

TATA Elxsi Limited

April 01, 2025 | CMP: INR 5,215 | Target Price: INR 4,900

Expected Share Price Return: -6.0% | Dividend Yield: 1.3% | Expected Total Return: -4.7%

HOLD

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✓

Company Info	
BB Code	TELX IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	9,083/5,160
Mkt Cap (Bn)	INR 326.7/ \$3.8
Shares o/s (Mn)	62.3
3M Avg. Daily Volume	29,206

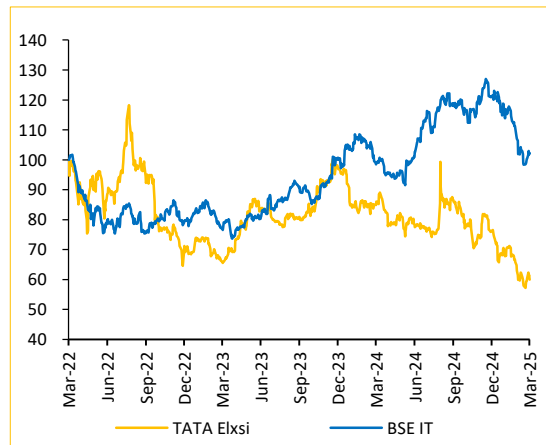
INR Bn	FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenues	40.5	46.0	(12.0)	45.5	54.9	(17.2)
GPM (%)	40.7	41.3	(67) bps	41.2	42.0	(79) bps
EBIT	10.5	12.3	(14.8)	12.1	15.2	(20.7)
EBITM %	25.9	26.7	(85) bps	26.5	27.6	(117) bps
EPS	142.6	166.9	(14.6)	163.2	205.4	(20.6)

Actual vs CEBPL			
INR Bn	Q3FY25A	CEBPL	Dev. %
Revenue	9.3	9.9	(5.4)
EBIT	2.2	2.6	(15.5)
EBITM %	23.5	26.3	(281) Bps
PAT	1.9	2.2	(9.7)

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	31.4	35.5	37.7	40.5	45.5
YoY (%)	27.3	13.0	6.3	7.3	12.4
EBIT	8.8	9.5	9.1	10.5	12.1
EBITM %	28.0	26.7	24.2	25.9	26.5
Adj PAT	7.6	7.9	8.1	8.9	10.2
EPS	121.3	127.2	129.7	142.6	163.2
ROE %	36.2	31.6	29.4	29.5	30.6
ROCE %	38.0	34.0	30.2	31.8	33.5
PE(x)	43.0	41.0	40.2	36.6	32.0

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	43.91	43.91	43.92
Fills	13.27	13.65	13.67
DlIs	7.50	7.38	6.24
Public	35.30	35.10	36.20

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE IT	2.2	32.4	3.7
TELX	(40.0)	(9.1)	(29.4)



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Assessing Q3 Results amid Trump Tariffs & Macroeconomic Challenges

TELX missed estimates by substantial margins.

- Revenue for Q3FY25 came at INR 9.3Bn up 2.7% YoY but down 1.7% QoQ (vs CEBPL est. at INR 9.9Bn).
- EBIT for Q3FY25 came at INR 2.2Bn, down 9.8% YoY and 7.8% QoQ (vs CEBPL est. at INR 2.6Bn). EBIT margin was down 327bps YoY and 156bps QoQ to 23.5% (vs CEBPL est. at 26.8%).
- PAT for Q3FY25 stood at INR 1.9Bn, down 3.6% YoY and 13.3% QoQ (vs CEBPL est. at INR 2.2Bn).

Growth Hinges on Transportation Segment Amid Market Struggles:

- TELX's Q3FY25 performance shows mixed results across its verticals and geographies. Overall growth across segments remained flattish, Transportation business grew 0.5% QoQ in CC, though impacted by weaker automotive demand in Europe & US, & remains the largest revenue contributor at 55%. Media & Communications saw a 0.4% QoQ growth in CC, while Healthcare & Life sciences grew 1.1% QoQ in CC, driven by new customer wins & traction in digital and Gen AI offerings, contributing 11.8% to revenue. Looking ahead, near-term outlook appears weak, primarily due to challenging demand environment in Transportation segment.
- The rise of Chinese EV manufacturers is reshaping the global automotive market, impacting TELX, whose revenue heavily depends on the transportation sector. As Chinese EVs gain market share, Western OEMs in China face declining profitability, prompting them to rethink strategies, cut R&D budgets, and refocus on ICE and hybrid vehicles. This slowdown directly affects TELX's transportation business, reflected in modest QoQ growth. In response, TELX is diversifying geographically, with strong growth in India, Japan, and emerging markets. Additionally, TELX is investing in innovative solutions such as the AVENIR SDV platform with Qualcomm, expanding into commercial vehicles, avionics, and defense, while utilizing global OEM partnerships to indirectly engage with China. However, we expect these strategic efforts to take time before they largely impact the company's performance.

Potential slowdown in IT spends amid Trump tariffs poses risk for TELX: TELX may face revenue challenges due to uncertainty over Trump-era tariffs, impacting European auto companies and TELX's revenue. With 30% of revenue from the US and 40% from Europe, any reduction in IT spending or delays in contracts could slow growth. Currency volatility poses margin risks, but stable tariffs may boost demand.

Q3FY25 EBIT margin drops to 23.5%, Plans recovery with improved efficiency and top-line growth: In Q3FY25, TELX reported an EBIT margin of 23.5%, down from 25.1% in Q2FY25 and 26.8% in Q3FY24. The decline was primarily due to adverse currency movements in EUR, GBP, and JPY (140bps impact) and wage hikes (100bps). However, operational efficiency and reduced on-site salary costs partially offset these effects. The attrition rate remained low at 12.4%. TELX aims to return to an EBIT margin of 25-26% through improved top-line growth, better billability, and utilization, following the completion of the wage hike cycle.

View and Valuation: TELX's performance fell short of expectations, with broad weaknesses across business segments. Healthcare saw slight improvement, but Transportation and Media remained weak. Delayed growth from recent deals hindered progress, with Transportation challenges expected to persist. Media & Communications and Healthcare may contribute more significantly starting H2FY26E. Additionally, the impact of Trump tariffs and increasing competitive pressures from China should be closely monitored. Given these factors, we've reduced our revenue estimates by 12-17%, downgraded our rating to HOLD, and lowered the target price to INR4,900, reflecting a reduced PE multiple of 30x (earlier 46x) due to a weaker outlook compared to peers in our coverage based on FY27E EPS of INR 163.2.

TATA Elxsi Ltd.	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)
Revenues (INR Mn)	9,392	9,142	2.7	9,551	(1.7)
Employee Cost	5,713	5,403	5.7	5,743	(0.5)
Gross Profit (INR Mn)	3,679	3,739	(1.6)	3,808	(3.4)
Gross Margin (%)	39.2	40.9	(173) bps	39.9	(70) bps
Other Cost	1,213	1,038	16.9	1,144	6.0
Depreciation	260	255	2.0	272	(4.4)
EBIT (INR Mn)	2,206	2,447	(9.8)	2,393	(7.8)
EBIT Margin (%)	23.5	26.8	(327) bps	25.1	(156) bps
Other Income	399	349	14.1	643	(38.0)
Interest	47	56	(16.2)	48	(4.1)
PBT	2,558	2,741	(6.7)	2,987	(14.3)
Tax	568	676	(16.0)	693	(17.9)
PAT (INR Mn)	1,990	2,064	(3.6)	2,294	(13.3)
Basic EPS (INR)	32.0	33.2	(3.6)	36.8	(13.3)

Source: Company, CEBPL

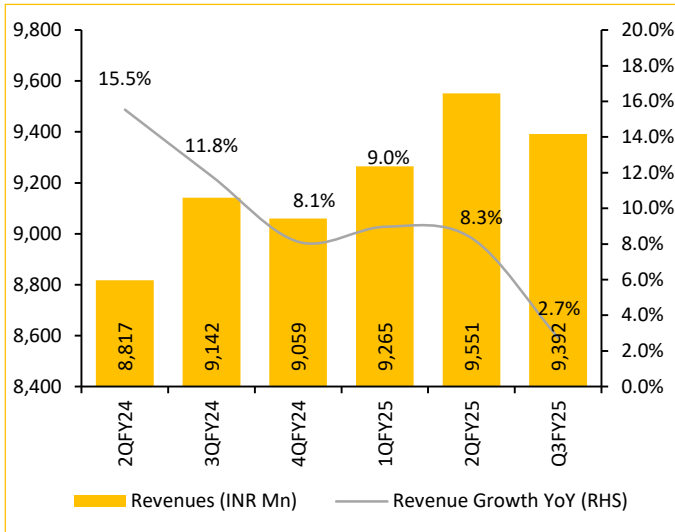
Management Call - Highlights

- TELX launched its AVENIR SDV software suite at CES 2025 in partnership with Qualcomm. This platform is seen as a key offering to help global OEMs accelerate their software-defined vehicle and future mobility roadmaps.
- The company secured several multi-year, multi-million deals across verticals, including a significant deal with a US-based MSO in the media and communications sector and a long-term deal with a global medical device OEM leveraging AI.
- Despite near-term reprioritization in EV R&D budgets by some OEMs towards ICE and hybrids, TELX remains confident in the long-term prospects of SDVs and ADAS. They continue to invest in these areas and see interest from both passenger and commercial vehicle companies.
- Employee attrition remains low at 12.4%, and the company added a net of 85 employees during the quarter.
- The strategic focus on Japan, emerging markets, and India continues to yield positive results. Revenue from India grew by 21.9% YoY, while Japan and emerging markets saw a significant growth of 66.8% YoY. This strong performance in these regions is expected to be beneficial in the coming quarters.
- TELX launched an ODC in Pune for Suzuki Motor Corporation, Japan, to accelerate software and virtual development for next-generation connected, EV, and ADAS technologies. This is a strategic initiative to support Suzuki's innovation in advanced engineering and green mobility.

Sequential Operating Performance

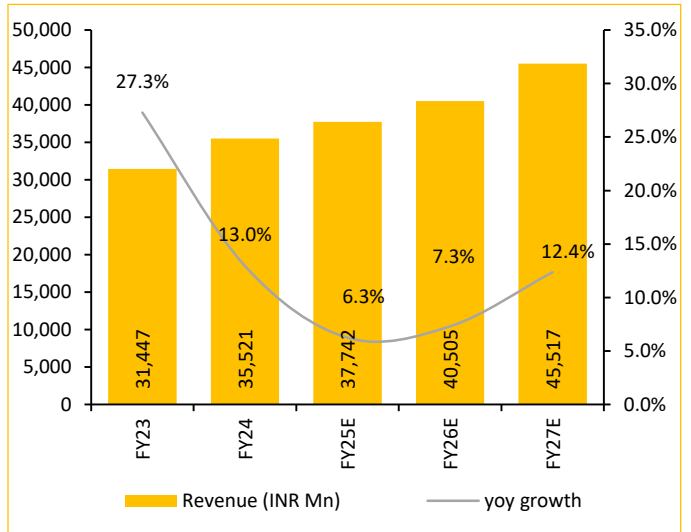
	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Income Statement						
Revenues (INR Mn)	8,817	9,142	9,059	9,265	9,551	9,392
Gross Profit (INR Mn)	3,547	3,739	3,688	3,775	3,808	3,679
Gross Margin (%)	40.2	40.9	40.7	40.7	39.9	39.2
EBIT (INR Mn)	2,388	2,447	2,337	2,252	2,393	2,206
EBIT Margin (%)	27.1	26.8	25.8	24.3	25.1	23.5
PAT (INR Mn)	2,002	2,064	1,969	1,841	2,294	1,990
Basic EPS (INR)	32.2	33.2	31.6	29.6	36.8	32.0
Operating Metrics						
Revenue - Geography (%)						
Americas	39.6	37.4	36.0	33.7	30.3	30.9
Europe	40.0	40.5	40.3	42.2	42.7	40.4
India	15.5	16.4	17.3	17.6	18.8	19.4
RoW	4.9	5.7	6.4	6.5	8.2	9.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Segments (%)						
Embedded Product Design	86.0	86.0	-	-	-	-
Industrial Design & Visualization	11.3	11.3	-	-	-	-
Software and Design Service	-	-	97.2	97.0	97.1	97.5
System Integration & Support	2.7	2.7	2.8	3.0	2.9	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue - Industry (%)						
Transportation	46.2	46.5	51.4	52.8	55.7	55.0
Media & Communications	38.4	37.8	33.6	33.3	31.8	32.4
Healthcare & Medical Devices	15.4	15.7	14.1	13.2	11.5	11.8
Others	-	-	0.9	0.7	1.0	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue - Contract Type (%)						
Time & Material	49.7	50.0	52.1	49.1	49.5	48.1
Fixed Price	50.3	50.0	47.9	50.9	50.5	51.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue - Effort Mix (%)						
Onsite	25.8	25.3	26.3	27.2	25.3	25.8
Offshore	74.2	74.7	73.7	72.8	74.7	74.2
<i>Source: Company, CEBPL</i>						
Total	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics						
Total Headcount	12,871	13,221	13,399	13,142	12,793	12,878
Attrition Rate LTM (%)	13.7	12.9	12.4	12.3	12.5	12.4

Decline in revenue growth amid delay in deal ramp-ups



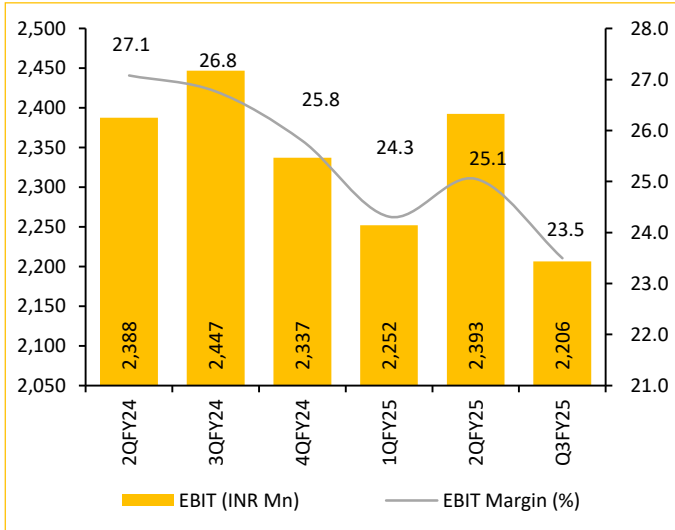
Source: Company, CEBPL

Revenue expected to grow at 9.8% CAGR over FY25E-27E



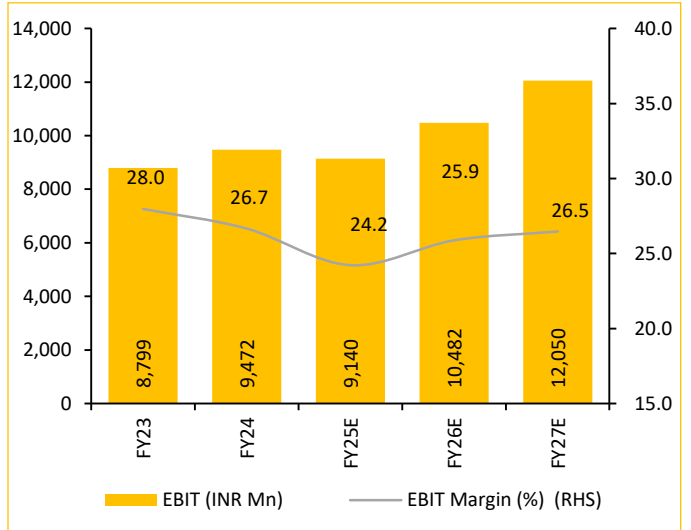
Source: Company, CEBPL

EBIT Margins declined amid wage hike and adverse forex impact



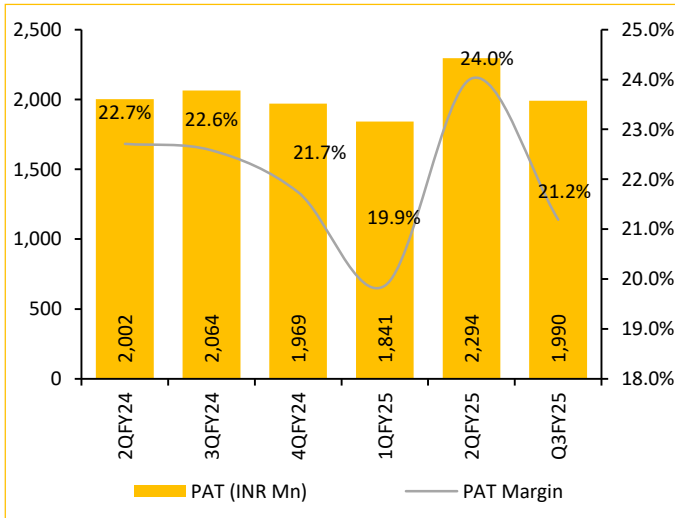
Source: Company, CEBPL

EBIT expected to grow at 14.8% CAGR over FY25E-27E



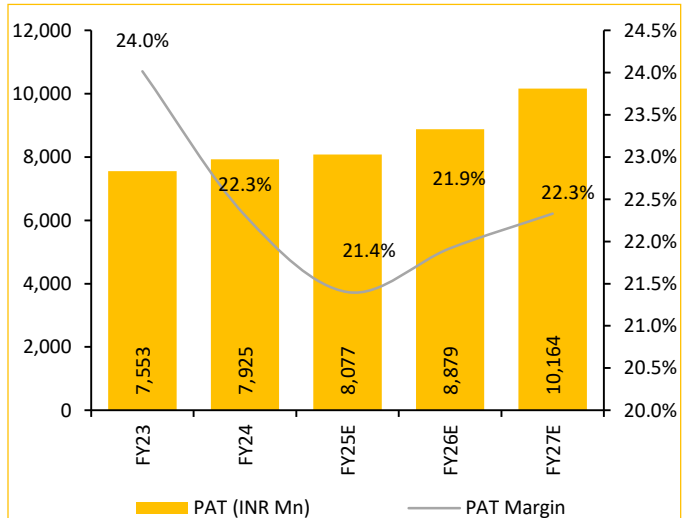
Source: Company, CEBPL

PAT decreased sequentially due to low other income



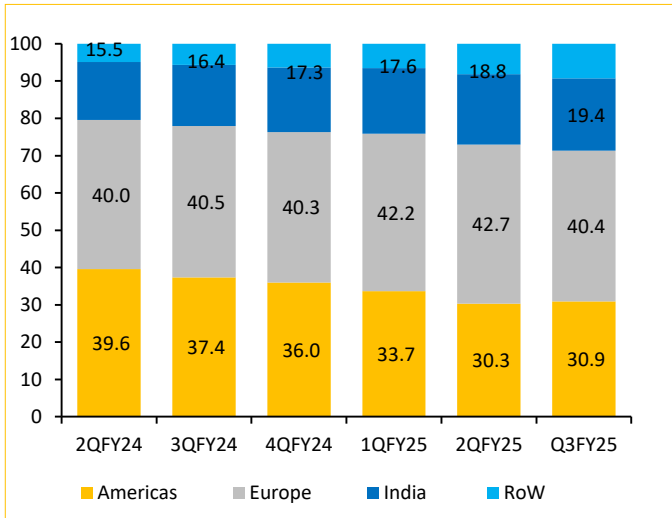
Source: Company, CEBPL

PAT to grow at 12.2% CAGR over FY25E-27E



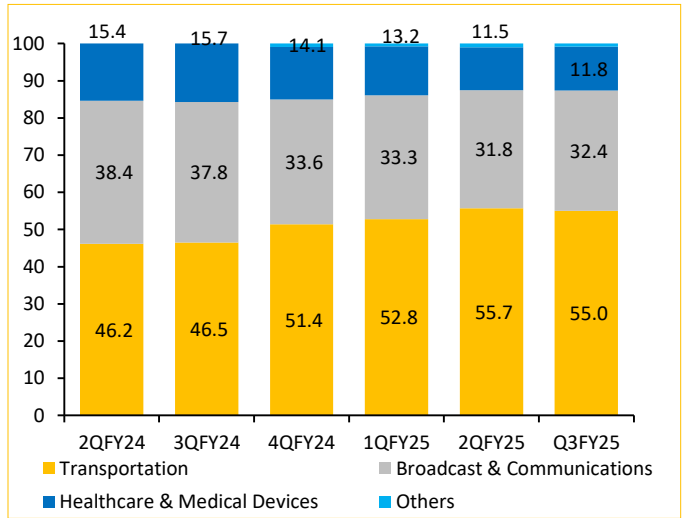
Source: Company, CEBPL

Americas and Europe markets remained weak



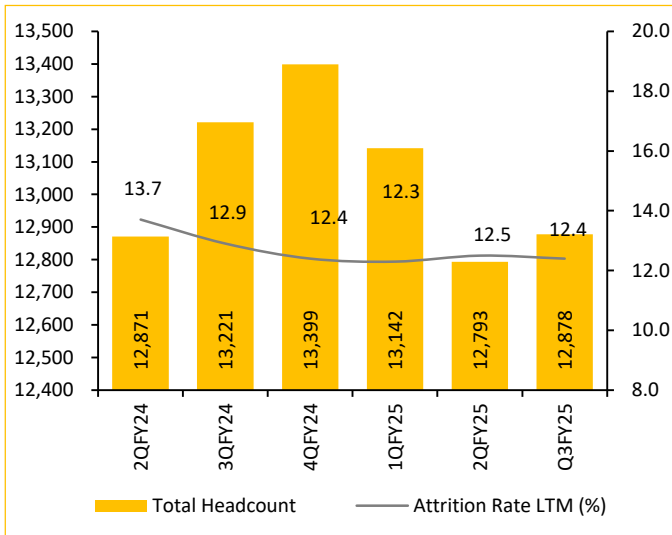
Source: Company, CEBPL

Growth led by Healthcare industry



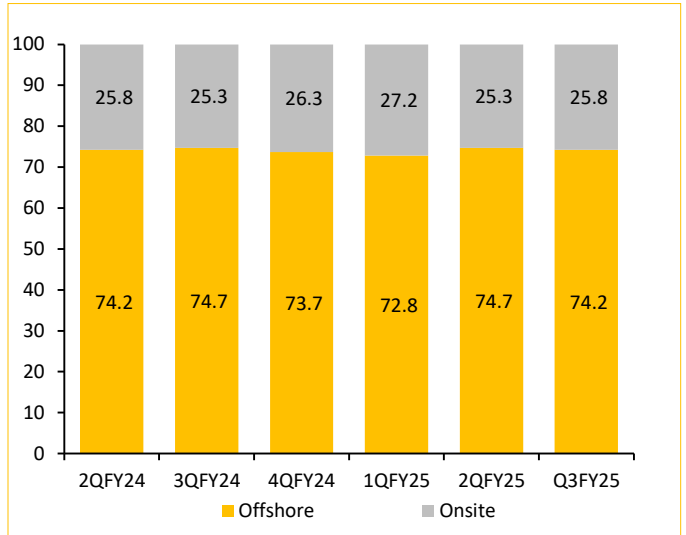
Source: Company, CEBPL

Attrition remained flatish; Net headcount increased

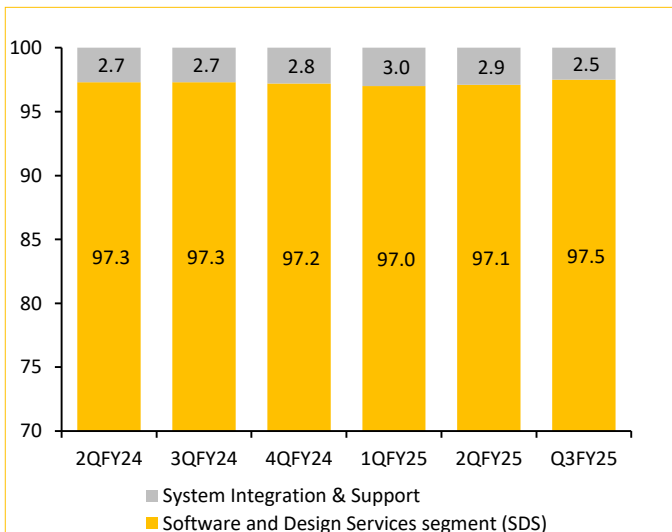


Source: Company, CEBPL

Onsite and Offshore mix

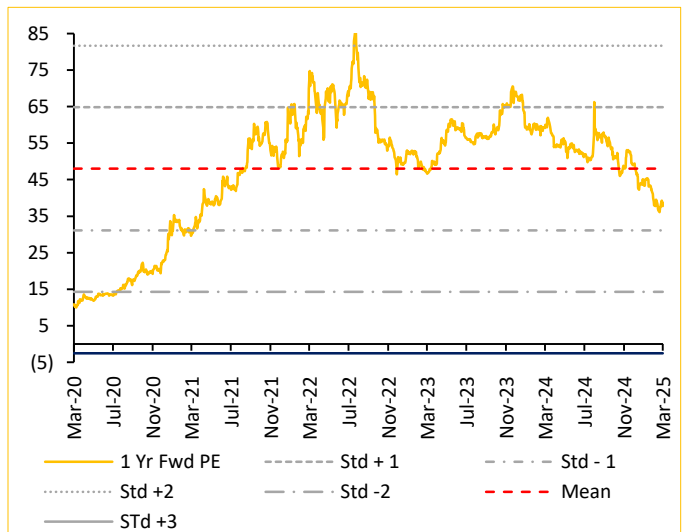


Segmental performance mix



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income Statement

Income Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	31,447	35,521	37,742	40,505	45,517
Gross profit	13,607	14,471	15,010	16,477	18,741
EBITDA	9,613	10,467	10,208	11,616	13,325
Depreciation	814	994	1,069	1,134	1,274
EBIT	8,799	9,472	9,140	10,482	12,050
Other income	738	1,219	1,734	1,580	1,625
Interest expense	162	203	201	223	273
PAT	7,553	7,925	8,077	8,879	10,164
EPS (INR)	121.3	127.2	129.7	142.6	163.2

Source: Company, CEBPL

Balance Sheet

Balance Sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Tangible fixed assets	1,667	1,944	2,211	2,543	2,924
Goodwill & intangible assets	1,739	2,037	2,037	2,037	2,037
Investments	-	-	-	-	-
Cash & Cash equivalents	11,916	13,571	15,107	16,695	18,798
Other non-current assets	1,094	2,521	2,647	2,780	2,919
Other current assets	11,219	11,796	12,374	12,993	13,643
Total assets	27,634	31,870	34,377	37,047	40,321
Shareholder's funds	20,858	25,057	27,480	30,143	33,193
Borrowings	-	-	-	-	-
Lease liabilities	1,823	2,240	2,240	2,240	2,240
Other non-current liabilities	455	542	505	531	592
Other current liabilities	4,500	4,031	4,152	4,133	4,296
Total equity & liabilities	27,635	31,870	34,377	37,047	40,321

Source: Company, CEBPL

Cash Flows (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Flows from Operations	6,717	9,592	8,976	10,229	12,086
Cash Flows from Investing	(2,019)	(2,701)	399	114	119
Cash Flows from financing	(3,031)	(4,278)	(5,855)	(6,439)	(7,388)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	27.3	13.0	6.3	7.3	12.4
Gross Profit	28.8	6.4	3.7	9.8	13.7
EBITDA	25.5	8.9	-2.5	13.8	14.7
EBIT	23.9	7.6	-3.5	14.7	15.0
Margin Ratios (%)					
Gross Profit Margin	43.3	40.7	39.8	40.7	41.2
EBITDA Margin	30.6	29.5	27.0	28.7	29.3
EBIT Margin	28.0	26.7	24.2	25.9	26.5
Profitability (%)					
ROE	36.2	31.6	29.4	29.5	30.6
ROIC	59.6	49.2	45.0	47.7	51.1
ROCE	38.0	34.0	30.2	31.8	33.5
Valuation					
OCF / Net profit (%)	64.5	88.5	79.0	81.9	85.6
Book Value Per Share (x)	335.0	402.3	441.2	484.0	533.0
Free Cash Flow Yield (%)	1.1	1.5	1.3	2.1	2.1

Source: Company, CEBPL

Historical Price Chart: TATA Elxsi Limited



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