

SELL

Tata Elxsi: Recovery Visible; Valuation Caps Upside

January 14, 2025 CMP: INR 5,796 | Target Price: INR 4,700

Expected Share Price Return: -18.9% | Dividend Yield: 1.4% | Potential Upside: -17.5% | 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)	6,734/4,601
Mkt Cap (Bn)	INR 361.1/ \$4.0
Shares o/s (Mn)	62.3
3M Avg. Daily Volume	1,90,718

Change in Estimates		FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)	
Revenues	37.5	37.2	0.9	44.3	42.1	5.2	
GPM (%)	34.8	33.8	96 bps	38.3	36.8	146 bps	
EBIT	7.5	7.0	6.8	10.5	9.2	13.3	
EBITM %	20.0	18.9	111 bps	23.7	22.0	169 bps	
EPS	96.9	101.7	(4.7)	145.7	127.2	14.5	

Actual vs CIE Estimates		Q2FY26A		CIE Est.		Dev. %
INR Bn		New	Old	New	Old	
Revenue		9.5		9.6		0.4
EBIT		1.9		1.8		4.2
EBITM %		20.9		19.7		125 bps
PAT		1.1		1.5		29.6

Key Financials		FY24	FY25	FY26E	FY27E	FY28E
Revenue		35.5	37.3	37.5	44.3	52.2
YoY (%)		13.0	5.0	0.7	18.1	17.9
EBIT		9.5	8.7	7.5	10.5	14.2
EBITM %		26.7	23.3	20.0	23.7	27.1
Adj PAT		7.9	7.8	6.7	9.1	11.8
EPS (INR)		127.2	126.0	96.9	145.7	189.8
ROE %		31.6	27.4	22.5	26.9	31.7
ROCE %		35.1	28.0	22.3	29.0	36.0
PE(x)		45.6	46.0	59.8	39.8	30.5

Shareholding Pattern (%)		Sep-25	Jun-25	Mar-25
Promoters		43.90	43.91	43.91
FII's		12.53	12.74	12.73
DILs		10.37	9.79	8.54
Public		33.18	33.54	34.82

Relative Performance (%)		YTD	3Y	2Y	1Y
BSE IT		27.4		(0.6)	(15.3)
TELX		(7.2)		(33.6)	(2.5)



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Improving Earnings Visibility, But Risk-reward Remains Unfavorable

TELX reported modest revenue growth, indicating clear sign of operational stability. While near-term demand headwinds persist in Media & Communications and parts of Healthcare, growth visibility has improved, led by strong Transportation momentum from SDV-led OEM ramp-ups, client normalisation and expanding adjacency opportunities. Margin rebounded sharply on operating leverage, improved utilization and cost discipline, despite wage hikes. While fundamentals are improving, we believe much of the medium-term recovery is priced in. **We maintain our PE multiple at 28x, arriving at a TP of INR 4,700 based on average FY27E-FY28E EPS. We reiterate our SELL rating, while noting that sustained double-digit growth momentum in the Transportation & HLS vertical and margin normalisation could act as potential re-rating triggers.**

Revenue in line; EBITM Ahead of Estimate; PAT Impacted by One-offs

- Revenue for Q3FY26 came in at INR 9.5Bn, up 3.2% QoQ but down 5.5% YoY in CC. In INR terms, revenue rose 3.9% QoQ and 1.5% YoY (vs CIE est. at INR 9.6Bn).
- EBIT for Q3FY26 came in at INR 1.9Bn, up 17.4% QoQ but down 9.6% YoY (vs CIE est. at INR 1.8Bn). EBIT margin was up 240bps QoQ but down 260bps YoY to 20.9% (vs CIE est. at 19.7%).
- PAT for Q3FY26 stood at INR 1.1Bn, down 29.6% QoQ and 45.2% YoY (vs CIE est. at INR 1.7Bn).

Steady Quarter; Revenue Growth Driven by Transportation & HLS: TELX delivered a steady 3QFY26 with 3.2% QoQ CC revenue growth, driven by volume-led execution and improved utilization. Transportation led growth (+7.7% QoQ) led by SDV deal ramp-ups, client normalisation and early traction in off-road and adjacency businesses. Media & Communications was marginally soft (-0.3% QoQ) due to seasonality, while Healthcare & Life Sciences appears to have bottomed out, with GenAI-led wins expected to support recovery from 4QFY26. **We believe near-term growth remains stable, with gradual improvement from Q4FY26 driven by continued Transportation deal ramp-ups large-deal ramp-ups and improvement in utilization, while recovery in Media and HLS should provide incremental support.**

Sequential Margin Recovery, Utilization Levers to Drive FY27E Growth: EBITM expanded sharply by 240bps QoQ to 20.9%, driven by operating leverage from higher utilization, disciplined cost control and a modest FX tailwind, partly offset by wage hike. Management indicated 200bps benefit from operating leverage and 80–85bps from cost control, offset by a 110bps margin impact from junior-to-mid staff wage revision. Utilization stands at 75%, with a target of 80% before capacity addition. Hiring remains selective, with large-scale additions deferred by a couple of quarters. **We expect FY26 EBITM to stabilise at 20.0%, with a return to the 23–24% band in FY27E, dependent on sustained revenue growth and operational execution. We maintain a constructive medium-term view, given the company's strong cost discipline, improving utilization trajectory and leverage potential from large deal ramp-ups in Transportation and Healthcare.**

Tata Elxsi Ltd.	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
Revenues (INR Mn)	9,535	9,392	1.5	9,181	3.9
Employee Cost	6154	5,713	7.7	6,112	0.7
Gross Profit (INR Mn)	3,381	3,679	(8.1)	3,069	10.2
Gross Margin (%)	35.5	39.2	-371 bps	33.4	203 bps
Other Cost	1158	1213	(4.5)	1136	1.9
Depreciation	228	260	(12.2)	234	(2.8)
EBIT (INR Mn)	1,995	2,206	(9.6)	1,699	17.4
EBIT Margin (%)	20.9	23.5	-257 bps	18.5	242 bps
Other Income	460	399	15.4	489	(5.9)
Interest Expense	35	47	(24.7)	40	(13.3)
PBT	2420	2558	(5.4)	2147	12.7
Tax	373	568	(34.4)	599	(37.7)
PAT (INR Mn)	1,090	1,990	(45.2)	1,548	(29.6)
Basic EPS (INR)	17.5	31.9	(45.2)	24.8	(29.6)

Source: TELX, Choice Institutional Equities

Q3FY26 ER&D Services Result Preview

Transportation drives overall revenue growth lead by SDV deal ramp-ups, client normalisation and traction in adjacency offering

Media & Communications remains soft due to seasonality and deal timing, while Healthcare & Life Sciences has bottomed out, with GenAI-led wins supporting recovery from Q4FY26.

Margin rebounded on operating leverage and cost discipline; utilization at ~75% offers further upside, with selective hiring amid persistent macro headwinds.

Management Call – Highlights

- Transportation remains the key growth engine, contributing over 55% of revenues and growing 7.7% QoQ, led by accelerated ramp-ups in SDV-led OEM programs, normalisation of workstreams at a strategic OEM impacted in Q2, and early traction in off-road and adjacency businesses. Non-PV transportation (off-highway, construction equipment and railways) now accounts for 7–8% of revenues. The management sees a credible medium-term opportunity to scale this up to around 20% over the next 2–3 years, supported by strong logo wins and rising industry spend.
- Media & Communications declined marginally by 0.3% QoQ, largely due to seasonal furloughs in late December and delays in deal wins. The Management highlighted continued ramp-ups in large deals won earlier in the year, improved portfolio offerings and an active bidding pipeline indicating early signs of recovery from Q4FY26.
- Healthcare & Life Sciences appears to have bottomed out in Q3 following the run-off of large regulatory programs. Investments in GenAI-powered regulatory workflows are gaining traction, with multi-year deal wins and strong new client additions, supporting the management's confidence of a return to growth from Q4FY26 and acceleration into FY27E.
- EBITDA margin expanded sharply by 220bps QoQ to 23.3%, driven by 200bps of operating leverage from higher utilization, 80–85bps from tight cost control and 35bps FX benefit, partly offset by a 110bps margin impact from wage hike for junior-to-mid level staff. Utilization currently stands at 75%, with the management targeting 80% before capacity addition and an eventual path towards 85%, implying further margin headroom as demand improves.
- Hiring remains selective, focussed on specific client requirements, with large-scale hiring deferred by a couple of quarters. Residual wage hike for senior staff is expected to have a lower incremental margin impact in Q4.
- Management reiterated that, while macro headwinds persist across key markets (the US, Europe and Japan) and decision-making remains cautious, TELX's differentiated value proposition, offshore execution capability and ability to deliver complex programs continue to support deal momentum and medium-term growth visibility.

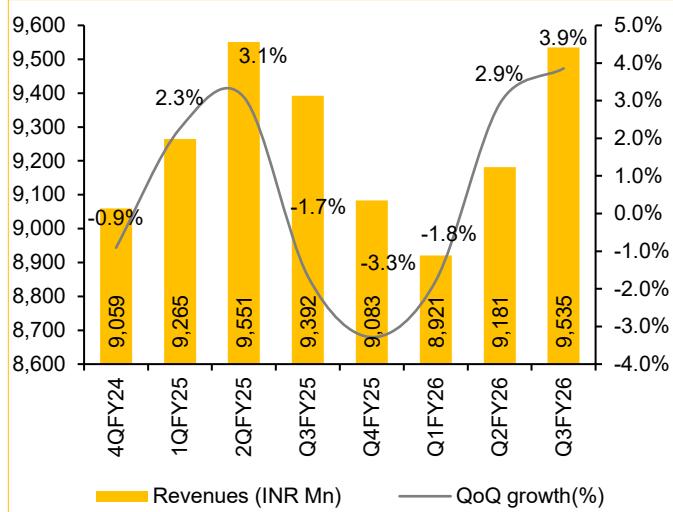
Sequential Operating Performance

	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26
Income Statement								
Revenues (USD Mn)	109.0	111.1	114.0	111.1	105.1	105.1	105.0	106.5
Revenues (INR Mn)	9,059	9,265	9,551	9,392	9,083	8,921	9,181	9,535
Gross Profit (INR Mn)	3,688	3,775	3,808	3,679	3,166	2,964	3,069	3,381
Gross Margin (%)	40.7	40.8	39.9	39.2	34.9	33.2	33.4	35.5
EBIT (INR Mn)	2,337	2,252	2,393	2,206	1,830	1,624	1,699	1,995
EBIT Margin (%)	25.8	24.3	25.1	23.5	20.1	18.2	18.5	20.9
PAT (INR Mn)	1,969	1,841	2,294	1,990	1,724	1,444	1,548	1,803
Basic EPS (INR)	31.6	29.6	36.8	32.0	27.7	23.2	24.9	17.5
Operating Metrics								
Revenue Mix- Geography (%)								
Americas	36	33.7	30.3	30.9	30.6	30.1	31.6	32
Europe	40.3	42.2	42.7	40.4	37.9	39.5	38.7	42.1
India	17.3	17.6	18.8	19.4	22.4	19.8	19.0	16.7
RoW	6.3	6.5	8.3	9.3	9.1	10.5	10.7	9.3
Total	100.0	100						
Revenue Mix- Segments (%)								
Embedded Product Design (EPD)	-	-	-	-	-	-	-	-
Industrial Design & Visualization	-	-	-	-	-	-	-	-
Software and Design Service	97.2	97.0	97.1	97.5	96.3	97.3	96.9	97.2
System Integration & Support	2.8	3.0	2.9	2.5	3.7	2.7	3.1	2.8
Total	100.0							
EPD Revenue Mix- Industry (%)								
Transportation	51.4	52.8	55.7	55.0	53.4	55.8	54.7	56.6
Media & Communications	33.6	33.3	31.8	32.4	32.4	31.0	32.4	31.1
Healthcare & Medical Devices	14.1	13.2	11.5	11.8	13.0	12.2	11.7	10.8
Others	0.9	0.7	1.0	0.8	1.2	1.0	1.2	1.5
Total	100.0							
Client Concentration (%)								
Top 5	46.2	47.2	45.1	44.8	45.6	44.7	44.2	49.4
Top 10	55.9	58.0	55.6	54.2	54.5	54.6	54.7	59.4
EPD Revenue Mix- Contract Type (%)								
Time & Material	52.1	49.1	49.5	48.1	49.3	48.1	43.7	45.6
Fixed Price	47.9	50.9	50.5	51.9	50.7	51.9	56.3	54.4
Total	100.0							
EPD Revenue - Effort Mix (%)								
Onsite	26.3	27.2	25.3	25.8	25.9	26.9	26.1	26.9
Offshore	73.7	72.8	74.7	74.2	74.1	73.1	73.9	73.1
Total	100.0							
Employee Metrics								
Total Headcount	13,399	13,142	12,793	12,878	12,414	12,127	11,951	11,594
Change in Headcount	178	-257	-349	85	-464	-287	-176	-357
Attrition Rate LTM (%)	12.4	12.3	12.5	12.4	13.3	15.0	15.4	15.6
Growth QoQ (%)								
Americas	-4.4	-4.6	-7.7	-0.6	-6.3	-1.7	4.9	2.7
Europe	-1.2	6.7	3.9	-7.8	-11.2	4.2	-2.1	10.3
India	4.7	3.6	9.7	0.5	9.2	-11.7	-4.1	-10.8
RoW	11.5	3.5	29.5	10.5	-7.4	16.4	0.9	-12.8
Total	-0.7	1.9	2.7	-2.6	-5.4	-0.1	0.0	1.4
Transportation	10.0	4.4	8.4	-3.4	-9.3	5.5	-2.4	5.3
Media & Communications	-11.6	0.8	-1.9	-0.3	-6.6	-3.4	4.0	-2.3
Healthcare & Medical Devices	-10.6	-4.8	-10.5	0.4	3.0	-5.2	-4.5	-6.1
Others	0.0	-20.9	46.8	-21.7	40.2	-15.8	19.5	27.2
Total	-0.7	1.9	2.7	-2.6	-5.4	-0.1	0.0	1.4

Source: TELX, Choice Institutional Equities

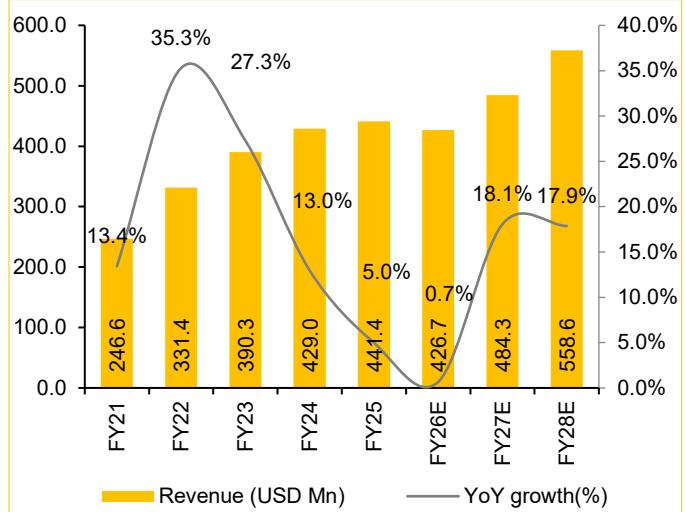
Institutional Equities

Backed by deal ramp-ups, revenue grew 3.9% QoQ



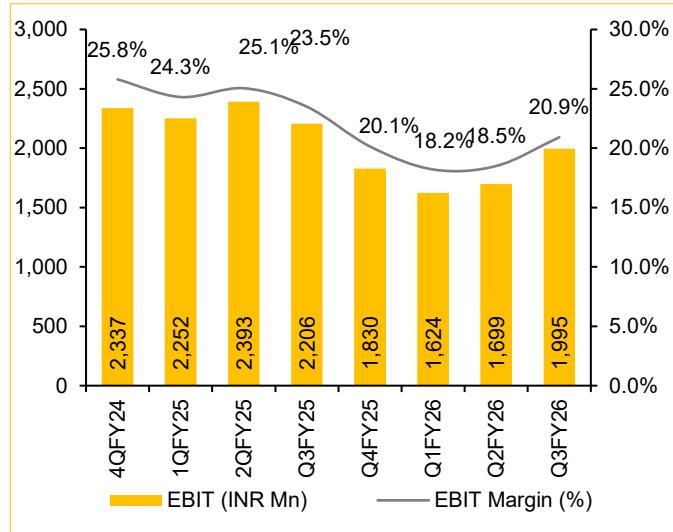
Source: TELX, Choice Institutional Equities

Revenue expected to expand at 11.9% CAGR over FY25–28E



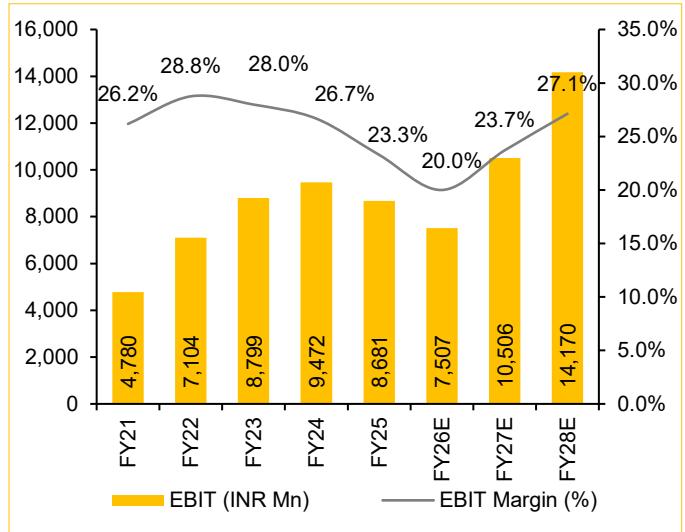
Source: TELX, Choice Institutional Equities

EBITM increased by 240bps owing to operational efficiency



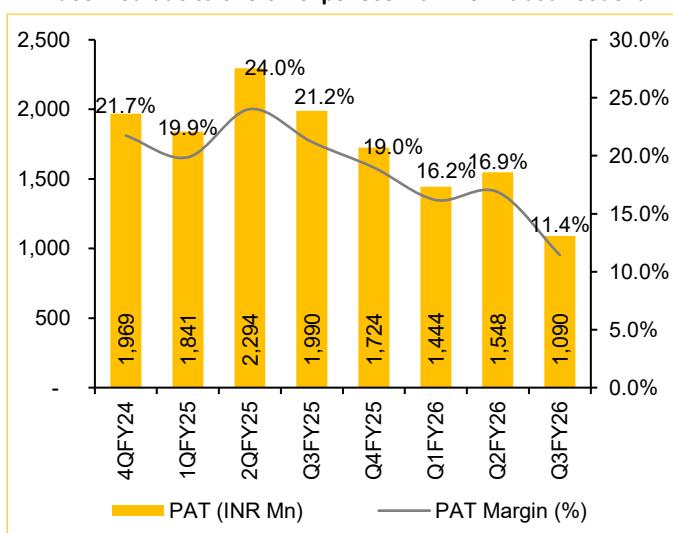
Source: TELX, Choice Institutional Equities

EBIT anticipated to expand at 16.6% CAGR over FY25–28E



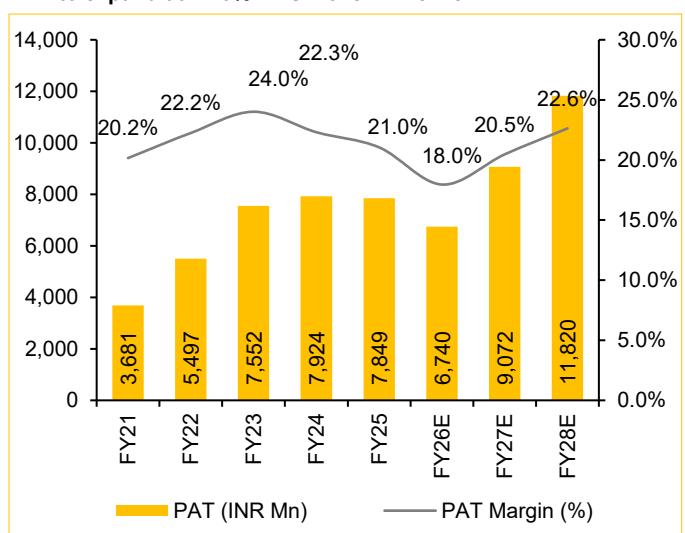
Source: TELX, Choice Institutional Equities

PAT declined due to one-off expenses from new labour code law



Source: TELX, Choice Institutional Equities

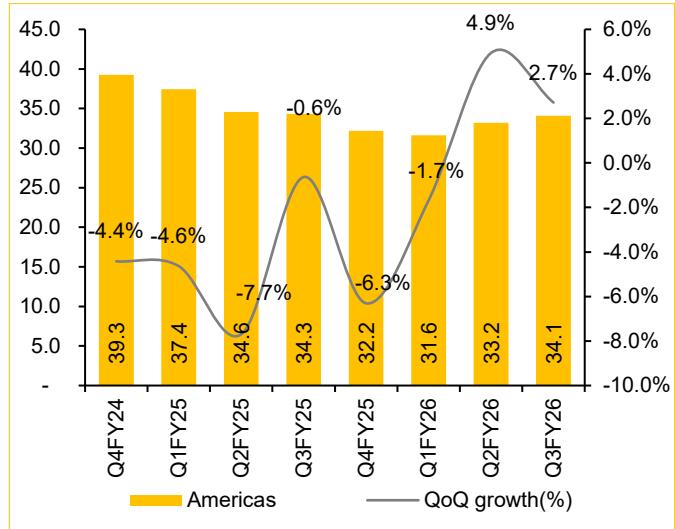
PAT to expand at 14.6% CAGR over FY25–28E



Source: TELX, Choice Institutional Equities

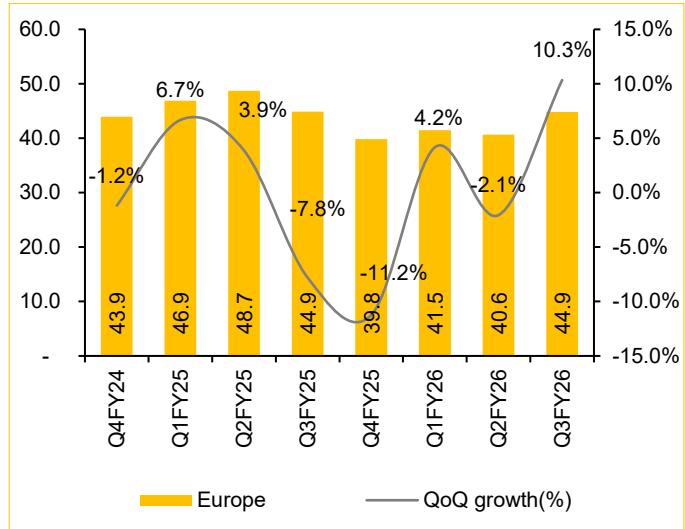
Institutional Equities

US revenue grew by 2.7% QoQ basis of new client additions



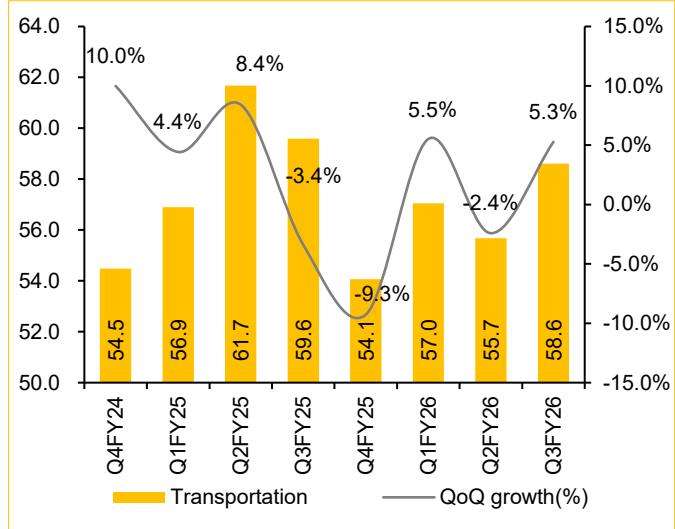
Source: TELX, Choice Institutional Equities

Lead by deal ramp-ups, Europe revenue grew 10.3% QoQ



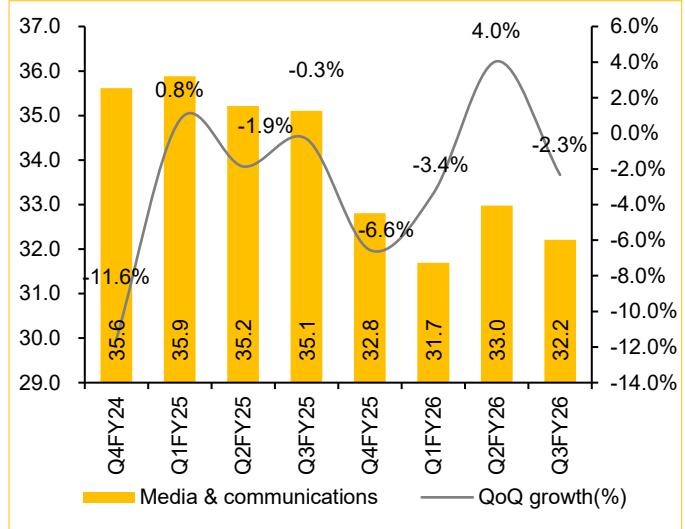
Source: TELX, Choice Institutional Equities

Transportation grew 5.3% QoQ led by large deal ramp-ups



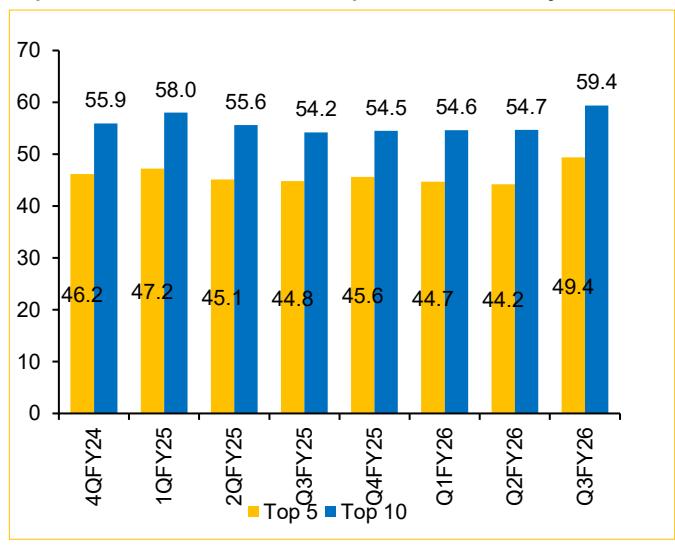
Source: TELX, Choice Institutional Equities

Media & Comms. declined 2.3% QoQ due to seasonal weakness



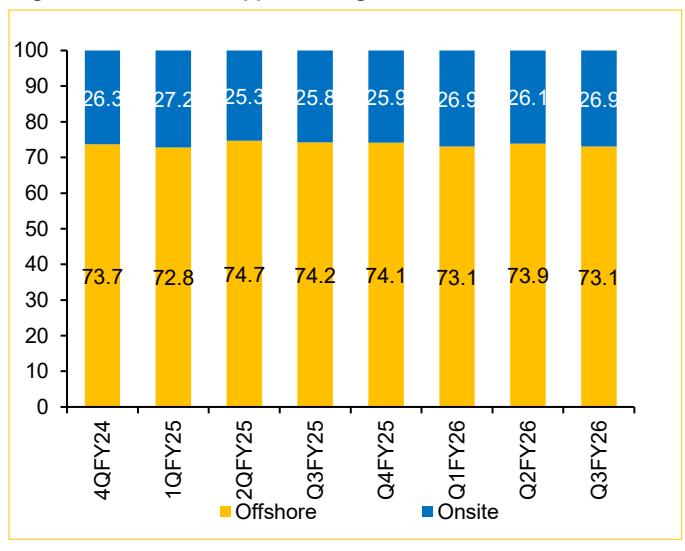
Source: TELX, Choice Institutional Equities

Top 5 clients' contribution mix improved substantially QoQ



Source: TELX, Choice Institutional Equities

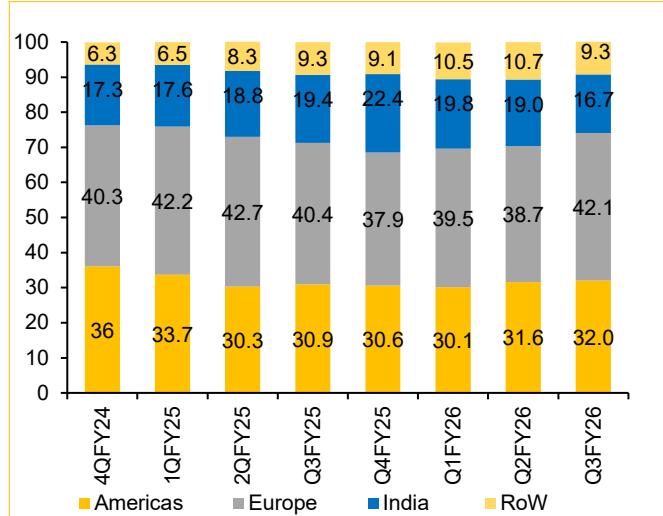
Higher offshore mix supports margin resilience



Source: TELX, Choice Institutional Equities

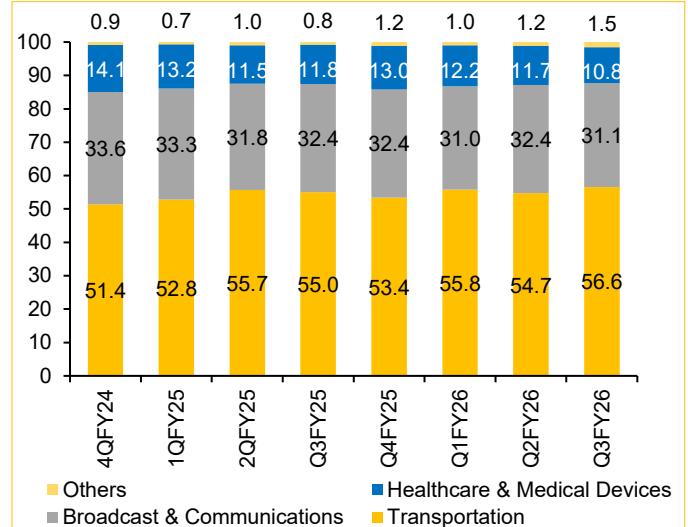
Institutional Equities

Europe rebounded strongly & US remained flat due to ramp-ups



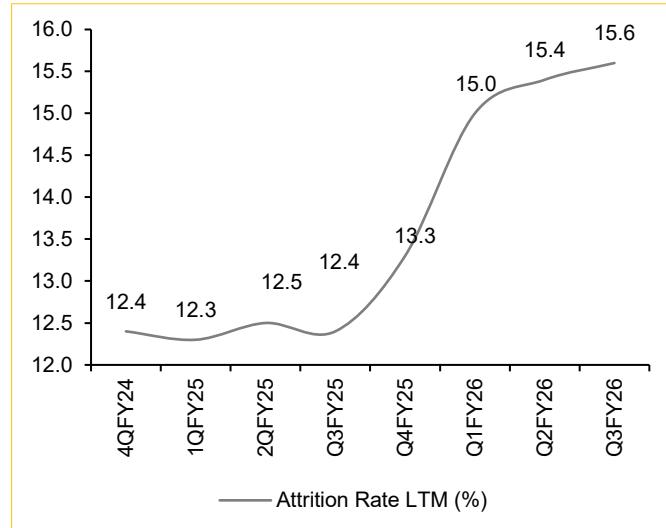
Source: TELX, Choice Institutional Equities

Transportation grew strong; Media & Healthcare remained flat



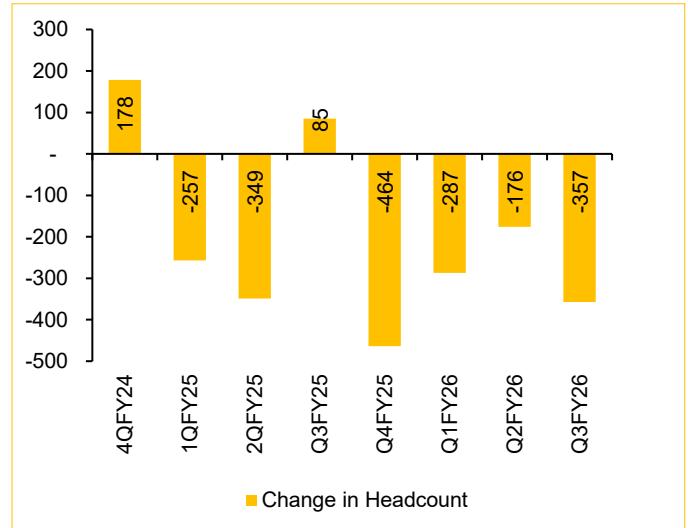
Source: TELX, Choice Institutional Equities

Attrition increased by 20bps sequentially to 15.6%



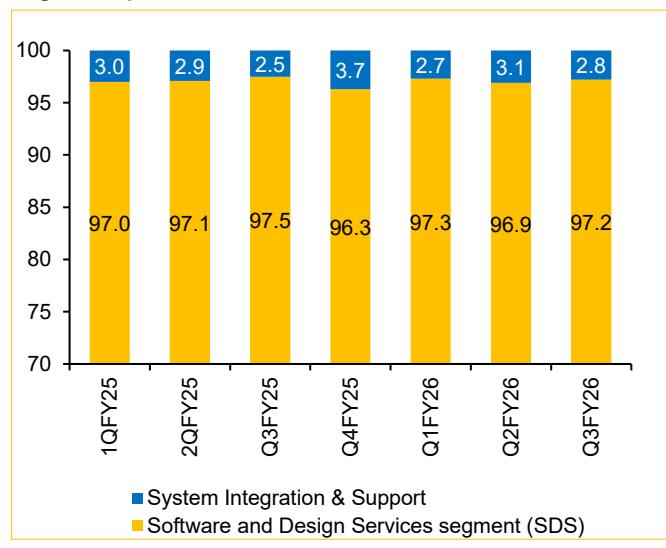
Source: TELX, Choice Institutional Equities

Fourth consecutive quarter of net headcount reduction



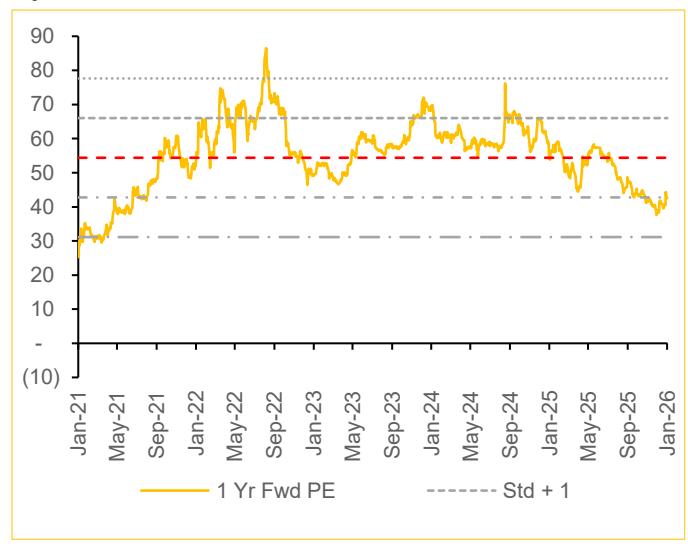
Source: TELX, Choice Institutional Equities

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	FY26E	FY27E	FY28E
Revenue	35,521	37,290	37,539	44,323	52,241
Gross Profit	14,471	14,429	13,068	16,954	21,880
EBITDA	10,466	9,729	8,449	11,570	15,424
Depreciation	994	1,049	943	1,064	1,254
EBIT	9,472	8,681	7,507	10,506	14,170
Other Income	1,220	1,793	1,793	1,857	1,885
Interest Expense	203	190	167	186	189
PAT	7,924	7,849	6,740	9,072	11,820
EPS	127.2	126.0	96.9	145.7	189.8

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratios (%)					
Revenues	13.0	5.0	0.7	18.1	17.9
Gross Profit	6.4	-0.3	-9.4	29.7	29.1
EBITDA	8.9	-7.0	-13.2	36.9	33.3
EBIT	7.6	-8.4	-13.5	40.0	34.9
Margin Ratios (%)					
Gross Profit Margin	40.7	38.7	34.8	38.3	41.9
EBITDA Margin	29.5	26.1	22.5	26.1	29.5
EBIT Margin	26.7	23.3	20.0	23.7	27.1
Profitability (%)					
ROE	31.6	27.4	22.5	26.9	31.7
ROIC	44.8	40.4	31.8	41.7	54.0
ROCE	35.1	28.0	22.3	29.0	36.0
Valuation					
OCF / Net profit (%)	105.8	118.3	98.0	92.6	93.6
EV/ EBITDA (x)	32.1	34.2	41.0	29.7	22.1
BVPS (x)	402.3	459.1	498.5	542.2	599.1
Free Cash flow yield (%)	2.3	3.4	1.6	2.0	2.8

Balance Sheet (Consolidated in INR Mn)

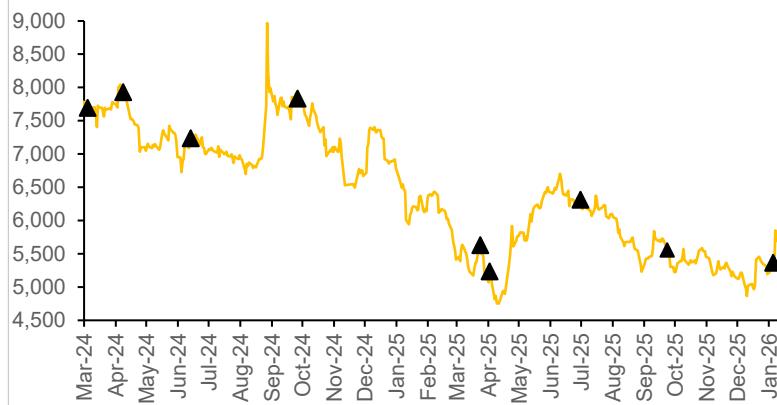
Particulars	FY24	FY25	FY26E	FY27E	FY28E
Tangible Fixed Assets	2,057	1,541	1,598	1,535	1,281
Goodwill & Intangible Assets	22	105	105	105	105
Investments	1,943	3,964	4,162	4,370	4,589
Cash & Cash Equivalents	13,571	16,064	16,808	18,850	21,595
Other Non-current Assets	1,903	1,551	1,551	1,551	1,551
Other Current Assets	12,374	12,633	13,430	15,531	17,967
Total Assets	31,870	35,857	37,653	41,942	47,087
Shareholder's Funds	25,057	28,600	31,046	33,768	37,314
Borrowings	2,240	1,923	1,923	1,923	1,923
Other Current Liabilities	4,573	5,335	4,684	6,251	7,850
Total Equity & Liabilities	31,870	35,857	37,653	41,942	47,087

Cash Flows (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows from Operations	7,012	8,120	4,860	7,930	10,541
Cash Flows from Investing	(2,701)	(3,083)	595	648	666
Cash Flows from Financing	(4,278)	(4,986)	(4,711)	(6,536)	(8,463)

DuPont Analysis	FY24	FY25	FY26E	FY27E	FY28E
ROE	31.6%	27.4%	22.5%	26.9%	31.7%
Net Profit Margin	22.3%	21.0%	18.0%	20.5%	22.6%
Asset Turnover	1.11	1.04	1.00	1.06	1.11
Equity Multiplier	1.27	1.25	1.21	1.24	1.26

Source: TELX, Choice Institutional Equities

Historical Price Chart: Tata Elxsi Ltd.



Date	Rating	Target Price
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
October 10, 2025	SELL	4,120
January 14, 2025	SELL	4,700

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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 stasis 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 20,000 Cr Market Cap

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

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