

HSIE Results Daily

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- Tata Elxsi:** Tata Elxsi's (TELX) performance was weak, impacted by a sharp deceleration in the Transportation vertical. While the Q3 aggregate revenue performance was similar to Q2, the constituents flipped – deceleration in (high growth) Transportation vs. short-term impact of Healthcare weakness earlier. Business challenges in the automotive vertical (particularly Europe) led to the delay in new deal closure and reflected in the decline of tier-1 sub-segment. While TELX's recent deals in APAC region, higher mix of OEM and partnership with Qualcomm will improve the growth trajectory, core geography's outlook can delay the recovery. FY25E will be the third successive year of revenue growth deceleration of TELX and second successive year of profit deceleration. While this trajectory is expected to improve over FY25-27E, its visibility has reduced (as compared to concentrated growth mix in prior period). Maintain REDUCE on TELX with a lowered TP of INR 6,190, based on 35x FY27E EPS.

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Tata Consultancy Services

Deal momentum picks up

Tata Consultancy Services (TCS) delivered in-line revenue growth and operating performance in Q3, albeit with a pick-up in deal wins (best book-to-bill for Q3 & Q4 traditionally being strongest in bookings). Key positives for TCS include (1) strong TCV of USD 10.2bn, driven by large deal wins across various markets and industries, (2) positive commentary on broad basing of discretionary spend beyond the BFSI vertical, (3) management's outlook of CY25 growth to be better than CY24 (despite the impact of BSNL deal), supported by increase in successful deployment of GenAI engagements, (4) TCS' full stack capabilities and growth across managed services, operating model transformation, vendor consolidation, legacy modernization, CX transformation, and GenAI-led transformation, and (5) higher fresher addition next year indicative of better visibility. BSNL deal tapering-off in FY26E will impact growth (improve margins), even as discretionary spend recovers. Our TP of INR 4,590 is based on 28x FY27E EPS (5Y average at 27x).

- **Q3FY25 highlights:** (1) TCS' revenue print stood at USD 7,539mn, flat QoQ CC (in line with 0% QoQ CC estimate); however the YoY trajectory moderated to 4.5% YoY CC. (2) Deal bookings were higher at USD 10.2bn as compared to USD 8.6bn in Q2 comprising NorthAm TCV at USD 5.9bn, BFSI TCV at USD 3.2bn and Retail & CPG TCV at USD 1.3bn. (3) Vertical commentary was weak in Manufacturing (expected to recover beyond Q4) due to macro and industry-specific issues in auto and aerospace. (4) EBITM at 24.5% was up 40bps, driven by operational efficiencies like improvement in productivity, utilization and pyramid optimization, which was partially offset by headwinds of seasonality & furloughs during the quarter. Higher hardware & software costs impacted margins by -50bps QoQ while sub-con was flat sequentially. (5) APAT at INR 123.80bn was supported by higher other income. The board declared a dividend of INR 77 per share, which includes a special dividend of INR 66 (TCS' dividend yield >3.5%). (6) Headcount dipped sequentially to 607k but TTM attrition inched up to 13%.
- **Outlook:** We have factored Q4 growth at 2.2% and FY25/26/27E growth at 4.6%, 4.6% and 7.1% (implying 1.3/1.9% CQGR in FY26/27E respectively). EBITM factored at 24.8/25.7/26.0% for FY25/26/27E respectively, translating to an EPS CAGR in FY25-27E, slightly ahead of the FY20-24 period.

Quarterly financial summary

YE March (INR bn)	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
Revenue (USD mn)	7,539	7,281	3.5	7,670	(1.7)	27,927	29,080	30,420	31,810	34,059
Net Sales	639.73	605.83	5.6	642.59	(0.4)	2,254.58	2,408.93	2,563.43	2,703.81	2,929.03
EBIT	156.57	151.54	3.3	154.65	1.2	542.37	593.11	636.07	694.44	762.14
APAT	123.80	117.85	5.0	119.09	4.0	421.47	466.35	495.61	542.72	593.41
Diluted EPS (INR)	34.2	32.6	5.0	32.9	4.0	116.5	128.9	137.0	150.0	164.0
P/E (x)						34.7	31.3	29.5	26.9	24.6
EV / EBITDA (x)						23.8	22.0	20.5	18.9	17.2
RoE (%)						46.9	51.6	53.3	55.7	58.3

Source: Company, HSIE Research, Consolidated Financials

Change in estimates

YE March (INR bn)	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %	FY27E Old	FY27E Revised	Change %
Revenue (USD mn)	30,546	30,420	(0.4)	32,219	31,810	(1.3)	34,679	34,059	(1.8)
Revenue	2,571.45	2,563.43	(0.3)	2,738.59	2,703.81	(1.3)	2,982.41	2,929.03	(1.8)
EBIT	635.63	636.07	0.1	707.03	694.44	(1.8)	775.60	762.14	(1.7)
EBIT margin (%)	24.7	24.8	9bps	25.8	25.7	-13bps	26.0	26.0	1bps
APAT	491.07	495.61	0.9	549.34	542.72	(1.2)	601.06	593.41	(1.3)
EPS (INR)	135.7	137.0	0.9	151.8	150.0	(1.2)	166.1	164.0	(1.3)

Source: Company, HSIE Research

ADD

CMP (as on 9 Jan 2025)	INR 4,039
Target Price	INR 4,590
NIFTY	23,527

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 4,545	INR 4,590
EPS %	FY25E +0.9	FY26E -1.2

KEY STOCK DATA

Bloomberg code	TCS IN
No. of Shares (mn)	3,618
MCap (INR bn) / (\$ mn)	14,613/1,70,187
6m avg traded value (INR mn)	10,412
52 Week high / low	INR 4,592/3,592

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(5.0)	1.3	10.0
Relative (%)	(0.3)	4.7	1.2

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	71.77	71.77
FIs & Local MFs	11.05	10.92
FPIs	12.35	12.66
Public & Others	4.83	4.65
Pledged Shares	0.20	0.20

Source : BSE

Pledged shares as % of total shares

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Tata Elxsi

Weak Q3

Tata Elxsi's (TELX) performance was weak, impacted by a sharp deceleration in the Transportation vertical. While the Q3 aggregate revenue performance was similar to Q2, the constituents flipped – deceleration in (high growth) Transportation vs. short-term impact of Healthcare weakness earlier. Business challenges in the automotive vertical (particularly Europe) led to the delay in new deal closure and reflected in the decline of tier-1 sub-segment. While TELX's recent deals in APAC region, higher mix of OEM and partnership with Qualcomm will improve the growth trajectory, core geography's outlook can delay the recovery. FY25E will be the third successive year of revenue growth deceleration of TELX and second successive year of profit deceleration. While this trajectory is expected to improve over FY25-27E, its visibility has reduced (as compared to concentrated growth mix in prior period). Maintain REDUCE on TELX with a lowered TP of INR 6,190, based on 35x FY27E EPS.

- **Q3FY25 highlights:** (1) TELX posted revenue of USD 111mn, flat sequentially and +2% YoY CC decelerating from +8.4% YoY CC and +5.1% YoY in Q1/Q2FY25. (2) Transportation vertical (55% of revenue) decelerated sharply from mid-single digit growth trajectory to flat sequentially. (3) Media & Communication vertical (32% of revenue) improved from the last quarter performance although flat sequentially impacted by furloughs. (4) Healthcare & Lifesciences vertical stabilized after a steep decline in Q1/Q2FY25. (5) Key deal win during the quarter included offshore development center setup for Suzuki Motors to accelerate software development for next generation connected, EV, and ADAS technologies; OEM mix in transportation vertical increased to 72%. (6) TELX's EBITM came in at 23.5%, -156bps QoQ. Margin was impacted by full-quarter impact of wage increase (-100bps QoQ margin impact), increase in sub-contractor cost and the adverse cross currency impact. (7) APAT was INR 1.99bn down 3.6% YoY.
- **Outlook:** We factor Transportation vertical growth at 15/13/16% for FY25/26/27E. Factor Media & Communication growth at -4/+8/+15% and Healthcare & Lifesciences at -10/+8/+16% over the same period. Revenue growth of 5%, 11% and 16% and EBITM of 24.6/26.0/27.3% over FY25/26/27E translates to an EPS CAGR of 12% over FY25-27E. Despite the recent correction, valuations are 44x and 36x FY26E and FY27E respectively.

Quarterly Financial summary

YE Mar (INR bn)	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)	FY23	FY24	FY25E	FY26E	FY27E
Revenue (USD mn)	111	110	0.8	114	-2.9	390	429	449	498	577
Net Sales	9.39	9.14	2.7	9.55	-1.7	31.45	35.52	37.85	42.30	49.59
EBIT	2.21	2.45	-9.8	2.39	-7.8	8.80	9.47	9.32	11.00	13.52
APAT	1.99	2.06	-3.6	2.29	-13.3	7.55	7.92	8.06	9.06	11.02
Diluted EPS (INR)	32.0	33.1	-3.6	36.8	-13.3	121.3	127.2	129.5	145.5	176.9
P/E (x)						53.1	50.6	49.7	44.3	36.4
EV / EBITDA (x)						40.4	36.9	36.9	31.2	25.3
RoE (%)						41.0	34.5	30.0	29.5	31.3

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %	FY27E Old	FY27E Revised	Change %
Revenue (USD mn)	462	449	(2.8)	529	498	(6.0)	610	577	(5.4)
Revenue	38.92	37.85	(2.8)	45.00	42.30	(6.0)	52.44	49.59	(5.4)
EBIT	9.95	9.32	(6.4)	12.10	11.00	(9.2)	14.50	13.52	(6.7)
EBIT margin (%)	25.6	24.6	-95bps	26.9	26.0	-90bps	27.6	27.3	-38bps
APAT	8.40	8.06	(4.0)	9.86	9.06	(8.2)	11.73	11.02	(6.1)
EPS (INR)	134.8	129.5	(4.0)	158.4	145.5	(8.2)	188.3	176.9	(6.1)

Source: Company, HSIE Research

REDUCE

CMP (as on 9 Jan 2025)	INR 6,440
Target Price	INR 6,190
NIFTY	23,527

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 6,865	INR 6,190
	FY25E	FY26E
EPS %	-4.0	-8.2

KEY STOCK DATA

Bloomberg code	TELX IN
No. of Shares (mn)	62
MCap (INR bn) / (\$ mn)	401/4,671
6m avg traded value (INR mn)	2,128
52 Week high / low	INR 9,083/6,285

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(15.4)	(8.2)	(25.5)
Relative (%)	(10.7)	(4.8)	(34.2)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	43.92	43.91
FIs & Local MFs	6.24	7.38
FPIs	13.67	13.65
Public & Others	36.17	35.06
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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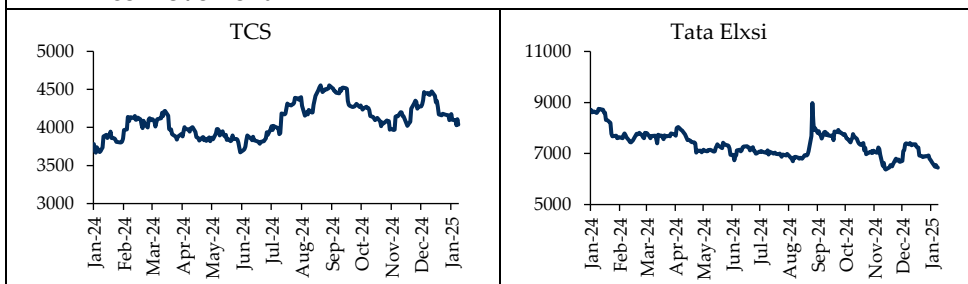
Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Apurva Prasad	Tata Consultancy Services, Tata Elxsi	MBA	NO
Amit Chandra	Tata Consultancy Services, Tata Elxsi	MBA	NO
Vinesh Vala	Tata Consultancy Services, Tata Elxsi	MBA	NO

1 Yr Price movement



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