

Tata Elxsi Limited (TELX)

SELL

July 11, 2025 | CMP: INR 6,139 | Target Price: INR 4,165

Expected Share Price Return: -32.1% | Dividend Yield: 1.4% | Expected Total Return: -30.7%

Sector View: Neutral

Change in Estimates	✓
Target Price Change	✓
Recommendation	✗

Company Info

BB Code	TELX IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	9,083/4,601
Mkt Cap (Bn)	INR 383.4/ \$4.4
Shares o/s (Mn)	62.3
3M Avg. Daily Volume	2,79,748

Change in Estimates

	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenues	36.9	38.3	(3.6)	40.7	42.2	(3.4)
GPM (%)	36.6	40.2	(361) bps	39.0	40.9	(188) bps
EBIT	8.0	9.7	(17.5)	9.9	11.0	(10.7)
EBITM %	21.7	25.4	(366) bps	24.2	26.2	(198) bps
EPS	110.4	132.8	(16.8)	133.1	149.6	(11.1)

Actual vs Consensus

INR Bn	Q1FY26A	BB Est.	Dev. (%)
Revenue	8.9	9.1	(2.0)
EBIT	1.6	1.9	(15.7)
EBITM %	18.0	20.9	(290) bps
PAT	1.4	1.7	(17.6)

Key Financials

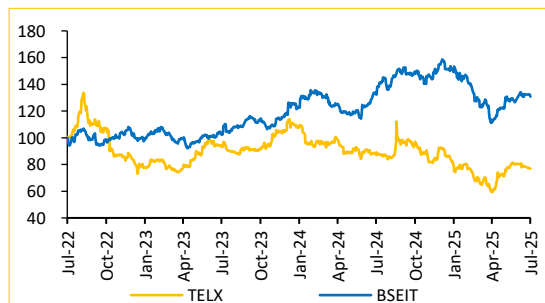
INR Bn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	35.5	37.3	36.9	40.7	44.1
YoY (%)	13.0	5.0	-0.9	10.2	8.3
EBIT	9.5	8.7	8.0	9.9	10.7
EBITM %	26.7	23.3	21.7	24.2	24.2
Adj PAT	7.9	7.8	6.9	8.3	10.2
EPS	127.2	126.0	110.4	133.1	164.4
ROE %	31.6	27.4	22.4	25.0	28.3
ROCE %	34.0	27.9	24.3	27.7	27.5
PE(x)	48.3	48.7	55.6	46.1	37.4

Shareholding Pattern (%)

	Mar-25	Dec-24	Sep-24
Promoters	43.91	43.91	43.91
FIIIs	12.73	13.27	13.65
DIIIs	8.54	7.50	7.38
Public	34.82	35.30	35.04

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	30.7	27.7	(1.2)
TELX	(23.2)	(17.9)	(13.8)



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Q1FY26 Technology Result Preview

Big miss on estimates: Rev -2.0%, EBIT -15.7%, PAT -17.6% vs. Consensus

- Revenue for Q1FY26 came at INR 8.9Bn down 1.8% QoQ and 3.7% YoY (vs Consensus est. at INR 9.1Bn).
- EBIT for Q1FY26 came at INR 1.6Bn, down 11.2% QoQ and 27.9% YoY (vs Consensus est. at INR 1.9Bn). EBIT margin was down 193bps QoQ and 610bps YoY to 18.2% (vs Consensus est. at 20.9%).
- PAT for Q1FY26 stood at INR 1.4Bn, down 16.3% QoQ and 21.6% YoY (vs Consensus est. at INR 1.7Bn).

Market headwinds persist despite healthy pipeline and new deals: TELX has reported a muted Q1FY26 with revenue contraction of 3.9% QoQ CC, below our expectations, driven by continued softness across key verticals. Transportation segment remained flat amid tariff uncertainties & Chinese competition, impacting Tier-1 R&D spends, though recent large deal wins & a strong pipeline offer growth visibility. Media & Communication declined 5.5% due to weak demand environment & ongoing industry consolidation, with recovery expected in Q2 on deal ramp-ups. HLS declined 6.7% QoQ due to project pauses amid macro uncertainty, but management expects H2 growth driven by recent wins, including a European Pharma major & a Japanese Medtech leader. **We believe that near-term growth remains challenging, however recent large deal wins & a strong pipeline across Transportation & HLS will provide revenue visibility for recovery from H2FY26. We remain watchful on execution and ramp-up timelines.**

Margins shrink amid weak revenue growth; Attrition rate spikes to 15%: TELX reported an EBIT margin of 18.2% in Q1FY26, down 190 bps QoQ from 20.1% in Q4FY25, primarily impacted by weak revenue performance & transition costs associated with ramping up large consolidation deals. Wage hikes are expected to roll out in Q3, while the focus is on utilizing all available operational levers to steadily improve the margin profile as revenues pick up. While management is confident of margin recovery driven by revenue growth & operational efficiencies, **we expect the improvement likely to be gradual. As a result, we anticipate FY26 EBIT margin to moderate to ~21.7%, compared to 23.3% in FY25, largely due to the drag from a soft Q1.** Moreover, TELX registered net headcount reduction of 287 employees in Q1, marking second consecutive quarter of employee decline. Further, attrition also inched up to 15%, an increase of 170 bps QoQ. **We anticipate modest headcount additions going forward, with management maintaining a cautious hiring approach given adequate bench strength & preference for aligning recruitment with tangible demand recovery.**

View and Valuation: TELX's performance lagged expectations, with broad-based weakness across key segments. The stock trades at an extremely expensive PE of 46x on FY27E EPS. Near-term challenges across Automotive and Media & Communications verticals remain. We expect a pickup in growth toward H2FY26, with the ramp-up of large deal wins in Auto. TELX's utilization has been impacted by significant volume build-up in anticipation of the ramp-up of large deals, which is likely to be more gradual than expected. We have lowered our estimates by approximately 3.5% for FY26E and FY27E, and have introduced FY28E projections. Our revised target price is INR 4,165, which implies a PE multiple of 28x (unchanged) as we roll forward our valuation to H2FY28E earnings. We maintain a SELL rating due to rich valuations.

TATA Elxsi Ltd.	Q1 FY26	Q1 FY25	YoY (%)	Q4 FY25	QoQ (%)
Revenues (INR Mn)	8,921	9,265	(3.7)	9,083	(1.8)
Employee Cost	5,957	5,489	8.5	5,917	0.7
Gross Profit (INR Mn)	2,964	3,775	(21.5)	3,166	(6.4)
Gross Margin (%)	33.2	40.7	(752) bps	34.9	(163) bps
Other Cost	1097	1253	(12.4)	1089	0.7
Depreciation	243	271	(10.3)	247	(1.7)
EBIT (INR Mn)	1,624	2,252	(27.9)	1,830	(11.2)
EBIT Margin (%)	18.2	24.3	(610) bps	20.1	(193) bps
Other Income	385	321	19.9	431	(10.7)
Interest	46	49	(6.7)	46	(0.6)
PBT	1963	2524	(22.2)	2214	(11.3)
Tax	520	683	(23.9)	490	6.0
PAT (INR Mn)	1,444	1,841	(21.6)	1,724	(16.3)
Basic EPS (INR)	23.2	29.6	(21.6)	27.7	(16.3)

Source: TELX, Choice Institutional Equities

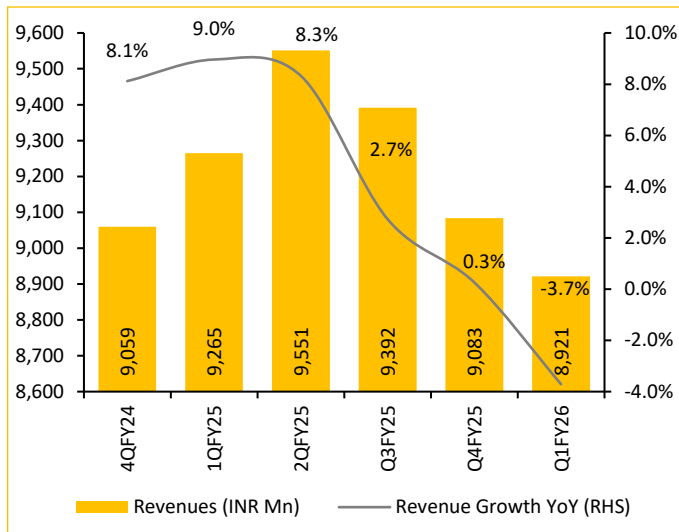
Management Call - Highlights

- Q1FY26 was challenging across key regions with geopolitical uncertainty and industry and customer specific issues impacting R&D spend and deal closures across geographies.
- While AI/GenAI is being integrated into offerings like the Neuron product, its impact on engineering headcount remains limited. Legal complexities and open-ended liabilities prevent dramatic reductions, as AI adoption doesn't directly translate to reduced manpower requirements or simplified deployment at this stage.
- Demand patterns are better in Europe and the APAC region (including Japan and India), while the US market is still slow.
- OEMs now contribute 72–75% of revenues, up from 60% a few quarters ago, reflecting a shift from Tier 1 suppliers. The Tier 1 business faces global challenges, with further decline expected as OEMs internalize software and shift work to GCCs.
- TELX won a multi-million USD Design Digital deal with a US headquartered global technology leader for a major data and insights program for next generation AI and product-feature development.
- The company was selected as a strategic partner for Medical Device Testing & Certification and Regulatory Compliance for a Cardiovascular portfolio of products.
- Company is associating with HAL (Hindustan Aeronautics Limited), in a foray into aerospace. It has built a capable technical team dedicated to the vertical. It has also announced strategic partnerships with NAL. It expects the vertical to see growth momentum in FY26.
- TELX won a strategic deal with a global Pharma and Biotech leader for a sophisticated and connected device portfolio for radioactive pharmaceutical infusion for molecular imaging towards cancer detection.
- TELX's Connected Vehicle Platform selected to power next gen connected tractor for a Global agri-machinery manufacturer, with initial deployments planned for Europe.
- TELX and Infineon Technologies signed an MoU to jointly develop EV solutions for India. Leveraging their design and technology strengths, the partnership aims to accelerate adoption of safe, cost-efficient, automotive-grade subsystems amid India's growing EV market, especially in two- and three-wheelers.

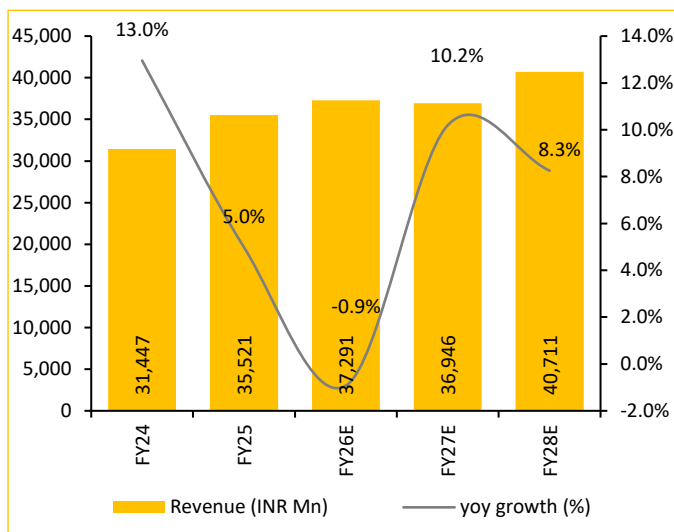
Sequential Operating Performance

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Income Statement								
Revenues (INR Mn)	8,817	9,142	9,059	9,265	9,551	9,392	9,083	8,921
Gross Profit (INR Mn)	3,547	3,739	3,688	3,775	3,808	3,679	3,166	2,964
Gross Margin (%)	40.2	40.9	40.7	40.7	39.9	39.2	34.9	33.2
EBIT (INR Mn)	2,388	2,447	2,337	2,252	2,393	2,206	1,830	1,624
EBIT Margin (%)	27.1	26.8	25.8	24.3	25.1	23.5	20.1	18.2
PAT (INR Mn)	2,002	2,064	1,969	1,841	2,294	1,990	1,724	1,444
Basic EPS (INR)	32.2	33.2	31.6	29.6	36.8	32.0	27.7	23.2
Operating Metrics								
Revenue - Geography (%)								
Americas	39.6	37.4	36.0	33.7	30.3	30.9	40.3	39.5
Europe	40.0	40.5	40.3	42.2	42.7	40.4	36.0	30.1
India	15.5	16.4	17.3	17.6	18.8	19.4	17.3	19.8
RoW	4.9	5.7	6.4	6.5	8.2	9.3	6.4	10.6
Total	100.0	100.0	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	96.3	97.3
System Integration & Support	2.7	2.7	2.8	3.0	2.9	2.5	3.7	2.7
Total	100.0	100.0	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	53.4	55.8
Media & Communications	38.4	37.8	33.6	33.3	31.8	32.4	32.4	31.0
Healthcare & Medical Devices	15.4	15.7	14.1	13.2	11.5	11.8	13.0	12.2
Others	-	-	0.9	0.7	1.0	0.8	1.2	1.0
Total	100.0	100.0	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	47.9	48.1
Fixed Price	50.3	50.0	47.9	50.9	50.5	51.9	52.1	51.9
Total	100.0	100.0	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	26.3	26.9
Offshore	74.2	74.7	73.7	72.8	74.7	74.2	73.7	73.1
Total	100.0	100.0	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	12,414	12,127
Attrition Rate LTM (%)	13.7	12.9	12.4	12.3	12.5	12.4	13.3	15.0

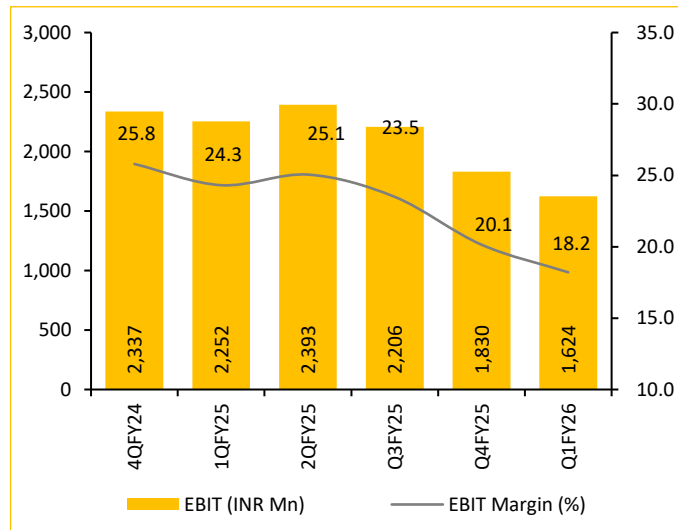
Source: Company, CEBPL

Decline in revenue growth amid delay in deal ramp-ups

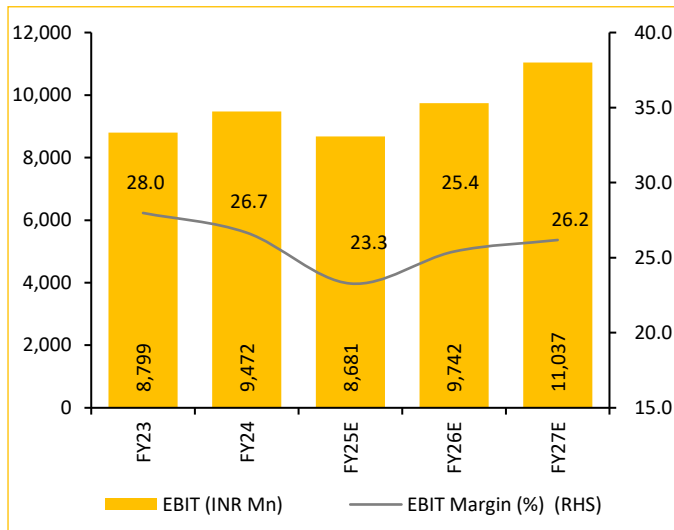
Source: TELX, Choice Institutional Equities

Revenue expected to grow at 5.7% CAGR over FY25-28E

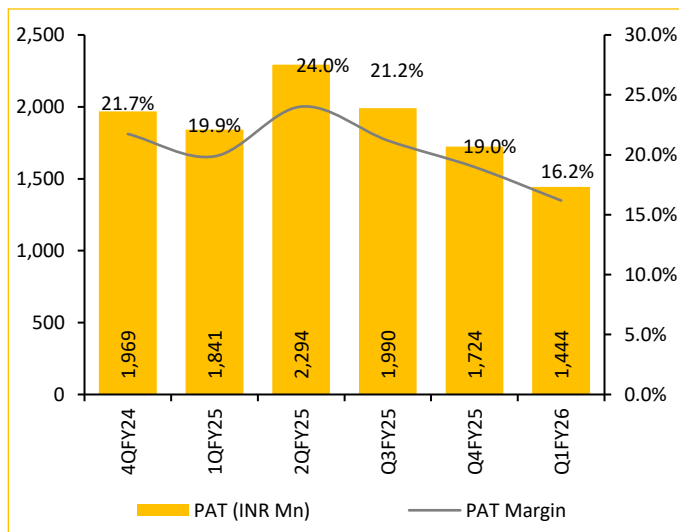
Source: TELX, Choice Institutional Equities

EBIT margins declined amid weak topline growth

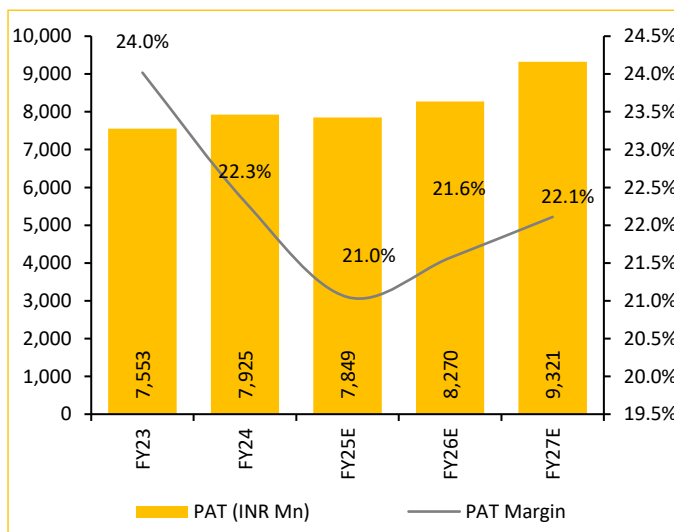
Source: TELX, Choice Institutional Equities

EBIT expected to grow at 7.1% CAGR over FY25-28E

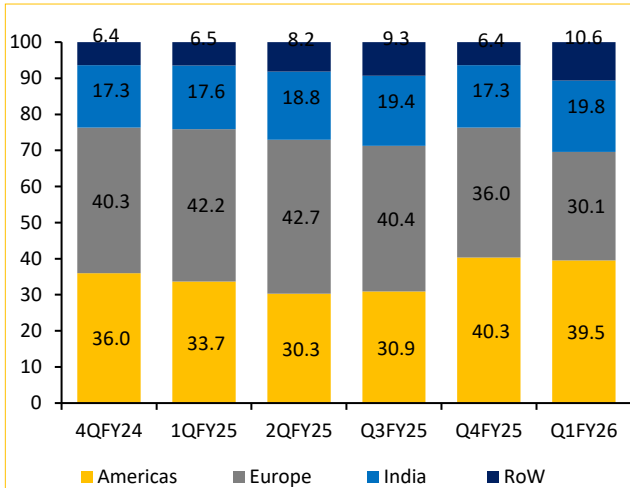
Source: TELX, Choice Institutional Equities

PAT margins continue to decline

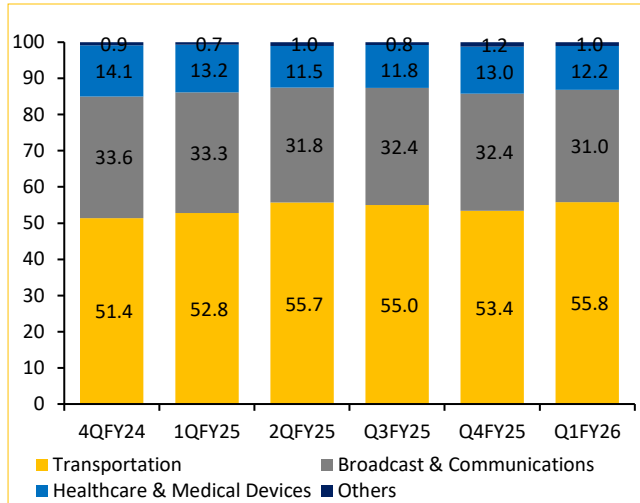
Source: TELX, Choice Institutional Equities

PAT to grow at 9.3% CAGR over FY25-28E

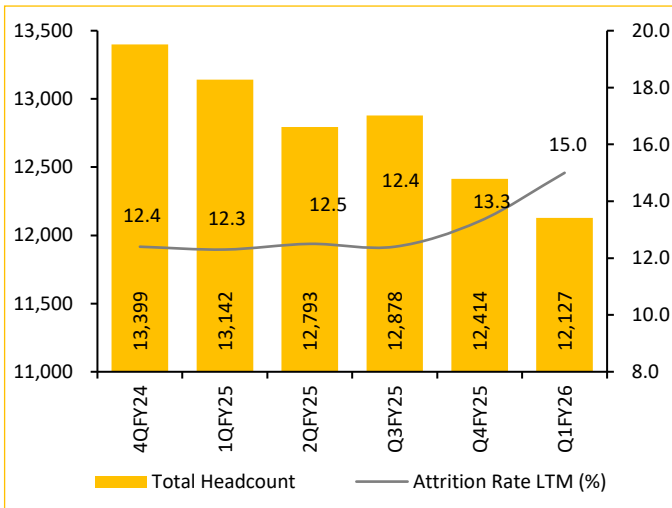
Source: TELX, Choice Institutional Equities

Europe markets remained weak

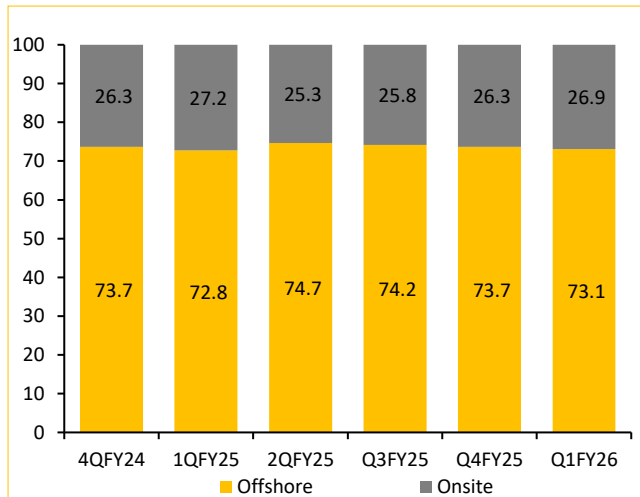
Source: TELX, Choice Institutional Equities

Communication & Healthcare sector to remain under pressure

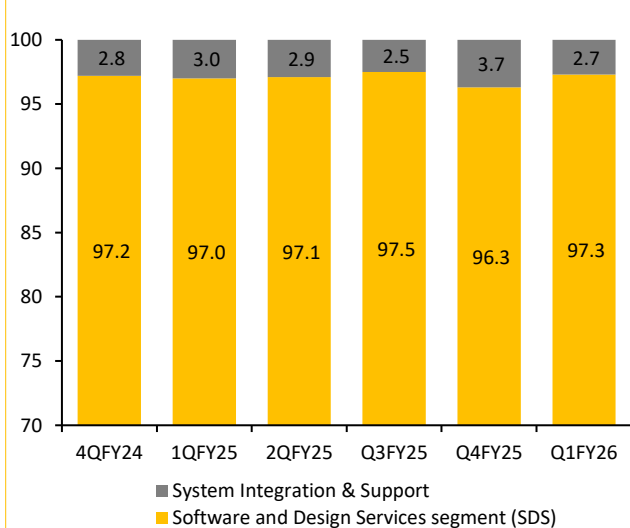
Source: TELX, Choice Institutional Equities

Attrition spiked: Net headcount decreased

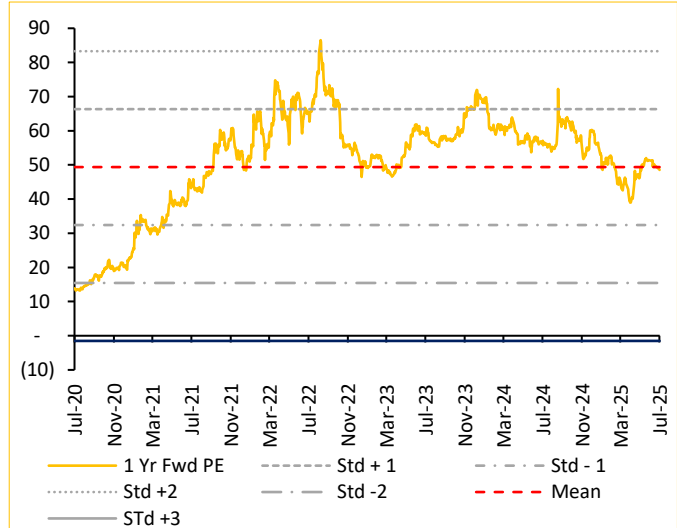
Source: TELX, Choice Institutional Equities

Onsite and Offshore mix

Source: TELX, Choice Institutional Equities

Segmental performance mix

Source: TELX, Choice Institutional Equities

1 Year Forward PE Band

Source: TELX, Choice Institutional Equities

Income statement (Consolidated in INR Mn)

Particulars	FY24	FY25	FY26	FY27E	FY28E
Revenue	35,521	37,291	36,946	40,711	44,072
Gross profit	14,471	14,429	13,523	15,877	17,188
EBITDA	10,467	9,729	9,063	10,992	11,899
Depreciation	994	1,049	1,027	1,140	1,234
EBIT	9,472	8,681	8,035	9,852	10,665
Other income	1,219	1,793	1,506	1,515	1,763
Interest expense	203	190	186	204	220
PAT	7,925	7,849	6,877	8,289	10,236
EPS	127.2	126.0	110.4	133.1	164.4

Ratio Analysis	FY24	FY25	FY26	FY27E	FY28E
Growth Ratios (%)					
Revenues	13.0	5.0	-0.9	10.2	8.3
Gross Profit	6.4	-0.3	-6.3	17.4	8.3
EBITDA	8.9	-7.0	-6.9	21.3	8.3
EBIT	7.6	-8.4	-7.4	22.6	8.3
Margin Ratios (%)					
Gross Profit Margin	40.7	38.7	36.6	39.0	39.0
EBITDA Margin	29.5	26.1	24.5	27.0	27.0
EBIT Margin	26.7	23.3	21.7	24.2	24.2
Profitability (%)					
ROE	31.6	27.4	22.4	25.0	28.3
ROIC	49.2	42.2	36.6	41.5	47.6
ROCE	34.0	27.9	24.3	27.7	27.5
Valuation					
OCF / Net profit (%)	88.5	103.4	69.6	78.7	81.9
BVPS (x)	402.3	459.2	492.4	532.3	581.6
Free Cash flow yield(%)	1.5	1.4	2.1	2.1	2.4

Source: TELX, Choice Institutional Equities

Balance sheet (Consolidated in INR Mn)

Particulars	FY24	FY25	FY26	FY27E	FY28E
Tangible fixed assets	1,944	1,557	1,772	2,038	2,344
Goodwill & intangible assets	2,037	1,639	1,639	1,639	1,639
Investments	-	-	-	-	-
Cash & Cash equivalents	13,571	16,064	16,848	18,357	20,390
Other non-current assets	2,521	4,686	4,920	5,166	5,424
Other current assets	11,796	11,911	12,507	13,132	13,789
Total assets	31,870	35,857	37,686	40,332	43,585
Shareholder's funds	25,057	28,600	30,663	33,149	36,220
Borrowings	-	-	-	-	-
Lease liabilities	2,240	1,923	1,923	1,923	1,923
Other non-current liabilities	542	568	511	545	590
Other current liabilities	4,031	4,767	4,590	4,715	4,852
Total equity & liabilities	31,870	35,857	37,686	40,332	43,585

Cash Flows (INR Mn)	FY24	FY25	FY26	FY27E	FY28E
Cash Flows From Operations	9,592	10,359	7,263	9,508	10,356
Cash Flows From Investing	(2,701)	(3,083)	263	223	223
Cash Flows From Financing	(4,278)	(4,986)	(4,999)	(6,006)	(7,386)

DuPont Analysis (INR Mn)	FY24	FY25	FY26	FY27E	FY28E
ROE	31.6%	27.4%	22.4%	25.0%	28.3%
Net Profit Margin	22.3%	21.0%	18.6%	20.4%	23.2%
Asset Turnover	1.1	1.0	1.0	1.0	1.0
Equity Multiplier	1.3	1.3	1.2	1.2	1.2

Historical share price chart: Tata Elxsi Limited



Date	Rating	Target Price
October 18, 2023	ADD	8,076
January 24, 2024	ADD	8,890
March 18, 2024	BUY	8,890
April 24, 2024	BUY	8,095
July 11, 2024	REDUCE	7,450
October 11, 2024	BUY	8,536
April 01, 2025	HOLD	4,900
April 21, 2025	SELL	4,190
July 11, 2025	SELL	4,165

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CHOICE RATING DISTRIBUTION & METHODOLOGY	
Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in statis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000Cr Market Cap
*Mid & Small Cap: Less Than INR 20,000Cr Market Cap

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