

Tata Elxsi: Better Quarter on Most Fronts; Europe Remains a Drag

October 13, 2026 | CMP: INR 3,425 | Target Price: INR 3,520

Expected Share Price Return: 2.9% | Dividend Yield: 2.2% | Potential Upside: 5.1%

ADD

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)	5,950/3,000
Mkt Cap (Bn)	INR 201.2/ \$2.1
Shares o/s (Mn)	62.3
3M Avg. Daily Volume	3,22,589

Change in Estimates

	FY27E			FY28E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenues	42.6	42.6	0.1	47.8	47.6	0.4
GPM (%)	35.1	35.2	(10) bps	36.8	37.2	(47) bps
EBIT	8.7	8.7	(0.5)	10.6	10.8	(1.1)
EBITM %	20.3	20.4	-9 bps	22.3	22.6	-34 bps
EPS	121.9	125.2	(2.7)	147.8	148.3	(0.4)

Actual vs CIE Estimates

INR Bn	Q2FY27A	CIE Est.	Dev. %
Revenue	10.5	10.4	0.8
EBIT	2.0	2.0	3.1
EBITM %	19.7	19.2	50 bps
PAT	1.7	1.8	(7.9)

Key Financials

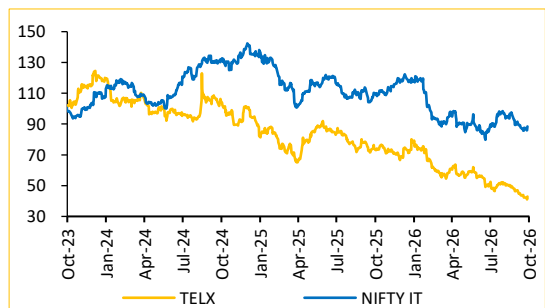
INR Bn	FY25	FY26	FY27E	FY28E	FY29E
Revenue	37.3	37.6	42.6	47.8	53.7
YoY (%)	5.0	0.8	13.4	12.2	12.3
EBIT	8.7	7.5	8.7	10.6	12.4
EBITM %	23.3	20.0	20.3	22.3	23.1
Adj PAT	7.8	7.0	7.6	9.2	10.7
EPS (INR)	126.0	112.1	121.9	147.8	171.9
ROE %	27.4	23.8	23.2	26.0	27.7
ROCE %	28.0	22.8	24.9	28.5	30.7
PE(x)	27.2	30.6	28.1	23.2	19.9

Shareholding Pattern (%)

	Jun-26	Mar-26	Dec-25
Promoters	43.90	43.90	43.90
FIIIs	9.85	11.08	8.56
DIIIs	11.03	11.39	12.28
Public	35.20	33.62	35.24

Relative Performance (%)

YTD	3Y	2Y	1Y
NIFTY IT	(6.4)	(29.7)	(15.7)
TELX	(54.0)	(55.4)	(36.0)



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Broad-based Growth; Margin Recovery; Europe Softness Tempers Recovery

TELX delivered a sequential improvement in Q2FY27, with revenue growing 2.3% QoQ in CC terms and EBITM expanding 70 bps to 19.7%, despite wage hike. Growth was broad-based, led by Media & Communications (+3.4%), HLS (+3.5%) and Transportation (+2.0%). The management expects H2FY27 to outperform H1, supported by deal ramp-ups and improving Healthcare visibility. However, weak Automotive demand in Europe and delayed deal conversions constrain near-term growth, while Aerospace & Defence programs remain 2–3 quarters away from meaningful contribution. Margin improvement should be gradual, driven by utilisation gains and workforce-pyramid correction. We maintain 'ADD' with an **unchanged TP of INR 3,520**, based on 22x average FY28–29E EPS. **Stronger Transportation growth, European deal conversions and structural margin levers remain key catalysts.**

Revenue In Line; Margin Expands, PAT Misses on Low Other Income

- Revenue for Q2FY27 came in at INR 10.5 Bn, up 2.3% QoQ & 7.8% YoY in CC. In INR terms, revenue rose 3.4% QoQ and 15.0% YoY (vs CIE est. at INR 10.4 Bn).
- EBIT for Q2FY27 came in at INR 2.0 Bn, up 7.2% QoQ and 22.3% YoY (vs CIE est. at INR 2.0 Bn). EBIT margin was up 70 bps QoQ and 120 bps YoY to 19.7% (vs CIE est. at 19.2%).
- PAT for Q2FY27 stood at INR 1.7 Bn, flat QoQ but up 10.0% YoY (vs CIE est. at INR 1.8 Bn).

Segmental Growth Improves; European Automotive Headwinds Persist: TELX reported 2.3% QoQ CC revenue growth, led by expansion across Transportation (+2.0%), Media & Comm. (+3.4%) and HLS (+3.5%). Media & Comm. benefited from sustained program ramp-ups and AI-led wins, including a GenAI-powered virtual assistant engagement with a global technology leader. Healthcare returned to growth, supported by a new product-engineering mandate from a global renal-care leader. Transportation secured a multi-year connected-vehicle program with a leading automotive OEM, alongside traction in aerospace, albeit on a small base. Geographically, the US and India performed well, while Europe remained soft due to its automotive exposure and delays in large OEM decisions. The management remains confident of sustaining growth in US and India and expects H2 to improve across key verticals. **We expect gradual growth recovery, with sustained momentum contingent on deal execution and stabilisation in Europe.**

Margin Expands to 19.7%; Operating Leverage and Pyramid Optimisation

Hold Key: EBITM expanded 70 bps QoQ to 19.7%, supported by 60–70 bps of cross-currency benefits, 10–20 bps from operating leverage and reversal of most one-off cost, despite wage hike. The management expects a gradual margin improvement through H2, driven by operating leverage and internal efficiency. Utilisation at 78% remains below the historical peak of 81–82%, while pyramid optimisation over the next two quarters offers further headroom. However, new engineering deals are not expected to drive material back-ended margin expansion. A shorter Q3, potential client furloughs and weak European demand pose risks. **We expect company to close FY27 at 20.3% EBITM, on account of ramp-ups and execution of internal levers.**

Tata Elxsi Ltd.	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)
Revenues (INR Mn)	10,557	9,181	15.0	10,211	3.4
EBIT (INR Mn)	2,078	1,699	22.3	1,937	7.2
EBIT Margin (%)	19.7	18.5	118	19.0	71
Other Income	349	489	(28.6)	415	(15.8)
Interest Expense	36	40	(11.7)	27	31.2
PBT	2,391	2,147	11.4	2,325	2.9
Tax	688	599	14.9	619	11.2
PAT (INR Mn)	1,703	1,548	10.0	1,706	(0.2)
Basic EPS (INR)	27.3	24.9	10.0	27.4	(0.2)

Source: TELX, Choice Institutional Equities

Management Call – Highlights

Vertical & Geographic Insights

- **Transportation (+2.0% QoQ CC):** Growth was led by passenger auto OEMs in the US and India. Europe remains soft due to systemic OEM challenges and delayed decision-making, though large deal shortlists are active. Additionally, revenue has systematically shifted from Tier-1 suppliers to OEMs over recent quarters.
- **Media & Communications (+3.4% QoQ CC):** Delivered steady growth driven by deal ramp-ups and new GenAI-led contract wins.
- **Healthcare & Life Sciences (+3.5% QoQ CC):** Resumed growth after bottoming out in Q1. The management highlighted reduced client concentration through geographic diversification into Germany (e.g., Bayer) and Japan (e.g., Terumo).
- **New Growth Vectors:** Aerospace & Defence (including an eVTOL collaboration with Sarla Aviation and test-rig validation for a global aerospace supplier) and adjacencies, such as, smart manufacturing are scaling up, showing 60–70% YoY growth on a smaller revenue base.

Transportation grew 2.0%, driven by US and Indian passenger automotive OEMs

Media and Communication rose 3.4%, supported by GenAI wins and deal ramp-ups

Healthcare grew 3.5%, benefiting from recovery and geographic diversification across Germany and Japan

Aerospace, Defense, and smart manufacturing achieved 60–70% annual growth from smaller revenue bases

Strategic deals span connected vehicles, multilingual GenAI assistants, and next-generation home dialysis systems

AI spending increasingly prioritizes measurable returns over speculative enterprise experimentation

Margin optimisation focuses on junior talent deployment, improving utilisation, and disciplined project delivery

ER&D faces intense talent competition, while utilization reached 78%, with further improvement potential

Strategic Deals & AI Trends

- **Major Deal Wins:**
 - **Automotive:** Multi-year deal with a leading OEM for a next-generation cloud-based telematics and connected vehicle ecosystem.
 - **Media/Tech:** GenAI engagement with a global tech leader to build a multilingual virtual assistant.
 - **Healthcare:** End-to-end product engineering contract for next-generation home dialysis systems with a global renal care leader.
- **Pragmatism in AI Spend:** Clients continue allocating budgets for AI transformation, but enterprise spending is shifting towards ROI-driven, pragmatic use cases rather than speculative experimentation.

Margin Levers & Talent Strategy

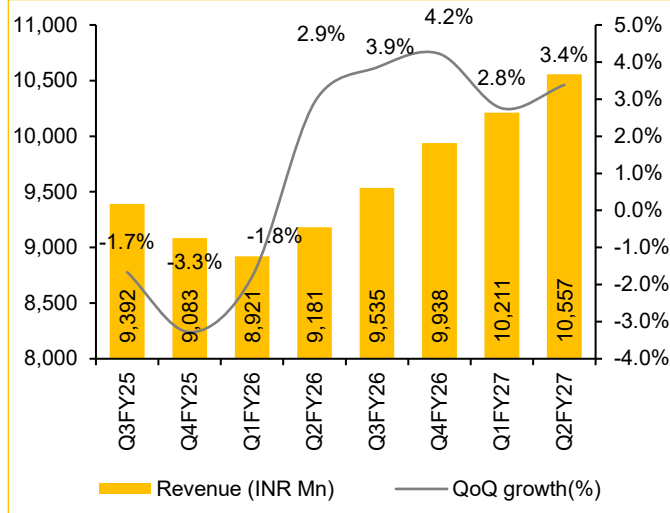
- **Pyramid Management:** The management is actively rebalancing its employee pyramid over the next 2–3 quarters, moving established project engagements from senior domain experts to trained junior talent to optimise delivery cost.
- **Utilisation Improvement:** Employee utilisation reached 78% in Q2, with further headroom to move towards the company's historical peak of 81–82%.
- **Deal Pricing Strategy:** The management noted that innovation and product engineering deals enter with flat margin profiles rather than traditional back-ended IT margin curves. Fixed-bid vs. T&M choices are governed by overall strategic value and client stickiness rather than explicit margin differential.
- **Talent Competition:** Talent retention in ER&D remains competitive due to aggressive hiring by GCCs, distinguishing ER&D talent dynamics from broader IT services. Middle and senior management compensation already includes a significant variable performance component.

Sequential Operating Performance

	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27	2QFY27
Income Statement								
Revenues (USD Mn)	111.1	105.1	105.1	105.0	106.5	109.2	108.6	110.5
Revenues (INR Mn)	9,392	9,083	8,921	9,181	9,535	9,938	10,211	10,557
Gross Profit (INR Mn)	3,679	3,166	2,964	3,069	3,381	3,561	3,507	3,621
Gross Margin (%)	39.2	34.9	33.2	33.4	35.5	35.8	34.3	34.3
EBIT (INR Mn)	2,206	1,830	1,624	1,699	1,995	2,213	1,937	2,078
EBIT Margin (%)	23.5	20.1	18.2	18.5	20.9	22.3	19.0	19.7
PAT (INR Mn)	1,990	1,724	1,444	1,548	1,803	2,204	1,706	1,703
Basic EPS (INR)	32.0	27.7	23.2	24.9	17.5	35.4	27.4	27.3
Operating Metrics								
Revenue Mix- Geography (%)								
Americas	30.9	30.6	30.1	31.6	32.0	28.9	31.7	33.2
Europe	40.4	37.9	39.5	38.7	42.1	43.1	42.2	40.7
India	19.4	22.4	19.8	19.0	16.7	16.8	16.4	16.6
RoW	9.3	9.1	10.5	10.7	9.3	11.1	9.7	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue Mix- Segments (%)								
Embedded Product Design (EPD)	-	-	-	-	-	-	-	-
Industrial Design & Visualization	-	-	-	-	-	-	-	-
Software and Design Service	97.5	96.3	97.3	96.9	97.2	97.1	96.9	97.0
System Integration & Support	2.5	3.7	2.7	3.1	2.8	2.9	3.1	3.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue Mix- Industry (%)								
Transportation	55.0	53.4	55.8	54.7	56.6	56.3	55.3	55.3
Media & Communications	32.4	32.4	31.0	32.4	31.1	32.7	33.4	33.6
Healthcare & Medical Devices	11.8	13.0	12.2	11.7	10.8	9.3	9.2	9.3
Others	0.8	1.2	1.0	1.2	1.5	1.7	2.1	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Client Concentration (%)								
Top 5	44.8	45.6	44.7	44.2	49.4	49.6	49.2	48.9
Top 10	54.2	54.5	54.6	54.7	59.4	58.8	59.7	59.2
EPD Revenue Mix- Contract Type (%)								
Time & Material	48.1	49.3	48.1	43.7	45.6	41.1	42.2	43.1
Fixed Price	51.9	50.7	51.9	56.3	54.4	58.9	57.8	56.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue - Effort Mix (%)								
Onsite	25.8	25.9	26.9	26.1	26.9	25.0	25.9	26.0
Offshore	74.2	74.1	73.1	73.9	73.1	75.0	74.1	74.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics								
Total Headcount	12,878	12,414	12,127	11,951	11,594	11,540	11,336	11,149
Change in Headcount	85	-464	-287	-176	-357	-54	-204	-187
Attrition Rate LTM (%)	12.4	13.3	15.0	15.4	15.6	15.8	16.0	15.9
Growth QoQ (%)								
Americas	-0.6	-6.3	-1.7	4.9	2.7	-7.4	9.1	6.6
Europe	-7.8	-11.2	4.2	-2.1	10.3	4.9	-2.6	-1.9
India	0.5	9.2	-11.7	-4.1	-10.8	3.1	-2.9	3.0
RoW	10.5	-7.4	16.4	0.9	-12.8	24.8	-13.8	-0.3
Total	-2.6	-5.4	-0.1	0.0	1.4	2.5	-0.5	1.8
Transportation	-3.4	-9.3	5.5	-2.4	5.3	1.9	-2.5	1.9
Media & Communications	-0.3	-6.6	-3.4	4.0	-2.3	7.7	1.4	2.5
Healthcare & Medical Devices	0.4	3.0	-5.2	-4.5	-6.1	-11.8	-1.8	3.0
Others	-21.7	40.2	-15.8	19.5	27.2	16.1	22.6	-12.7
Total	-2.6	-5.4	-0.1	0.0	1.4	2.5	-0.5	1.8

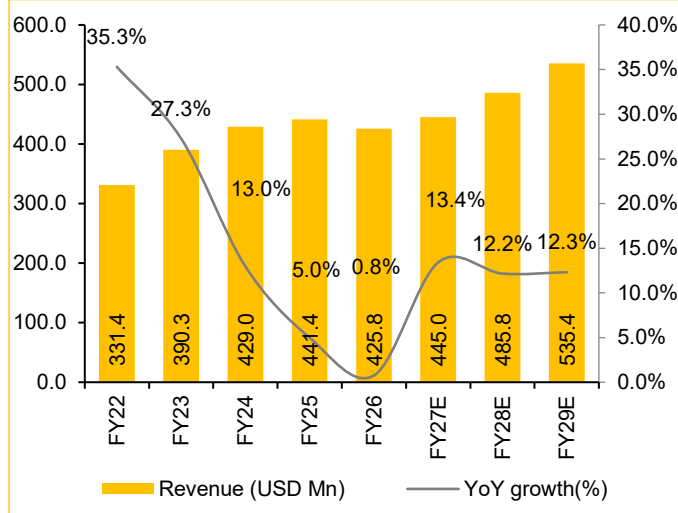
Source: TELX, Choice Institutional Equities

Driven by Media & Comm. and HLS, Revenue grew 3.4% QoQ



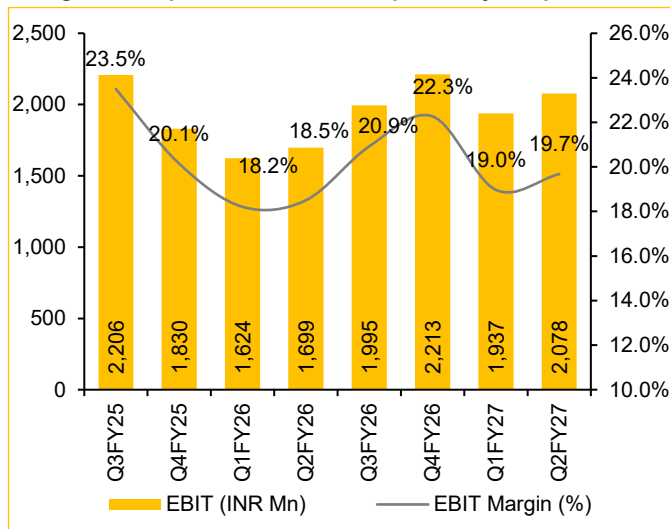
Source: TELX, Choice Institutional Equities

Revenue expected to expand at 7.9% CAGR over FY26-29E



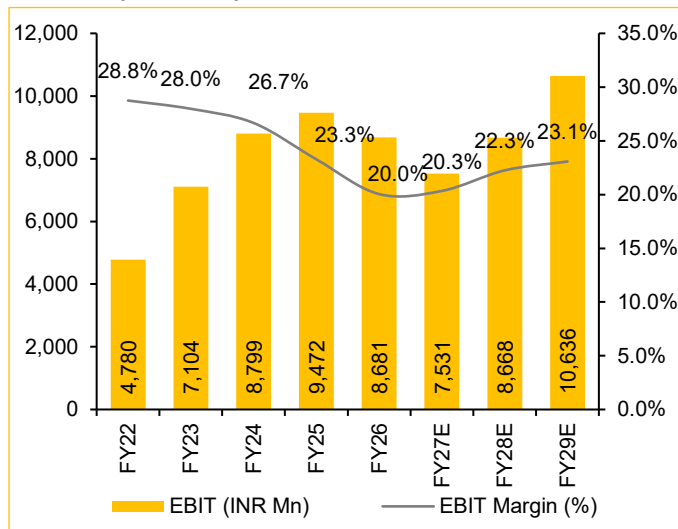
Source: TELX, Choice Institutional Equities

Owing to cost-optimisation, EBITM improved by 70 bps



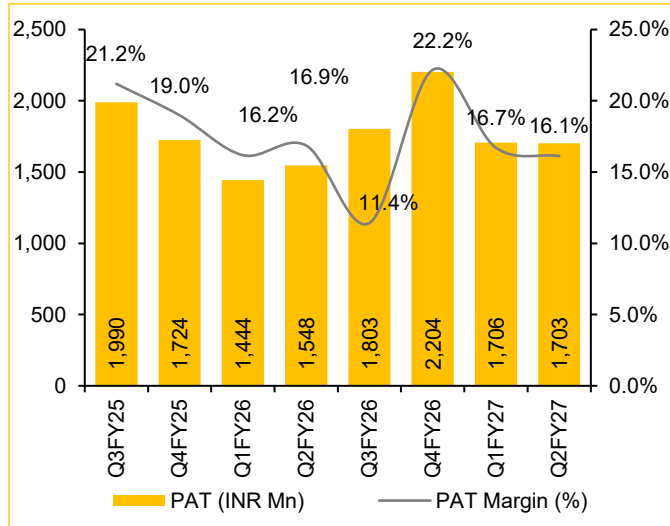
Source: TELX, Choice Institutional Equities

EBIT anticipated to expand at 18.0% CAGR over FY26-29E



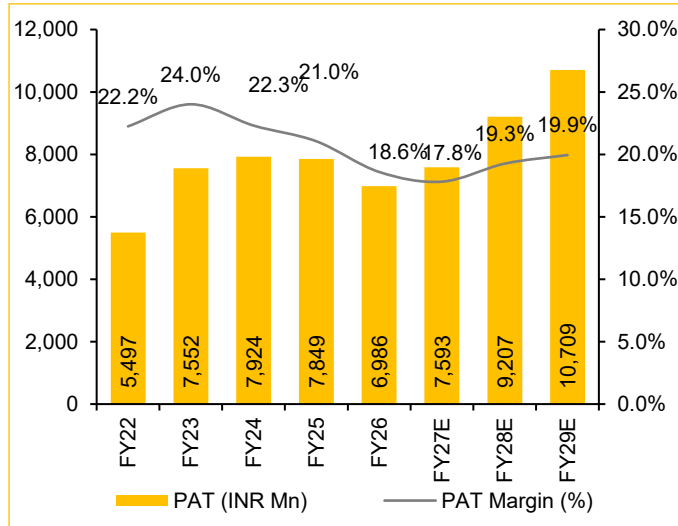
Source: TELX, Choice Institutional Equities

PATM declined to 16.1% due to low other income



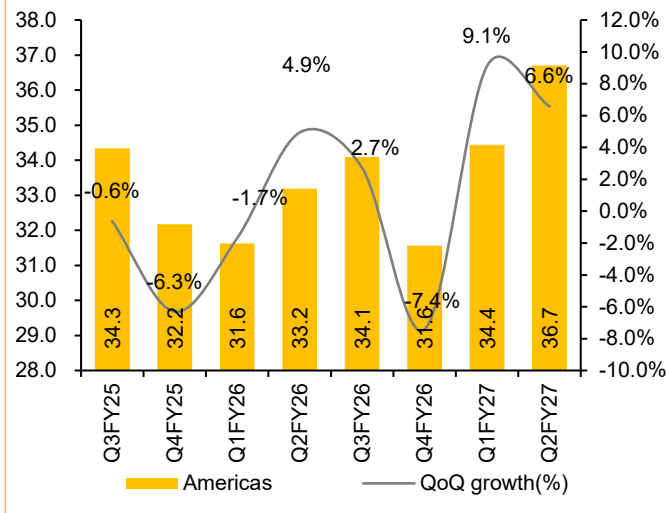
Source: TELX, Choice Institutional Equities

PAT to increase at 15.3% CAGR over FY26-29E



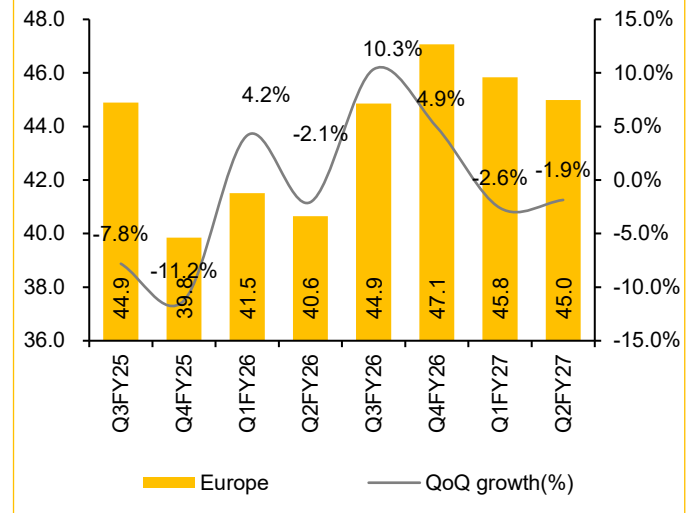
Source: TELX, Choice Institutional Equities

US revenue grew 6.6% QoQ on new deal wins and ramp-ups



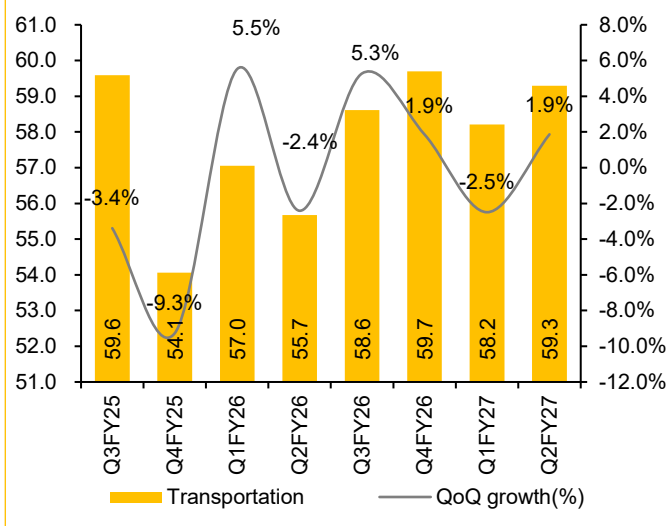
Source: TELX, Choice Institutional Equities

Europe revenue de-grew 1.9% QoQ due to weak macros



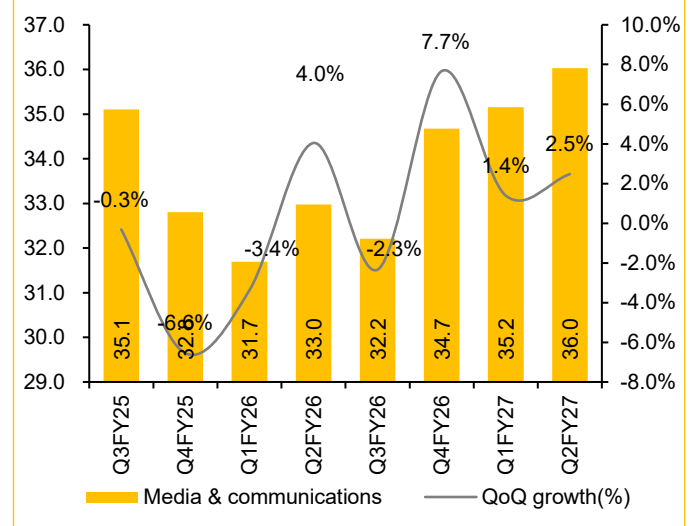
Source: TELX, Choice Institutional Equities

Transportation up 1.9% QoQ, driven by OEM traction



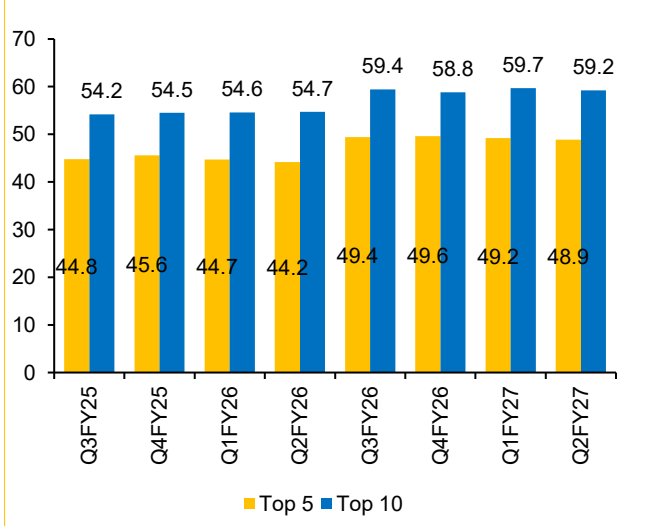
Source: TELX, Choice Institutional Equities

Media & Comms up by 2.5% QoQ, driven by continued ramp-ups



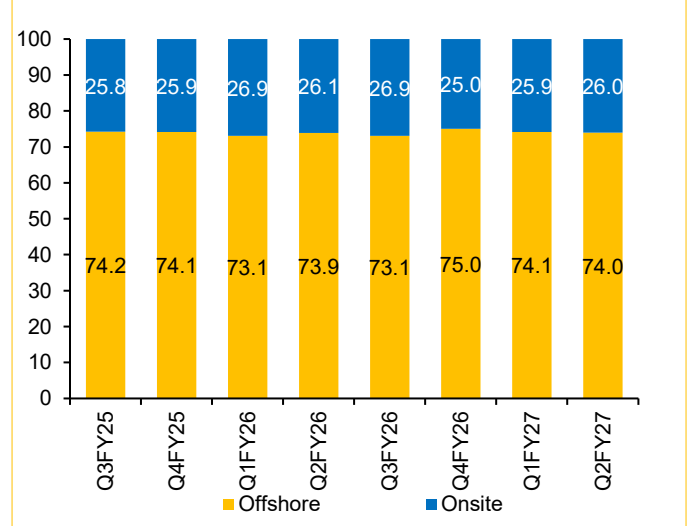
Source: TELX, Choice Institutional Equities

Top 10 clients' contribution mix improving



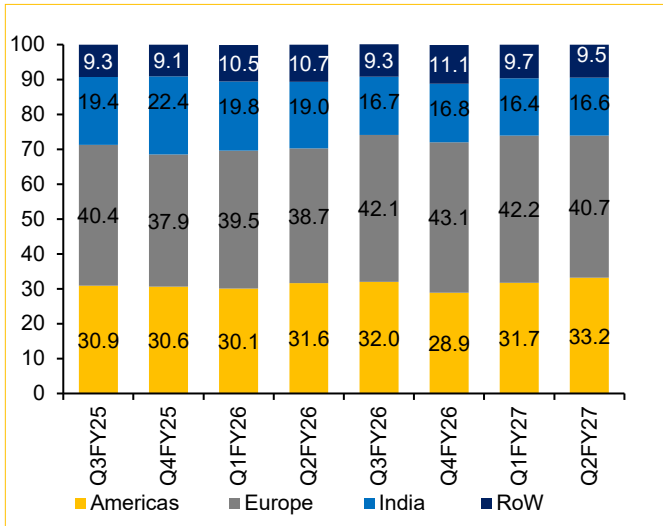
Source: TELX, Choice Institutional Equities

Higher offshore mix supports margin resilience



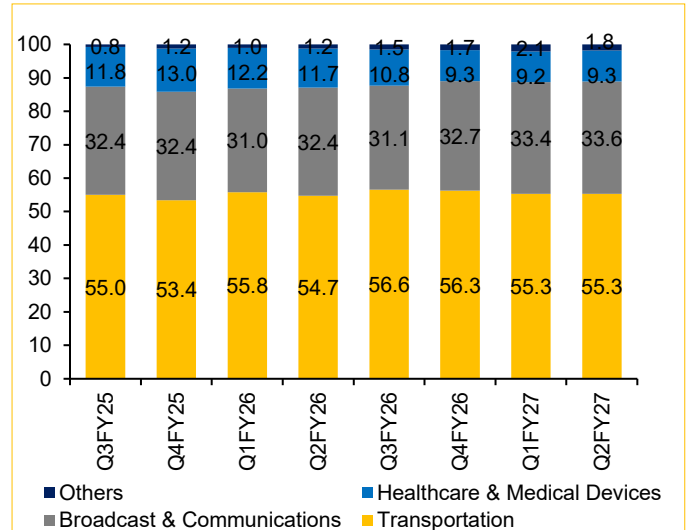
Source: TELX, Choice Institutional Equities

US remained strong; Europe continued softness



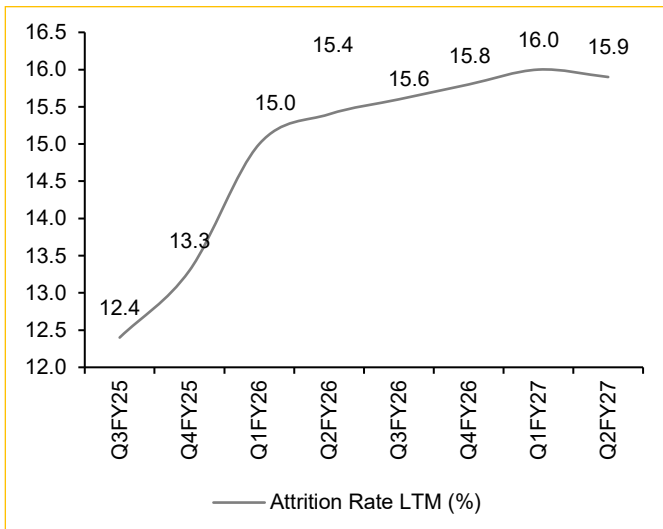
Source: TELX, Choice Institutional Equities

Broad-based growth across segments, keeping the mix stable



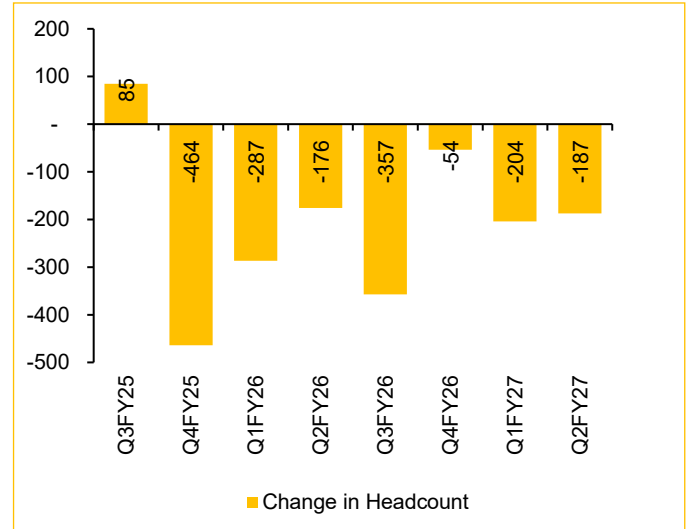
Source: TELX, Choice Institutional Equities

Attrition improved by 10 bps sequentially to 15.9%



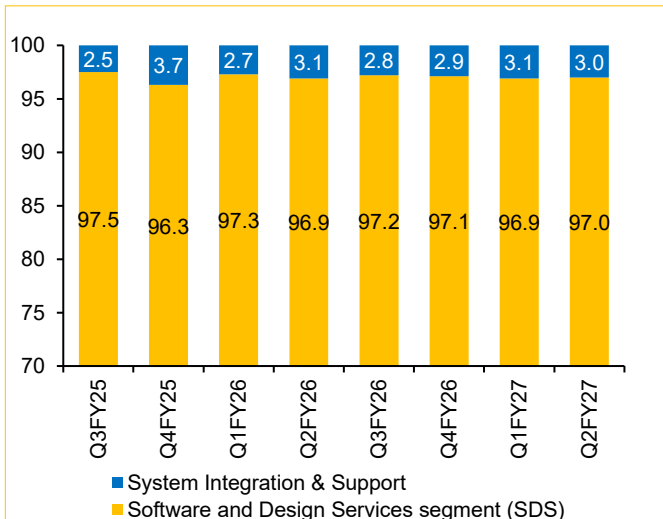
Source: TELX, Choice Institutional Equities

Seventh consecutive quarter of net headcount reduction



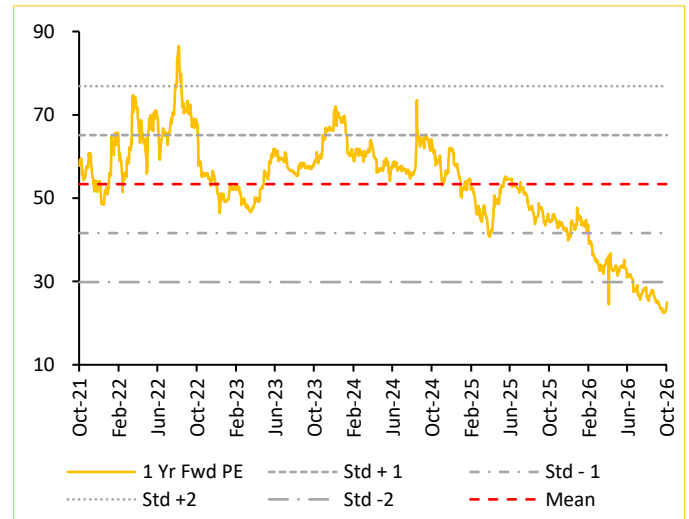
Source: TELX, Choice Institutional Equities

Segmental performance mix



Source: TELX, Choice Institutional Equities

TELX trading at its Std.-2 on 1-year forward PE band



Source: TELX, Choice Institutional Equities

Income Statement (Consolidated in INR Mn)

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Revenue	37,290	37,574	42,617	47,798	53,684
Gross Profit	14,429	12,975	14,938	17,566	20,078
EBITDA	9,729	8,469	9,608	11,688	13,570
Depreciation	1,049	938	940	1,052	1,181
EBIT	8,681	7,531	8,668	10,636	12,389
Other Income	1,793	1,839	1,799	1,833	2,127
Interest Expense	190	162	136	111	142
PAT	7,849	6,986	7,593	9,207	10,709
EPS	126.0	112.1	121.9	147.8	171.9

Ratio Analysis	FY25	FY26	FY27E	FY28E	FY29E
Growth Ratios (%)					
Revenues	5.0	0.8	13.4	12.2	12.3
Gross Profit	-0.3	-10.1	15.1	17.6	14.3
EBITDA	-7.0	-13.0	13.4	21.6	16.1
EBIT	-8.4	-13.2	15.1	22.7	16.5
Margin Ratios (%)					
Gross Profit Margin	38.7	34.5	35.1	36.8	37.4
EBITDA Margin	26.1	22.5	22.5	24.5	25.3
EBIT Margin	23.3	20.0	20.3	22.3	23.1
Profitability (%)					
ROE	27.4	23.8	23.2	26.0	27.7
ROIC	40.4	34.9	36.3	43.4	49.1
ROCE	28.0	22.8	24.9	28.5	30.7
Valuation					
OCF / Net profit (%)	118.3	109.6	86.5	96.4	96.4
EV/ EBITDA (x)	20.5	23.4	20.5	16.6	14.1
BVPS (x)	459.1	488.4	524.9	569.2	620.8
Free Cash flow yield (%)	5.5	3.8	2.6	3.7	4.4

Source: TELX, Choice Institutional Equities

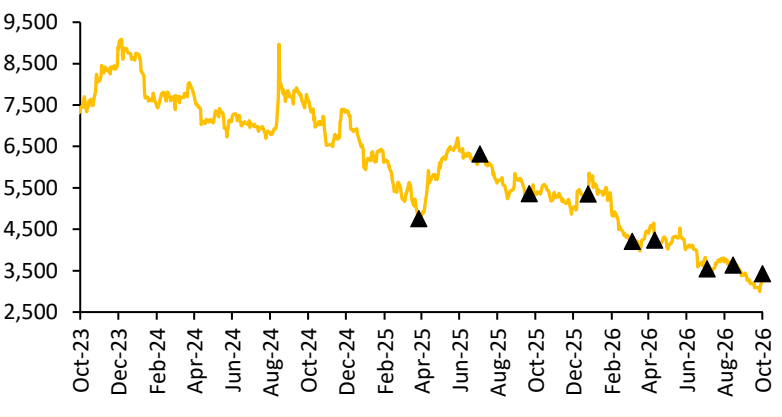
Balance Sheet (Consolidated in INR Mn)

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Tangible Fixed Assets	1,541	1,271	1,331	1,279	1,098
Goodwill & Intangible Assets	105	50	50	50	50
Investments	3,964	5,983	6,282	6,597	6,926
Cash & Cash Equivalents	16,064	16,686	18,390	20,440	23,104
Other Non-current Assets	1,551	1,272	1,272	1,272	1,272
Other Current Assets	12,633	14,363	15,474	17,137	19,017
Total Assets	35,857	39,625	42,800	46,775	51,468
Shareholder's Funds	28,600	30,413	32,691	35,453	38,666
Borrowings	1,923	1,623	1,623	1,623	1,623
Other Current Liabilities	5,335	7,589	8,486	9,699	11,179
Total Equity & Liabilities	35,857	39,625	42,800	46,775	51,468

Cash Flows (INR Mn)	FY25	FY26	FY27E	FY28E	FY29E
Cash Flows from Operations	8,120	6,640	6,655	8,088	9,505
Cash Flows from Investing	(3,083)	(725)	499	518	796
Cash Flows from Financing	(4,986)	(5,348)	(5,451)	(6,556)	(7,638)

DuPont Analysis (INR Mn)	FY25	FY26	FY27E	FY28E	FY29E
ROE	27.4%	23.8%	23.2%	26.0%	27.7%
Net Profit Margin	21.0%	18.6%	17.8%	19.3%	19.9%
Asset Turnover	1.04	0.95	1.00	1.02	1.04
Equity Multiplier	1.25	1.30	1.31	1.32	1.33

Historical Price Chart: Tata Elxsi Ltd.



Date	Rating	Target Price
April 21,2025	SELL	4,190
July 11, 2025	SELL	4,165
October 10, 2025	SELL	4,120
January 14, 2026	SELL	4,700
March 02, 2026	REDUCE	4,550
April 22, 2026	ADD	5,070
July 02, 2026	REDUCE	3,650
August 12, 2026	SELL	3,150
October 01, 2026	ADD	3,520
October 13, 2026	ADD	3,520

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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
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