

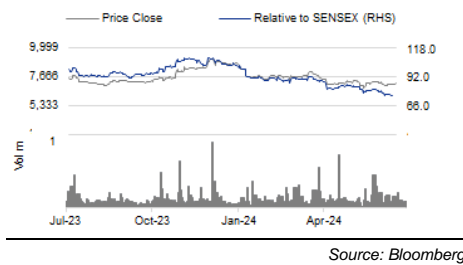
India

REDUCE (no change)

Consensus ratings*:	Buy 5	Hold 0	Sell 8
Current price:	Rs7,119		
Target price:	Rs6,064		
Previous target:	Rs6,064		
Up/downside:	-14.8%		
InCred Research / Consensus:	-7.9%		
Reuters:	TELX IN		
Bloomberg:	US\$6,106m		
Market cap:	Rs443,374m		
Average daily turnover:	US\$14.8m		
	Rs1071.6m		
Current shares o/s:	62.3m		
Free float:	5,539.0%		
*Source: Bloomberg			

Key changes in this note

- Expect 12.1% revenue CAGR over FY24-27F.
- Expect 15.8% EBIT CAGR over FY24-27F.
- Expect 14.2% PAT CAGR over FY24-27F.



Price performance	1M	3M	12M
Absolute (%)	(0.3)	(9.3)	(4.9)
Relative (%)	(4.6)	(14.8)	(21.9)

Major shareholders	% held
Promoter	43.9
FII	14.6
LIC	2.5

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Tata Elxsi Ltd

No surprises

- 1QFY25 revenue/EBIT margin slightly below/above estimates, respectively.
- FY25F growth/margin outlook remains consistent and is priced in.
- Maintain REDUCE rating with a target price of Rs6,064.

Earnings summary

Tata Elxsi's 1QFY25 revenue growth (up 2.8% qoq and 8.4% yoy in constant currency or CC terms) was led by ramp-up of deals in the transportation vertical (up 5.3% qoq & 20.3% yoy) offset by softness in the media & communication vertical (up 0.5% qoq but down 3.8%) and weakness in the healthcare vertical (down 4.3% qoq and 0.5% yoy) due to renewal delay from a large US customer. Adjusted for one-off expenses relating to electoral bonds, the EBIT margin at 26.4% was up ~65bp qoq and ~45bp, above our estimate. Management commentary of FY25F revenue growth better than FY24 (led by the transportation vertical) and a FY24 like EBIT margin in FY25F helps retain our estimates.

Vertical growth cadence

FY25F growth commentary assumes 1) that the transportation vertical's growth momentum will continue led by traction in software-defined vehicle engagements, 2) visibility improvement in the media & communication vertical, and 3) recovery in the healthcare & life sciences vertical in 2HFY25F. As a reminder, Tata Elxsi's resolution seeking related party transactions of up to Rs10bn in FY25F vs. Rs6.25bn in FY24, likely supports the transportation vertical commentary. However, the expectations are already baked in our assumptions. Hence, we retain our 13.2% revenue CAGR over FY25F-27F.

Aims to sustain current margin profile

The reported EBIT margin at 24.3% (down 149bp qoq and 275bp yoy) was impacted due to one-off expenses (Rs197m). Though the adjusted EBIT margin was better than expected on a qoq basis, it was down ~60bp yoy. Wage hikes to junior employees and senior employees are key headwinds in 2Q/3QFY25F, respectively, while growth leverage, utilization improvement and operational efficiency are key tailwinds. We retain our FY25F-27F average EBIT margin assumption of 27.3%.

Maintain REDUCE and Rs6,064 a target price

We retain our US\$ revenue/EBIT (Rsm)/PAT (Rsm) CAGR of 12.1%/15.8%/14.2%, respectively, over FY24-27F and retain our discounted cash flow or DCF-based target price of Rs6,064, implying a target P/E of 37.4x FY26F EPS, a 10% premium to the peer group (LTTTS, Tata Technologies, KPIT Technologies and Cyient) average of ~34x FY26F consensus EPS, considering the superior margin profile & return ratios. Changing dynamics in the automotive sector, rising competitive intensity, and moderating demand leading to focus on profitability and moderation in spending intensity supports our thesis. Upside risks: Growth acceleration led by the transportation vertical, healthy margin, cash conversion and return ratios.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	31,447	35,521	39,561	45,576	53,121
Operating EBITDA (Rsm)	9,612	10,464	11,771	13,752	16,100
Net Profit (Rsm)	7,552	7,923	8,621	10,097	11,806
Core EPS (Rs)	121.3	127.2	138.4	162.1	189.6
Core EPS Growth	37.4%	4.9%	8.8%	17.1%	16.9%
FD Core P/E (x)	58.71	55.96	51.43	43.91	37.55
DPS (Rs)	42.5	70.0	80.0	95.0	115.0
Dividend Yield	0.60%	0.98%	1.12%	1.33%	1.62%
EV/EBITDA (x)	44.84	41.02	36.16	30.71	26.00
P/FCFE (x)	104.79	71.72	57.96	53.66	45.90
Net Gearing	(59.4%)	(56.4%)	(61.7%)	(64.2%)	(65.9%)
P/BV (x)	21.26	17.69	15.45	13.49	11.82
ROE	41.0%	34.5%	32.1%	32.8%	33.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	1QFY25F	Var. (%)
Revenue (US\$ m)	111	103	7.4	109	1.8	111	(0.3)
Revenue (Rs m)	9,265	8,503	9.0	9,059	2.3	9,353	(0.9)
EBITDA	2,523	2,515	0.3	2,613	(3.4)	2,694	(6.3)
EBITDA margin (%)	27.2	29.6	(234 bp)	28.8	(161 bp)	28.8	(157 bp)
EBIT	2,252	2,300	(2.1)	2,337	(3.6)	2,432	(7.4)
EBIT margin (%)	24.3	27.1	(275 bp)	25.8	(149 bp)	26.0	(169 bp)
Net other income	272	183	48.7	287	(5.3)	231	17.8
PBT	2,524	2,483	1.6	2,624	(3.8)	2,663	(5.2)
Provision for tax	683	595	14.8	655	4.3	679	0.6
% tax rate	27.1	24.0	311 bp	25.0	212 bp	25.5	157 bp
Net profit	1,841	1,888	(2.5)	1,969	(6.5)	1,984	(7.2)
EPS (Rs)	29.6	30.3	(2.5)	31.6	(6.5)	31.8	(7.2)

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key conference call takeaways

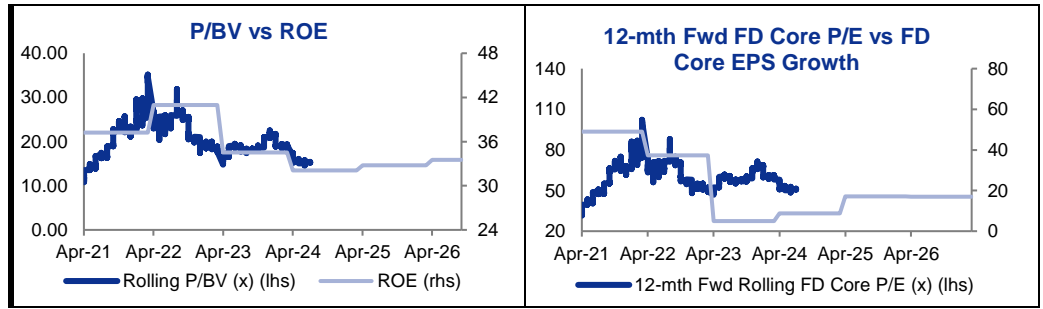
- **Guidance:** Retains better than FY24 growth (up 9.6% yoy in CC terms) and FY24 similar EBIT margin (26.7%) in FY25F. Healthy deal pipeline, continued growth in the transportation vertical, new customer wins and expansion of business with strategic customers across verticals could aid growth in 2QFY25F.
- **Vertical commentary:**
 - Transportation: The growth was aided by large deal wins and ramp-up of software-defined engagements. Ramp-up of deals, likely conversion from the pipeline and strong growth in a top account could continue the growth momentum in FY25F.
 - Media & communication: Muted growth was led by macroeconomic challenges. However, the company is witnessing green shoots and has rolled out growth & efficiency offerings to drive medium-term growth.
 - Healthcare & life sciences: The decline in growth was led by the delay in renewal of some projects at one of the large customers. Marquee logo addition in 1QFY25 could aid medium-term growth.
- Hiring of freshers to continue from 2QFY25F. Lateral hiring will be need-based, given sizeable bench availability and the requirement to contain employee expenses.
- The ideal onsite/offshore ratio is 25%/75%.
- Investments in digital, AI and GenAI to continue. Aiming for 25% of the employees to be AI-ready by Dec 2024F.
- FY25F effective tax rate (ETR) could be ~27% vs. 24.5% in FY24 due to a change in SEZ benefits for one facility.

Figure 2: Key operating metrics

Operating Trends	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Revenue (US\$ m)	94.0	95.6	99.5	101.8	103.4	106.6	109.8	109.1	111.1
Growth YoY (%)	24.1	19.0	17.1	12.3	10.0	11.5	10.4	7.2	7.4
Growth QoQ (%)	3.7	1.7	4.0	2.3	1.6	3.1	3.0	-0.7	1.8
Revenue (Rs. m)	7,259	7,632	8,177	8,379	8,503	8,817	9,142	9,059	9,265
Growth YoY (%)	30.0	28.2	28.7	22.9	17.1	15.5	11.8	8.1	9.0
Growth QoQ (%)	6.5	5.1	7.2	2.5	1.5	3.7	3.7	-0.9	2.3
EBIT Margin (%)	32.8	29.7	30.2	29.8	29.6	29.9	29.5	28.8	27.2
Headcount	10,147	11,679	11,607	11,864	12,286	12,871	13,221	13,399	13,142
Attrition (%)	19.0	18.7	18.4	17.3	15.6	13.7	12.9	12.4	12.3
Segments (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
System Integration & Support services	2.1	2.6	2.6	2.7	2.7	2.5	2.7	2.9	2.9
Software development & services	97.9	97.4	97.4	97.3	97.3	97.5	97.3	97.1	97.1
Segments (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
System Integration & Support services	1.9	2.5	2.6	2.8	2.8	2.7	3.0	3.1	3.2
Software development & services	92.1	93.2	96.9	99.0	100.7	103.9	106.8	106.0	107.9
Segments YoY (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
System Integration & Support services	27.6	34.5	49.6	78.0	42.5	8.6	15.9	12.9	14.3
Software development & services	24.0	18.7	16.4	11.2	9.3	11.6	10.3	7.0	7.2
Segments QoQ (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
System Integration & Support services	25.4	26.3	5.7	6.4	0.4	-3.7	12.7	3.7	1.6
Software development & services	3.3	1.2	4.0	2.2	1.6	3.3	2.8	-0.8	1.8
Incremental Revenues (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
System Integration & Support services	0.4	0.5	0.1	0.2	0.0	-0.1	0.3	0.1	0.1
Software development & services	3.0	1.1	3.7	2.2	1.6	3.3	2.9	-0.9	1.9
Geography (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Europe	32.9	34.1	34.7	35.5	37.4	40.0	40.5	40.3	42.2
USA	42.8	43.2	42.8	41.4	40.2	39.6	37.4	36.0	33.7
India	18.0	16.6	16.2	17.3	17.0	15.5	16.4	17.3	17.6
RoW	6.3	6.1	6.3	5.8	5.3	4.9	5.7	6.3	6.5
Geography (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Europe	30.9	32.6	34.5	36.1	38.7	42.6	44.5	44.0	46.9
USA	40.2	41.3	42.6	42.2	41.6	42.2	41.1	39.3	37.4
India	16.9	15.9	16.1	17.6	17.6	16.5	18.0	18.9	19.5
RoW	5.9	5.8	6.3	5.9	5.5	5.2	6.3	6.9	7.2
Geography YoY (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Europe	22.3	21.5	23.9	17.3	25.1	30.8	28.9	21.6	21.1
USA	21.6	23.6	18.5	12.9	3.3	2.2	-3.5	-6.8	-10.0
India	60.7	20.5	13.6	17.8	3.9	4.1	11.8	7.2	11.2
RoW	-13.1	-16.5	-10.0	-21.5	-7.5	-10.5	-0.1	16.4	31.7
Geography QoQ (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Europe	0.4	5.4	5.9	4.7	7.0	10.2	4.3	-1.2	6.6
USA	7.7	2.7	3.1	-1.0	-1.3	1.5	-2.7	-4.4	-4.7
India	13.1	-6.2	1.5	9.3	-0.2	-6.0	9.0	4.8	3.6
RoW	-21.3	-1.5	7.4	-5.8	-7.2	-4.7	19.9	9.8	5.0
Incremental Revenue (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Europe	0.1	1.7	1.9	1.6	2.5	4.0	1.8	-0.5	2.9
USA	2.9	1.1	1.3	-0.4	-0.6	0.6	-1.1	-1.8	-1.9
India	2.0	-1.0	0.2	1.5	-0.0	-1.1	1.5	0.9	0.7
RoW	-1.6	-0.1	0.4	-0.4	-0.4	-0.3	1.0	0.6	0.3
Clients (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Top 5	40.0	39.9	38.4	39.8	42.0	44.5	43.8	46.2	47.2
Top 6-10	8.3	8.2	9.6	9.6	9.9	8.7	8.7	9.7	10.8
Non-top 10	51.7	51.9	52.0	50.6	48.1	46.8	47.5	44.1	42.0
Clients (US\$m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Top 5	37.6	38.2	38.2	40.5	43.4	47.4	48.1	50.4	52.4
Top 6-10	7.8	7.8	9.6	9.8	10.2	9.3	9.6	10.6	12.0
Non-top 10	48.6	49.6	51.7	51.5	49.8	49.9	52.2	48.1	46.6
Clients YoY (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Top 5	24.7	29.8	18.3	16.7	15.5	24.3	25.9	24.4	20.7
Top 6-10	-7.2	-14.4	29.2	36.5	31.2	18.3	0.1	8.3	17.1
Non-top 10	30.7	18.8	14.3	5.6	2.4	0.5	0.9	-6.6	-6.3
Clients QoQ (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Top 5	8.3	1.5	0.1	6.1	7.2	9.2	1.4	4.8	4.0
Top 6-10	9.0	0.5	21.8	2.3	4.8	-9.4	3.0	10.7	13.3
Non-top 10	-0.3	2.1	4.2	-0.4	-3.4	0.3	4.6	-7.8	-3.1
Incremental Revenue	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Top 5	2.9	0.5	0.0	2.3	2.9	4.0	0.7	2.3	2.0
Top 6-10	0.6	0.0	1.7	0.2	0.5	-1.0	0.3	1.0	1.4
Non-top 10	-0.2	1.0	2.1	-0.2	-1.8	0.1	2.3	-4.1	-1.5
Per employee analysis	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Revenue (US\$ m) - TTM	350	365	380	391	400	411	422	429	437
Employees (average TTM)	9,294	10,059	10,702	11,324	11,859	12,157	12,561	12,944	13,158
Revenue per employee (TTM)	37,656	36,313	35,488	34,524	33,761	33,836	33,574	33,142	33,182

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	31,447	35,521	39,561	45,576	53,121
Gross Profit	13,606	14,492	16,032	18,629	21,730
Operating EBITDA	9,612	10,464	11,771	13,752	16,100
Depreciation And Amortisation	(814)	(994)	(1,108)	(1,231)	(1,381)
Operating EBIT	8,799	9,470	10,663	12,522	14,718
Financial Income/(Expense)	576	1,017	909	1,032	1,129
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	9,375	10,487	11,572	13,553	15,848
Exceptional Items					
Pre-tax Profit	9,375	10,487	11,572	13,553	15,848
Taxation	(1,823)	(2,564)	(2,951)	(3,456)	(4,041)
Exceptional Income - post-tax					
Profit After Tax	7,552	7,923	8,621	10,097	11,806
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,552	7,923	8,621	10,097	11,806
Recurring Net Profit	7,552	7,923	8,621	10,097	11,806
Fully Diluted Recurring Net Profit	7,552	7,923	8,621	10,097	11,806

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	9,612	10,464	11,771	13,752	16,100
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,097)	(1,351)	(570)	(1,434)	(1,798)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(5)	193			
Other Operating Cashflow	(163)	(445)			
Net Interest (Paid)/Received	370	731			
Tax Paid	(1,848)	(2,580)	(2,951)	(3,456)	(4,041)
Cashflow From Operations	4,868	7,012	8,250	8,862	10,260
Capex	(637)	(830)	(600)	(600)	(600)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,382)	(1,871)	1,108	1,231	1,328
Cash Flow From Investing	(2,019)	(2,701)	508	631	728
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,647)	(3,774)	(4,983)	(5,917)	(7,162)
Preferred Dividends					
Other Financing Cashflow	(384)	(504)	(199)	(199)	(199)
Cash Flow From Financing	(3,031)	(4,278)	(5,181)	(6,116)	(7,361)
Total Cash Generated	(182)	33	3,576	3,377	3,627
Free Cashflow To Equity	4,231	6,182	7,650	8,262	9,660
Free Cashflow To Firm	3,011	4,513	8,758	9,493	10,988

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	12,390	14,139	17,715	21,092	24,719
Total Debtors	9,764	9,716	10,730	12,362	14,408
Inventories	4	11	11	11	11
Total Other Current Assets	977	1,502	1,502	1,502	1,502
Total Current Assets	23,135	25,367	29,957	34,966	40,640
Fixed Assets	3,244	3,847	3,339	2,709	1,927
Total Investments	685	1,943	1,943	1,943	1,943
Intangible Assets	162	134	134	134	134
Total Other Non-Current Assets	410	578	578	578	578
Total Non-current Assets	4,500	6,503	5,995	5,364	4,583
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,032	856	1,301	1,498	1,746
Other Current Liabilities	3,754	3,603	3,603	3,603	3,603
Total Current Liabilities	4,786	4,459	4,904	5,101	5,349
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,537	1,812	1,812	1,812	1,812
Total Non-current Liabilities	1,537	1,812	1,812	1,812	1,812
Total Provisions	455	542	542	542	542
Total Liabilities	6,777	6,813	7,257	7,455	7,703
Shareholders Equity	20,858	25,057	28,695	32,876	37,520
Minority Interests					
Total Equity	20,858	25,057	28,695	32,876	37,520

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	27.3%	13.0%	11.4%	15.2%	16.6%
Operating EBITDA Growth	25.5%	8.9%	12.5%	16.8%	17.1%
Operating EBITDA Margin	30.6%	29.5%	29.8%	30.2%	30.3%
Net Cash Per Share (Rs)	198.95	227.03	284.45	338.68	396.92
BVPS (Rs)	334.92	402.34	460.77	527.90	602.47
Gross Interest Cover	54.36	46.78	53.61	62.95	74.00
Effective Tax Rate	19.4%	24.5%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	35.0%	55.0%	57.8%	58.6%	60.7%
Accounts Receivables Days	95.71	100.08	94.32	92.47	91.97
Inventory Days	0.10	0.13	0.17	0.15	0.13
Accounts Payables Days	19.18	16.39	16.73	18.96	18.86
ROIC (%)	110.7%	73.2%	70.1%	81.9%	89.9%
ROCE (%)	38.5%	31.2%	29.6%	30.3%	31.2%
Return On Average Assets	28.7%	24.0%	23.4%	24.5%	25.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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