

Tata Elxsi Ltd

Q3FY25



Tata Elxsi Ltd.

Tata Elxsi performance stalled by global headwinds

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 6,001	INR 5,853	(2.5%)	INR 372,037	REDUCE	Internet Software & Services

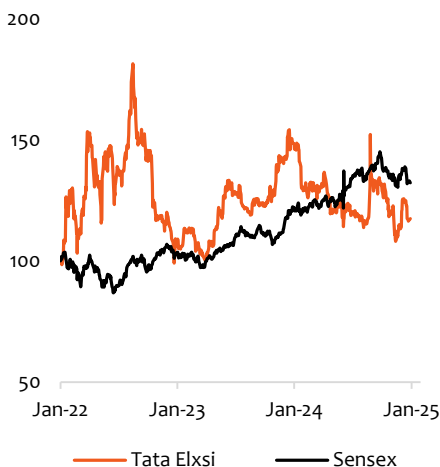
Result Highlights

- Tata Elxsi's Q3FY25 revenue and profit missed our expectations. Revenue stood at INR 9,392 Mn, up 2.7% YoY (-1.7% QoQ), missing our expectations, due to weakness across verticals.
- EBIT reached INR 2,206 Mn, down 9.8% YoY (-7.8% QoQ), falling short of our estimates, primarily due to currency headwinds, and the full impact of wage hike, resulting in a 327bps contraction in EBIT margins (-156bps QoQ) to 23.5%.
- PAT stood at INR 1,990 Mn, down 3.6% YoY (-13.3% QoQ). The steep QoQ decline in profit was attributed to margin erosion in Q3, as well as the absence of one-time R&D incentives and tax credits that the company benefitted from in Q2FY25.
- We reduce our FY26E/FY27E EPS by 11.3%/ 9.5% to INR 148.2/INR 176.8, respectively, due to continued stress in the automotive segment, driven by macroeconomic pressures in the U.S. and Europe, prolonged deal closures, and intensifying competition from Chinese EV players. Execution delays in large deals and limited near-term recovery further weigh on earnings visibility. We roll forward our valuation to FY27E, applying a P/E multiple of 33.0x, and revise our target price to INR 5,853 (previously INR 7,359) and reaffirm our REDUCE rating on TELX.**

MARKET DATA

Shares outs (Mn)	62
Mkt Cap (INR Mn)	372,037
52 Wk H/L (INR)	9,080/5,921
Volume Avg (3m K)	209
Face Value (INR)	10
Bloomberg Code	TELX IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	77,379
NIFTY	23,432

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	31,447	35,521	37,989	42,628	49,083
EBIT	8,799	9,472	9,606	10,959	13,255
PAT	7,552	7,924	8,296	9,233	11,014
EBITM (%)	28.0%	26.7%	25.3%	25.7%	27.0%
NPM (%)	24.0%	22.3%	21.8%	21.7%	22.4%

Source: Company, DevenChoksey Research

Industry specific challenges in transportation segment; green shoots in media and healthcare

- TELX reported revenue growth of 2.0% YoY in CC and flat QoQ growth in CC (Constant currency) terms.
- The transportation segment grew by 0.5% QoQ CC but faced headwinds such as prolonged deal closure cycles and softness in the US and European auto markets, leading to some project deferrals and reduced Tier-1 supplier spendings.
- Additionally, Western OEMs are losing market share to Chinese OEMs such as BYD, which are aggressively ramping up EV production, further impacting the competitive landscape.
- Management noted that many companies are shifting their focus back to internal combustion engines (ICE) and hybrid technologies, while reprioritizing near-term EV R&D investments.
- The company expects slow growth in the automotive services sector in Europe, while APAC and India are poised for acceleration, and the US market is expected to remain stable.
- Media and Communications revenue grew by 0.4% QoQ in CC, despite seasonal headwinds from furloughs. Healthcare grew by 1.1% QoQ in CC, driven by new customer wins and increasing demand for digital and Gen-AI powered solutions.
- Management highlighted green shoots in the healthcare and media verticals, with new deals secured, but it may take a few quarters before these convert into material revenue.
- In the System Integration business, decision delays on large projects impacted Q3FY25 revenue. TELX is strategically pivoting towards annuity-based and service-oriented revenue models to reduce reliance on project-based income.

SHARE HOLDING PATTERN (%)

Particulars (%)	Dec-24	Sep-24	Jun-24
Promoters	43.9	43.9	43.9
FIIIs	13.3	13.7	13.7
DIIIs	7.5	7.4	6.2
Others	35.3	35.0	36.2
Total	100	100	100

*Based on the previous closing

Note: All the market data is as of previous closing

11.4%

Revenue CAGR between FY24 and FY27E

11.6%

Adj. PAT CAGR between FY24 and FY27E

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Key Concall Highlights:

Margin Story

- EBIT margin stood at 23.5% for the quarter, down 327 bps YoY (-156bps QoQ).
- The margin contraction was primarily driven by adverse currency fluctuations in GBP, Euro, and JPY, which accounted for a 140bps impact. This, combined with the full effect of the wage hike cycle across the company's employee base for the current fiscal year and a rise in other expenses (-100bps), contributed to the overall margin pressure.
- The slight increase in other expenses was attributable to the higher utilization of third-party contractors in Q3FY25 to fill certain positions. Over time, the company plans to transition these roles to the internal workforce, thereby reducing reliance on external contractors.
- However, these headwinds were partially offset by improvements in operating leverage and efficiency driven by pyramid optimization, better utilization, and reductions in on-site salary costs.

Attrition and Outlook on hiring trends

- The employee headcount increased by 85 to 12,878, with an attrition rate of 12.5%.
- TELX highlighted in Q2FY25 that company would adopt to a more prudent hiring with a focus on recruiting specialized talent necessary for project execution.

Product Development and Deal Wins

- TELX is also investing in various products, such as the battery passport and battery management systems (BMS).
- Additionally, the company is developing solutions, including the SDV platform, to support Western OEMs in competing with Chinese OEMs.
- Tata Elxsi secured several significant deals in Q3FY25, including a multi-year contract with a U.S.-based operator to manage their application portfolio, marking a key win in the Media & Communication sector.
- The company also established an offshore development center for Suzuki Corporation, Japan, to support innovation in connected, autonomous, and electric vehicle technologies.
- Additionally, Tata Elxsi launched its AVENIR software-defined vehicle suite in partnership with Qualcomm, positioning itself as a leader in SDV solutions.
- In the Healthcare segment, the company onboarded marquee clients, leveraging its generative AI-powered regulatory engineering solutions to expand its footprint.

Valuation and view:

Tata Elxsi's Q3FY25 results reflect a subdued performance, falling short of both revenue and earnings expectations. The quarter highlights persistent challenges stemming from macroeconomic pressures, particularly in the U.S. and Europe. Core verticals, particularly, transportation struggled due to prolonged deal closures and headwinds in the Western automotive markets. Margins contracted significantly, driven by adverse currency movements in GBP, Euro, and JPY, coupled with the full impact of wage hikes across the employee base. While management expects slow growth in European transportation, steady U.S. performance, and stronger acceleration in APAC and India, a meaningful recovery appears protracted.

The company's strategic initiatives, including the AVENIR SDV suite and generative AI solutions, position it for long-term opportunities. However, **execution risks and delayed ramp-ups in large deals weigh heavily on the near-term outlook.** Reflecting ongoing stress in the automotive segment, particularly in the U.S. and Europe, we lower our FY26E/FY27E EPS estimates to INR 148.2/INR 176.8, respectively (earlier: INR 167.2/INR 195.3).

The European automotive sector remains under significant strain due to economic uncertainty, job cuts, and factory closures, further compounded by geopolitical tensions and constrained client budgets. In the U.S., macroeconomic concerns, including inflationary pressures and delayed interest rates cuts, have slowed investment cycles and decision-making for large projects. Moreover, intensifying competition from Chinese EV manufacturers, such as BYD, is reshaping the global competitive landscape, forcing Western OEMs to reallocate investments towards internal combustion engine (ICE) and hybrid R&D, curtailing EV innovation spend. Seasonal headwinds and delays in deal ramp-ups also dampen the media and communication vertical's performance, while green shoots in healthcare and media from generative AI solutions remain a long-term prospect.

We roll forward our valuation to FY27E, applying a P/E multiple of 33.0x, and revise our target price to INR 5,853 (previously INR 7,359). Given the sustained pressure in key segments and extended timelines for a meaningful turnaround, we maintain a "REDUCE" rating on Tata Elxsi.

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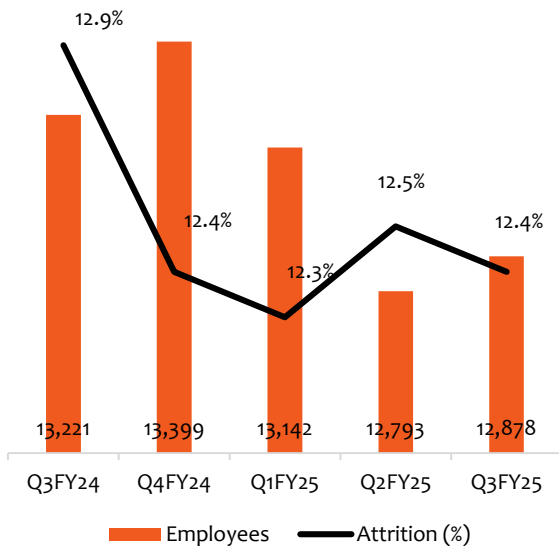
RESULT SNAPSHOT

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	Y-o-Y
Revenues	9,392	9,551	9,142	(1.7%)	2.7%	28,207	26,462	6.6%
Cost of materials consumed	560	592	443	(5.3%)	26.4%	1,645	1,522	8.1%
Changes in inventories of stock-in-trade	0	0	2	NA	NA	11	4	186.7%
Employee benefits expense	5,152	5,151	4,958	0.0%	3.9%	15,288	14,155	8.0%
Other expenses	1,213	1,144	1,038	6.0%	16.9%	3,610	2,929	23.2%
Total Expenses	6,926	6,887	6,441	0.6%	7.5%	20,554	18,610	10.4%
EBITDA	2,466	2,664	2,701	(7.4%)	(8.7%)	7,653	7,852	(2.5%)
EBITDA margin (%)	26.3%	27.9%	29.5%	-163bps	-329bps	27.1%	29.7%	-254bps
Depreciation and amortisation expenses	260	272	254	(4.4%)	2.0%	802	719	11.6%
EBIT	2,206	2,393	2,447	(7.8%)	(9.8%)	6,851	7,133	(4.0%)
EBIT margin (%)	23.5%	25.1%	26.8%	-156bps	-327bps	24.3%	27.0%	-267bps
Finance cost	47	48	56	(4.1%)	(16.3%)	144	153	(5.9%)
Other Income	399	643	349	(38.0%)	14.1%	1,362	883	54.3%
Profit before tax	2,558	2,987	2,741	(14.3%)	(6.6%)	8,070	7,862.67	2.6%
Tax expense	568	693	676	(17.9%)	(16.0%)	1,944	1,910	1.8%
Net profit	1,990	2,294	2,064	(13.3%)	(3.6%)	6,125	5,953	2.9%
Net profit (%)	21.2%	24.0%	22.6%	-283bps	-139bps	21.7%	22.5%	-78bps
Diluted EPS (INR)	31.95	36.84	33.14	(13.3%)	(3.6%)	98.34	95.59	2.9%

Source: Company, DevenChoksey Research

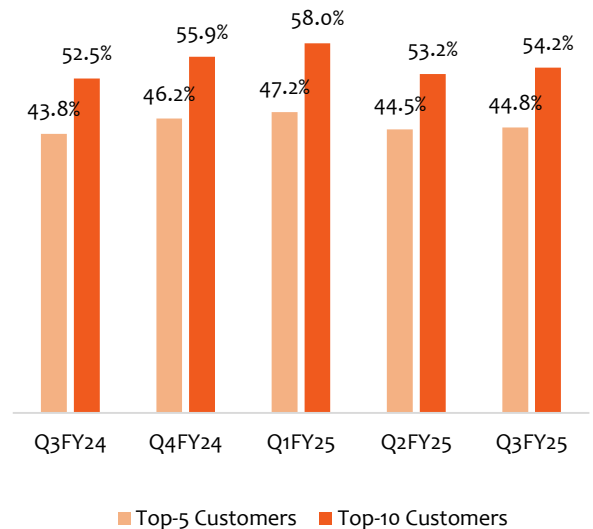
QUARTERLY SNAPSHOT

TELX continues to adopt a prudent hiring approach



Source: Company, DevenChoksey Research

Revenue contribution remains stable from top 5 and top 10 customers



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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	31,447	35,521	37,989	42,628	49,083
Total Operating expenses	21,834	25,055	27,268	30,262	34,211
EBITDA	9,613	10,466	10,721	12,366	14,872
Depreciation	814	994	1,116	1,407	1,617
EBIT	8,799	9,472	9,606	10,959	13,255
Finance Cost & Extra Ordinary- Expense	162	203	252	275	299
Other income, net	738	1,220	1,707	1,878	2,028
Pre-tax Income	9,375	10,489	11,061	12,562	14,985
Income tax expense	1,823	2,564	2,765	3,329	3,971
Net profit	7,552	7,924	8,296	9,233	11,014
Diluted EPS (INR)	121.3	127.2	133.2	148.2	176.8
Shares in Mn	62.3	62.3	62.3	62.3	62.3

Exhibit 3: Cash Flow Statement

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
CFFO	4,869	7,014	8,257	7,941	9,154
CFFI	-2,019	-2,701	-493	-591	-1,305
CFFF	-3,031	-4,278	-5,782	-6,505	-7,773
Net Inc/Dec	-182	35	1,982	846	75
Opening Cash	1,511	1,339	1,335	3,317	4,162
Exchange Rate Difference	10	-39	0	0	0
Closing Cash	1,339	1,335	3,317	4,162	4,238

Exhibit 4: Key Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EBIT Margin (%)	28.0%	26.7%	25.3%	25.7%	27.0%
Tax rate (%)	19.4%	24.5%	25.0%	26.5%	26.5%
Net Profit Margin (%)	24.0%	22.3%	21.8%	21.7%	22.4%
RoE (%)	36.2%	31.6%	30.1%	30.5%	32.8%
RoCE (%)	38.5%	34.6%	31.8%	33.0%	36.0%
P/E (x)	49.5	47.2	45.1	40.5	33.9

Exhibit 2: Balance Sheet

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Share Capital	623	623	623	623	623
Other Equity	20,235	24,434	26,923	29,693	32,997
Total Equity	20,858	25,057	27,545	30,315	33,619
Deferred Tax Liability,(Net)	0	0	0	0	0
Lease Liability	1,537	1,812	2,094	2,289	2,484
Long term Provision	455	542	581	644	733
Total non-current liabilities	1,992	2,354	2,675	2,933	3,217
Trade Payables	1,032	856	885	1,063	1,084
Lease Liability	285	428	423	462	502
Other Current Liabilities	3,213	2,790	3,952	4,368	4,946
Short term Provisions	256	385	413	457	520
Total Current Liabilities	4,786	4,459	5,673	6,351	7,052
Total liabilities	27,635	31,870	35,894	39,599	43,889
Property Plants and Equipment's	1,597	1,923	2,158	2,384	2,746
Right of use of Assets	1,577	1,903	2,115	2,312	2,509
CWIP	70	22	22	22	22
Intangible Assets	162	134	771	1,411	2,568
Other current assets	1,094	2,521	2,657	2,913	3,269
Total Non-Current Assets	4,500	6,503	7,723	9,041	11,114
Current Assets					
Trade Receivables	9,764	9,716	10,391	11,660	13,425
Cash & equivalent	1,339	1,332	3,317	4,162	4,238
Bank Balance	10,577	12,239	12,239	12,239	12,239
Other current assets	1,456	2,080	2,224	2,497	2,873
Total Current Assets	23,135	25,367	28,171	30,558	32,775
Total Assets	27,635	31,870	35,894	39,599	43,889

Tata Elxsi Ltd.

Tata Elxsi Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
13-Jan-25	6,001	5,853	REDUCE	Buy	More than 15%
12-Oct-24	7,675	7,359	REDUCE	Accumulate	5% – 15%
11-Jul-24	6,957	7,150	HOLD	Hold	0 – 5%
25-Apr-24	7,030	7,536	ACCUMULATE	Reduce	-5% – 0
24-Jan-24	7,768	8,390	ACCUMULATE	Sell	Less than – 5%
19-Oct-23	7,609	8,466	ACCUMULATE		

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