



India

HOLD (previously REDUCE)

Consensus ratings*: Buy 2 Hold 2 Sell 14

Current price: Rs5,459
 Target price: ▲ Rs5,639
 Previous target: Rs5,486
 Up/downside: 3.3%
 InCred Research / Consensus: 3.3%

Reuters:
 Bloomberg: TELX IN
 Market cap: US\$3,793m
 Rs340,039m
 Average daily turnover: US\$17.1m
 Rs1530.1m
 Current shares o/s: 62.3m
 Free float: 56.1%

*Source: Bloomberg

Key changes in this note

- Expect 6.2% US\$ revenue CAGR over FY25-28F.
- Expect 8.7% EBIT CAGR over FY25-28F.
- Expect 7% PAT CAGR over FY25-28F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.6	(2.6)	(21.1)
Relative (%)	2.2	(6.6)	(27.6)

Major shareholders	% held
LIC	5.5
GIC	1.2
SBI Magnum Midcap Fund	1.0

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Tata Elxsi Ltd

Modelling adjustments and moving to HOLD

- Our recent preview discussion suggests transport vertical visibility improving, media vertical may not decline while healthcare growth could be uneven.
- Growth leverage, utilisation improvement, and INR depreciation to aid EBIT margin execution.
- Upgrade our rating on the stock to HOLD (REDUCE earlier) as the underlying thesis highlighted in our coverage [initiation](#) report is likely priced in.

Preview discussion suggests transport vertical visibility improving

Our recent results preview discussion suggests Tata Elxsi has better comfort on traction in transportation vertical in 2HFY26F led by ramp-up of deal closed earlier and recovery in JLR. As a reminder, the company had highlighted in its 2QFY26 earnings call that the vertical could have reported positive constant currency (CC) growth excluding the cyber security incident. Demand environment commentary across automotive BU (~53% of revenue) suggests large client-specific challenges are likely behind, recovery in spending, traction across geographies barring the US, deal ramp-up, OEMs opting for technology partner vs. vendor consolidation, OEMs spending on SDV, ADAS, electric vehicles, cockpit, etc., partnership with Suzuki, and a deal with Mercedes Benz.

Media & communication and healthcare verticals' growth cadence

As a reminder, the company highlighted in its 2QFY26 earnings call that 1) media & communications vertical's growth was led by new wins and ramp-up of deals announced earlier and that volatility in the business was driven by business restructuring and M&A across leading operators and broadcasters, and 2) closure of large regulatory and MDR programs led to a sequential decline in healthcare vertical in 2Q while growth recovery hinges on a strong pipeline of new customers and large deals across key regions. Recent discussions suggest that ramp-up of existing deals over several quarters could help sustain growth momentum in media vertical while spending challenges faced by key customers could lead to a sequential revenue decline. Consequently, we adjust our estimates accordingly.

Adjusting our estimates to account for commentary

We adjust 2HFY26F revenue estimates that roll up into FY27F as well. This, coupled with the change in Indian Rupee (INR) assumption, changes our EPS estimates too. We now model US\$ revenue/PAT (Rsm) CAGR of 6.2%/7% vs. 5.8%/6.7%, respectively, over FY25-28F and this increases our discounted cash flow-based target price to Rs5,639 vs. Rs5,486 earlier. Finally, we upgrade our rating on the stock to HOLD (REDUCE earlier) as the underlying thesis highlighted in our coverage initiation report is likely priced in. Bottoming out of account-specific challenges, growth acceleration led by new large deals in key transportation & media verticals, and a higher-than-anticipated margin recovery are upside risks while persisting client-specific challenges pose a downside risk.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	35,521	37,290	37,704	42,378	47,260
Operating EBITDA (Rsm)	10,464	9,729	8,370	10,340	12,370
Net Profit (Rsm)	7,922	7,850	6,620	8,141	9,629
Core EPS (Rs)	127.2	126.0	106.3	130.7	154.6
Core EPS Growth	4.9%	(0.9%)	(15.7%)	23.0%	18.3%
FD Core P/E (x)	42.91	43.31	51.36	41.76	35.31
DPS (Rs)	70.0	75.0	95.0	115.0	115.0
Dividend Yield	1.28%	1.37%	1.74%	2.11%	2.11%
EV/EBITDA (x)	31.13	33.26	38.55	31.08	25.75
P/FCFE (x)	54.98	42.72	65.61	53.31	43.81
Net Gearing	(56.4%)	(57.2%)	(59.2%)	(61.5%)	(65.5%)
P/BV (x)	13.57	11.89	11.60	11.23	10.38
ROE	34.5%	29.3%	22.9%	27.3%	30.6%
% Change In Core EPS Estimates				(0.03%)	(0.03%)
InCred Research/Consensus EPS (x)					

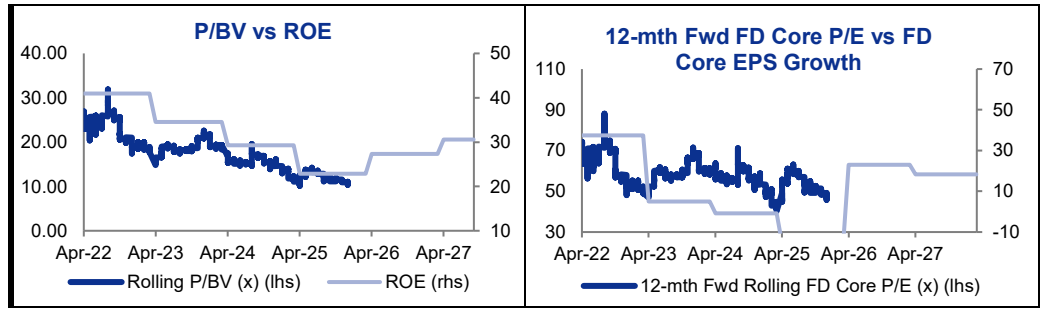
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Change in InCred estimates

Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	New	Old	%Change	New	Old	%Change	New	Old	%Change
US\$ revenue	429.6	427.6	0.5	476.2	470.6	1.2	528.0	522.4	1.1
Revenue	37,704	37,148	1.5	42,378	41,651	1.7	47,260	46,751	1.1
EBIT	7391.8	7335.4	0.8	9,238.4	9,080.0	1.7	11,141.1	11,033.2	1.0
EBIT margin (%)	19.6	19.7	-0.1	21.8	21.8	0.0	23.6	23.6	0.0
Net PAT	6,620	6,558	0.9	8,141	7,999	1.8	9,629	9,532	1.0
EPS (Rs)	106.3	105.3	0.9	130.7	128.4	1.8	154.6	153.1	1.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	35,521	37,290	37,704	42,378	47,260
Gross Profit	14,492	14,429	12,969	15,383	17,817
Operating EBITDA	10,464	9,729	8,370	10,340	12,370
Depreciation And Amortisation	(994)	(1,049)	(978)	(1,102)	(1,229)
Operating EBIT	9,470	8,681	7,392	9,238	11,141
Financial Income/(Expense)	1,017	1,603	1,750	2,052	2,213
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	10,487	10,284	9,142	11,291	13,354
Exceptional Items					
Pre-tax Profit	10,487	10,284	9,142	11,291	13,354
Taxation	(2,564)	(2,434)	(2,522)	(3,150)	(3,725)
Exceptional Income - post-tax					
Profit After Tax	7,922	7,850	6,620	8,141	9,629
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,922	7,850	6,620	8,141	9,629
Recurring Net Profit	7,922	7,850	6,620	8,141	9,629
Fully Diluted Recurring Net Profit	7,922	7,850	6,620	8,141	9,629

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	10,464	9,729	8,370	10,340	12,370
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,351)	(242)	(502)	(650)	(722)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	193	244			
Other Operating Cashflow	(444)	(347)			
Net Interest (Paid)/Received	731	975			
Tax Paid	(2,580)	(2,239)	(2,522)	(3,150)	(3,725)
Cashflow From Operations	7,012	8,120	5,345	6,541	7,923
Capex	(830)	(162)	(163)	(163)	(163)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,871)	(2,921)	1,917	2,214	2,374
Cash Flow From Investing	(2,701)	(3,083)	1,754	2,050	2,211
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,774)	(4,359)	(5,919)	(7,165)	(7,165)
Preferred Dividends					
Other Financing Cashflow	(504)	(627)	(167)	(162)	(162)
Cash Flow From Financing	(4,278)	(4,986)	(6,085)	(7,326)	(7,326)
Total Cash Generated	33	51	1,014	1,265	2,807
Free Cashflow To Equity	6,182	7,958	5,182	6,377	7,759
Free Cashflow To Firm	4,513	5,227	7,099	8,591	10,134

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	14,139	16,345	17,358	18,623	21,430
Total Debtors	9,716	9,715	10,226	11,030	11,912
Inventories	11				
Total Other Current Assets	1,502	1,915	1,915	1,915	1,915
Total Current Assets	25,367	27,975	29,500	31,568	35,258
Fixed Assets	3,847	3,108	2,294	1,355	290
Total Investments	1,943	3,964	3,964	3,964	3,964
Intangible Assets	134	88	88	88	88
Total Other Non-Current Assets	578	722	722	722	722
Total Non-current Assets	6,503	7,882	7,068	6,129	5,064
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	856	1,230	1,240	1,393	1,554
Other Current Liabilities	3,603	4,067	4,067	4,067	4,067
Total Current Liabilities	4,459	5,297	5,306	5,460	5,621
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,812	1,393	1,393	1,393	1,393
Total Non-current Liabilities	1,812	1,393	1,393	1,393	1,393
Total Provisions	542	568	568	568	568
Total Liabilities	6,813	7,257	7,267	7,421	7,581
Shareholders Equity	25,057	28,600	29,301	30,277	32,741
Minority Interests					
Total Equity	25,057	28,600	29,301	30,277	32,741

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	13.0%	5.0%	1.1%	12.4%	11.5%
Operating EBITDA Growth	8.9%	(7.0%)	(14.0%)	23.5%	19.6%
Operating EBITDA Margin	29.5%	26.1%	22.2%	24.4%	26.2%
Net Cash Per Share (Rs)	227.03	262.42	278.69	299.00	344.08
BVPS (Rs)	402.34	459.18	470.44	486.11	525.67
Gross Interest Cover	46.75	45.73	44.32	57.18	68.96
Effective Tax Rate	24.5%	23.7%	27.6%	27.9%	27.9%
Net Dividend Payout Ratio	55.0%	59.5%	89.4%	88.0%	74.4%
Accounts Receivables Days	100.08	95.10	96.53	91.54	88.59
Inventory Days	0.13	0.09			
Accounts Payables Days	16.39	16.66	18.22	17.80	18.27
ROIC (%)	73.2%	58.5%	52.2%	67.0%	83.2%
ROCE (%)	31.2%	24.7%	18.5%	22.4%	25.5%
Return On Average Assets	24.0%	19.6%	14.8%	17.9%	20.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.