DEVEN CHOKSEY RESEARCH

Tata Elxsi Ltd
Q2FY26

Result update

10th Oct 2025

Tata Elxsi Ltd.

Near-term challenges persist despite long-term strengths; growth recovery likely gradual

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 5,573	INR 4,884	(12.4)%	INR 345,526	SELL	Internet Software & Services

Result Highlights

Revenue:

Tata Elxsi's Q2FY26 revenue stood at INR 9,181 Mn. (2.9% QoQ/ -3.9% YoY), broadly in line with our estimates. Growth was led by the US (+7.9% QoQ), while Europe was stable and India muted. The YoY decline was driven by weakness in Transportation and Healthcare due to program completions and deferred OEM spends.

Margins and Profitability:

EBIT at INR 1,699 Mn (+4.6% QoQ / –29.0% YoY) improved sequentially on higher utilization and cost efficiency but declined YoY due to weak topline leverage and elevated employee costs. Consequently, EBIT margin contracted by 655bps YoY (29bps QoQ) to 18.5%. Net profit stood at INR 1,548 Mn. (7.2% QoQ/ -32.5% YoY), while its net margin contracted by 716bps YoY to 16.9% (68bps QoQ).

Vertical Performance:

The Transportation segment declined 9.9% YoY CC (-0.5% QoQ CC), with sequential growth supported by SDV program ramp-ups and new OEM engagements such as Suzuki, though partially offset by a cyber incident at a key auto client. Media & Communications fell 7.6% YoY CC but rose 3.7% QoQ CC, aided by OTT platform ramp-ups and new wins, though H2 growth may moderate given client-side restructuring. Healthcare & Life Sciences declined 7.2% YoY CC (–4.6% QoQ CC) due to the completion of regulatory/MDR programs, but the Bayer radiology centre and pipeline in US/Europe provide recovery visibility. System Integration & Support grew 4.2% YoY CC (+19.8% QoQ CC), driven by AI infra and hybrid workload projects, with positioning further strengthened by Dell's ISG Supplier of the Year recognition.

Demand Drivers:

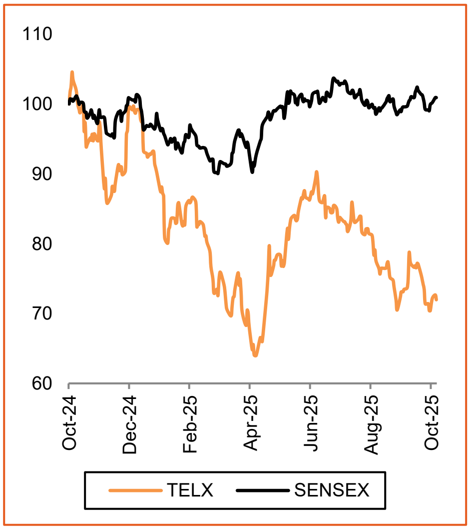
Tata Elxsi's Q2FY26 performance was driven by strategic engagements in next-gen technologies, with management guiding for a stronger H2 and targeting double-digit growth from FY27. Transportation grew modestly, supported by SDV programs, the Suzuki Cloud HIL centre, and the Synopsys partnership, though a cyber incident at a key auto client delayed execution. Media & Communications delivered 6.8% QoQ growth on OTT ramp-ups and new wins, but is likely to moderate in H2 amid client restructuring and M&A.

Valuation and Outlook:

We have revised our FY26E/FY27E EPS estimates by 0.4%/-0.8% as we maintain a cautious near-term outlook, given the temporary impact of the cybersecurity incident, moderation in media and communications growth, and slower recovery in healthcare. However, management expects a better H2 FY26, led by the transportation vertical, improving utilization levels, and margin recovery as project ramp-ups accelerate. EBIT margins are projected to gradually improve through H2, though they may remain below FY25 levels in the near term due to cost normalization and wage revisions.

We value Tata Elxsi at a 37.0x Sep'27 EPS, implying a target price of INR 4,884, as we roll forward our valuation to Q2FY28E. We reiterate our SELL rating on the stock.

SHARE PRICE PERFORMANCE



MARKET DATA

Shares outs (Mn.)	62
Mkt Cap (INR Mn.)	345,526
52-Week H/L (INR)	8,027/4,700

*Based on previous closing
Note: All the market data is as of previous closing

SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-25	Mar-25	Dec-24
Promoters	43.9	43.9	43.9
FIIs	12.7	12.7	13.3
DIIs	9.8	8.5	7.5
Others	33.6	34.9	35.3
Total	100.0	100.0	100.0

5.5%
Revenue CAGR between FY25-27E

-0.5%
Adj. PAT CAGR between FY25-27E

KEY FINANCIALS

INR Millions	FY24	FY25	FY26E	FY27E	FY28E
Revenue	35,521	37,290	37,137	41,491	46,291
EBIT	9,470	8,681	6,967	8,502	9,613
EBIT Margin	26.7%	23.3%	18.8%	20.5%	20.8%
PAT	7,922	7,849	6,397	7,772	8,618
EPS	127.2	126.0	102.7	124.8	138.4

Source: Company, DevenChoksey Research

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Key Concall Highlights:

Transportation to Lead Near-Term Growth

- The transportation vertical, contributing over 53% of Tata Elxsi's revenue, grew 0.7% sequentially in Q2 FY26.Growth was driven by strong deal momentum across SDV programs, electrification (EVs), ADAS, and infotainment/cockpit systems, along with renewed activity in traditional powertrain (ICE) areas.
- During the quarter, the company opened its second engineering center with Suzuki, focused on cloud, hardware, and simulation for SDV development. This multi-year, multi-million-dollar partnership, spanning five to ten years, reinforces Tata Elxsi's position as a strategic automotive engineering partner.
- Geographically, Europe remained the largest market, followed by the US, Japan, and India. While the US core automotive segment remained muted due to regulatory and EV-incentive shifts, adjacent sectors such as aerospace, rail, and off-road showed healthy traction.
- The company's focus has transitioned from Tier-1 suppliers to direct OEM engagements over the past eight quarters. The Tier-1 business has now stabilized, with early signs of recovery. Management expects H2 FY26 to be better than H1, supported by strong order inflows and ongoing project ramp-ups. The transportation business is projected to deliver double-digit growth in FY27, cementing its role as the company's primary growth driver.

Media and Communication: Recovery Underway, Growth to Moderate in Near Term

- The media and communication vertical posted a 6.8% QoQ growth, driven by ramp-ups in large deals and new client additions. A key highlight was the successful launch of MBC Now, a Middle East and Africa-based content super-aggregator powered by Tata Elxsi's proprietary OTT platform, TPlay.
- Despite the sequential recovery, the segment continues to face industry-wide volatility amid ongoing M&A and restructuring among telecom and broadcast players. Management expects growth moderation in H2 FY26 as large deals stabilize.
- The company remains optimistic about the long-term potential of this vertical and continues to enhance its OTT, content aggregation, and network transformation capabilities. While near-term growth will likely soften, management continues to target double-digit growth in FY27, contingent on improved market visibility and renewed digital transformation demand.

Healthcare and Life Sciences

- The healthcare and life sciences vertical recorded a 2.3% sequential decline, primarily due to the completion of large regulatory and MDR programs. To drive future growth, Tata Elxsi launched a dedicated technology center for Bayer Radiology Devices, focused on co-developing advanced diagnostic systems for early disease detection. This multi-year, multi-million-dollar engagement provides revenue visibility for the next three to five years and strengthens the company's position in medical technology innovation. Management noted progress in building a robust pipeline of new clients and deals and strengthening both delivery and sales teams.

Efficiency Improvements to Support Margin Recovery

- Attrition increased marginally for the third consecutive quarter, though management emphasized that the rise is not significant and primarily driven by calculation effects—as overall headcount declines, the percentage-based attrition figure appears higher. The company continues to closely monitor the trend and expects improvement in the second half (H2 FY26) as business growth strengthens and hiring normalizes.
- On operational efficiency, utilization improved from around 66% to over 70% during the quarter. Management aims to reach 75% by the end of FY26 and 80% in FY27. These improvements are expected to enhance productivity, offset cost pressures such as wage hikes, and aid overall margin recovery in the coming quarters.

Other Highlights

- During Q2 FY26, Tata Elxsi was impacted by a cybersecurity incident affecting one of its top automotive clients. As a result, some projects scheduled to begin in September were delayed, temporarily impacting revenue recognition for the quarter.
- Management clarified that if the incident had not occurred, the company would have reported positive constant currency growth in the automotive segment. This indicates that the disruption contributed to the flat to slightly negative CC growth observed in Q2.
- Encouragingly, management noted that discussions with the client have become more positive, signaling recovery in project execution. The company remains confident that the impact is short-lived, with performance expected to normalize from Q3 FY26 onward.
- Additionally, the planned Q3 (October) wage hike for part of the workforce is contingent on continued recovery and confirmation of full client stabilization by the end of the month.

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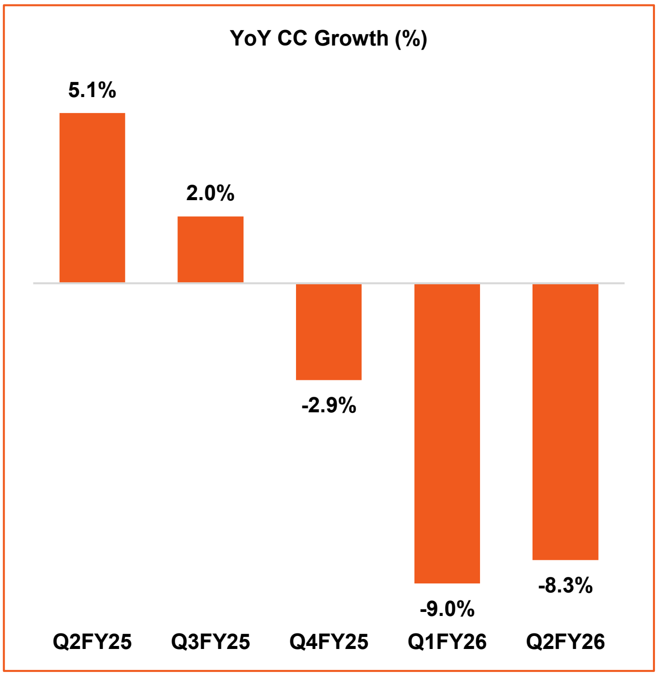
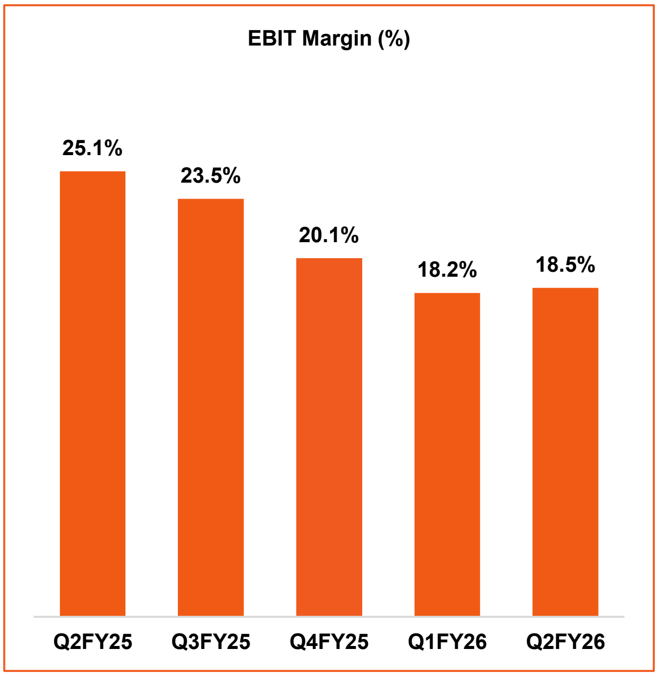
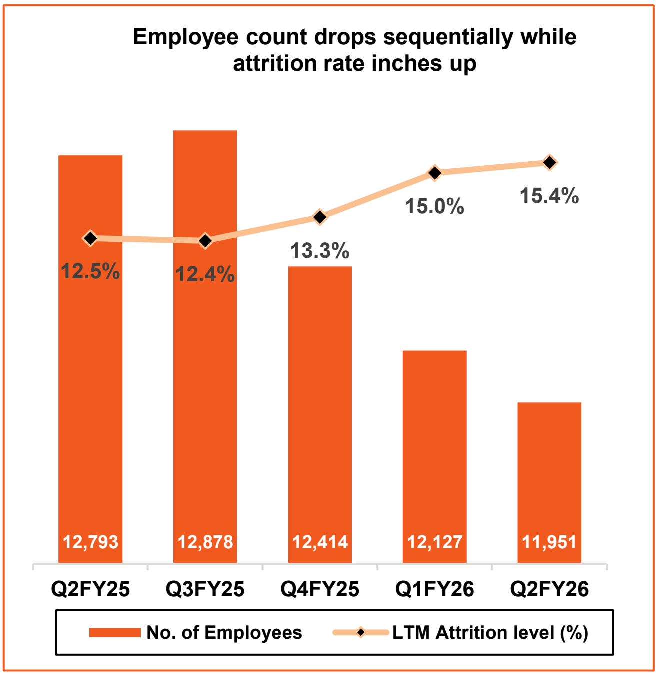
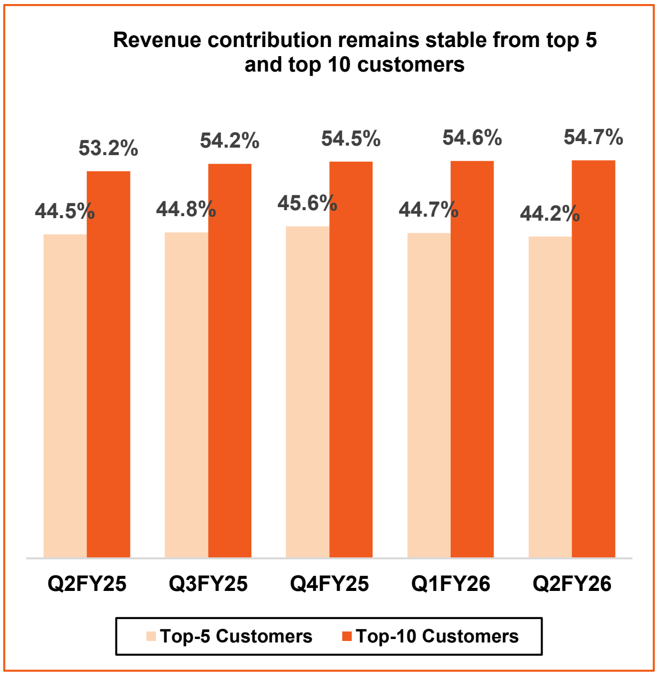
STORY IN CHARTS









Source: Company, DevenChoksey Research

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RESULT SNAPSHOT

Particulars (INR Mn)	Q2FY26	Q1FY26	Q2FY25	QoQ	YoY
Revenue from Operations	9,181	8,921	9,551	2.9%	(3.9%)
Cost of Materials Consumed	724	665	592	8.7%	22.3%
Employee benefits expenses	5,388	5,291	5,151	1.8%	4.6%
Other Expenses	1,136	1,097	1,144	3.6%	(0.7%)
Total Expenses	7,248	7,054	6,887	2.7%	5.2%
EBITDA	**1,933**	**1,867**	**2,664**	**3.5%**	**(27.4%)**
EBITDA margin (%)	**21.1%**	**20.9%**	**27.9%**	**13bps**	**-684bps**
Depreciation and Amortization	234	243	272	(3.4%)	(13.7%)
EBIT	**1,699**	**1,624**	**2,393**	**4.6%**	**(29.0%)**
EBIT margin (%)	**18.5%**	**18.2%**	**25.1%**	**29bps**	**-655bps**
Finance Costs	40	46	48	(11.5%)	(16.7%)
Other Income	489	385	643	27.0%	(24.0%)
Profit before tax	2,147	1,963	2,987	9.4%	(28.1%)
Tax Expense	599	520	693	15.2%	(13.5%)
Net profit	**1,548**	**1,444**	**2,294**	**7.2%**	**(32.5%)**
Net profit (%)	**16.9%**	**16.2%**	**24.0%**	**68bps**	**-716bps**
Diluted EPS (INR)	24.9	23.2	36.8	7.2%	(32.5%)

Source: Company, DevenChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY25	FY26E	FY27E	FY28E
Revenue	37,290	37,137	41,491	46,291
Total Operating expenses	27,561	29,236	31,924	35,319
EBITDA	**9,729**	**7,901**	**9,568**	**10,972**
Depreciation	1,049	934	1,065	1,359
EBIT	**8,681**	**6,967**	**8,502**	**9,613**
Finance Cost & Extra Ordinary- Expense	190	185	204	221
Other income, net	1,793	1,930	2,204	2,254
Pre-tax Income	**10,284**	**8,712**	**10,502**	**11,646**
Income tax expense	2,435	2,315	2,731	3,028
Net profit	**7,849**	**6,397**	**7,772**	**8,618**
Diluted EPS (INR)	126.0	102.7	124.8	138.4

Exhibit 2: Balance Sheet

INR Mn	FY25	FY26E	FY27E	FY28E
Equity Share Capital	623	623	623	623
Other Equity	27,977	30,536	33,644	36,661
Total Equity	**28,600**	**31,158**	**34,267**	**37,283**
Deferred Tax Liability,(Net)	0	0	0	0
Lease Liability	1,393	1,447	1,387	1,376
Long term Provision	568	568	568	568
Total non current liabilities	**1,961**	**2,015**	**1,955**	**1,943**
Trade Payables	1,230	1,354	1,280	1,341
Lease Liability	530	494	474	470
Other Current Liabilities	3,045	3,045	3,045	3,045
Short term Provisions	492	492	492	492
Total Current Liabilities	5,297	5,385	5,291	5,348
Total liabilities	**35,857**	**38,558**	**41,513**	**44,574**
Property Plants and Equipments	1,541	1,871	2,157	2,245
Right of use of Assets	1,551	1,447	1,387	1,376
CWIP	16	16	16	16
Intangible Assets	88	135	192	261
Other current assets	4,686	4,686	4,686	4,686
Total Non-Current Assets	**7,882**	**8,155**	**8,438**	**8,583**
Current Assets				
Trade Receivables	9,715	9,675	10,810	12,060
Cash and Cash Equivalent	1,353	3,821	5,359	7,024
Bank Balance	14,711	14,711	14,711	14,711
Oher current assets	2,196	2,196	2,196	2,196
Total Current Assets	**27,975**	**30,404**	**33,076**	**35,992**
Total Assets	**35,857**	**38,558**	**41,513**	**44,574**

Exhibit 3: Cash Flow Statement

INR Mn	FY25	FY26E	FY27E	FY28E
CFFO	8,120	5,750	5,629	6,754
CFFI	-3,083	723	855	749
CFFF	-4,986	-4,004	-4,947	-5,838
Net Inc/Dec	51	2,469	1,538	1,665
Opening Cash	1,332	1,353	3,821	5,359
Exchange Rate Difference	-31	0	0	0
Closing Cash	1,353	3,821	5,359	7,024

Exhibit 4: Key Ratios

Key Ratios	FY25	FY26E	FY27E	FY28E
Gross Margin (%)	93.6%	92.9%	94.0%	94.4%
EBIT Margin (%)	23.3%	18.8%	20.5%	20.8%
Net Profit Margin (%)	21.0%	17.2%	18.7%	18.6%
RoE (%)	27.4%	20.5%	22.7%	23.1%
RoCE (%)	28.4%	21.0%	23.5%	24.5%
P/E (x)	41.4x	54.3x	44.7x	40.3x

Source: Company, DevenChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation
10-Oct-25	5,573	4,884	SELL
14-Jul-25	6,066	4,965	SELL
21-Apr-25	4,901	5,093	HOLD
13-Jan-25	6,001	5,853	REDUCE
12-Oct-24	7,675	7,359	REDUCE
11-Jul-24	6,957	7,150	HOLD

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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