

Tata Elxsi: Soft Q2; H2FY26 Recovery on Track

October 10, 2025 CMP: INR 5,573 | Target Price: INR 4,120

Expected Share Price Return: -26.1% | Dividend Yield: 1.4% | Potential Upside: -24.7%

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)	8,025/4,601
Mkt Cap (Bn)	INR 347.1/ \$3.9
Shares o/s (Mn)	62.3
3M Avg. Daily Volume	1,90,718

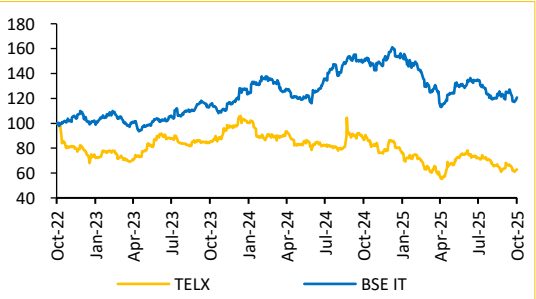
Change in Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenues	37.2	37.5	(0.6)	42.1	42.3	(0.4)
GPM (%)	33.8	34.0	(22) bps	36.8	36.7	14 bps
EBIT	7.0	7.2	(2.4)	9.3	9.3	14.3
EBITM %	18.9	19.2	(35) bps	22.0	21.9	13 bps
EPS	101.7	102.4	(0.8)	127.2	127.5	(0.2)

Actual vs CIE Estimates			
INR Bn	Q2FY26A	CIE Est.	Dev.%
Revenue	9.1	9.1	0.4
EBIT	1.7	1.6	2.6
EBITM %	18.5	18.1	40 bps
PAT	1.5	1.5	3.8

Key Financials					
INR Bn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	35.5	37.3	37.2	42.1	49.1
YoY (%)	13.0	5.0	-0.2	13.2	16.4
EBIT	9.5	8.7	7.0	9.3	12.6
EBITM %	26.7	23.3	18.9	22.0	25.7
Adj PAT	7.9	7.8	6.3	7.9	10.4
EPS (INR)	127.2	126.0	101.7	127.2	167.2
ROE %	31.6	27.4	20.6	23.9	28.7
ROCE %	35.1	28.0	21.0	25.9	32.7
PE(x)	43.8	44.2	54.8	43.8	33.3

Shareholding Pattern (%)			
	Jun-25	Mar-25	Dec-24
Promoters	43.91	43.91	43.91
FIIIs	12.74	12.73	13.27
DIIIs	9.79	8.54	7.50
Public	33.54	34.82	35.30

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE IT	24.1	7.4%	(18.7)
TELX	(34.8)	(23.7)	(26.8)



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In-Line Q2 Performance; H2FY26 Growth Visibility Improves

TELX reported an in-line performance for Q2FY26 with modest sequential recovery and early signs of operational stabilisation. While near-term challenges persist in Automotive and Media & Communications, H2FY26 growth visibility has improved on the back of large Transportation deal ramp-ups and a strong Healthcare pipeline. Margins are expected to recover gradually with higher utilization and operational efficiencies. **We maintain our PE multiple at 28x, arriving at a Target Price of INR 4,120 based on average FY27E–FY28E EPS of 147.3. We reiterate our SELL rating, while noting that sustained double-digit growth momentum in the Transportation & HLS vertical, margin expansion, and improved deal wins in Media & Communications could act as potential re-rating triggers.**

Q2FY26 Revenue & PAT in-line; EBITM Modestly above our Estimates

- Revenue for Q2FY26 came in at INR 9.1Bn, up 1.0% QoQ but down 8.3% YoY in CC. In INR terms, revenue rose 2.9% QoQ but declined 3.9% YoY (vs CIE est. at INR 9.1Bn).
- EBIT for Q2FY26 came in at INR 1.7Bn, up 4.6% QoQ but down 29.0% YoY (vs CIE est. at INR 1.6Bn). EBIT margin was up 29bps QoQ but down 655bps YoY to 18.5% (vs CIE est. at 18.1%).
- PAT for Q2FY26 stood at INR 1.5Bn, up 7.2% QoQ but down 32.5% YoY (vs CIE est. at INR 1.5Bn).

**Muted Quarter; Revenue Growth Driven by Transportation & HLS:** TELX reported a soft Q2FY26, with sequential revenue growth of 1.0% in CC, marking a modest recovery after 2 consecutive quarters of decline. Growth was led by Media & Communications segment (+4% QoQ), partially offset by moderate gains in Transportation and a 4.5% QoQ decline in Healthcare and Lifescience (HLS). Transportation was impacted by the deferment of a JLR program due to cybersecurity concerns, though traction across other SDV programs, global OEMs, and Aerospace & Defence sub-segments supports expectations of double-digit growth in FY27E. HLS de-growth reflects completed regulatory programs, but a strong pipeline underpins similar FY27E growth expectations. Media & Communications remains subdued amid industry restructuring, though selective deal ramp-ups provide limited near-term support. **We believe near-term growth remains moderate, with H2FY26 expected to post stronger sequential performance, led by large-deal ramp-ups and improvement in utilization.**

**Sequential Margin Recovery, Utilization Levers to Drive FY27E Growth:** TELX reported EBITM of 18.5% in Q2FY26, up 30bps QoQ, aided by favourable currency movement and higher utilization, partially offset by increased people and AI infrastructure costs. Utilization improved to 70% (vs. 66% in Q1), with management targeting 75% by FY26-end, supporting gradual margin recovery despite upcoming Q3 wage hike. **We expect FY26 EBITM to stabilise at 18.9% (vs. 23.3% in FY25), with a return to the 22–23% 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.	Q2 FY26	Q2 FY25	YoY (%)	Q1 FY26	QoQ (%)
Revenues (INR Mn)	9,181	9,551	(3.9)	8,921	2.9
Employee Cost	6112	5,743	6.4	5,957	2.6
Gross Profit (INR Mn)	3,069	3,808	(19.4)	2,964	3.5
Gross Margin (%)	33.4	39.9	-644	33.2	20
Other Cost	1136	1144	(0.7)	1097	3.6
Depreciation	234	272	(13.7)	243	(3.4)
EBIT (INR Mn)	1,699	2,393	(29.0)	1,624	4.6
EBIT Margin (%)	18.5	25.1	-655	18.2	29
Other Income	489	643	(24.0)	385	27.0
Interest	40	48	(16.7)	46	(11.5)
PBT	2147	2987	(28.1)	1963	9.4
Tax	599	693	(13.5)	520	15.2
PAT (INR Mn)	1,548	2,294	(32.5)	1,444	7.2
Basic EPS (INR)	24.85	36.84	(32.5)	23.18	7.2

Source: TELX, Choice Institutional Equities

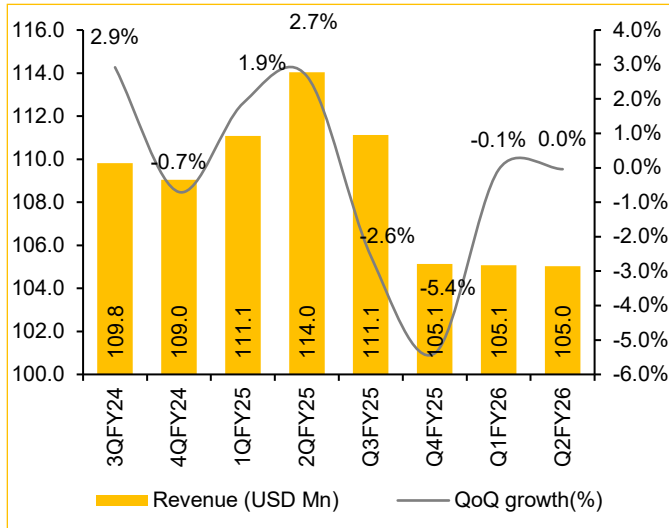
## Management Call – Highlights

- *Europe and US are key Automotive markets; EBITM expected to improve with higher utilization. Q2 saw slight attrition rise and a small headcount reduction.*
- *Media vertical under stress due to M&A; EBITM gains from currency were offset by higher costs.*
- *Capex paused, tax rate to stabilize around 26%.*
- *Focus on Traditional AI (recognized by Dell), cautious GenAI adoption, SDV work with Suzuki, and OTT platform launch in the Middle East.*
- In Automotive, Europe is its largest market by share, followed by the US as the second-largest, with Japan and India also being significant markets. The company has minimal presence in China, where the market favours internal collaboration, making it distinct from other geographies.
- Management expects margin to recover gradually as: Revenue and Utilization improve – they target reaching 75% utilization by FY26 and 80% by FY27.
- The Media & Communications industry is experiencing several M&A activities and corporate restructuring, which is creating stress in this vertical.
- Currency movement provided a 90bps gain for EBITM, which was partially offset by: (40) bps from higher people cost due to campus onboarding and (30) bps from other expenses related to partnerships and AI infrastructure.
- TELX reported net headcount reduction of 176 employees in Q2. Further, attrition also inched up to 15.4% (an increase of 40 bps QoQ).
- The depreciation run rate is declining as TELX has not undertaken any further Capex, although some expenditure is expected in next 2–3 quarters.
- The effective tax rate was higher in Q2 due to high other income and it is expected to stabilise around 26–26.1%, going forward.
- The company operates an NVIDIA data centre for AI workloads, focusing mainly on traditional AI over GenAI. They cautiously adopt GenAI for productivity, emphasising risk management. AI supports healthcare disease detection and Dell recognised their AI infrastructure efforts.
- TELX launched MBC Now, a content super aggregator platform, for Middle East and Africa, powered by their TEPlay OTT platform.
- TELX opened a second engineering centre with Suzuki focused on cloud hardware and simulation for software-defined vehicle (SDV) transition.
- Much of the current automotive development work is focused on software-defined vehicles, electrification, ADAS and infotainment systems.

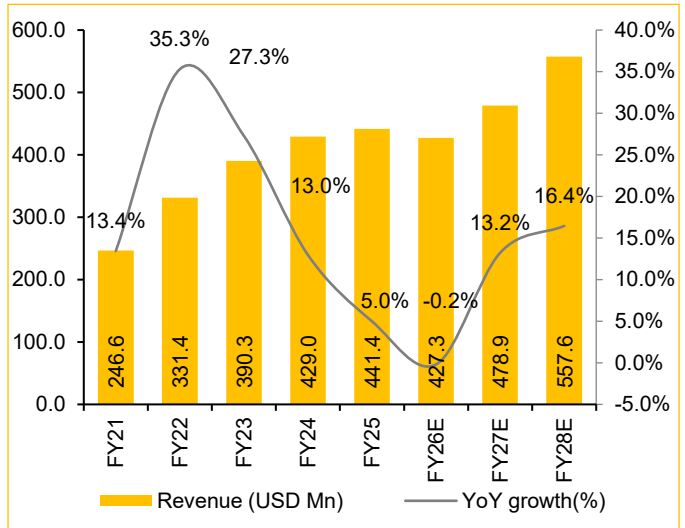
Sequential Operating Performance

	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Income Statement								
Revenues (USD Mn)	109.8	109.0	111.1	114.0	111.1	105.1	105.1	105.0
Revenues (INR Mn)	9,142	9,059	9,265	9,551	9,392	9,083	8,921	9,181
Gross Profit (INR Mn)	3,739	3,688	3,775	3,808	3,679	3,166	2,964	3,069
Gross Margin (%)	40.9	40.7	40.8	39.9	39.2	34.9	33.2	33.4
EBIT (INR Mn)	2,447	2,337	2,252	2,393	2,206	1,830	1,624	1,699
EBIT Margin (%)	26.8	25.8	24.3	25.1	23.5	20.1	18.2	18.5
PAT (INR Mn)	2,064	1,969	1,841	2,294	1,990	1,724	1,444	1,548
Basic EPS (INR)	33.2	31.6	29.6	36.8	32.0	27.7	23.2	24.9
Operating Metrics								
Revenue Mix- Geography (%)								
Americas	37.4	36	33.7	30.3	30.9	30.6	30.1	31.6
Europe	40.5	40.3	42.2	42.7	40.4	37.9	39.5	38.7
India	16.4	17.3	17.6	18.8	19.4	22.4	19.8	19
RoW	5.7	6.3	6.5	8.3	9.3	9.1	10.5	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue Mix- Segments (%)								
Embedded Product Design (EPD)	84.7	-	-	-	-	-	-	-
Industrial Design & Visualization	12.3	-	-	-	-	-	-	-
Software and Design Service	97.0	97.2	97.0	97.1	97.5	96.3	97.3	96.9
System Integration & Support	3.0	2.8	3.0	2.9	2.5	3.7	2.7	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue Mix- Industry (%)								
Transportation	46.5	51.4	52.8	55.7	55.0	53.4	55.8	54.7
Media & Communications	37.8	33.6	33.3	31.8	32.4	32.4	31.0	32.4
Healthcare & Medical Devices	15.7	14.1	13.2	11.5	11.8	13.0	12.2	11.7
Others	0.0	0.9	0.7	1.0	0.8	1.2	1.0	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Client Concentration (%)								
Top 5	43.8	46.2	47.2	45.1	44.8	45.6	44.7	44.2
Top 10	52.5	55.9	58.0	55.6	54.2	54.5	54.6	54.7
EPD Revenue Mix- Contract Type (%)								
Time & Material	50.3	52.1	49.1	49.5	48.1	49.3	48.1	43.7
Fixed Price	49.7	47.9	50.9	50.5	51.9	50.7	51.9	56.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EPD Revenue - Effort Mix (%)								
Onsite	25.0	26.3	27.2	25.3	25.8	25.9	26.9	26.1
Offshore	75.0	73.7	72.8	74.7	74.2	74.1	73.1	73.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Employee Metrics								
Total Headcount	13,221	13,399	13,142	12,793	12,878	12,414	12,127	11,951
Change in Headcount	350	178	-257	-349	85	-464	-287	-176
Attrition Rate LTM (%)	12.9	12.4	12.3	12.5	12.4	13.3	15.0	15.4
Growth QoQ (%)								
Americas	-2.8	-4.4	-4.6	-7.7	-0.6	-6.3	-1.7	4.9
Europe	4.2	-1.2	6.7	3.9	-7.8	-11.2	4.2	-2.1
India	8.9	4.7	3.6	9.7	0.5	9.2	-11.7	-4.1
RoW	19.7	11.5	3.5	29.5	10.5	-7.4	16.4	0.9
Total	2.9	-0.7	1.9	2.7	-2.6	-5.4	-0.1	0.0
Transportation	3.3	10.0	4.4	8.4	-3.4	-9.3	5.5	-2.4
Media & Communications	1.0	-11.6	0.8	-1.9	-0.3	-6.6	-3.4	4.0
Healthcare & Medical Devices	4.6	-10.6	-4.8	-10.5	0.4	3.0	-5.2	-4.5
Others	0.0	0.0	-20.9	46.8	-21.7	40.2	-15.8	19.5
Total	2.9	-0.7	1.9	2.7	-2.6	-5.4	-0.1	0.0

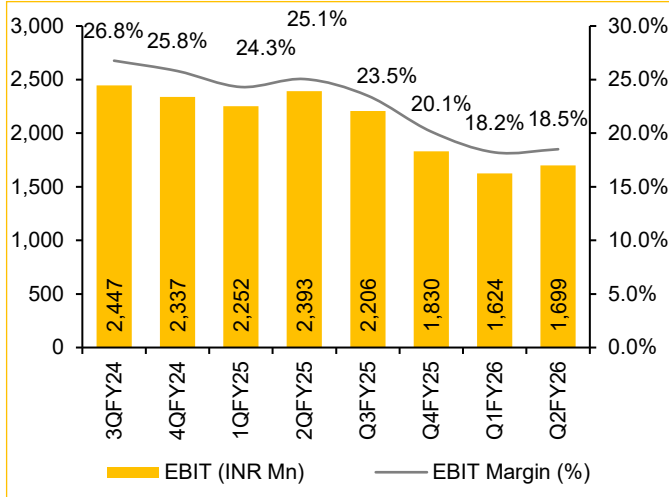
Source: TELX, Choice Institutional Equities

**Flat sequential revenue growth amid macro headwinds**

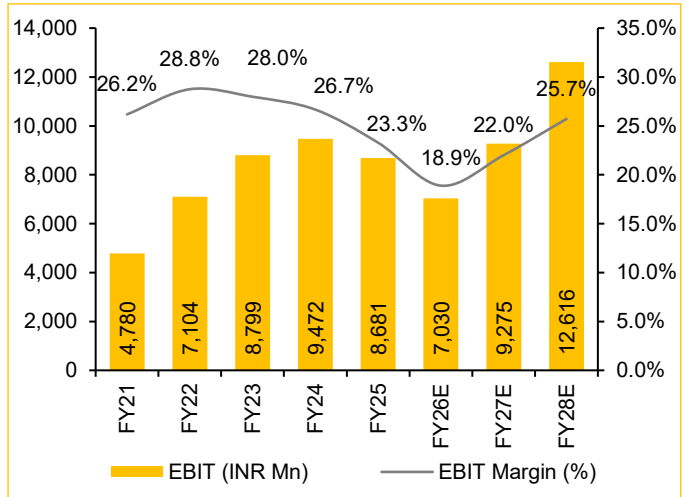
Source: TELX, Choice Institutional Equities

**Revenue expected to expand at 8.1% CAGR over FY25–28E**

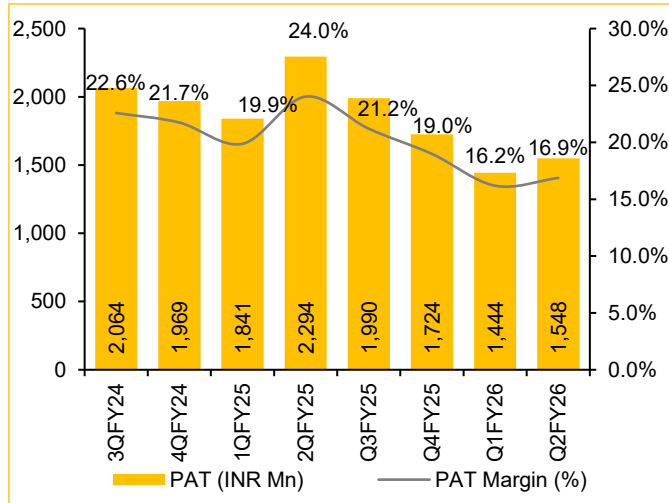
Source: TELX, Choice Institutional Equities

**EBITM increased by 30bps owing to operational efficiency**

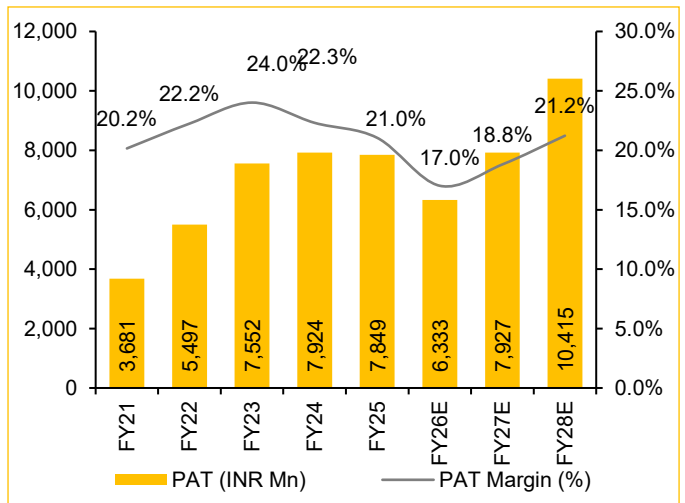
Source: TELX, Choice Institutional Equities

**EBIT expected to expand at 13.3% CAGR over FY25–28E**

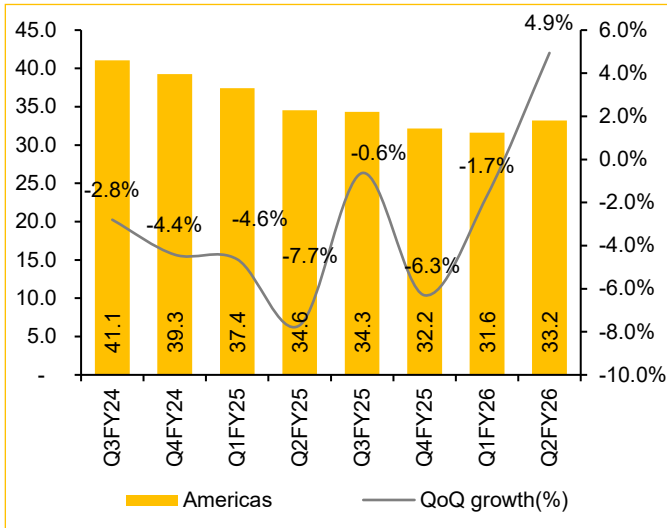
Source: TELX, Choice Institutional Equities

**PAT Margin grew by 70bps sequentially to 16.9%**

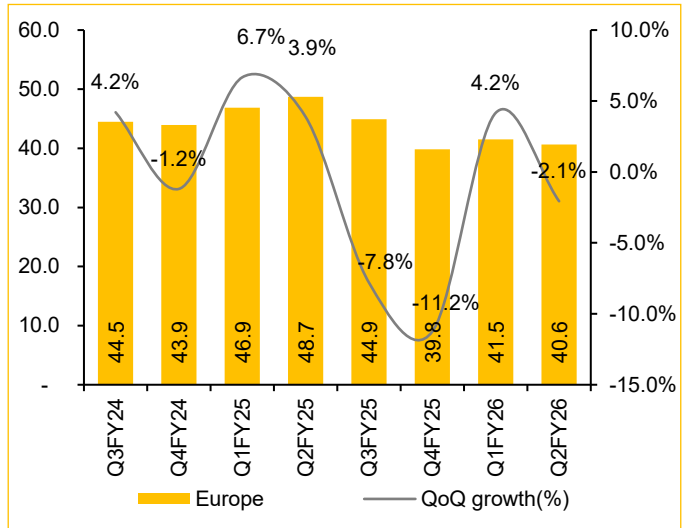
Source: TELX, Choice Institutional Equities

**PAT to grow at 9.9% CAGR over FY25–28E**

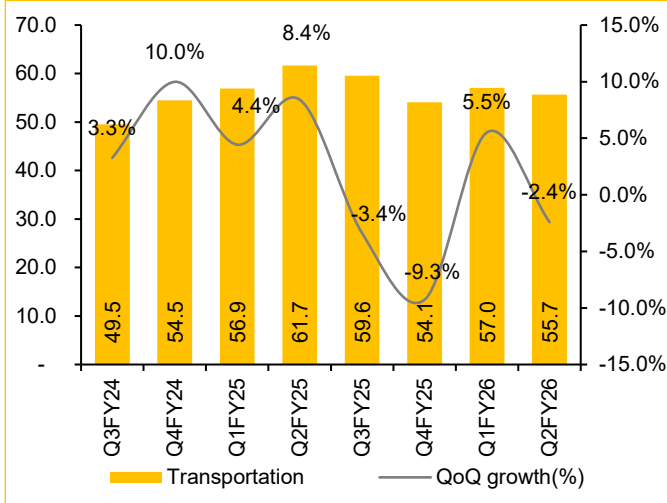
Source: TELX, Choice Institutional Equities

**US revenue grew by 4.9% QoQ basis new client additions**

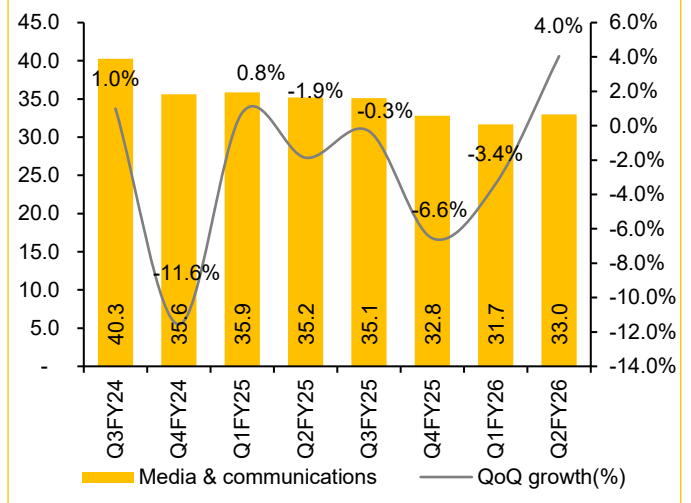
Source: TELX, Choice Institutional Equities

**Europe revenue down 2.1% QoQ due to weakness in Automotive**

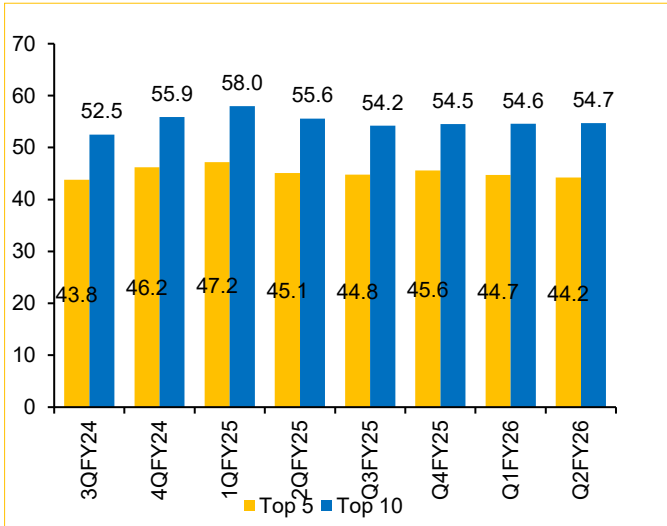
Source: TELX, Choice Institutional Equities

**Transportation declined by 2.4% QoQ amid weak demand**

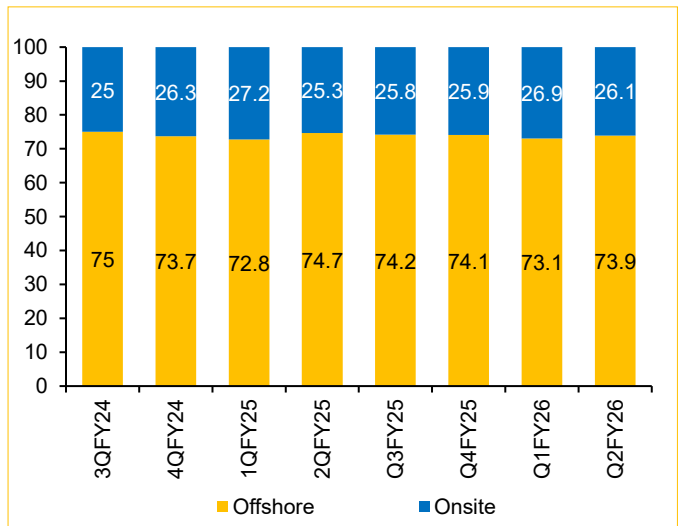
Source: TELX, Choice Institutional Equities

**Media & Comms. grew 4.0% QoQ led by large deal ramp-ups**

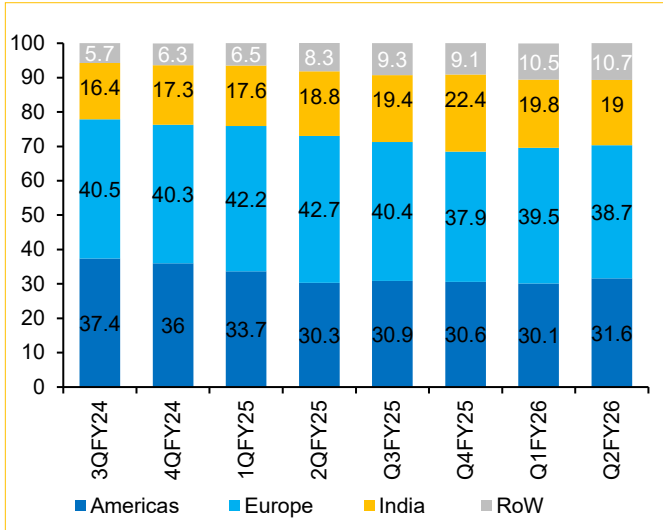
Source: TELX, Choice Institutional Equities

**Top 5 clients' contribution mix continues to decline**

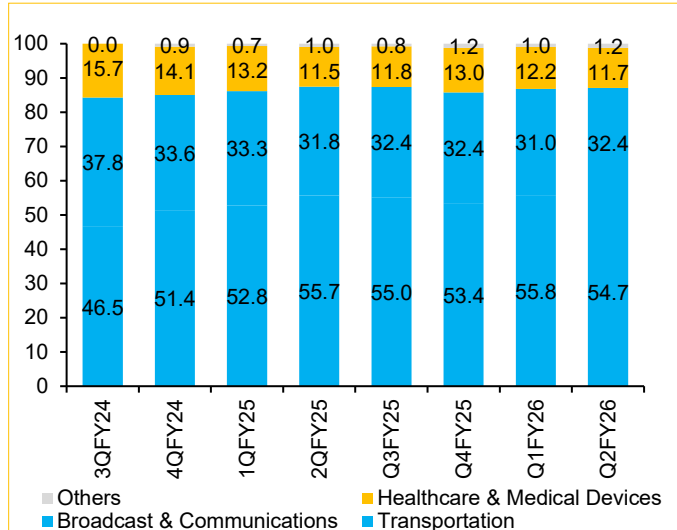
Source: TELX, Choice Institutional Equities

**Higher offshore mix supports margin resilience**

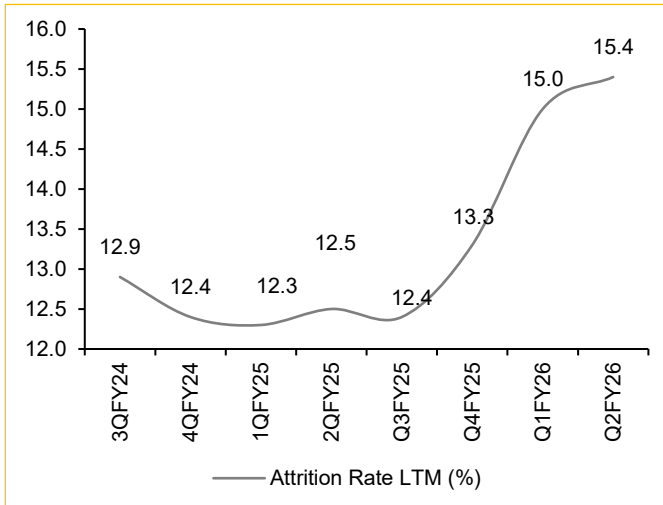
Source: TELX, Choice Institutional Equities

Europe markets remains weak; US growth aided by new clients

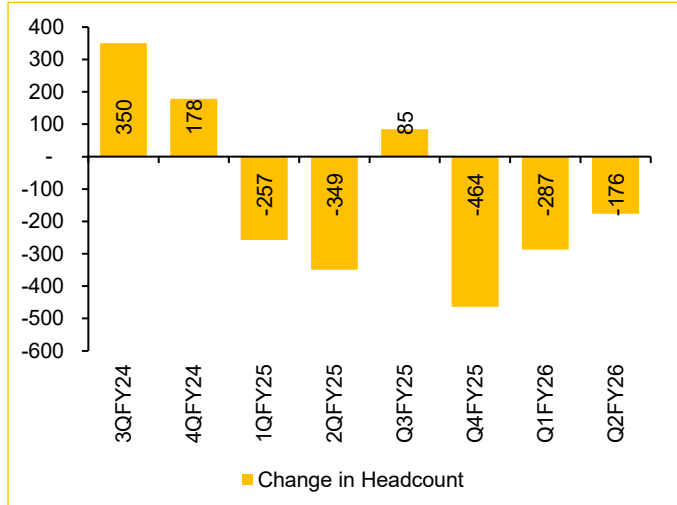
Source: TELX, Choice Institutional Equities

Transportation vertical continues to remain under pressure

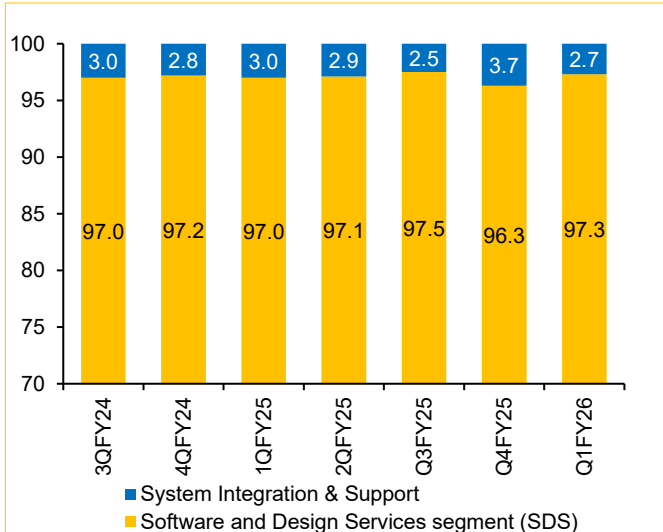
Source: TELX, Choice Institutional Equities

Attrition increased sharply by 40bps QoQ to 15.4%

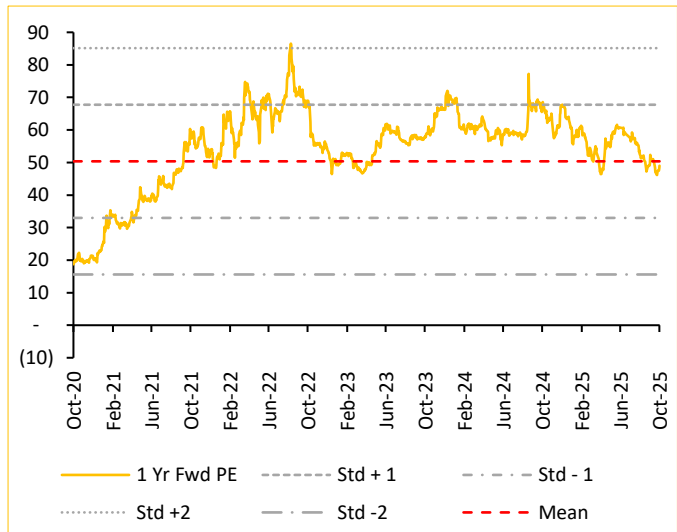
Source: TELX, Choice Institutional Equities

Third 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	37,218	42,140	49,071
Gross Profit	14,471	14,429	12,598	15,503	19,907
EBITDA	10,466	9,729	7,985	10,361	13,843
Depreciation	994	1,049	955	1,086	1,227
EBIT	9,472	8,681	7,030	9,275	12,616
Other Income	1,220	1,793	1,727	1,650	1,676
Interest Expense	203	190	191	213	217
PAT	7,924	7,849	6,333	7,927	10,415
EPS	127.2	126.0	101.7	127.2	167.2
Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratios (%)					
Revenues	13.0	5.0	-0.2	13.2	16.4
Gross Profit	6.4	-0.3	-12.7	23.1	28.4
EBITDA	8.9	-7.0	-17.9	29.8	33.6
EBIT	7.6	-8.4	-19.0	31.9	36.0
Margin Ratios (%)					
Gross Profit Margin	40.7	38.7	33.8	36.8	40.6
EBITDA Margin	29.5	26.1	21.5	24.6	28.2
EBIT Margin	26.7	23.3	18.9	22.0	25.7
Profitability (%)					
ROE	31.6	27.4	20.6	23.9	28.7
ROIC	44.8	40.4	29.1	36.8	48.3
ROCE	35.1	28.0	21.0	25.9	32.7
Valuation					
OCF / Net profit (%)	105.8	118.3	99.1	96.9	94.5
EV/ EBITDA (x)	32.1	34.2	41.6	31.9	23.7
BVPS (x)	402.3	459.1	494.8	533.0	583.1
Free Cash flow yield (%)	2.3	3.4	1.5	1.9	2.5

Source: TELX, Choice Institutional Equities

Balance Sheet (Consolidated in INR Mn)

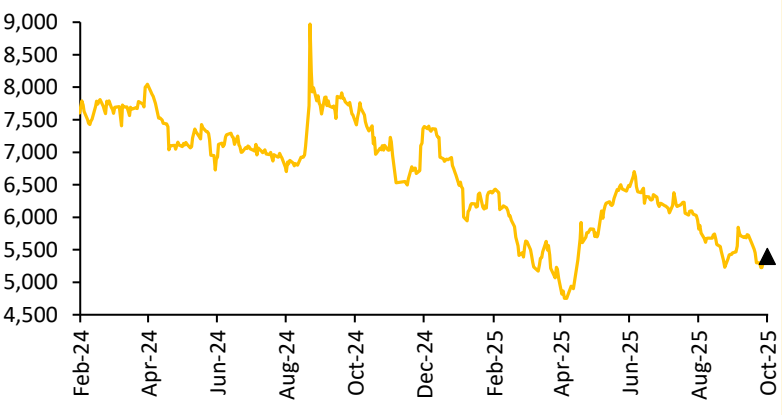
Particulars	FY24	FY25	FY26E	FY27E	FY28E
Tangible Fixed Assets	2,057	1,541	1,586	1,500	1,274
Goodwill & Intangible Assets	22	105	105	105	105
Investments	1,943	3,964	4,162	4,370	4,589
Cash & Cash Equivalents	13,571	16,064	16,774	18,392	20,823
Other Non-current Assets	1,903	1,551	1,551	1,551	1,551
Other Current Assets	12,374	12,633	13,342	14,933	17,099
Total Assets	31,870	35,857	37,519	40,851	45,439
Shareholder's Funds	25,057	28,600	30,816	33,194	36,319
Borrowings	2,240	1,923	1,923	1,923	1,923
Other Current Liabilities	4,573	5,335	4,780	5,734	7,198
Total Equity & Liabilities	31,870	35,857	37,519	40,851	45,439

Cash Flows (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows from Operations	7,012	8,120	4,489	6,939	9,482
Cash Flows from Investing	(2,701)	(3,083)	529	442	457
Cash Flows from Financing	(4,278)	(4,986)	(4,308)	(5,762)	(7,508)

DuPont Analysis (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
ROE	31.6%	27.4%	20.6%	23.9%	28.7%
Net Profit Margin	22.3%	21.0%	17.0%	18.8%	21.2%
Asset Turnover	1.11	1.04	0.99	1.03	1.08
Equity Multiplier	1.27	1.25	1.22	1.23	1.25



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

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

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