

Tata Elxsi

Core growth revival

Tata Elxsi's growth is expected to recover to low double digits in FY27E, anchored by engineering engagements that are more core and sticky to customers than traditional IT services. The automotive vertical will serve as the primary catalyst, driven by a healthy large deal pipeline and ramp-ups in steady-state and security projects for the top OEM client. Growth in the transportation vertical will be further bolstered by traction in off-road and aerospace segments. Strategic collaborations, such as the fully outsourced partnership with Suzuki, underscore the company's ability to compete with GCC models through superior technical expertise. The communications vertical is entering a catch-up recovery phase by consolidating positions with existing clients, while healthcare demand centres around enhancing operative performance and clinical outcomes rather than job replacement. AI is fundamentally transforming ER&D by acting as a high-speed enabler rather than a disrupter. Automation is concentrated in functions such as testing, verification, and regulatory checks across the US and European mandates, while high-level architectural roles and complex system contexts remain shielded from automation and full replacement. The margin expansion trajectory relies on volume growth and utilization rather than cost-cutting. Consequently, hiring is being carefully calibrated, with no major headcount increases immediately but a focus on building a bench to meet the double-digit growth target. EBITDA margins are expected to expand to 26.9% in FY28E versus 26.1% in FY25 and 22.3% in FY26E.

With strong client relationships, differentiated capabilities, and strategic positioning across verticals, TELX is well-placed for growth recovery in FY27E vs ~3% decline in FY26E. However, the pace of recovery will be calibrated; thus we have reduced our revenue estimate by 3-5%. The margin recovery is expected to be gradual, leading to a 6-7% reduction in our EPS estimate. We expect TELX to deliver revenue/EPS CAGR of 13/26% over FY26-28E (~7/10% over FY25-28E) vs 5Y CAGR of 14/24%. We maintain our ADD with a revised P/E multiple to 30x (~35x earlier) and a target price of INR 5,000, based on 30x FY28E EPS. The stock is trading at a P/E of 32/27x FY27/28E (vs 10Y average at 36x and pre-covid 10Y average of 17x).

- Growth led by recovery in automotive vertical:** The automotive vertical, which currently accounts for over 55% of total revenue, saw a robust recovery in Q3 FY26 with 7.7% QoQ growth, led by the accelerated ramp-up of SDV deals and the normalization of programs with top OEM client. Primary growth drivers include steady-state ramp-ups and specialized security projects as innovation budgets begin to flow back into new model launches. While the large deal pipeline is healthy, closure timelines remain variable, leading to an expectation that Q4 results will be relatively flat before the momentum picks up in FY27E (we are expecting mid-teens YoY growth). Beyond traditional passenger vehicles, the company is eyeing growth from off-road and aerospace sectors with stability in its the Tier-1 portfolio (~20% of automotive). The company is expanding its global footprint across the US and Japan, notably through its fully outsourced model with Suzuki, which successfully competes against traditional GCC model.
- Recovery in communications and healthcare verticals:** The communications vertical is entering a catch-up recovery phase, where expansion is primarily driven by consolidating and increasing wallet share with existing clients. While the segment faced seasonal furloughs and delays in the third quarter, a strong foundation of previously won large deals and renewed service offerings positions it for positive momentum starting in Q4FY26E. Simultaneously, the healthcare and life sciences vertical is expected to return to a growth trajectory in Q4 after bottoming out, following the completion of major regulatory programs. Demand in the healthcare space remains resilient and is focused on improving clinical outcomes and operative performance rather than job displacement, with the company seeing market success through GenAI-powered regulatory workflows and significant new customer additions. We expect +12/11% CAGR over FY26-28E for the communications and healthcare verticals respectively. Both the verticals have registered a negative 5% CAGR over FY23-26E.

ADD

| | |
|-------------------------|-----------|
| CMP (as on 24 Feb 2026) | INR 4,498 |
| Target Price | INR 5,000 |
| NIFTY | 25,425 |

| KEY CHANGES | OLD | NEW |
|--------------|-----------|-----------|
| Rating | ADD | ADD |
| Price Target | INR 6,300 | INR 5,000 |
| EPS % | FY27E | FY28E |
| | -6.4 | -7.4 |

KEY STOCK DATA

| | |
|------------------------------|-----------------|
| Bloomberg code | TELX IN |
| No. of Shares (mn) | 62 |
| MCap (INR bn) / (\$ mn) | 280/3,081 |
| 6m avg traded value (INR mn) | 1,633 |
| 52 Week high / low | INR 6,735/4,455 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|--------|--------|--------|
| Absolute (%) | (14.0) | (19.4) | (23.1) |
| Relative (%) | (10.9) | (20.5) | (33.6) |

SHAREHOLDING PATTERN (%)

| | Sep-25 | Dec-25 |
|-----------------|--------|--------|
| Promoters | 43.90 | 43.90 |
| FIs & Local MFs | 10.38 | 12.29 |
| FPIs | 12.53 | 8.57 |
| Public & Others | 33.19 | 35.24 |
| Pledged Shares | 0.00 | 0.00 |

Source : BSE

Vinesh Vala

vinesh.vala@hdfcsec.com
+91-22-6171-7332

Amit Chandra

amit.chandra@hdfcsec.com
+91-22-6171-7345

Maitreyee Vaishampayan

maitreyee.vaishampayan@hdfcsec.com
+91-22-6171-7308

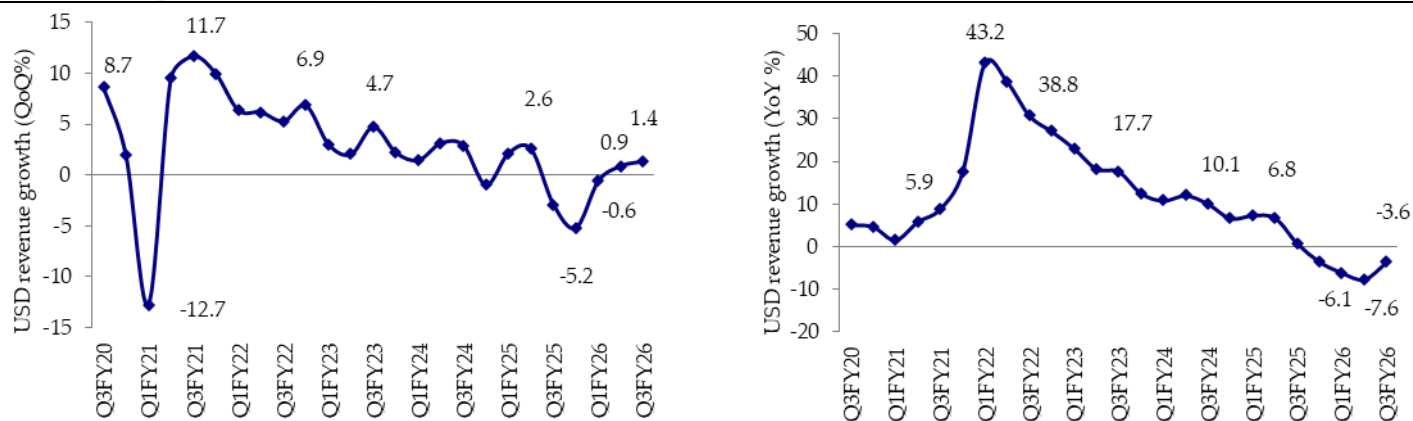
Financial Summary

| YE March (INR bn) | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|-------------------|-------|-------|-------|-------|-------|-------|
| Revenue (USD mn) | 390 | 429 | 441 | 426 | 479 | 546 |
| Net Sales | 31.45 | 35.52 | 37.29 | 37.41 | 42.84 | 49.44 |
| EBIT | 8.80 | 9.47 | 8.68 | 7.37 | 10.02 | 12.08 |
| APAT | 7.55 | 7.92 | 7.85 | 6.59 | 8.68 | 10.39 |
| Diluted EPS (INR) | 121.3 | 127.2 | 126.0 | 105.9 | 139.3 | 166.9 |
| P/E (x) | 37.1 | 35.4 | 35.7 | 42.5 | 32.3 | 26.9 |
| EV / EBITDA (x) | 27.9 | 25.3 | 26.8 | 31.1 | 23.1 | 19.1 |
| RoE (%) | 41.0 | 34.5 | 29.3 | 22.1 | 26.5 | 28.4 |

Source: Company, HSIE Research,

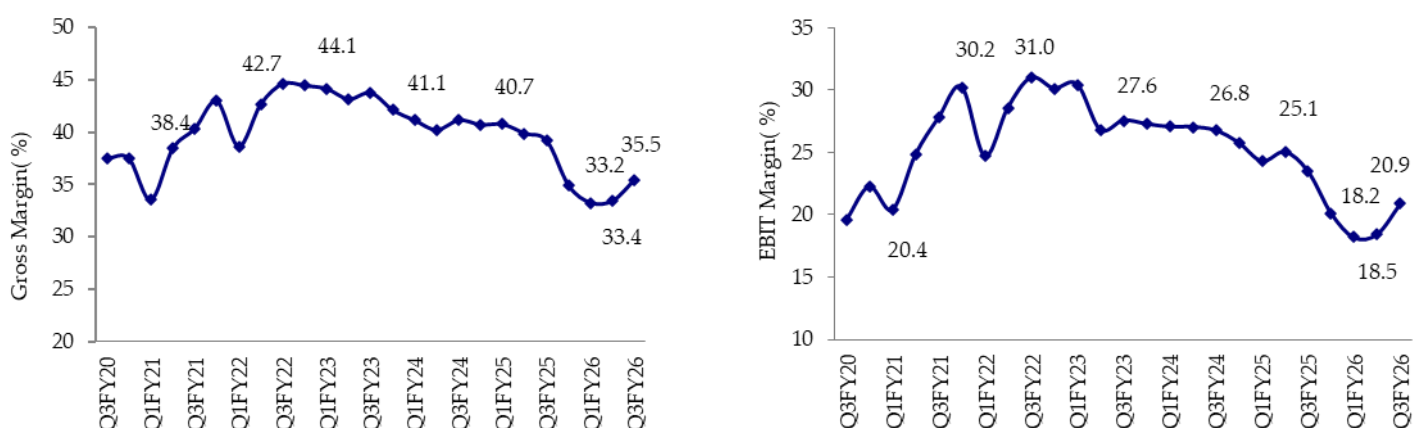
Tata Elxsi: Company Update

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



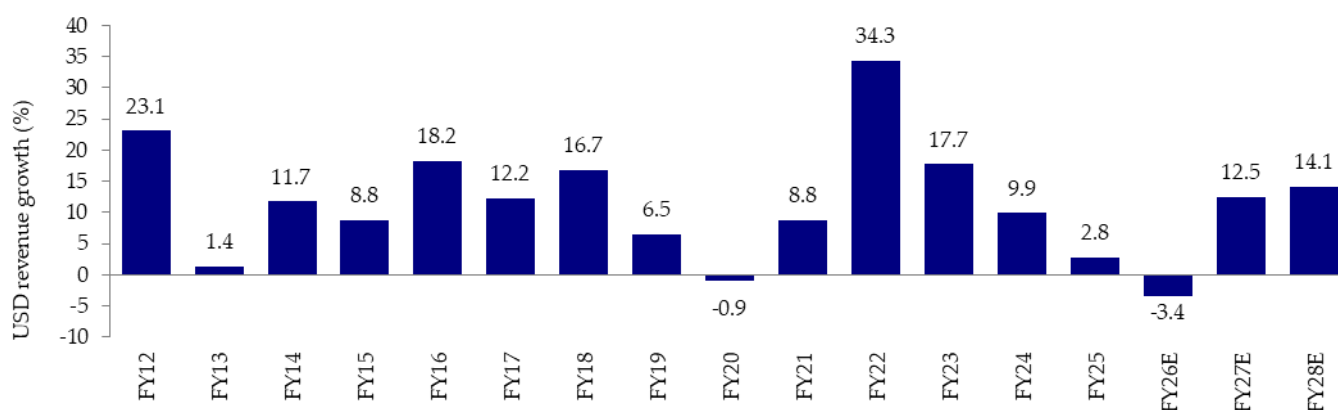
Source: Company, HSIE Research

Exhibit 2: Sequential EBIT margin improvement led by gross margin expansion



Source: Company, HSIE Research

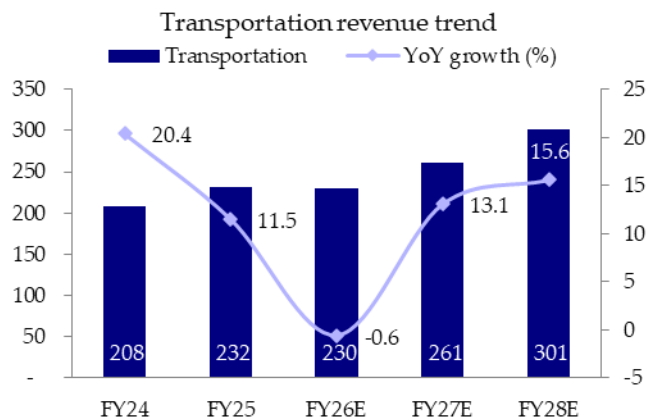
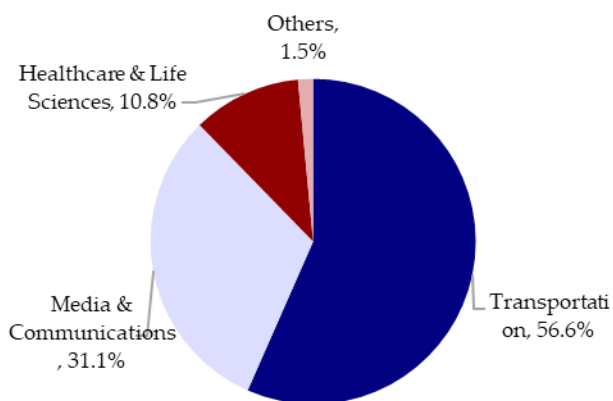
Exhibit 3: Annual revenue growth trend



Source: Company, HSIE Research

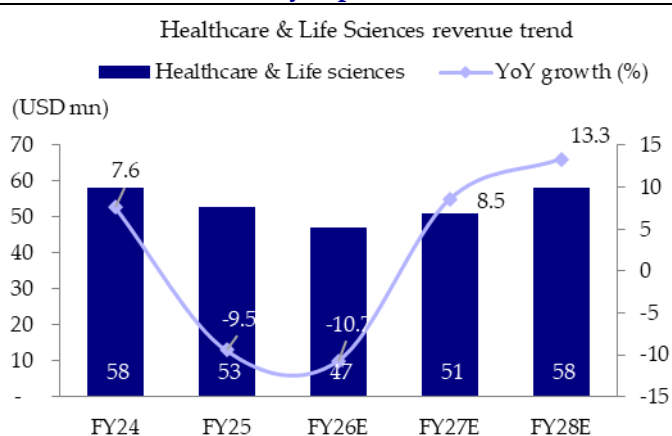
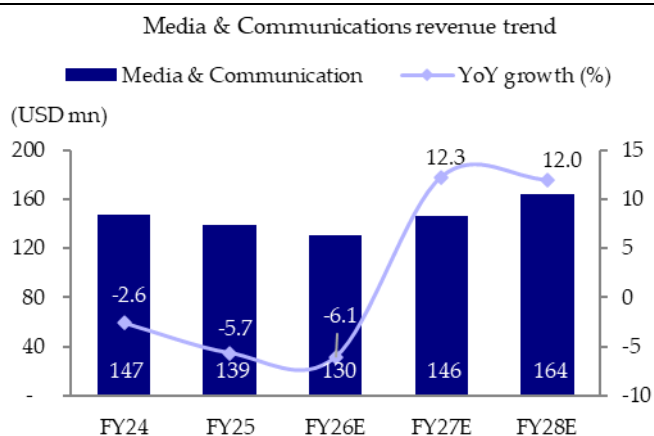
Tata Elxsi: Company Update

Exhibit 4: SDS revenue mix (Q3FY26) and transportation vertical revenue growth trend



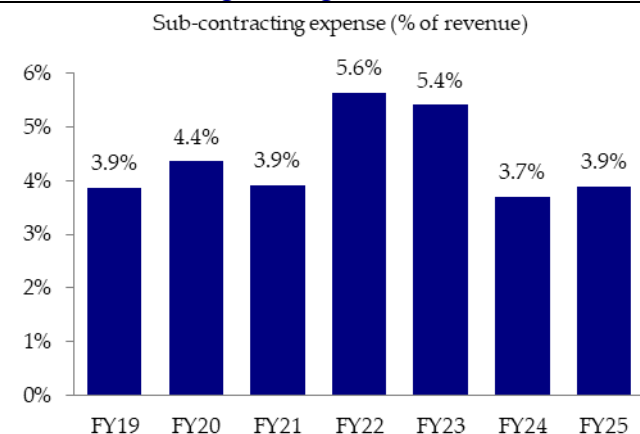
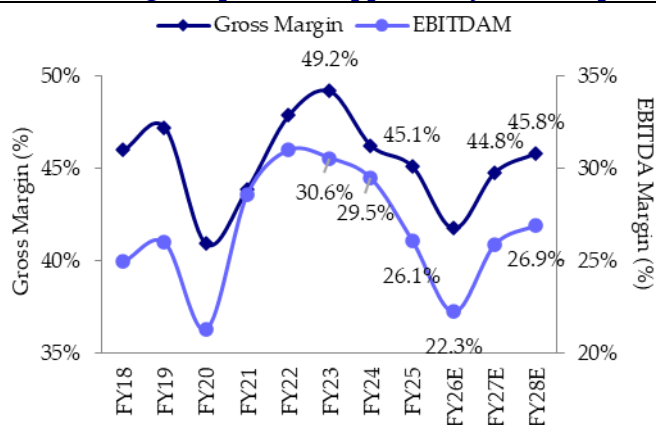
Source: Company, HSIE Research

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



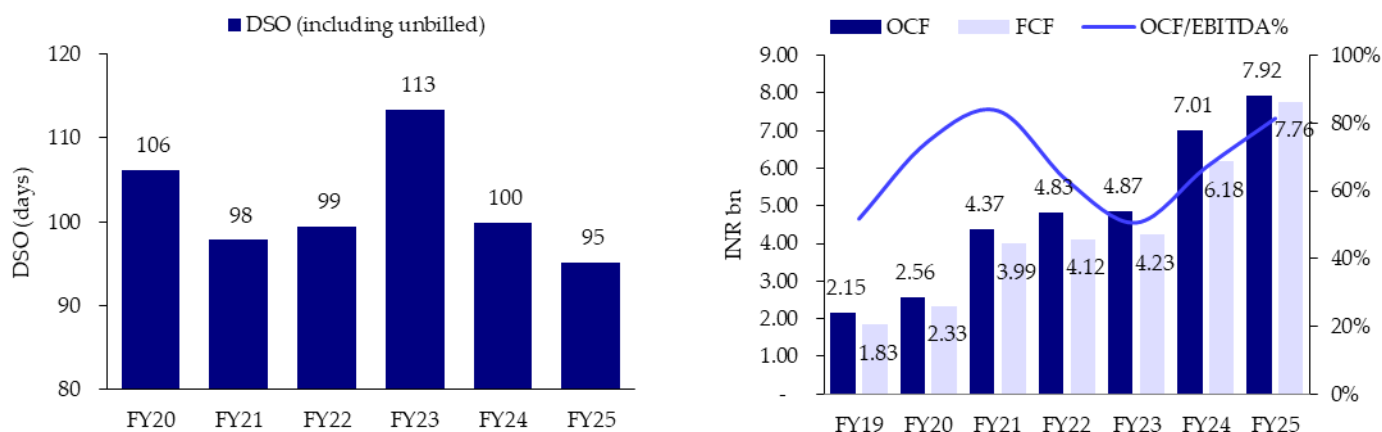
Source: Company, HSIE Research

Exhibit 6: Margin expansion supported by lower dependence on sub-contracting and high offshore



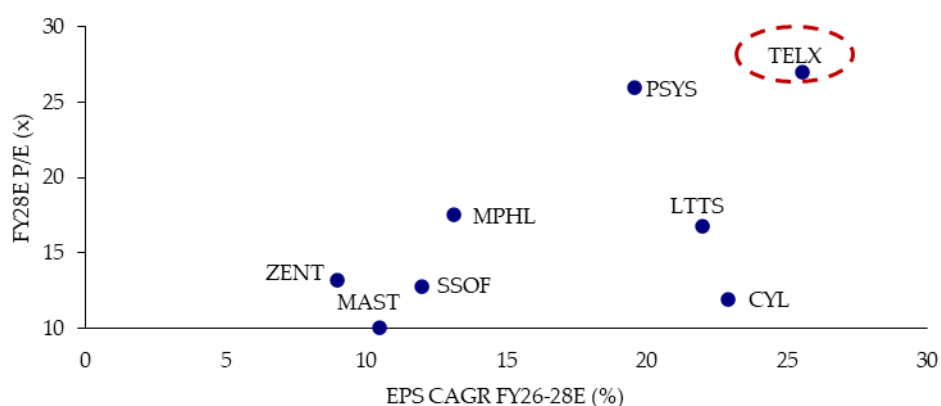
Source: Company, HSIE Research

Exhibit 7: Improvement in cash conversion with normalization in DSO



Source: Company, HSIE Research

Exhibit 8: Earnings growth and PE grid



Source: Bloomberg, HSIE Research,

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) | 427 | 426 | (0.3) | 495 | 47 | (3.4) | 573 | 546 | (4.6) |
| Revenue | 37.53 | 37.41 | (0.3) | 44.34 | 42.8 | (3.4) | 51.84 | 49.44 | (4.6) |
| EBIT | 7.46 | 7.37 | (1.2) | 10.83 | 10.0 | (7.5) | 13.20 | 12.08 | (8.4) |
| EBIT margin (%) | 19.9 | 19.7 | -19bps | 24.4 | 23. | -103bps | 25.5 | 24.4 | -102bps |
| APAT | 6.66 | 6.59 | (1.0) | 9.28 | 8.6 | (6.4) | 11.22 | 10.39 | (7.4) |
| EPS (INR) | 107.0 | 105.9 | (1.0) | 149.0 | 139. | (6.4) | 180.2 | 166.9 | (7.4) |

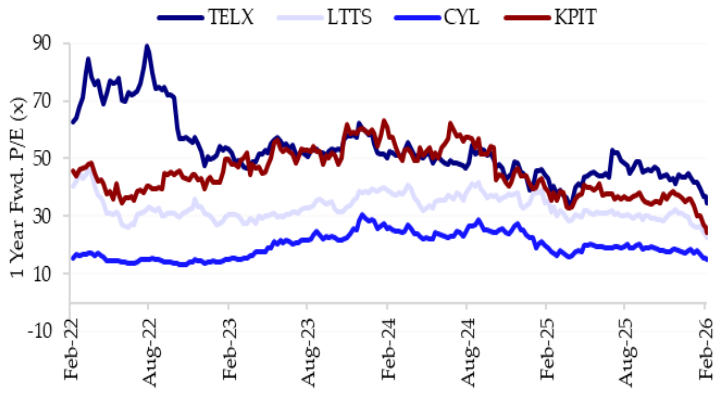
Source: HSIE Research

Exhibit 10: Revenue growth assumptions

| Revenue (USD mn) | FY24 | FY25 | FY26E | FY27E | FY28E | CAGR (FY25-FY28E) |
|----------------------------|------------|------------|------------|------------|------------|-------------------|
| SDS revenue | | | | | | |
| Transportation | 208 | 232 | 230 | 261 | 301 | 9.1 |
| YoY growth (%) | 20.4 | 11.5 | -0.6 | 13.1 | 15.6 | |
| Media & Communication | 147 | 139 | 130 | 146 | 164 | 5.7 |
| YoY growth (%) | -2.6 | -5.7 | -6.1 | 12.3 | 12.0 | |
| Healthcare & Life sciences | 58 | 53 | 47 | 51 | 58 | 3.2 |
| YoY growth (%) | 7.6 | -9.5 | -10.7 | 8.5 | 13.3 | |
| Others Revenue | 3 | 4 | 5 | 7 | 8 | 24.5 |
| YoY growth (%) | 2.9 | 18.1 | 37.5 | 26.9 | 10.7 | |
| Total (SDS) | 417 | 427 | 413 | 465 | 531 | 7.5 |
| YoY growth (%) | 9.3 | 2.6 | -3.3 | 12.5 | 14.1 | |
| SIS | 12 | 13 | 12 | 14 | 16 | 5.6 |
| YoY growth (%) | 16.9 | 16.9 | 16.9 | 16.9 | 16.9 | |
| Total Revenue | 429 | 441 | 425 | 479 | 546 | 7.4 |
| YoY growth (%) | 9.9 | 2.8 | -3.5 | 12.5 | 14.1 | |

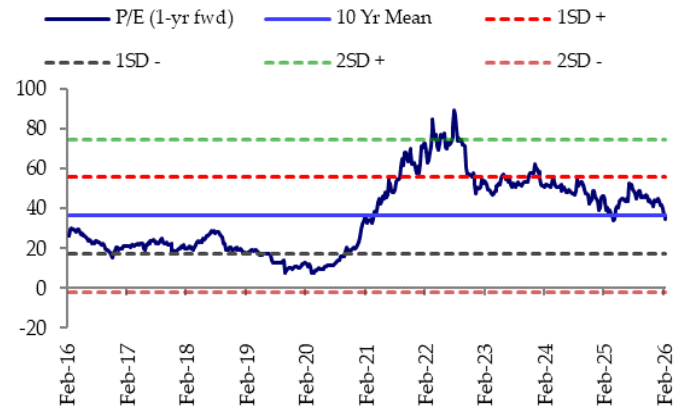
Source: HSIE Research

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 | 426 | 479 | 546 |
| <i>Growth (%)</i> | 17.7% | 9.9% | 2.8% | -3.4% | 12.5% | 14.1% |
| Net Revenues | 31.45 | 35.52 | 37.29 | 37.41 | 42.84 | 49.44 |
| <i>Growth (%)</i> | 27.3% | 13.0% | 5.0% | 0.3% | 14.5% | 15.4% |
| Employee Expenses | 15.98 | 19.10 | 20.46 | 21.79 | 23.65 | 26.78 |
| SG&A Expenses | 5.86 | 5.96 | 7.10 | 7.30 | 8.10 | 9.34 |
| EBITDA | 9.61 | 10.46 | 9.73 | 8.33 | 11.09 | 13.32 |
| <i>EBITDA Margin (%)</i> | <i>30.6%</i> | <i>29.5%</i> | <i>26.1%</i> | <i>22.3%</i> | <i>25.9%</i> | <i>26.9%</i> |
| <i>EBITDA Growth (%)</i> | <i>25.5%</i> | <i>8.9%</i> | <i>-7.0%</i> | <i>-14.4%</i> | <i>33.2%</i> | <i>20.1%</i> |
| Depreciation | 0.81 | 0.99 | 1.05 | 0.96 | 1.07 | 1.24 |
| EBIT | 8.80 | 9.47 | 8.68 | 7.37 | 10.02 | 12.08 |
| Other Income (Including EO Items) | 0.74 | 1.22 | 1.60 | 1.73 | 1.85 | 2.10 |
| Interest | 0.16 | 0.20 | 0.19 | 0.16 | 0.14 | 0.14 |
| PBT | 9.38 | 10.49 | 10.09 | 8.94 | 11.73 | 14.05 |
| Tax (Incl Deferred) | 1.82 | 2.56 | 2.43 | 2.12 | 3.05 | 3.65 |
| RPAT | 7.55 | 7.92 | 7.65 | 5.87 | 8.68 | 10.39 |
| APAT | 7.55 | 7.92 | 7.85 | 6.59 | 8.68 | 10.39 |
| <i>APAT Growth (%)</i> | <i>37.4%</i> | <i>4.9%</i> | <i>-0.9%</i> | <i>-16.0%</i> | <i>31.6%</i> | <i>19.8%</i> |
| Adjusted EPS (INR) | 121.3 | 127.2 | 126.0 | 105.9 | 139.3 | 166.9 |
| <i>EPS Growth (%)</i> | <i>37.4%</i> | <i>4.9%</i> | <i>-0.9%</i> | <i>-16.0%</i> | <i>31.6%</i> | <i>19.8%</i> |

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 | 30.35 | 33.87 | 38.08 |
| Total Shareholders' Funds | 20.86 | 25.06 | 28.60 | 30.98 | 34.49 | 38.70 |
| 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 | 32.56 | 36.08 | 40.29 |
| APPLICATION OF FUNDS | | | | | | |
| Net Block | 3.17 | 3.83 | 3.09 | 3.63 | 4.01 | 4.45 |
| Goodwill & intangibles | 0.16 | 0.13 | 0.09 | 0.12 | 0.14 | 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 | 4.50 | 4.89 | 5.35 |
| Debtors | 9.76 | 9.72 | 9.72 | 9.75 | 11.16 | 12.88 |
| Other Current Assets | 1.45 | 2.07 | 2.20 | 2.20 | 2.52 | 2.90 |
| Cash & Equivalents | 12.34 | 15.09 | 19.65 | 21.42 | 23.39 | 25.72 |
| Total Current Assets | 23.55 | 26.89 | 31.56 | 33.37 | 37.06 | 41.50 |
| Creditors | 1.03 | 0.86 | 1.23 | 1.23 | 1.41 | 1.63 |
| Other Current Liabilities & Prov. | 3.75 | 3.60 | 4.07 | 4.08 | 4.46 | 4.94 |
| Total Current Liabilities | 4.79 | 4.46 | 5.30 | 5.31 | 5.88 | 6.57 |
| Net Current Assets | 18.77 | 22.43 | 26.26 | 28.06 | 31.19 | 34.93 |
| TOTAL APPLICATION OF FUNDS | 22.72 | 27.17 | 30.18 | 32.56 | 36.08 | 40.29 |

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 | 8.94 | 11.73 | 14.05 |
| Non-operating & EO items | (0.54) | (0.74) | (0.92) | (1.73) | (1.85) | (2.10) |
| Interest expenses | 0.16 | 0.20 | 0.19 | 0.16 | 0.14 | 0.14 |
| Depreciation | 0.81 | 0.99 | 1.05 | 0.96 | 1.07 | 1.24 |
| Working Capital Change | (3.10) | (1.35) | (0.24) | (0.03) | (1.16) | (1.41) |
| Tax Paid | (1.85) | (2.58) | (2.24) | (2.12) | (3.05) | (3.65) |
| OPERATING CASH FLOW (a) | 4.87 | 7.01 | 7.92 | 6.18 | 6.88 | 8.25 |
| Capex | (0.64) | (0.83) | (0.16) | (1.54) | (1.46) | (1.70) |
| Free cash flow (FCF) | 4.23 | 6.18 | 7.76 | 4.64 | 5.42 | 6.56 |
| INVESTING CASH FLOW (b) | (2.02) | (2.70) | (3.08) | 0.19 | 0.39 | 0.41 |
| Interest Expenses | (0.16) | (0.20) | (0.19) | (0.16) | (0.14) | (0.14) |
| FCFE | 4.07 | 5.98 | 7.57 | 4.49 | 5.28 | 6.42 |
| Dividend | (2.65) | (3.78) | (4.37) | (3.49) | (5.16) | (6.18) |
| FINANCING CASH FLOW (c) | (2.81) | (3.98) | (4.56) | (3.65) | (5.30) | (6.32) |
| NET CASH FLOW (a+b+c) | 0.03 | 0.33 | 0.28 | 2.73 | 1.97 | 2.34 |
| Closing Cash & Equivalents | 12.34 | 15.09 | 19.65 | 21.42 | 23.39 | 25.72 |

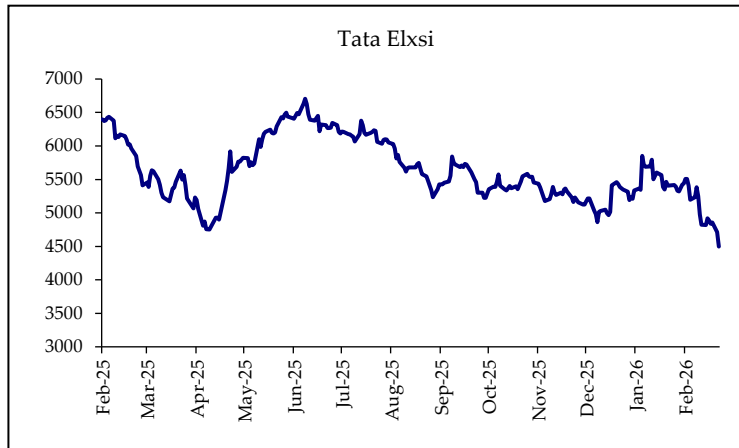
Source: Company, HSIE Research

Key ratios

| | FY23 | FY24 | FY25 | FY26E | FY27E | FY28E |
|------------------------------------|-------|-------|-------|-------|-------|-------|
| PROFITABILITY (%) | | | | | | |
| GPM | 49.2 | 46.2 | 45.1 | 41.8 | 44.8 | 45.8 |
| EBITDA Margin | 30.6 | 29.5 | 26.1 | 22.3 | 25.9 | 26.9 |
| APAT Margin | 24.0 | 22.3 | 21.0 | 17.6 | 20.3 | 21.0 |
| RoE | 41.0 | 34.5 | 29.3 | 22.1 | 26.5 | 28.4 |
| RoIC (or Core RoCE) | 83.0 | 63.7 | 58.2 | 51.9 | 62.2 | 65.6 |
| RoCE | 38.2 | 32.4 | 27.9 | 21.4 | 25.6 | 27.5 |
| EFFICIENCY | | | | | | |
| Tax Rate (%) | 19.4 | 24.5 | 24.1 | 23.7 | 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 | 66 | 68 |
| 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 | 47 | 71 | 86 |
| PER SHARE DATA (INR) | | | | | | |
| EPS | 121.3 | 127.2 | 126.0 | 105.9 | 139.3 | 166.9 |
| CEPS | 134 | 143 | 143 | 121 | 157 | 187 |
| Dividend | 61 | 70 | 75 | 56 | 83 | 99 |
| Book Value | 335 | 402 | 459 | 497 | 554 | 621 |
| VALUATION | | | | | | |
| P/E (x) | 37.1 | 35.4 | 35.7 | 42.5 | 32.3 | 26.9 |
| P/BV (x) | 13.4 | 11.2 | 9.8 | 9.0 | 8.1 | 7.2 |
| EV/EBITDA (x) | 27.9 | 25.3 | 26.8 | 31.1 | 23.1 | 19.1 |
| OCF/EV (%) | 1.8 | 2.6 | 3.0 | 2.4 | 2.7 | 3.2 |
| FCF/EV (%) | 1.6 | 2.3 | 3.0 | 1.8 | 2.1 | 2.6 |
| FCFE/Mkt Cap (%) | 1.5 | 2.1 | 2.7 | 1.6 | 1.9 | 2.3 |
| Dividend Yield (%) | 1.3 | 1.6 | 1.7 | 1.2 | 1.8 | 2.2 |

Source: Company, HSIE Research

Price History



Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

We, **Vinesh Vala, MBA, Amit Chandra, MBA & Maitreyee Vaishampayan, MSc** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC Securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com