

Strong Q3; valuation appears full

14 January 2026

Tata Elxsi (TELX IN) reported better-than-expected Q3, on revenue and margin fronts. Revenue growth was driven by the transportation vertical, which accelerated given some delayed deals materializing in Q3 (spill-over from Q2). TELX is aiming for double-digit growth in transportation and healthcare in FY27. We believe that double-digit growth in transportation is achievable, considering some of the recent deal wins as well as uptick in growth for its top client. However, double-digit growth in healthcare looks challenging, in our view, considering its continued weak performance. We maintain SELL with a higher TP of INR 4,520, on 30x FY28E P/E.

Sequential revenue growth led by deal ramp-ups: TELX reported revenue growth of 1.7% QoQ in USD (+3.2 QoQ in CC), while revenue declined 3.8% YoY in USD (-5.5% in YoY CC) in Q3. In INR terms, revenue was up 3.9% QoQ, supported by currency depreciation. **Geography-wise** growth was led by recovery in Europe, up 5.8% YoY after three quarters of decline. Americas continued with uptrend, growing 5.1% in Q3FY26. RoW was up 1.5% YoY, while India market was a drag on growth, declining 12.6% YoY on INR basis.

Vertical-wise and in CC YoY, Software Development & Services (97.2% of revenue) declined 6.0%, while System Integration & Support (2.8% of revenue) reported a growth of 14.8% in YoY CC basis. The SDS vertical was up 3.5% QoQ CC, led by sequential recovery in transportation (+7.2% QoQ CC). Within SDS, Transportation, Media and Communications, Healthcare & Life Sciences continued to report a YoY CC decline in the range of 4.2-12.2%.

EBITDA margin was up 220bps QoQ to 23.3%, primarily led by 200bps benefit from operating leverage and utilization gains, 80-85bps from cost discipline, ~35bps from favorable currency, though partially offset by 110bps impact from wage hikes for junior-to-mid staff. At the PBT level, margins were hit by labor code-related one-off impact of INR 957mn. TELX indicated wage hike headwind for Q4 to be lower than in Q3 and expects further scope to improve utilization from the current ~75% to 80-85% in the long run, helping margins revert to prior peak by the exit of FY27. Labor code impact expected to be immaterial (15-20bps) in Q4.

Maintain SELL with a higher TP of INR 4,520: We raise revenue/earnings estimates for FY26E-28E by 3-4% to reflect strong Q3 and some recovery in FY27E/28E. We build in mid-single digit growth in FY27E for healthcare (against guidance of double-digit growth) as we await growth recovery in subsequent quarters. FY27E earnings may be higher optically due to a low FY26 base and labor code, but we build in steady-state 17% earnings CAGR in FY26E-28E.

We maintain **Sell** with a higher TP of INR 4,520 (from INR 4,390), on 30x FY28E P/E. Planned reduction in products and investments by auto OEMs in the medium term will have a direct bearing on TELX's transportation revenue and revenue growth may unlikely reach prior levels. Due to continued weakness in other two verticals, earnings may be depressed versus prior numbers. After the recent run up, the stock is trading at 45x/38x on FY27E/FY28E and valuations appear full.

Key Financials

YE March	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	35,521	37,290	37,369	41,924	47,376
YoY (%)	13.0	5.0	0.2	12.2	13.0
EBITDA (INR mn)	10,464	9,729	8,362	10,331	12,229
EBITDA margin (%)	29.5	26.1	22.4	24.6	25.8
Adj PAT (INR mn)	7,922	7,849	4,969	8,023	9,379
YoY (%)	4.9	(0.9)	(36.7)	61.4	16.9
Fully DEPS (INR)	127.2	126.0	79.8	128.8	150.6
RoE (%)	34.5	27.4	19.1	23.5	24.7
RoCE (%)	38.4	30.5	23.8	27.5	29.9
P/E (x)	45.6	46.0	72.6	45.0	38.5
EV/EBITDA (x)	33.4	36.0	41.8	33.9	28.6

Note: Pricing as on 13 January 2026; Source: Company, Elara Securities Estimate

Rating: **Sell**Target Price: **INR 4,520**Downside: **22%**CMP: **INR 5,793**

As on 13 January 2026

Key data

Bloomberg	TELX IN
Reuters Code	TTEX.NS
Shares outstanding (mn)	62
Market cap (INR bn/USD mn)	361/4,001
EV (INR bn/USD mn)	350/3,879
ADTV 3M (INR mn/USD mn)	1,803/20
52 week high/low	6,735/4,601
Free float (%)	55

Note: as on 13 January 2026; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q3 FY25	Q4 FY25	Q1 FY26	Q2 FY26
Promoter	43.9	43.9	43.9	43.9
% Pledge	0.0	0.0	0.0	0.0
FII	13.3	12.7	12.7	12.5
DII	7.5	8.5	9.8	10.4
Others	35.3	34.8	33.6	33.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	2.0	2.3	11.5
Tata Elxsi	8.2	(4.5)	(2.5)
NSE Mid-cap	1.2	1.7	12.2
NSE Small-cap	(5.0)	(8.2)	0.3

Source: Bloomberg

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Financials (YE March)

Income Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Total Revenue	35,521	37,290	37,369	41,924	47,376
Gross Profit	14,492	14,429	12,918	15,165	17,553
EBITDA	10,464	9,729	8,362	10,331	12,229
EBIT	9,470	8,681	7,430	9,353	11,203
Interest expense	203	190	169	208	215
Other income	1,220	1,793	1,730	1,552	1,517
Exceptional/ Extra-ordinary items	-	-	957	-	-
PBT	10,487	10,284	8,034	10,697	12,505
Tax	2,564	2,435	2,108	2,674	3,126
Reported PAT	7,922	7,849	5,926	8,023	9,379
Adjusted PAT	7,922	7,849	4,969	8,023	9,379
Balance Sheet (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Shareholders' Equity	25,057	28,600	30,970	34,179	37,931
Trade Payables	856	1,230	1,233	1,383	1,563
Provisions & Other Current Liabilities	3,603	4,067	4,117	4,167	4,217
Total Borrowings	1,812	1,393	1,393	1,393	1,393
Other long term liabilities	542	568	568	568	568
Total liabilities & equity	31,870	35,857	38,280	41,690	45,671
Net Fixed Assets	3,847	3,108	2,961	2,772	2,539
Goodwill	-	-	-	-	-
Intangible assets	134	88	203	315	423
Business Investments / other NC assets	2,521	4,686	4,686	4,686	4,686
Cash, Bank Balances & treasury investments	13,571	16,064	18,258	20,354	22,834
Inventories	11	-	-	-	-
Sundry Debtors	9,716	9,715	9,776	10,968	12,394
Other Current Assets	2,069	2,196	2,396	2,596	2,796
Total Assets	31,870	35,857	38,280	41,690	45,671
Cash Flow Statement	FY24	FY25	FY26E	FY27E	FY28E
Cashflow from Operations	7,012	8,120	4,920	6,257	7,491
Capital expenditure	(830)	(163)	(900)	(900)	(900)
Acquisitions / divestitures	0	2	-	-	-
Other Business cashflow	(1,871)	(2,921)	1,730	1,552	1,517
Free Cash Flow	6,182	7,956	4,020	5,357	6,591
Cashflow from Financing	(4,278)	(4,986)	(3,556)	(4,814)	(5,627)
Net Change in Cash / treasury investments	1,655	2,493	2,194	2,095	2,481
Key assumptions & Ratios	FY24	FY25	FY26E	FY27E	FY28E
Dividend per share (INR)	70.0	75.0	57.1	77.3	90.3
Book value per share (INR)	402.2	459.1	497.2	548.7	608.9
RoCE (Pre-tax) (%)	38.4	30.5	23.8	27.5	29.9
ROIC (Pre-tax) (%)	79.7	63.8	53.0	63.8	70.7
ROE (%)	34.5	27.4	19.1	23.5	24.7
Asset Turnover (x)	10.0	10.7	12.3	14.6	17.8
Net Debt to Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)
Net Debt to EBITDA (x)	(1.1)	(1.5)	(2.0)	(1.8)	(1.8)
Interest cover (x) (EBITDA/ int exp)	51.6	51.3	49.4	49.7	56.8
Total Working capital days (WC/rev)	92.7	80.3	79.7	84.3	84.2
Valuation	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	45.6	46.0	72.6	45.0	38.5
P/Sales (x)	10.2	9.7	9.7	8.6	7.6
EV/ EBITDA (x)	33.4	36.0	41.8	33.9	28.6
EV/ OCF (x)	49.9	43.1	71.1	55.9	46.7
FCF Yield	1.9	2.4	1.5	1.6	2.0
Price to BV (x)	14.4	12.6	11.7	10.6	9.5
Dividend yield (%)	1.3	1.4	1.1	1.4	1.6

Note: Pricing as on 13 January 2026; Source: Company, Elara Securities Estimate

Exhibit 1: Quarterly financials

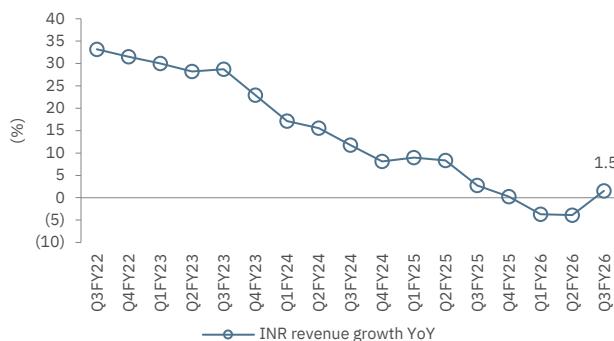
INR mn	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Q3FY26E	Variance (%)
Revenues (USD mn)	107	111	(3.8)	105	1.7	109	(1.8)
Revenue (INR mn)	9,535	9,392	1.5	9,181	3.9	9,505	0.3
Operating expenditure	7,312	6,926	5.6	7,248	0.9	7,466	(2.1)
Staff cost	5,490	5,152	6.6	5,388	1.9	5,496	(0.1)
Other expenses	1,822	1,773	2.8	1,860	(2.0)	1,970	(7.5)
EBITDA	2,222	2,466	(9.9)	1,933	15.0	2,039	9.0
Depreciation	228	260	(12.2)	234	(2.7)	241	(5.5)
EBIT	1,994	2,206	(9.6)	1,699	17.4	1,797	11.0
EBIT margin (%)	20.9	23.5	-260 bps	18.5	240 bps	18.9	200 bps
Net other income and exceptional items	(532)	352	(251.0)	448	(218.6)	475	(211.9)
PBT	1,463	2,558	(42.8)	2,147	(31.9)	2,272	(35.6)
Total tax	374	568	(34.2)	599	(37.6)	568	(34.2)
PAT	1,089	1,990	(45.3)	1,548	(29.7)	1,704	(36.1)
EPS (INR)	17.5	31.9	(45.3)	24.9	(29.7)	27.4	(36.1)

Source: Company, Elara Securities Estimate

Conference call highlights

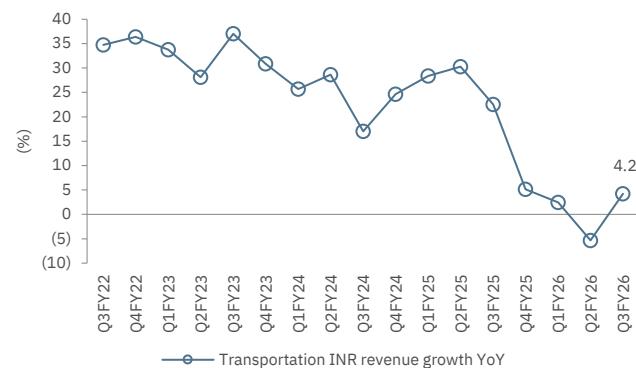
- ▶ **Outlook:** Despite persistent macro headwinds across key geographies and slow client decision-making, clients are willing to spend on compelling value propositions. Management expects continued momentum in transportation, supported by top account returning to peak run-rate, and ramp-ups in new deals, while media and healthcare may recover starting Q4FY26 with new deal closures and AI-led solutions. For FY27, the aspiration for double-digit growth across transportation and healthcare was reiterated, supported by strong deal pipelines and diversification into off-highway and adjacency segment.
- ▶ **Transportation:** Transportation growth was driven by ramp-ups in SDV programs and normalization of work streams with anchor client, though the anchor client has still not returned to its previous revenue run rate. Management noted that it may take one to two more quarters for full recovery. Significant ramp-ups in large deals occurred in Q3 and late Q2, reaching a steady state. Ramp-ups are concentrated in the top five to ten accounts across geographies, reducing dependency on any single region. TELX is seeing increasing traction in SDV-led deals, electrification, and ADAS initiatives. TELX's proprietary SDV suite, Avenir, is gaining traction, alongside opportunities in connected car platforms.
- ▶ **Focus on adjacencies:** Defence and aerospace are emerging as focus areas, driven by new technologies such as UAVs and electrification. Tata Elxsi is building capabilities to capture opportunities in India and globally, despite challenges such as compliance requirements. Management anticipates sustained momentum in transportation in FY27, supported by diversification into off-road and adjacency businesses. In non-passenger vehicle transportation (off-highway, rail), the company aims to grow from the current 7-8% share to 20% of transportation revenue within 2-3 years.
- ▶ **Media & communication and Healthcare:** Media and communication is expected to recover in Q4, aided by large deal ramp-ups and new bids in progress. TELX noted that Healthcare, which faced a slowdown due to regulatory program run-off, has bottomed out in the quarter, and is poised for a turnaround from Q4, driven by AI-enabled solutions. Both verticals are strategic priorities for FY27, with management optimistic about mid-term growth.
- ▶ **Hiring outlook:** The company is focused on improving utilization before initiating large-scale hiring. Selective recruitment for niche skills will continue, while broader hiring is expected in one to two quarters. TELX is shifting from a linear headcount revenue model to one emphasizing productivity gains through AI and automation, aiming for sustainable growth without proportional increases in workforce size.

Exhibit 2: INR revenue growth driven by transport vertical



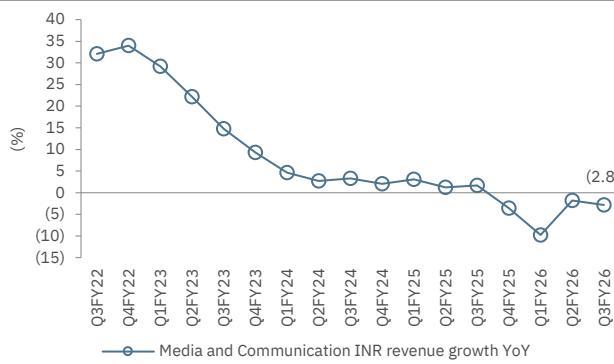
Source: Company, Elara Securities Research

Exhibit 3: Transportation led by delayed project ramp-ups materializing



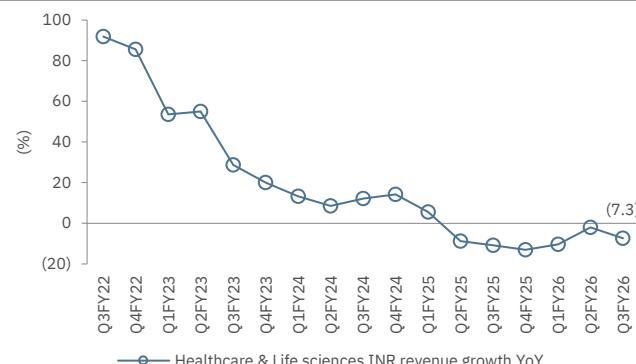
Source: Company, Elara Securities Research

Exhibit 4: M&C impacted by furloughs and delayed deal ramp-ups



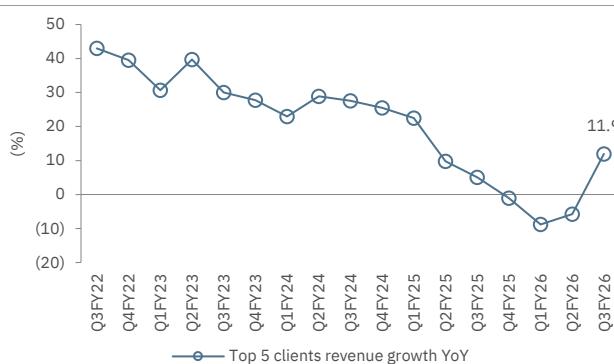
Source: Company, Elara Securities Research

Exhibit 5: HLS vertical has bottomed out in Q3FY26



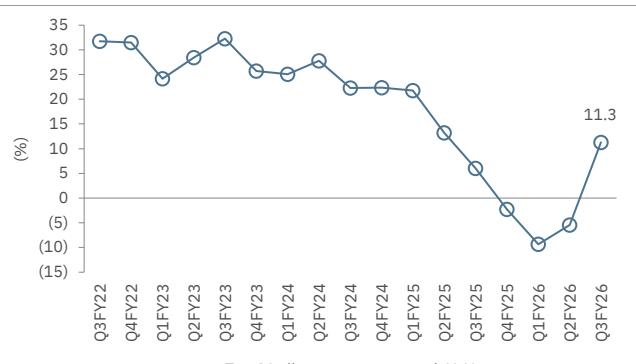
Source: Company, Elara Securities Research

Exhibit 6: Top-five clients – Revenue growth led by anchor client



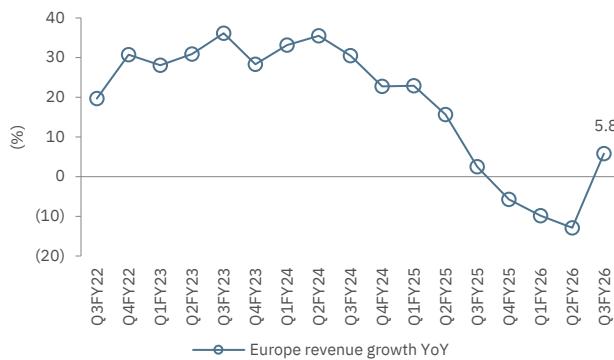
Source: Company, Elara Securities Research

Exhibit 7: Top-10 clients – Revenue growth led by deal ramp-ups



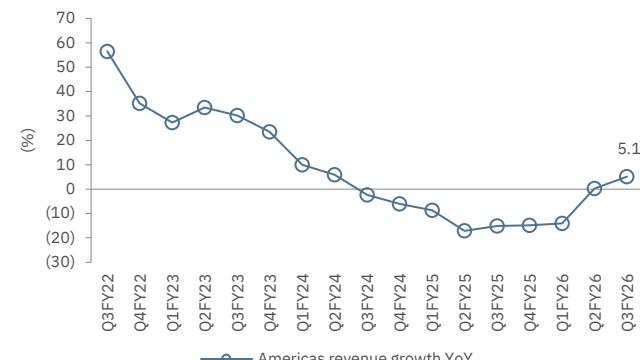
Source: Company, Elara Securities Research

Exhibit 8: Growth in Europe accelerating



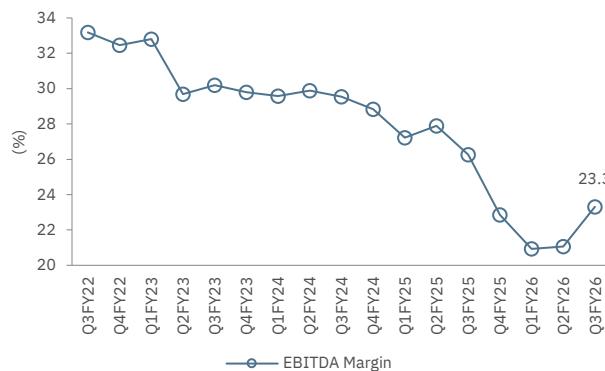
Source: Company, Elara Securities Research

Exhibit 9: Gradual recovery in Americas vertical



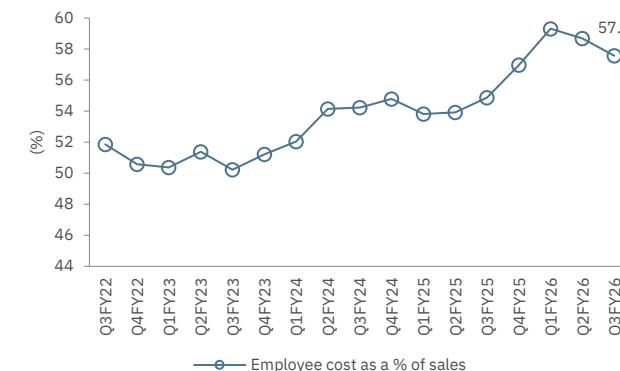
Source: Company, Elara Securities Research

Exhibit 10: EBITDA margin up 220bps QoQ



Source: Company, Elara Securities Research

Exhibit 11: Employee costs down ~110bps sequentially



Source: Company, Elara Securities Research

Exhibit 12: Other expenditure, as a percentage of sales, down 30bps QoQ



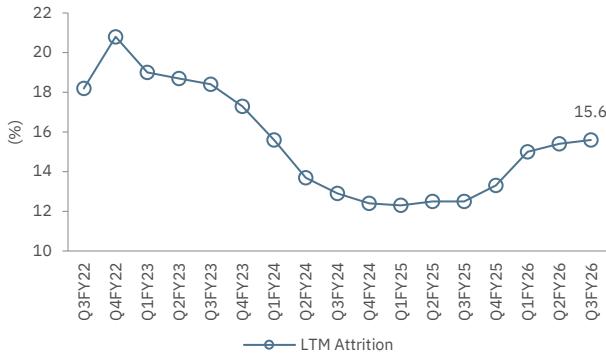
Source: Company, Elara Securities Research

Exhibit 13: Fixed price mix (%) contracted 190bps QoQ



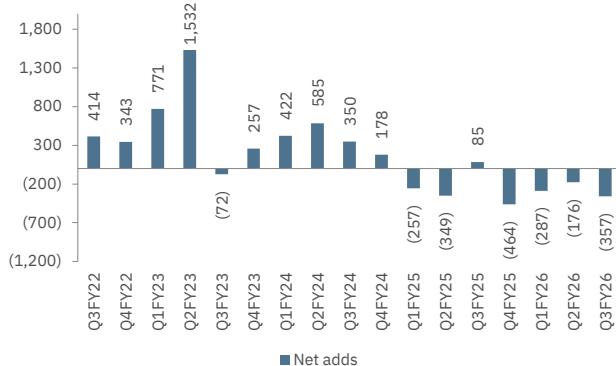
Source: Company, Elara Securities Research

Exhibit 14: LTM attrition up 20bps QoQ



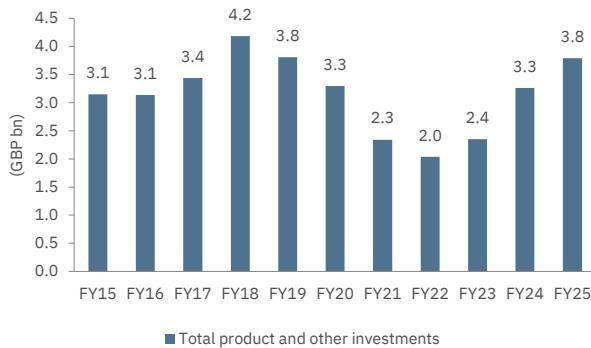
Source: Company, Elara Securities Research

Exhibit 15: Net employee additions continue to remain negative



Source: Company, Elara Securities Research

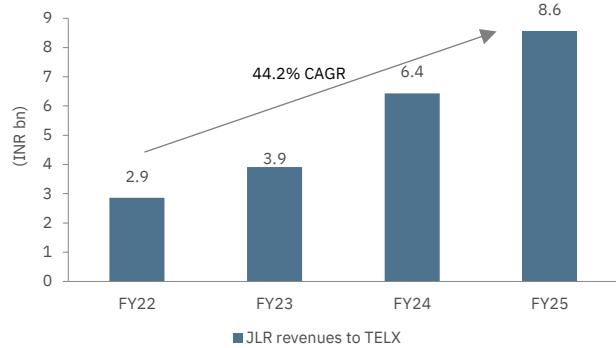
Exhibit 16: JLR – Investment spend CAGR of 23% in FY22-25



■ Total product and other investments

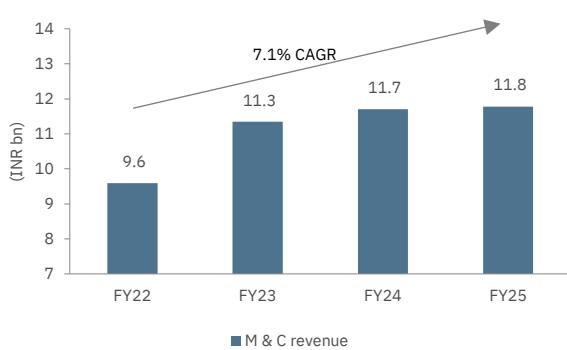
Source: Company, Elara Securities Research

Exhibit 17: JLR – Revenue to TELX grew at 44% CAGR in FY22-25



Source: Company, Elara Securities Research

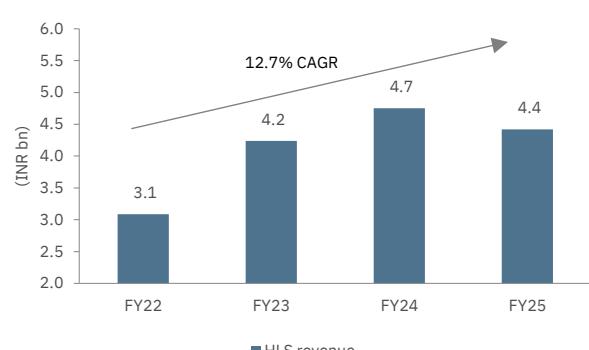
Exhibit 18: M&C – Revenue CAGR of 7.1% in FY22-25



■ M & C revenue

Source: Company, Elara Securities Research

Exhibit 19: HLS – Revenue CAGR of 12.7% in FY22-25

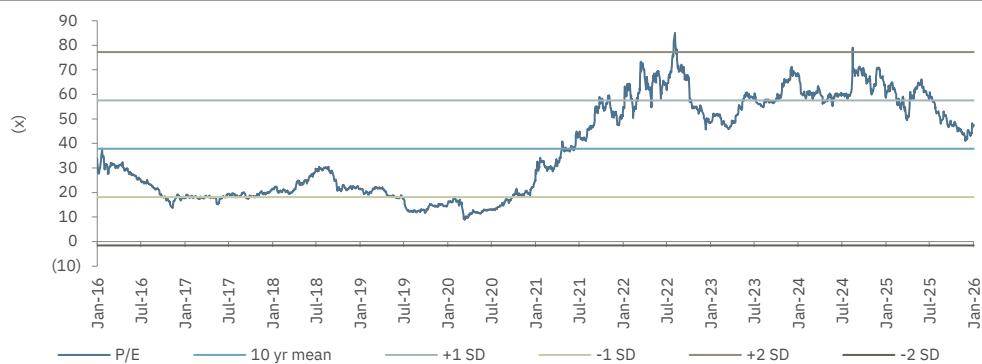


Source: Company, Elara Securities Research

Exhibit 20: Valuation (FY28E)

(INR)	
Current trailing twelve months (TTM) EPS	93.2
Current market price (CMP)	5793
Target EPS	150.6
Target multiple (x)	30
Target price (per share)	4,520
Downside (%)	22.0

Note: Pricing as on 13 January 2026; Source: Elara Securities Estimate

Exhibit 21: Trading at one-year forward P/E of 47.6x versus 10 year mean level of 37.8x

Note: Pricing as on 13 January 2026; Source: NSE, Company, Elara Securities Estimate

Exhibit 22: Change in estimates

(INR mn)	Earlier estimates			Revised estimates			% change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue (INR mn)	36,897	40,697	45,622	37,369	41,924	47,376	1.3	3.0	3.8
EBIT	7,285	8,890	10,815	7,430	9,353	11,203	2.0	5.2	3.6
EBIT margin (%)	19.7	21.8	23.7	19.9	22.3	23.6	10 bps	50 bps	-10 bps
PAT	6,472	7,697	9,109	5,926	8,023	9,379	(8.4)	4.2	3.0
EPS (INR)	103.9	123.6	146.3	95.1	128.8	150.6	(8.5)	4.2	2.9
Target price (INR)			4,390			4,520			3.0

Source: Elara Securities Estimate

Key risks

- ▶ Material improvement in client spending is likely to benefit revenue growth;
- ▶ Revenue growth is likely to support margin improvement, driven by operating leverage and
- ▶ Continued higher offshoring

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
30-Sep-2025	Sell	4,390	5,227
13-Jan-2026	Sell	4,520	5,793

Guide to Research Rating

BUY (B) Absolute Return >+20%

ACCUMULATE (A) Absolute Return +5% to +20%

REDUCE (R) Absolute Return -5% to +5%

SELL (S) Absolute Return < -5%

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