	835
Growth (%)	-0.8	-8.7	16.4
Adjusted EPS	126.8	115.7	134.6
Growth (%)	-0.8	-8.7	16.4
P/E	38.7	42.3	36.4
P/B	10.7	9.5	8.3
EV/EBITDA	29.7	31.2	26.5
ROE (%)	29.3	23.7	24.3
D/E	0.1	0.1	0.1

Author: Saji John - Sr. Research Analyst

Short-Term Prospects Remain Subdued

Tata Elxsi (TELX) is a leading provider of IT ER&D (engineering, research and development) services. TELX has capabilities across Automotive, Broadcast & Communications, and Healthcare industries.

- In Q1FY26, TELX posted a -3.7% YoY and -1.8% QoQ revenue decline, driven by reduced US client spending. The healthcare and communication verticals saw QoQ contractions of 6.5% and 5.0% in CC terms, reflecting ongoing industry softness and cautious tech investments.
- The transportation segment grew 3.7% QoQ, supported by new client acquisitions in AI and software-defined vehicle (SDV) development. Consequently, Europe's contribution to the revenue mix improved by 160 bps QoQ.
- Despite multiple partnerships, Indian business is likely to face a slow ramp-up due to US tariff uncertainty, leading to a 2.6% QoQ decline. While other EMs continue to outperform, growing at 1.4% QoQ.
- EBITDA margin contracted to 20.9% (-200 bps QoQ, -630bps YoY), owing to lower operating leverage and higher employee cost due to an increase in onsite mix.
- We believe the global macro challenges could delay the process and visibility. Hence, we expect the current valuation to remain under pressure for short term.

Outlook & Valuation

We believe softness in the spending by automotive clients is likely to pose a near-term challenge. As a result, reprioritization in the EV R&D budget is expected. To offset the same, TELX aspires to navigate by ramping up multi-year large deals. Despite new deals won in healthcare, the company expects stability only in the later half of the year. However, TELX is well positioned to capture the opportunities due to its deep domain knowledge and work on its clients' long-term strategic projects. Meanwhile, the margin is likely to face pressure in the near term due to stiff competition from Chinese companies and GCCs. Hence, we value TELX at 41x FY27E EPS and recommend Sell rating with a target price of Rs.5,519 at CMP.

Quarterly Financials Consol.

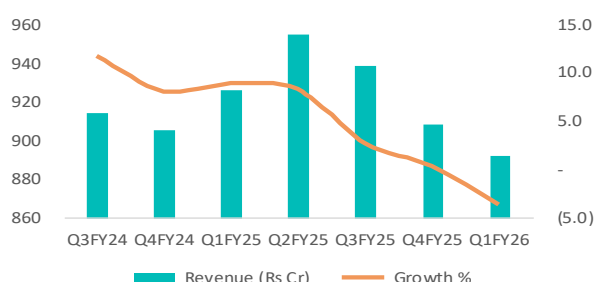
Rs.cr	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Sales	892	926	-3.7	908	-1.8
EBITDA	187	252	-26.0	208	-10.1
Margin (%)	20.9	27.2	-630bps	22.9	-193bps
EBIT	162	225	-27.9	183	-11.2
PBT	196	252	-22.2	221	-11.3
Rep. PAT	144	184	-21.6	172	-16.3
Adj PAT	144	184	-21.6	172	-16.3
EPS (Rs)	23.2	29.6	-21.6	27.7	-16.3



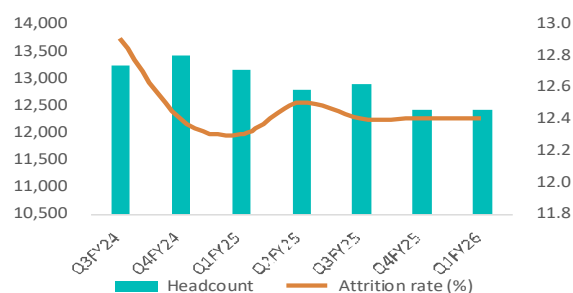
Key Highlights

- Continued focus on expanding business in Japan & emerging markets, which significantly contributed to the growth on a YoY basis. However, weakness was witnessed in Europe and the US for the same period. While an uptick was visible on a QoQ for transportation business. Europe grew to 39.5% from 37.9% QoQ, whereas the US grew from 30.6% to 30.1% QoQ, respectively.
- Automotive business was relatively better in the quarter. Tier 1 business continues to be slow, and it is very stressed due to OEM insourcing and establishing their own GCC. In addition, China business and tariff uncertainty are casting a cloud on R&D strategy and spending. However, strong pipelines in SDV and ADAS continue to be strong in the legacy areas.
- Media and communications businesses saw some customer-specific issues in the quarter due to mergers and business restructuring, while the overall industry continues to exercise caution in R&D spending and innovation.
- TELX remains optimistic about its future prospects, driven by growth in AI-powered services through network transformation. The company expects the healthcare sector to begin recovering in the second half of FY26, supported by ongoing deals and expansion into emerging verticals. However, the Healthcare & Life Sciences segment saw a 6.7% decline, while the Media and Communication segment also experienced a 6.7% quarter-on-quarter drop.
- The current utilisation rate of 69.5% indicates sufficient capacity to manage future projects without an immediate increase in headcounts. The next addition will be a focus on specialised skills while the attrition rate is at 15%, up 150 bps QoQ.
- Despite macroeconomic challenges, the company is confident it can navigate revenue growth from other emerging markets in FY26. In addition, global companies setting up their own centres could further woo for price negotiation; as a result, we may observe margin dilution.

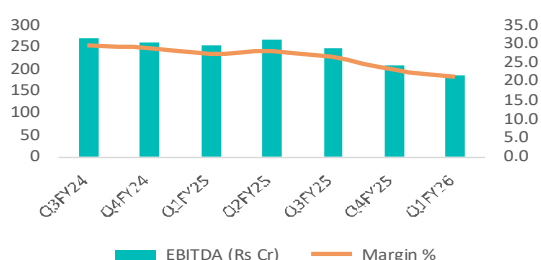
Revenue



Headcount & Attrition rate



EBITDA



PAT



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	4,201	4,841	3,655	4,189	-13.0	-13.5
EBITDA	1,176	1,356	903	1,047	-23.2	-22.8
Margins (%)	28	28	24.7	25.0	-330bps	-300bps
Adj. PAT	963	1,144	717	835	-25.5	-27.0
EPS	155	185	116	135	-25.5	-27.0



Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Revenue	3,145	3,552	3,729	3,655	4,189
% change	27%	13%	5%	-2%	15%
EBITDA	958	1,046	974	903	1,047
% change	23%	9%	-7%	-7%	16%
Depreciation	81	99	105	98	108
EBIT	877	947	869	805	939
Interest	16	20	19	19	22
Other Income	63	122	179	164	188
PBT	923	1,049	1,029	950	1,106
% change	24%	14%	-2%	-8%	16%
Tax	182	256	243	233	271
Tax Rate (%)	20%	24%	24%	25%	25%
Reported PAT	742	792	786	717	835
Adj*	1	0	0	0	0
Adj PAT	741	792	786	717	835
% change	35%	7%	-1%	-9%	16%
No. of shares (cr)	6.2	6.2	6.2	6.2	6.2
Adj EPS (Rs.)	119.2	127.8	126.8	115.7	134.6
% change	35%	7%	-1%	-9%	16%
DPS (Rs.)	42.5	60.9	60.9	60.9	60.9
CEPS (Rs.)	132.1	143.8	143.7	131.5	152.1

CASH FLOW

Y.E March (Rs. cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Net inc. + Depn.	823	892	891	815	943
Non-cash adj.	13	20	19	19	22
Changes in W.C	-310	-223	-264	412	-170
C.F. Operation	473	688	646	1,246	795
Capital exp.	-64	137	-62	-56	-53
Change in inv.	0	0	0	0	0
Other invest.CF	-138	0	0	0	0
C.F – Investment	-202	137	-62	-56	-53
Issue of equity	0	20	0	0	0
Issue/repay debt	-38	42	-32	30	30
Dividends paid	-265	-377	-377	-377	-377
Other finance.CF	0	-36	-72	-19	-22
C.F – Finance	-303	-351	-481	-366	-369
Chg. in cash	-32	475	104	824	373
Closing cash	134	609	711	1,535	1,908

BALANCE SHEET

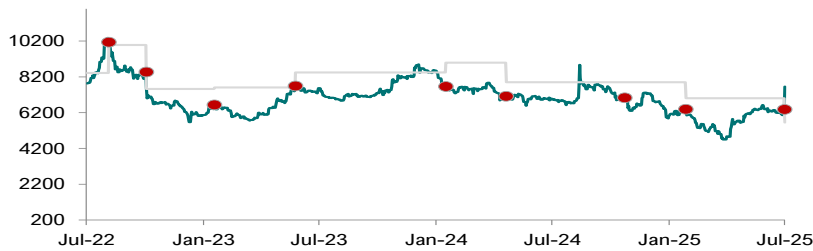
Y.E March (Rs. cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash	1,192	1,666	1,769	2,593	2,965
Accounts Receivable	865	972	972	951	1,090
Inventories	0	1	0	0	0
Other Cur. Assets	265	337	451	451	516
Investments	0	0	0	0	0
Gross Fixed Assets	529	399	465	515	565
Net Fixed Assets	317	88	50	2	-56
CWIP	7	2	2	5	6
Intangible Assets	16.2	13.44	8.85	11.35	13.85
Def. Tax (Net)	22	24	38	50	62
Other Assets	97	196	397	1	1
Total Assets	2,781	3,299	3,686	4,063	4,598
Current Liabilities	377	468	519	527	566
Provisions	127	93	106	104	113
Debt Funds	182	224	192	222	252
Other Liabilities	9	9	9	9	9
Equity Capital	62	62	62	62	62
Reserves & Surplus	2,023	2,443	2,798	3,138	3,595
Shareholder's Fund	2,086	2,505	2,860	3,200	3,658
Total Liabilities	2,781	3,299	3,686	4,063	4,598
BVPS (Rs.)	332	400	458	512	585

RATIOS

Y.E March	FY23A	FY24A	FY25A	FY26E	FY27E
Profitab. & Return					
EBITDA margin (%)	30.5	29.5	26.1	24.7	25.0
EBIT margin (%)	27.9	26.7	23.3	22.0	22.4
Net profit mgn.(%)	23.6	22.3	21.1	19.6	19.9
ROE (%)	40.2	34.5	29.3	23.7	24.3
ROCE (%)	30.3	24.6	21.0	17.2	17.6
W.C & Liquidity					
Receivables (days)	82.8	94.3	95.1	96.0	88.9
Inventory (days)	0.1	0.1	0.1	0.0	0.0
Payables (days)	12.0	9.7	10.2	11.7	9.7
Current ratio (x)	4.8	5.4	5.1	6.2	6.6
Quick ratio (x)	4.2	4.8	4.4	5.5	5.9
Turnover & Leverage					
Gross asset T.O (x)	6.7	7.7	8.6	7.5	7.8
Total asset T.O (x)	1.3	1.2	1.1	0.9	1.0
Int. coverage ratio (x)	54.1	46.7	45.8	42.5	42.6
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	9.4	8.2	7.8	7.7	6.6
EV/EBITDA (x)	30.8	27.8	29.7	31.2	26.5
P/E (x)	41.2	38.3	38.7	42.3	36.4
P/BV (x)	14.6	12.2	10.7	9.5	8.3



Recommendation Summary (Last 3 years)



Dates	Rating	Target
31.Jan.22	Hold	7,482
27.April.22	Hold	8,423
19.Aug.22	Reduce	9,983
17.Oct.22	Sell	7,524
01.Feb.23	Accumulate	7,611
08.June.23	Hold	8,445
30.Jan.24	Buy	8,989
04.May.24	Accumulate	7,899
06.Nov.24	Accumulate	7,901
10.Feb.25	Hold	7,010
18.Jul.25	Sell	5,519

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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GRIEVANCES

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