# Tata Elxsi

## Improving growth trajectory

**Tata Elxsi (TELX) offers a strong long-term investment opportunity across its key verticals, despite current macroeconomic headwinds. The transportation segment is showing recovery signs, particularly with the stabilization of the JLR account and strategic wins, with OEMs such as Mercedes-Benz, Suzuki, and a European player, including a USD 50mn deal. The company is well-positioned in automotive micro trends, with sustained demand expected in ADAS, SDV, infotainment, and electrification beyond Q2FY26. TELX remains confident about its positioning, viewing GCCs as cost-driven and often short-lived, while leveraging India's cost advantage for engineering. In media and communications, TELX has demonstrated robust deal-winning capabilities, securing a USD 100mn multi-service contract and two additional deals, with margin recovery expected through internal capacity utilisation. Healthcare, though currently impacted by US tariffs and funding cuts, remains a high-potential area with industry-leading tech capabilities and a long-term revenue target of 25%.**

**With strong client relationships, differentiated capabilities, and strategic positioning across verticals, TELX is well-placed for sustained growth. We have increased our revenue estimate by 1–2%, driven by improved growth visibility. However, margin recovery is expected to be gradual, leading to a 1–3% reduction in our EPS estimate. We expect TELX to deliver revenue/EPS CAGR of 10/12% over FY25-28E vs 5Y CAGR of 14/24%. We upgrade TELX to ADD (earlier REDUCE) with a revised P/E multiple to 35x (~32x earlier) and a target price of INR 5,700, based on 35x Sep-27E EPS. The stock is trading at a P/E of 36/31x FY27/28E (10Y average at 36x).**

### Stabilization in transportation vertical

Tata Elxsi's transportation vertical, especially automotive, is showing signs of stabilization despite macroeconomic headwinds, with the stability of the JLR account being a key relief. The company is actively ramping up several strategic deals, including major engagements with Mercedes, Suzuki, and a USD 50mn European OEM, all of which are expected to fuel growth in the coming quarters. The Suzuki partnership, now expanded with a second centre focused on Software Defined Vehicles (SDV), reflects the company's advanced work in Hybrids and EVs. A notable shift in revenue mix from tier 1 suppliers to OEMs—now at 70/30% mix compared to the reverse three years ago—offers greater predictability and is expected to move toward an 80/20% split. Beyond automotive, the company is making calculated bets in aerospace and defense, focusing on emerging areas like UAVs and drones, with deals such as Garuda and HAL's CAD Warrior. While off-highway, off-road, and rail contribute around 7.5–8% of revenue, the primary focus remains on scaling OEM-led automotive growth. Overall, the transportation vertical is on a stronger footing, with steady performance expected and potential for accelerated growth if macro conditions improve. We expect 13% revenue CAGR in the transportation vertical over FY25-28E and expect it to reach ~300mn annual run-rate in FY27E vs USD 230mn in FY25.

### Navigating headwinds in media & communication

The media and communication vertical is under pressure due to weak industry fundamentals, with heavy capex in network modernization (5G, fibre replacement) not translating into subscriber or revenue growth, as investments focus more on retention than new income.

## ADD

| | |
|---|---|
| CMP *(as on 8 Sep 2025)* | INR 5,470 |
| Target Price | INR 5,700 |
| NIFTY | 24,773 |

| KEY CHANGES | OLD | NEW |
|---|---|---|
| Rating | REDUCE | ADD |
| Price Target | INR 5,075 | INR 5,700 |
| | FY26E | FY27E |
| EPS % | -2.4 | -1.8 |

| KEY STOCK DATA | |
|---|---|
| Bloomberg code | TELX IN |
| No. of Shares (mn) | 62 |
| MCap (INR bn) / ($ mn) | 341/3,860 |
| 6m avg traded value (INR mn) | 1,487 |
| 52 Week high / low | INR 8,142/4,601 |

| STOCK PERFORMANCE (%) | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | (15.5) | (2.7) | (27.9) |
| Relative (%) | (13.8) | (11.4) | (27.4) |

| SHAREHOLDING PATTERN (%) | Mar-25 | Jun-25 |
|---|---|---|
| Promoters | 43.91 | 43.91 |
| FIs & Local MFs | 8.54 | 9.80 |
| FPIs | 12.73 | 12.74 |
| Public & Others | 34.82 | 33.55 |
| Pledged Shares | 0.00 | 0.00 |

*Source : BSE*

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OTT platforms, once disruptive to traditional cable, now face consolidation amid global economic uncertainty, inflation, and reduced discretionary spending. TELX recently secured a major USD 100mn multi-service consolidation deal and two smaller deals (one USD 10mn+ with a pure OTT player, and another USD 10mn on the network side), signalling strong credentials in large project bids. The large 100mn deal had an initial revenue dip (witnessed in Q1) due to aggressive price reset as the client leveraged "AI" for discounts but was unclear about real efficiency gains. However, this resulted in ~40% more volume and even with price cuts its net revenue and margin accretive. While OTT was a strategic adjacency and grew rapidly, industry challenges and trends like insourcing by players incumbent pose risks of vendor displacement. Despite uncertain environment, TELX expects growth in new deals and gradual margin recovery through better utilization of internal capacity.

**Short-term strain, long-term promise**

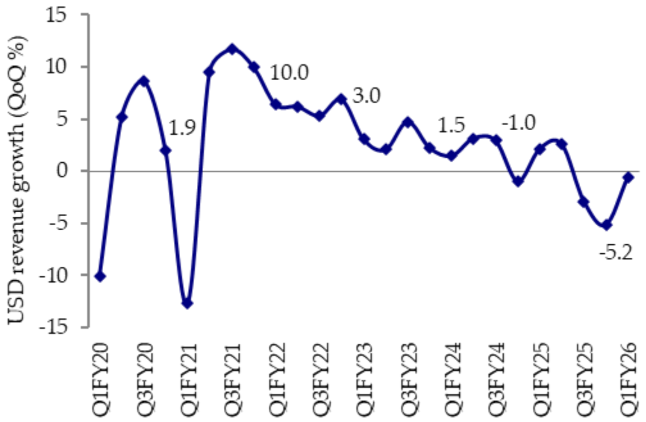
Healthcare and life sciences—particularly medtech and medical devices, which form the bulk of the company's work in this sector—are facing macroeconomic challenges, especially in the US where the business is concentrated and dependent on a few high-profile clients. Tariffs on imported products and cuts in federal healthcare funding are driving up equipment costs and reducing demand for expensive procedures, forcing medical companies to prioritize supply chain and budget issues over R&D. TELX expects these pressures to persist through this and the next quarter. Despite short-term pain and no immediate recovery mechanism, the company's tech capabilities in healthcare are industry-leading, even surpassing its strengths in automotive and media. With healthcare currently contributing only ~12% of total revenue, there is significant room for growth toward a long-term target of ~20–25% of revenue, supported by strong fundamentals and superior capabilities.

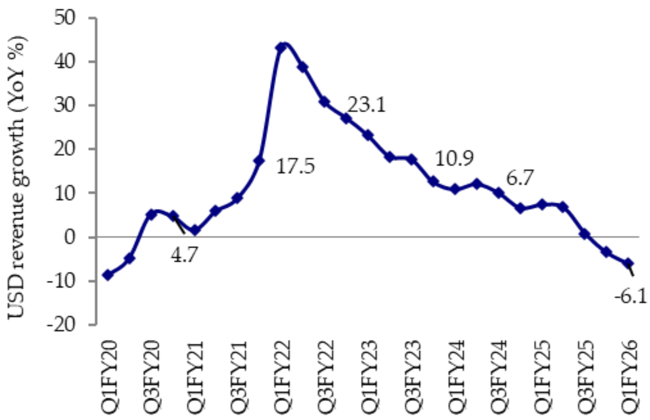
## Financial Summary

| YE March (INR bn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| Revenue (USD mn) | 390 | 429 | 441 | 437 | 509 | 588 |
| Net Sales | 31.45 | 35.52 | 37.29 | 37.84 | 44.83 | 52.29 |
| EBIT | 8.80 | 9.47 | 8.68 | 8.46 | 11.09 | 13.06 |
| APAT | 7.55 | 7.92 | 7.85 | 7.40 | 9.44 | 11.08 |
| Diluted EPS (INR) | 121.3 | 127.2 | 126.0 | 118.8 | 151.5 | 178.0 |
| P/E (x) | 45.1 | 43.0 | 43.4 | 46.1 | 36.1 | 30.7 |
| EV / EBITDA (x) | 34.2 | 31.1 | 33.0 | 33.6 | 25.8 | 21.7 |
| RoE (%) | 41.0 | 34.5 | 29.3 | 24.6 | 28.2 | 29.4 |

Source: Company, HSIE Research

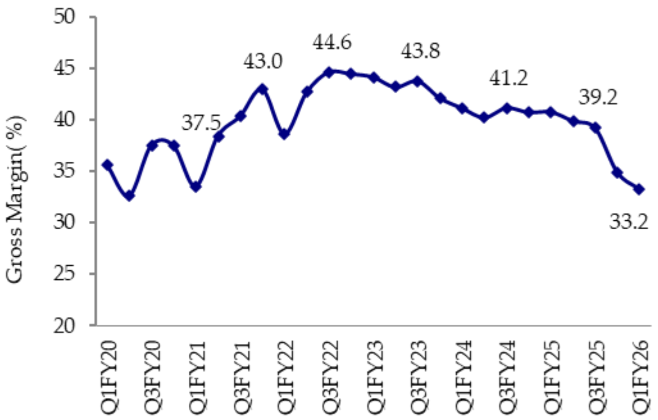
### Exhibit 1: Sequential revenue growth trend (USD QoQ/YoY)

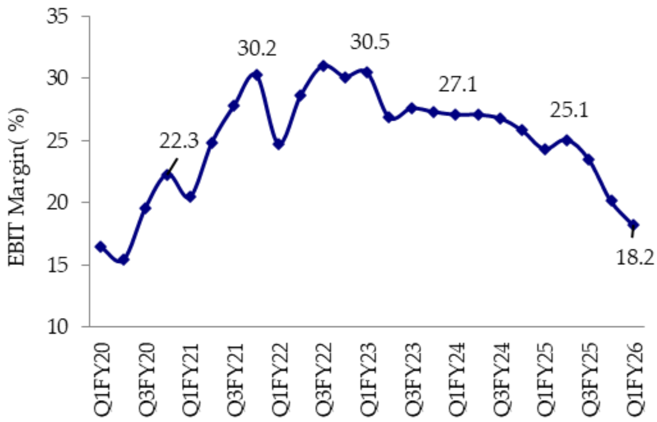



Source : Company, HSIE Research

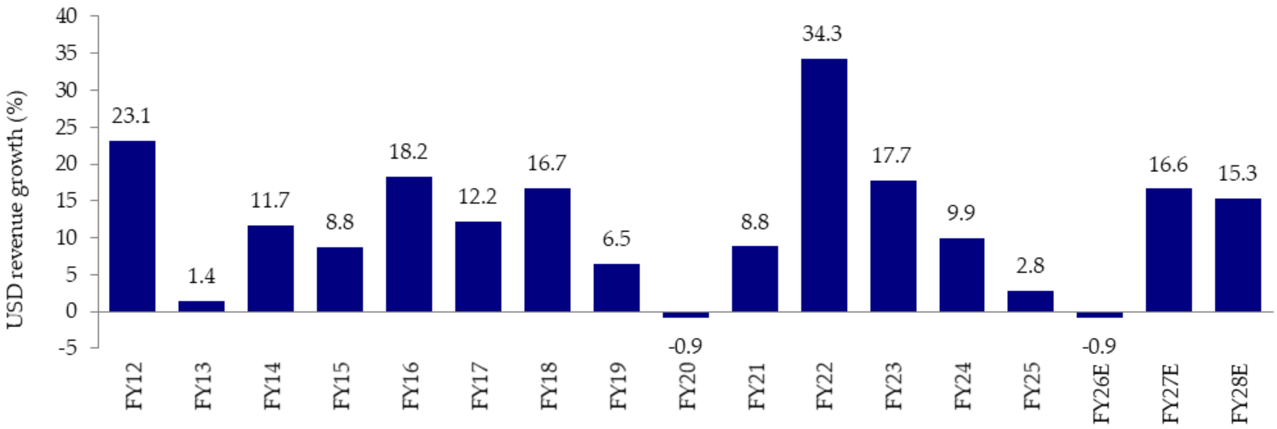
### Exhibit 2: Sequential EBIT margin drop due to gross margin decline (latest quarter values)



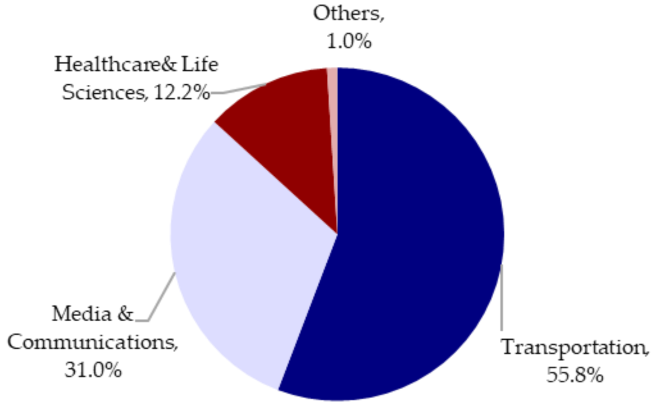

Source : Company, HSIE Research

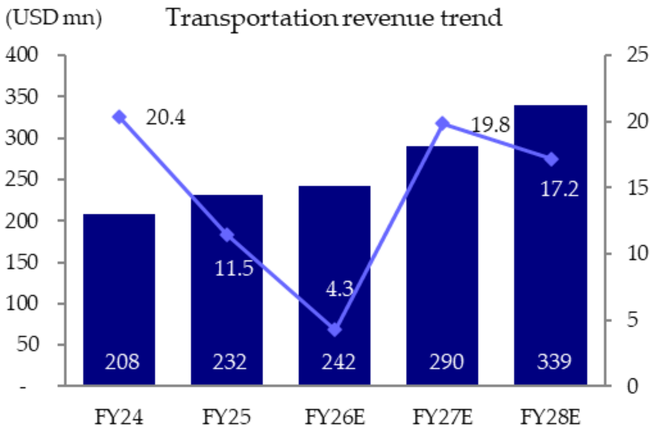
### Exhibit 3: Annual revenue growth trend




Source : Company, HSIE Research

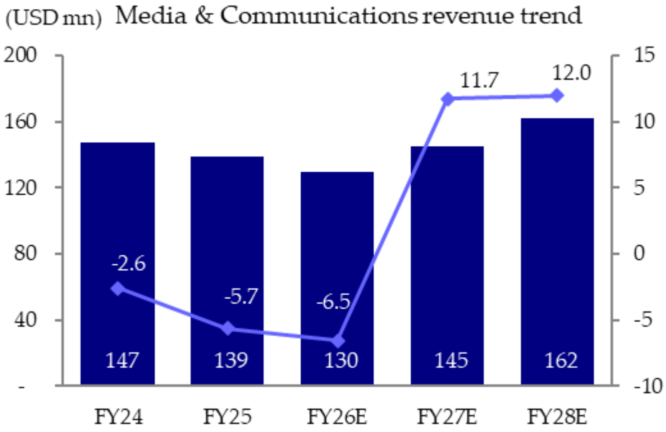
## Exhibit 4: SDS revenue mix (Q1FY26) and Transportation vertical revenue growth trend

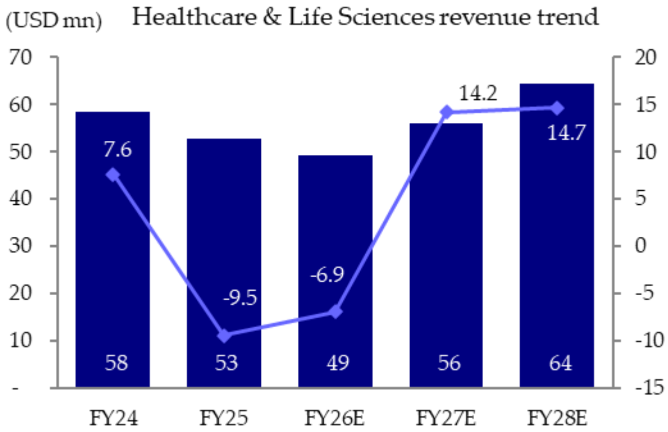



Source : Company, HSIE Research

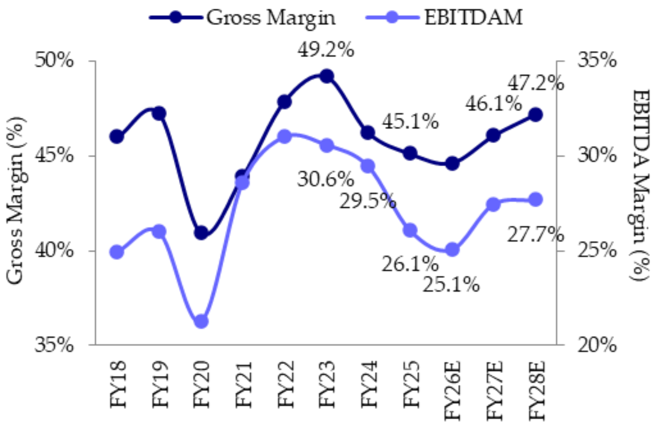
## Exhibit 5: Media & Communications and Healthcare & Life Sciences revenue recovery expected in FY27E

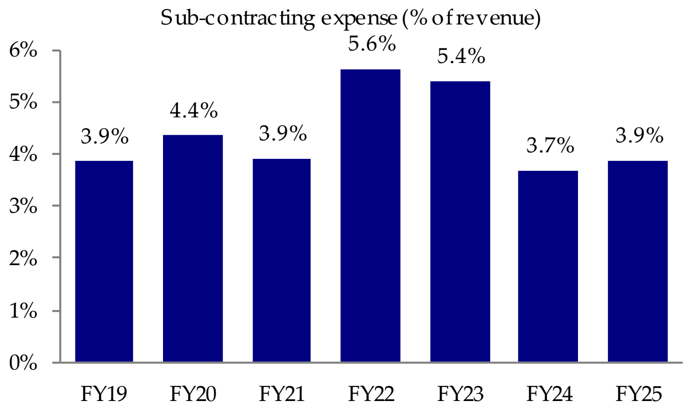



Source : Company, HSIE Research

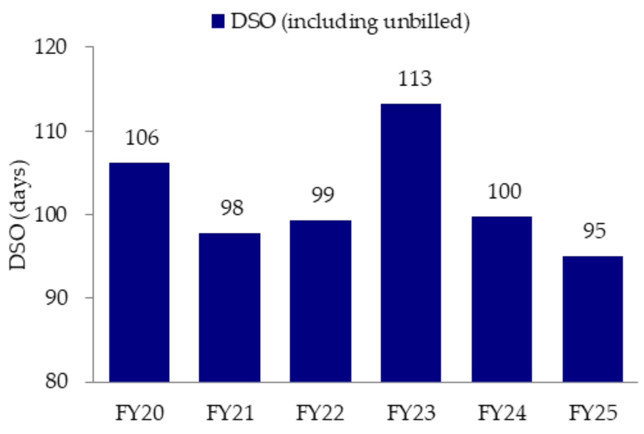
## Exhibit 6: Steady margin supported by lower dependence on sub-contracting & high offshore

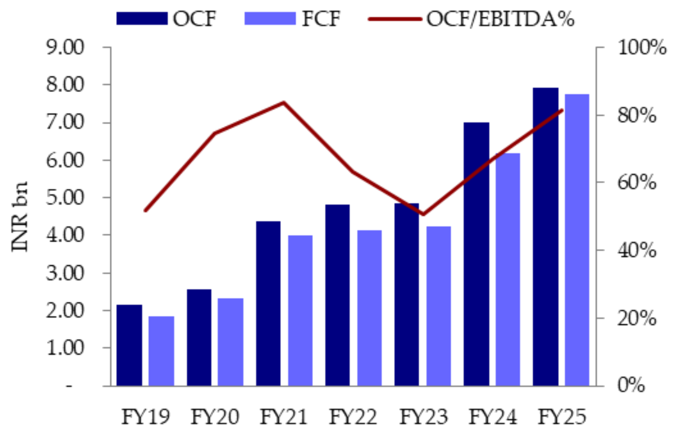



Source : Company, HSIE Research

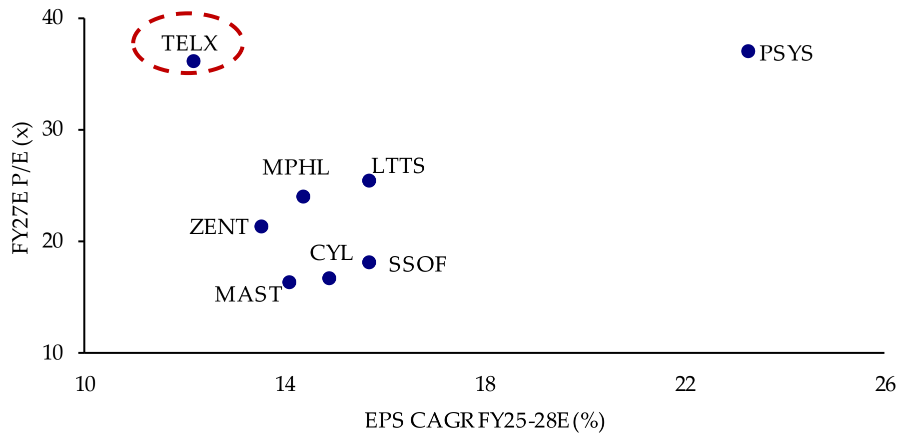
### Exhibit 7: Improvement in cash conversion with normalisation in DSO




Source : Company, HSIE Research

### Exhibit 8: Earnings growth and P/E grid




Source: Bloomberg, HSIE Research, Note: Bloomberg estimates for KPIT & Tata Tech

### Exhibit 9: Change in Estimates

| YE March (INR bn) | FY26E Old | FY26E Revised | Change (%) | FY27E Old | FY27E Revised | Change (%) | FY28E Old | FY28E Revised | Change (%) |
|---|---|---|---|---|---|---|---|---|---|
| Revenue (USD mn) | 432 | 437 | *1.1* | 501 | 509 | *1.8* | 577 | 588 | *1.7* |
| Revenue | 37.11 | 37.84 | *2.0* | 43.55 | 44.83 | *2.9* | 50.82 | 52.29 | *2.9* |
| EBIT | 8.71 | 8.46 | *(2.8)* | 11.32 | 11.09 | *(2.1)* | 13.20 | 13.06 | *(1.1)* |
| EBIT margin (%) | 23.5 | 22.4 | *-111bps* | 26.0 | 24.7 | *-127bps* | 26.0 | 25.0 | *-101bps* |
| APAT | 7.58 | 7.40 | *(2.4)* | 9.61 | 9.44 | *(1.8)* | 11.19 | 11.08 | *(1.0)* |
| EPS (INR) | 121.7 | 118.8 | *(2.4)* | 154.3 | 151.5 | *(1.8)* | 179.7 | 178.0 | *(1.0)* |

Source: HSIE Research

### Exhibit 10: Revenue growth assumptions

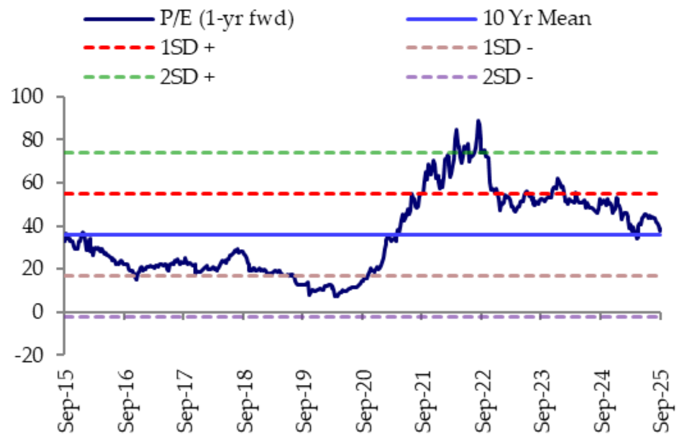
| Revenue (USD mn) | FY24 | FY25 | FY26E | FY27E | FY28E | CAGR (FY25-FY28E) |
|---|---|---|---|---|---|---|
| *SDS revenue* | | | | | | |
| Transportation | 208 | 232 | 242 | 290 | 339 | 13.6 |
| *YoY growth (%)* | *20.4* | *11.5* | *4.3* | *19.8* | *17.2* | |
| Media & Communication | 147 | 139 | 130 | 145 | 162 | 5.4 |
| *YoY growth (%)* | *-2.6* | *-5.7* | *-6.5* | *11.7* | *12.0* | |
| Healthcare & Life sciences | 58 | 53 | 49 | 56 | 64 | 6.8 |
| *YoY growth (%)* | *7.6* | *-9.5* | *-6.9* | *14.2* | *14.7* | |
| Others Revenue | 3 | 4 | 4 | 5 | 6 | 13.0 |
| *YoY growth (%)* | *2.9* | *18.1* | *9.2* | *16.4* | *13.6* | |
| **Total (SDS)** | **417** | **427** | **425** | **496** | **572** | **10.2** |
| *YoY growth (%)* | *9.3* | *2.6* | *-0.6* | *16.7* | *15.4* | |
| SIS | 12 | 13 | 12 | 14 | 16 | 5.6 |
| *YoY growth (%)* | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | |
| ***Total Revenue*** | **429** | **441** | **437** | **509** | **588** | **10.1** |
| *YoY growth (%)* | *9.9* | *2.8* | *-0.9* | *16.6* | *15.3* | |

Source: HSIE Research

### Exhibit 11: TELX valuations vs other ER&D peers


Source: Bloomberg, HSIE Research

### Exhibit 12: TELX P/E (1-yr fwd) Trend




Source: Bloomberg, HSIE Research

# Financials

## Consolidated Income Statement

| Year ending March (INR bn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| **Net Revenues (USD mn)** | **390** | **429** | **441** | **437** | **509** | **588** |
| ***Growth (%)*** | ***17.7%*** | ***9.9%*** | ***2.8%*** | ***-0.9%*** | ***16.6%*** | ***15.3%*** |
| **Net Revenues** | **31.45** | **35.52** | **37.29** | **37.84** | **44.83** | **52.29** |
| ***Growth (%)*** | ***27.3%*** | ***13.0%*** | ***5.0%*** | ***1.5%*** | ***18.5%*** | ***16.6%*** |
| Employee Expenses | 15.98 | 19.10 | 20.46 | 20.96 | 24.18 | 27.62 |
| SG&A Expenses | 5.86 | 5.96 | 7.10 | 7.40 | 8.35 | 10.20 |
| **EBITDA** | **9.61** | **10.46** | **9.73** | **9.48** | **12.30** | **14.47** |
| ***EBITDA Margin (%)*** | ***30.6%*** | ***29.5%*** | ***26.1%*** | ***25.1%*** | ***27.4%*** | ***27.7%*** |
| *EBITDA Growth (%)* | *25.5%* | *8.9%* | *-7.0%* | *-2.5%* | *29.7%* | *17.7%* |
| Depreciation | 0.81 | 0.99 | 1.05 | 1.02 | 1.21 | 1.41 |
| **EBIT** | **8.80** | **9.47** | **8.68** | **8.46** | **11.09** | **13.06** |
| Other Income (Including EO Items) | 0.74 | 1.22 | 1.60 | 1.73 | 1.85 | 2.10 |
| Interest | 0.16 | 0.20 | 0.19 | 0.18 | 0.18 | 0.18 |
| **PBT** | **9.38** | **10.49** | **10.09** | **10.01** | **12.75** | **14.98** |
| Tax (Incl Deferred) | 1.82 | 2.56 | 2.43 | 2.61 | 3.32 | 3.89 |
| RPAT | 7.55 | 7.92 | 7.65 | 7.40 | 9.44 | 11.08 |
| **APAT** | **7.55** | **7.92** | **7.85** | **7.40** | **9.44** | **11.08** |
| ***APAT Growth (%)*** | ***37.4%*** | ***4.9%*** | ***-0.9%*** | ***-5.8%*** | ***27.6%*** | ***17.5%*** |
| **Adjusted EPS (INR)** | **121.3** | **127.2** | **126.0** | **118.8** | **151.5** | **178.0** |
| ***EPS Growth (%)*** | ***37.4%*** | ***4.9%*** | ***-0.9%*** | ***-5.8%*** | ***27.6%*** | ***17.5%*** |

Source: Company, HSIE Research

## Consolidated Balance Sheet

| Year ending March (INR bn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | | |
| Share Capital - Equity | 0.62 | 0.62 | 0.62 | 0.62 | 0.62 | 0.62 |
| Reserves | 20.23 | 24.43 | 27.98 | 30.97 | 34.79 | 39.28 |
| **Total Shareholders Funds** | **20.86** | **25.06** | **28.60** | **31.60** | **35.42** | **39.91** |
| Total Debt | - | - | - | - | - | - |
| Net Deferred Taxes | (0.13) | (0.24) | (0.38) | (0.38) | (0.38) | (0.38) |
| Long Term Provisions & Others | 1.99 | 2.35 | 1.96 | 1.96 | 1.96 | 1.96 |
| **TOTAL SOURCES OF FUNDS** | **22.72** | **27.17** | **30.18** | **33.18** | **37.00** | **41.49** |
| **APPLICATION OF FUNDS** | | | | | | |
| Net Block | 3.17 | 3.83 | 3.09 | 3.66 | 4.11 | 4.60 |
| Goodwill & intangibles | 0.16 | 0.13 | 0.09 | 0.13 | 0.15 | 0.17 |
| Other Non-current assets | 0.55 | 0.76 | 0.73 | 0.73 | 0.73 | 0.73 |
| **Total Non-current Assets** | **3.95** | **4.74** | **3.92** | **4.52** | **5.00** | **5.51** |
| Debtors | 9.76 | 9.72 | 9.72 | 9.86 | 11.68 | 13.62 |
| Other Current Assets | 1.45 | 2.07 | 2.20 | 2.23 | 2.63 | 3.06 |
| Cash & Equivalents | 12.34 | 15.09 | 19.65 | 21.92 | 23.77 | 26.15 |
| **Total Current Assets** | **23.55** | **26.89** | **31.56** | **34.01** | **38.08** | **42.84** |
| Creditors | 1.03 | 0.86 | 1.23 | 1.25 | 1.48 | 1.72 |
| Other Current Liabilities & Prov. | 3.75 | 3.60 | 4.07 | 4.11 | 4.61 | 5.14 |
| **Total Current Liabilities** | **4.79** | **4.46** | **5.30** | **5.35** | **6.08** | **6.87** |
| **Net Current Assets** | 18.77 | 22.43 | 26.26 | 28.66 | 32.00 | 35.98 |
| **TOTAL APPLICATION OF FUNDS** | **22.72** | **27.17** | **30.18** | **33.18** | **37.00** | **41.49** |

Source: Company, HSIE Research

## Consolidated Cash Flow

| Year ending March (INR bn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| Reported PBT | **9.38** | **10.49** | **10.09** | **10.01** | **12.75** | **14.98** |
| Non-operating & EO items | (0.54) | (0.74) | (0.92) | (1.73) | (1.85) | (2.10) |
| Interest expenses | 0.16 | 0.20 | 0.19 | 0.18 | 0.18 | 0.18 |
| Depreciation | 0.81 | 0.99 | 1.05 | 1.02 | 1.21 | 1.41 |
| Working Capital Change | (3.10) | (1.35) | (0.24) | (0.12) | (1.49) | (1.60) |
| Tax Paid | (1.85) | (2.58) | (2.24) | (2.61) | (3.32) | (3.89) |
| **OPERATING CASH FLOW ( a )** | **4.87** | **7.01** | **7.92** | **6.75** | **7.49** | **8.98** |
| Capex | (0.64) | (0.83) | (0.16) | (1.63) | (1.69) | (1.92) |
| **Free cash flow (FCF)** | **4.23** | **6.18** | **7.76** | **5.13** | 5.80 | 7.06 |
| **INVESTING CASH FLOW ( b )** | **(2.02)** | **(2.70)** | **(3.08)** | **0.10** | **0.16** | **0.18** |
| Interest Expenses | (0.16) | (0.20) | (0.19) | (0.18) | (0.18) | (0.18) |
| *FCFE* | 4.07 | 5.98 | 7.57 | 4.95 | 5.62 | 6.87 |
| Dividend | (2.65) | (3.78) | (4.37) | (4.40) | (5.61) | (6.60) |
| **FINANCING CASH FLOW ( c )** | **(2.81)** | **(3.98)** | **(4.56)** | **(4.58)** | **(5.80)** | **(6.78)** |
| **NET CASH FLOW (a+b+c)** | **0.03** | **0.33** | **0.28** | **2.27** | **1.85** | **2.38** |
| **Closing Cash & Equivalents** | **12.34** | **15.09** | **19.65** | **21.92** | **23.77** | **26.15** |

Source: Company, HSIE Research

## Key Ratios

| | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| **PROFITABILITY (%)** | | | | | | |
| GPM | 49.2 | 46.2 | 45.1 | 44.6 | 46.1 | 47.2 |
| EBITDA Margin | 30.6 | 29.5 | 26.1 | 25.1 | 27.4 | 27.7 |
| APAT Margin | 24.0 | 22.3 | 21.0 | 19.5 | 21.1 | 21.2 |
| RoE | 41.0 | 34.5 | 29.3 | 24.6 | 28.2 | 29.4 |
| RoIC (or Core RoCE) | 83.0 | 63.7 | 58.2 | 57.4 | 67.0 | 67.7 |
| RoCE | 38.2 | 32.4 | 27.9 | 23.8 | 27.3 | 28.6 |
| **EFFICIENCY** | | | | | | |
| Tax Rate (%) | 19.4% | 24.5% | 24.1% | 26.1% | 26.0% | 26.0% |
| Fixed Asset Turnover (x) | 8.4 | 8.8 | 8.9 | 8.9 | 8.9 | 8.9 |
| Debtors (days) - Billed | 113 | 100 | 95 | 95 | 95 | 95 |
| Other Current Assets (days) | 17 | 21 | 21 | 21 | 21 | 21 |
| Payables (days) | 12 | 9 | 12 | 12 | 12 | 12 |
| Other Current Liab & Provns (days) | 44 | 37 | 40 | 40 | 38 | 36 |
| Cash Conversion Cycle (days) | 75 | 75 | 65 | 65 | 67 | 69 |
| Debt/EBITDA (x) | - | - | - | - | - | - |
| Net D/E (x) | (0.6) | (0.6) | (0.7) | (0.7) | (0.7) | (0.7) |
| Interest Coverage (x) | 54 | 47 | 46 | 46 | 61 | 72 |
| **PER SHARE DATA (INR)** | | | | | | |
| EPS | 121.3 | 127.2 | 126.0 | 118.8 | 151.5 | 178.0 |
| CEPS | 134 | 143 | 143 | 135 | 171 | 201 |
| Dividend | 61 | 70 | 75 | 71 | 90 | 106 |
| Book Value | 335 | 402 | 459 | 507 | 569 | 641 |
| **VALUATION** | | | | | | |
| P/E (x) | 45.1 | 43.0 | 43.4 | 46.1 | 36.1 | 30.7 |
| P/BV (x) | 16.3 | 13.6 | 11.9 | 10.8 | 9.6 | 8.5 |
| EV/EBITDA (x) | 34.2 | 31.1 | 33.0 | 33.6 | 25.8 | 21.7 |
| OCF/EV (%) | 1.5 | 2.2 | 2.5 | 2.1 | 2.4 | 2.9 |
| FCF/EV (%) | 1.3 | 1.9 | 2.4 | 1.6 | 1.8 | 2.2 |
| FCFE/Mkt Cap (%) | 1.2 | 1.8 | 2.2 | 1.5 | 1.6 | 2.0 |
| Dividend Yield (%) | 1.1 | 1.3 | 1.4 | 1.3 | 1.6 | 1.9 |

Source: Company, HSIE Research

**1 Yr Price Movement**


**Rating Criteria**

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

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