REDUCE (Upgrade from SELL)

CMP: **INR 4,901** Target Price: **INR 4,250 (INR 4,300)** ▼ -13%

ICICI Securities

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18 April 2025

India | Equity Research | Q4FY25 results review

Tata Elxsi

Technology

In-line result; transportation vertical sees a sharp downturn

Tata Elxsi (TELX) has reported a muted Q4FY25 print with revenue contraction of 5.3% QoQ CC, roughly in line with our estimate (of -5.9%) and falling below consensus. Transportation vertical downturn was sharp, though already built into I-Sec's estimate. Other highlights of Q4 include: 1) 3 large deals signed with higher annuity component, 2) a pivot towards emerging geographies 3) company highlighting growth bounce back in Q1FY26. Though new deals give some near-term respite, structural and macroeconomic issues loom large. We largely maintain our estimates and tweak FY26E EPS by 130bps on slightly better near-term visibility lent by large deals and optimism in healthcare-led demand. Recommend **REDUCE** (from *Sell* - on recent stock correction of 7% in last one month) set at an unchanged 1-year forward PE of 30x.

Transportation vertical sees sharp downturn

TELX reported contraction of 5.3% QoQ CC vs I-Sec estimate of -5.9% QoQ CC/ consensus estimate of -1.9%. Transportation saw extremely weak performance with contraction of 9.7% CC, impacted by project pauses and competition to global auto OEMs from Chinese players. Tariff wars are further exacerbating the uncertainty. This marks the first-ever quarter of contraction in the vertical for the company. Media and communication vertical was down 6.3%. HLS was up 3.5%, possibly from ramp-up of large deals from previous quarters. Others vertical was up 40% QoQ CC.

Weakness in Europe persists

Europe was down 6.2% QoQ USD, marking the second consecutive quarter of QoQ contraction. US was down -1%. India held up well with 15.5% QoQ growth. RoW was down 2.2%, despite demand traction in Japan. Company is pivoting towards emerging markets, as US and EU demand continues to be in a limbo.

Margin print misses estimate

EBIT margin stood at 20.1%, down 340bps QoQ, lower than I-Sec/consensus estimate of 22.6%/23.9%, primarily because of lack of growth leverage. The hit has come from other direct expenses (cost of material consumed) which were up 32.4% QoQ. Employee expenses were largely stable, up by 0.5% QoQ. Offshoring was 74.1%, down 10bps QoQ. FPP was 50.7%, down 120bps QoQ, affecting the margin. Discretionary spending, such as subcontracting, was avoided in Q4.

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Revenue	37,290	38,530	43,711	48,700
EBITDA	9,927	10,696	12,403	13,879
EBITDA Margin (%)	26.6	27.8	28.4	28.5
Net Profit	7,849	7,853	9,146	10,219
EPS (INR)	129.2	126.1	146.9	164.1
EPS % Chg YoY	1.6	(2.4)	16.5	11.7
P/E (x)	37.9	38.9	33.4	29.9
EV/EBITDA (x)	29.1	26.7	22.6	19.8
RoCE (%)	25.4	23.1	23.3	22.3
RoE (%)	28.5	25.6	25.8	24.7

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Market Data

Market Cap (INR)	305bn
Market Cap (USD)	3,574mn
Bloomberg Code	TELX IN
Reuters Code	TTEX.BO
52-week Range (INR)	9,083 /4,601
Free Float (%)	56.0
ADTV-3M (mn) (USD)	12.4

Price Performance (%)	3m	6m	12m
Absolute	(21.1)	(33.5)	(34.9)
Relative to Sensex	(23.6)	(30.4)	(42.6)

ESG Score	2021	2022	Change
ESG score	69.0	74.0	5.0
Environment	44.1	53.3	9.2
Social	63.4	74.2	10.8
Governance	83.0	86.0	3.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
Revenue	0.5	0.0
EBITDA	0.5	0.0
EPS	0.5	0.0

Previous Reports

04-04-2025: Sector update

10-01-2025: Q3FY25 results review

Full-year FY25 growth muted due to slowdown in media & communication and healthcare & life sciences verticals

FY25 revenue growth stood at 3.1% CC vs I-Sec estimate of 2.7%. Full year EBIT margin was 23.3% vs estimated 24.4%. Transportation/ media & communication/ healthcare and life sciences, others verticals grew +11.8%/-5.5%/-.9.4%/23.3% CC YoY (vs +20.4%/-2.6%/+7.6%/+2.9% CC in FY24), respectively.

3 large deals announced

TELX has announced three large deal wins in automotive, media and communication, with entry in aerospace and defence. The Media and Communication vertical large consolidation deal has net new component at 25-30%. It is a 3-year consolidation deal with an existing customer. The deal ramp ups are likely to pan out well despite macroeconomic weakness. The company is pivoting towards more multi-year deals. Deal pricing is stable; 45-**5**0% of these large deals are annuity based.

Healthcare and life sciences – sees recovery; Media and communication – saw large deal win

There is continued robust traction in the vertical with 3.5% QoQ CC growth, after a client-specific issue in the middle of FY25. Demand subsegments include: 1) Regulatory (which has been insourced), 2) core product engineering and 3) AI. Company saw some customer-specific issues for media and communication vertical in Q4FY25 due to restructuring. It won USD 10mn deal with a strategic broadcaster.

Margin to recover in Q1FY26

Margin is likely to recover once growth bounces back in Q1FY26. Onsite -offshore mix, fixed price, time and material mix are all expected to be at stable levels. Target margin is in the range of 28-30% (the range in FY23).

Shift to emerging markets

As EU and US demand sees a slowdown, exacerbated by geopolitical volatility, TELX is shifting towards emerging geographies: Japan and India. Within India, company works primarily with GCCs and some OEMs. The geography is ramping up well.

Other highlights

- 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.
- SIS (system integration and support) segment is pivoting to value-add services.
- Company is having discussions with semiconductor fabrication companies. The discussions are in early stages. It is on wait and watch mode on chip design business.
- Onsite and offshore mix is likely to remain stable, with new deals more skewed towards offshore.
- Headcount declined by 464 QoQ. Attrition inched up to 13.3%, up 90bps QoQ.
- Board has recommended a final dividend of INR 75/sh for FY25.

Key risks

Upside risks: 1) Faster ramp ups of existing and new large deal wins 2) regulatory changes leading to lifting to demand overhang from US geography.

Exhibit 1: Large deal win announcements

Quarter	Client	Deal details
Q4FY25	Leading Media & Communications company	Over USD 100mn multi-year consolidation deal win from a leading media & communications company for next generation product engineering across its portfolio of video and broadband products.
Q4FY25	Global Automotive OEM	Euro 50mn multi-year deal from a leading European headquartered automotive OEM for platform and application development across SDV, electrification, body and chassis domains.
Q4FY25	Leading European Medtech company	Awarded a large deal by a leading European renal care medtech company for enhancing software functionality, cybersecurity, interoperability and support life-cycle management across their portfolio of critical care devices
Q4FY25	US headquartered Global Broadcaster	Won a strategic USD 10mn consolidation deal with a global broadcaster for their streaming video platform engineering
Q4FY25	World Leader in Green Energy	Multi-million USD design digital deal to develop a transformative fleet management software for EVs powered by next-generation analytics and AI.

Source: I-Sec research, Company data

Exhibit 2: Quarterly performance

	Q4FY25	Q3FY25	QoQ	Q4FY24	YoY
QoQ CC	-5.3%	0.0%	-530 bps	-0.6%	-470 bps
Average (USD rate)	85.4	84.4	1.2%	83.2	2.7%
Sales (USD m)	111	111	0.0%	109	2.1%
INR mn					
Sales	9,083	9,392	-3.3%	9,059	0.3%
EBITDA	2,077	2,466	-15.8%	2,613	-20.5%
EBITDA Margin	22.9%	26.3%	-340 bps	28.8%	-598 bps
EBIT	1,830	2,206	-17.1%	2,337	-21.7%
EBIT Margin	20.1%	23.5%	-335 bps	25.8%	-565 bps
Reported PAT	1,724	1,990	-13.4%	1,969	-12.5%
EPS	27.7	32.0	-13.3%	31.6	-12.4%

Source: I-Sec research, Company data

Exhibit 3: Change in estimates

	Revised		Old		Change	
INR mn	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenues	38,967	44,207	38,777	44,201	0.5%	0.0%
EBITDA	10,818	12,544	10,765	12,543	0.5%	0.0%
EBIT margin	27.8%	28.4%	27.8%	28.4%	0bps	0bps
EPS (INR/share)	127.6	148.6	126.9	148.6	0.5%	0.0%
Revenues (US$ mn)	456	508	448	502	1.8%	1.2%
Revenue growth (US$, %)	2.9%	11.5%	1.6%	12.2%	130bps	-70bps

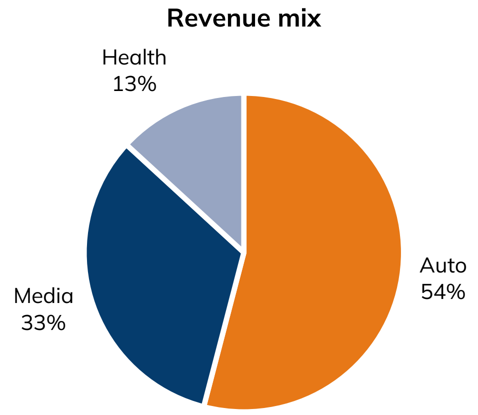
Source: I-Sec research, Company data

Exhibit 4: Sharp automotive decline in Q4FY25; healthcare and life sciences recovers after 2 quarters of weakness

QoQ CC	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
QoQ CC														
Auto	9.7%	8.3%	7.8%	4.6%	7.3%	1.7%	1.8%	6.9%	1.9%	1.2%	5.3%	4.4%	0.5%	-9.7%
Media	6.3%	7.2%	3.7%	1.0%	-2.6%	1.7%	0.2%	-0.4%	-0.1%	-4.0%	0.5%	-2.6%	0.4%	-6.3%
Health	20.7%	6.8%	7.4%	5.2%	-1.9%	1.0%	3.2%	3.2%	3.9%	0.2%	4.3%	-11.2%	1.1%	3.5%
YoY CC														
Auto	31.2%	38.6%	46.3%	34.2%	30.9%	23.2%	0.2%	19.1%	12.9%	16.4%	20.3%	16.0%	12.2%	-0.1%
Media	30.2%	31.6%	27.8%	19.6%	9.8%	3.9%	-0.1%	-1.3%	1.3%	-4.6%	-3.8%	-5.1%	-5.5%	-7.6%
Health	71.5%	62.4%	47.6%	45.1%	18.3%	11.2%	0.0%	4.8%	11.2%	7.2%	-0.5%	-11.8%	-13.9%	-11.0%

Source: Company data, I-Sec research

Exhibit 5: Well diversified revenue mix- FY25



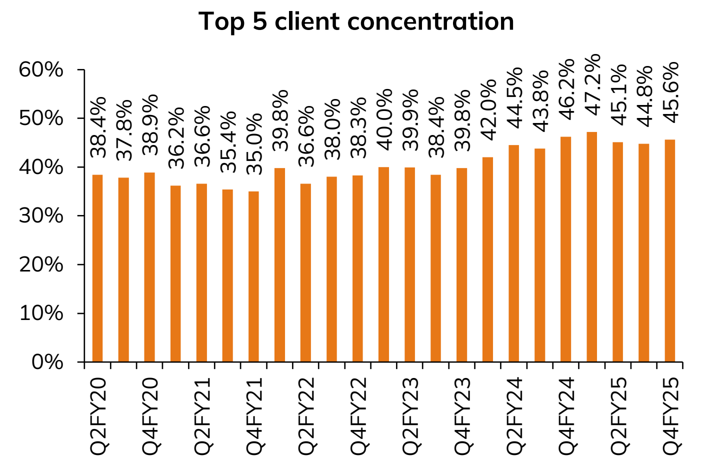
Source: I-Sec research, Company data

Exhibit 6: EU sees continued weakness; India grew strongly in Q4FY25

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
QoQ USD												
EU	0.8%	5.0%	6.5%	3.3%	7.9%	10.3%	4.2%	-1.3%	6.7%	3.9%	-7.6%	-6.2%
USA	8.2%	2.3%	3.7%	-1.8%	-1.1%	1.6%	-2.8%	-4.5%	-4.6%	-7.7%	-0.4%	-1.0%
India	13.6%	-6.6%	2.2%	8.5%	0.1%	-5.9%	8.9%	4.7%	3.7%	9.6%	0.7%	15.5%
RoW	-22.2%	-0.3%	8.1%	-6.5%	-6.9%	-4.6%	19.7%	9.7%	5.2%	31.1%	9.4%	-2.2%
YoY USD												
EU	23.1%	21.2%	24.5%	16.5%	24.7%	31.0%	28.1%	22.5%	21.1%	14.1%	1.1%	-3.9%
USA	22.4%	23.3%	19.1%	12.7%	3.1%	2.4%	-4.1%	-6.7%	-10.0%	-18.3%	-16.3%	-13.2%
India	61.8%	20.2%	14.2%	17.6%	3.6%	4.3%	11.1%	7.3%	11.2%	29.6%	19.9%	32.3%
RoW	-13.9%	-16.8%	-9.6%	-21.6%	-6.2%	-10.3%	-0.7%	16.5%	31.7%	81.0%	65.4%	47.5%

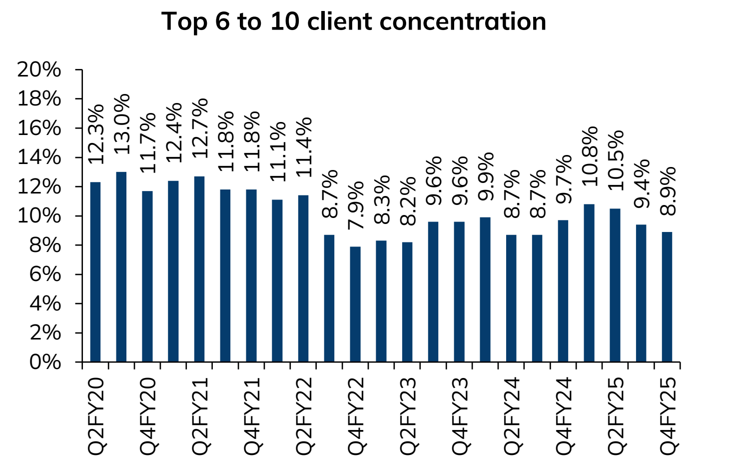
Source: Company data, I-Sec research

Exhibit 7: Top 5 concentration up by 80bps QoQ



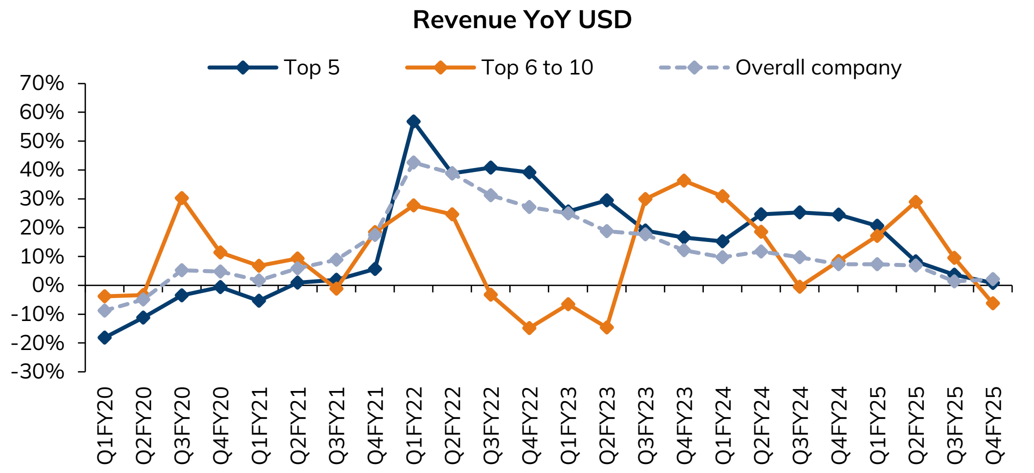
Source: I-Sec research, Company data

Exhibit 8: Top 6 to 10 concentration down



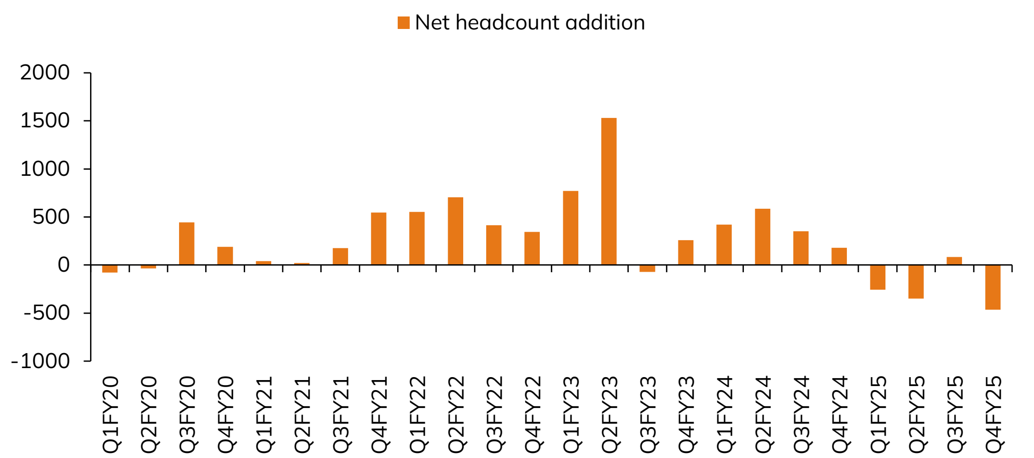
Source: I-Sec research, Company data

Exhibit 9: Top 6 to 10 client revenue declines 6.3% YoY



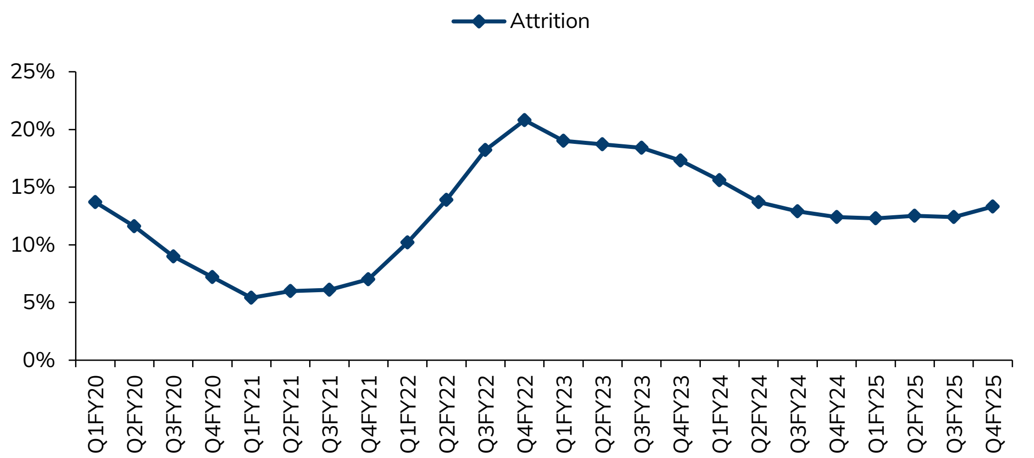
Source: I-Sec research, Company data

Exhibit 10: Net headcount dips by 464 QoQ as TELX



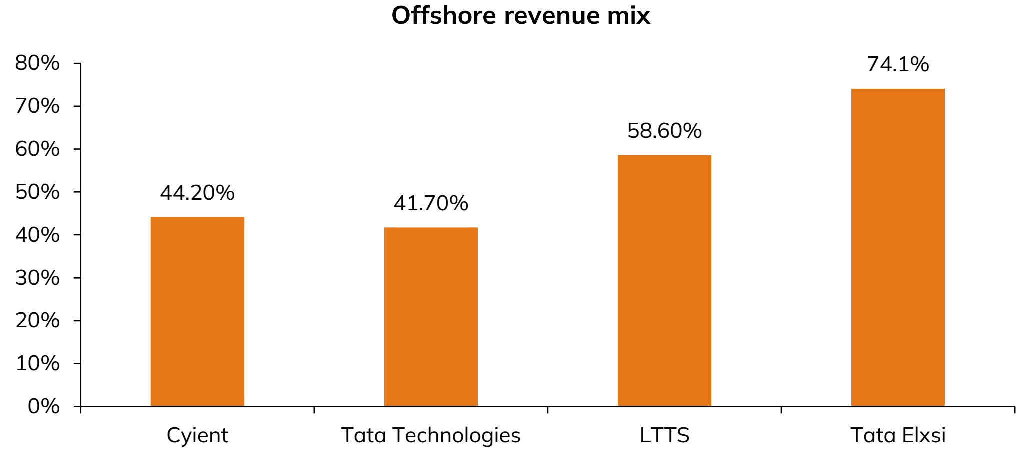
Source: I-Sec research, Company data

Exhibit 11: LTM attrition inches up



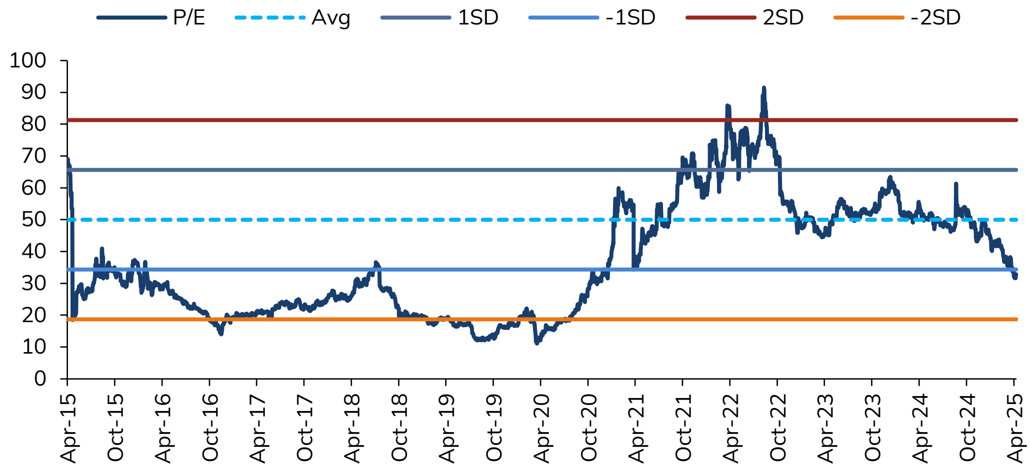
Source: I-Sec research, Company data

Exhibit 12: TELX has highest offshore revenue mix vs peers giving it the edge in terms of margin



Source: I-Sec research, Company data | Q2FY24 data for Cyient; Q3FY25 data for TATATECH and LTTS

Exhibit 13: TELX is currently trading at 32.8x 1-year forward PE; closer to 5-year average PE -1 SD of 35.5x



Source: Bloomberg

Exhibit 14: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	43.9	43.9	43.9
Institutional investors	19.6	20.6	20.2
MFs and others	1.1	2.0	1.9
FIs/Banks	0.1	0.0	0.0
Insurance	4.7	5.0	5.1
FIIs	13.7	13.7	13.3
Others	36.5	35.5	35.9

Source: Bloomberg, I-Sec research

Exhibit 15: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Net Sales (USD mn)	**442**	**451**	**502**	**560**
Net Sales (INR. mn)	**37,290**	**38,530**	**43,711**	**48,700**
Operating Expense	27,363	27,833	31,307	34,820
EBITDA	**9,927**	**10,696**	**12,403**	**13,879**
EBITDA Margin (%)	26.6	27.8	28.4	28.5
Depreciation & Amortization	1,049	1,117	1,268	1,412
EBIT	8,879	9,579	11,136	12,467
Interest expenditure	190	200	208	216
Other Non-operating Income	1,793	1,233	1,431	1,558
Recurring PBT	**10,482**	**10,612**	**12,359**	**13,809**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	2,435	2,759	3,213	3,590
PAT	8,047	7,853	9,146	10,219
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**7,849**	**7,853**	**9,146**	**10,219**
Extraordinaries (Net)	(198)	-	-	-
Recurring Net Income	**7,652**	**7,853**	**9,146**	**10,219**

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Total Current Assets	27,975	32,247	37,903	44,601
of which cash & cash eqv.	16,064	19,935	24,734	30,075
Total Current Liabilities & Provisions	4,767	4,907	5,154	5,369
Net Current Assets	**23,208**	**27,340**	**32,749**	**39,232**
Investments	-	-	-	-
Net Fixed Assets	1,541	1,591	1,641	1,691
ROU Assets	1,551	1,551	1,551	1,551
Capital Work-in-Progress	16	-	-	-
Goodwill	-	-	-	-
Other assets	4,686	4,686	4,686	4,686
Deferred Tax Assets	-	-	-	-
Total Assets	**31,090**	**35,256**	**40,715**	**47,248**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Deferred Tax Liability	**-**	**-**	**-**	**-**
provisions	568	618	668	718
other Liabilities	1,923	1,923	1,923	1,923
Minority Interest	-	-	-	-
Equity Share Capital	623	623	623	623
Reserves & Surplus*	27,977	32,093	37,502	43,984
Total Net Worth	**28,600**	**32,716**	**38,125**	**44,607**
Total Liabilities	**31,090**	**35,256**	**40,715**	**47,248**

Source Company data, I-Sec research

Exhibit 18: Quarterly trend

(INR mn, year ending March)

	Jun-24	Sep-24	Dec-24	Mar-25
Net Sales	9,265	9,551	9,392	9,083
% growth (YOY)	2.3	3.1	-1.7	-3.3
EBITDA	2,720	2,664	2,466	2,077
Margin %	29.4	27.9	26.3	22.9
Other Income	272	595	352	385
Adjusted Net Profit	1,841	2,294	1,990	1,724

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
CFO before WC changes	10,602	10,696	12,403	13,879
CFO after WC changes	**5,880**	**10,435**	**11,794**	**12,737**
Capital Commitments	163	(1,151)	(1,318)	(1,462)
Free Cashflow	**7,956**	**8,827**	**9,898**	**10,609**
Other investing cashflow	(3,246)	1,233	1,431	1,558
Cashflow from Investing Activities	**(3,083)**	**82**	**113**	**96**
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Cash flow from Financing Activities	**(4,986)**	**(3,887)**	**(3,895)**	**(3,903)**
Dividend paid	(4,374)	(3,737)	(3,737)	(3,737)
Others	(612)	(150)	(158)	(166)
Chg. in Cash & Bank balance	**51**	**3,871**	**4,799**	**5,340**
Closing cash & balance	1,353	5,224	10,023	15,364

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
Per Share Data (INR)				
Reported EPS	129.2	126.1	146.9	164.1
Diluted EPS	122.9	126.1	146.9	164.1
Cash EPS	139.7	144.0	167.2	186.8
Dividend per share (DPS)	60.0	60.0	60.0	60.0
Book Value per share (BV)	459.2	525.3	612.2	716.3
Dividend Payout (%)	46.4	47.6	40.9	36.6
Growth (%)				
Net Sales	5.0	3.3	13.4	11.4
EBITDA	(5.1)	7.7	16.0	11.9
EPS	1.6	(2.4)	16.5	11.7
Valuation Ratios (x)				
P/E	37.9	38.9	33.4	29.9
P/CEPS	35.1	34.0	29.3	26.2
P/BV	10.7	9.3	8.0	6.8
EV / EBITDA	29.1	26.7	22.6	19.8
P/S	8.2	7.9	7.0	6.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
EBITDA Margins (%)	26.6	27.8	28.4	28.5
EBIT Margins (%)	23.8	24.9	25.5	25.6
Effective Tax Rate (%)	23.2	26.0	26.0	26.0
Net Profit Margins (%)	21.6	20.4	20.9	21.0
Inventory Turnover Days	-	-	-	-
Fixed Asset Turnover (x)	21.3	24.5	27.0	29.2
Receivables Days	95	94	88	87
Payables Days	10	12	12	13
Working Capital Days	73	69	64	64
Net Debt / EBITDA (x)	(15.3)	(17.8)	(19.5)	(21.3)
Profitability Ratios				
RoCE (%)	25.4	23.1	23.3	22.3
RoIC (%)	77.5	78.0	84.6	84.4
RoNW (%)	28.5	25.6	25.8	24.7

Source Company data, I-Sec research

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