



## **Q3 FY21 Earnings Conference Call**

### **January 13, 2021 | 15:00 hrs IST**

**Moderator:**

Ladies and gentlemen, good day and welcome to Tata Elxsi Limited Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle from Christensen Investor Relations. Thank you and over to you, sir.

**Diwakar Pingle:**

Thank you, Lizann. Good afternoon to all the participants on this call. We will be discussing the Q3 FY21 Results. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors. It must be viewed in conjunction with our business risks that could cause future performance and achievements to differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results and answer your questions today, we have the senior management of Tata Elxsi represented by Manoj Raghavan, MD & CEO; Nitin Pai, Chief Strategy Officer, and Chief Marketing Officer; Muralidharan HV, the Chief Financial Officer, and G. Vaidyanathan, Chief Investor Relations Officer. We will start the call with a brief overview of the quarter gone past given by Manoj, which will then be followed by a Q&A session where all the management members would take part in answering the questions. We would appreciate your cooperation in restricting yourselves to two questions in the first go and follow on to the queue to allow other participants an opportunity to interact. I now hand over the call to Manoj. Over to you, Manoj.

**Manoj Raghavan:**

Thank you, Diwakar. Good afternoon, everybody. Thank you for joining us today, and I hope you and your families are safe. I take this opportunity to wish you all a very happy and healthy 2021.

As you may have read the results, I am happy to report that we have delivered a superlative quarter all-round performance. Our revenue from operations grew by 10.9% quarter-on-quarter and about 12.7% year-on-year. Over 90% of this growth was volume led, the sequential growth. Our constant currency growth quarter-on-quarter was 10%, and year-on-year was 7.5%. This topline growth was driven by strong performance in both our key divisions. The embedded product design division, EPD, which is the largest division, grew by about 9.3% quarter-on-quarter and 14.5% year-on-year. Our industrial design and visualization business also posted a smart growth of 27.5% quarter-on-quarter and 7.1% year-on-year.

Our PBT profit before tax grew by 33.1% quarter-on-quarter and 43.4% year-on-year, and the PAT for the quarter stood at 105.2 crores, reporting a growth of 33.3% Q-o-Q and 39.5% year-on-year. And this PAT is the highest for the quarter exceeding 100 crores for the first time. If you look at it within EPD, the performance was all-round with growth across regions and industry verticals. I think for once, all cylinders we went firing, and all the verticals performed exceedingly well, all the geographies also performed exceptionally well. As I have been communicating regularly, healthcare continues to grow faster than the rest, with about 24% growth quarter-on-quarter. Media and communication again delivered another steady quarter with 8% sequential growth.

We see a sustained recovery in the automotive market for the second consecutive quarter. Our transportation vertical grew 7.9% quarter-on-quarter. We are seeing some new deals, some OEM deals. OEMs are restarting some of the key R&D programs as well as new opportunities with the suppliers. I am also particularly pleased with the recovery in our design business. For the first time, we see an uptrend in growth on a year-on-year basis. This has been the focus of the management to cross-sell design and design-led engagements into our existing account. I am happy to report that we have been successful in this initiative; we have some large deal wins to report and hoping that we will be able to keep this momentum going forward.

As I said during the call last quarter, we are back to our pre-COVID momentum and growth rates, and I strongly believe that we will continue this momentum in the next quarter (Q4) and the New Year. We have a strong belief and confidence in the strong deal pipeline that we carry across markets and industries, and I firmly believe that there is a lot more to come as an organization. So with that, I hand it over for the Q&A session. We can take questions—Diwakar, over to you.

**Diwakar Pingle:**

Thanks, Manoj. Thanks for that brief update. And as I mentioned earlier, we would request participants to kindly stick to only two questions per participant because we have many people in the queue. Lizann, please go ahead.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** Manoj, before my first question, let me quickly give a context. It appears that the strong growth and substantial shift to offshore have led to margins expanding significantly above the targeted band of 22-24% PBT over the last few quarters. One thing I am unable to reconcile is that the increase in revenue productivity to the shift in the offshore mix despite that revenue productivity is up significantly. So I am assuming there is a fair bit of IP revenue in the mix. So my question is two-fold. What is the IP component in the revenue, as we have seen some announcements around Falcon Eye? And how do you see that progressing? And the second question is on margins and your outlook. So, where do you see the offshore mix normalizing over the medium term, and would you like to revise your PBT margin outlook now that we are substantially above that?

**Manoj Raghavan:** So regarding IP revenues, I do not think there is anything major item to report, and this growth that we are showing is not significantly led by any IP or one-time revenues. It is a volume led revenue increase that we are showing. If I am not mistaken, IP revenues have been lower during the current quarter than the last quarter's IP revenues. So to that extent, it is purely volume led.

Regarding margins, yes, we have been able to show much higher margins compared to what we have been aiming for, and these are unprecedented times. So if you look at it, we have used many levers, for example, move offshore. Traditionally, we were in the 50-55% range for offshore revenue share, and now it is almost 67-68%. We believe this is the right sort of range, plus or minus 1 or 2%; I think we would be in this corridor.

The major lever that we have used is utilization - our utilization rates have gone up. We have, of course, done hiring the quarter, but we are able to deploy our internal resources and up the utilization, and that is also another reason why you see a sharp uptick in our profitability. The other reason is that if you look at last year and so on, during Q3, typically, quite a few customers used to have furloughs around December, New Year or Christmas time, and so on. This year, we have not seen furloughs to that extent. So we were able to book healthy revenues even during the last month of the quarter. A combination of all of these factors and, of course, growth in our medical business, as I always have been telling, our medical business comes at a higher margin. So, the more growth in our medical business continues, the more we are able to move our overall margins in a positive direction. So, all of these factors, combined, have resulted in this performance.

**Apurva Prasad:** And Manoj, just one more if I can squeeze in before I get into the queue. As you mentioned, continuity of momentum in the near term, any growth outlook can you provide for the next few quarters based on the wins you have already secured and conversations with clients around their R&D pipeline?

**Manoj Raghavan:** Apurva, you know that we do not give guidance. But I can say that I am pretty bullish. If I look at the order book and the deal pipeline and so on, I think we have never been in a healthy scenario like this before. I think that should give you enough confidence.

**Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

**Vimal Gohil:** Sir, my question is a follow up to Apurva's question on margins. So if I were to say that, would you expect the margins to remain at these current 30% levels, or there are some costs at the operating level that could sort have come back once things normalize in terms of travel cost or anything else and if you could give a bit of perspective on your gross margins as well. If you could just provide both these perspectives.

**Manoj Raghavan:** Again, these are unprecedented times. So it is tough for us to really visualize how our next 6 months or the next 12 months will be. Of course, the extraordinary profitability we have shown is because of many of our travel and visa-related expenses, and a number of those expenses have literally come down drastically.

As the markets open up, though we have pivoted the business model to a lot offshore and many customers have figured out the benefits of really doing it, we have proven that even with an offshore delivery model, we will be able to satisfy our customers. In all likelihood, we may not go back to the earlier situation; 50% of our revenues would come from onsite or so. I would still guess there will be a few customers who want to have the comfort of engineers being near to their locations, so I would say we would be somewhere in between. So to that extent, I would say definitely our margins will improve, but whether we will be able to keep it at the 30% and so on in the mid to long term, it is very difficult to tell you at this point of time, we may not go back to that 22%, we may be somewhere in between that is the guess that I could hazard.

**Vimal Gohil:** One question on your communications vertical. One of your larger peers has been expecting a semiconductor business to be impacted. Do we have any sort of revenues coming from the semiconductor industry in our communications vertical?

**Manoj Raghavan:** No, I think about 3-4 years ago, we exited the semiconductor space. Even though we have a few customers in the semiconductor space, but we are not actively pushing that business. It is more legacy business that is continuing. Due to certain reasons, we actually had exited that space about 4 years ago.

**Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

**Bharat Sheth:** Manoj, just want to understand, our all cylinders are firing and whether it is a vertical or geography or everything segment, within that onshore/offshore mix, so just wanted to get a sense that whatever efforts we are doing since the last couple of years, how are we seeing really outsourcing opportunity in the space which was earlier much people lot of doing inhouse now showing it to us the kind of confidence that and delivery we are showing.

**Manoj Raghavan:** So, in this space, definitely there is a lot of R&D happening, and outsourcing will continue; there is no doubt about that. We used to be very niche and very focused on cutting edge technologies, and as you know, we were a project-driven organization maybe 2 years ago, 3 years ago. We have really looked at what we have changed. Yes, a portion of our business will still come from this leading-edge, cutting edge product development; that is how we build our technology capability, motivate our employees, and so on. But at the same time, for real growth of our business and so on, we have sort of pivoted to really look at, push customers to really look at long-term engagements, multi-year engagements, and so on.

So I am pretty bullish about the way we have moved the needle from where we were about 2-3 years ago and pivoted to a situation now where if I look at the CRM that I have and if I look at the order book that I have and a lot of that business is multi-year, long-term engagements, multimillion-dollar engagements and so on. So that really gives me confidence that we are on the right path.

**Bharat Sheth:** And now continuing on this geography-wise, a little bit Japan was a major market for us. So how are we really exploring that market, and are we seeing that opportunity from the Japanese side?

**Manoj Raghavan:** Japan market is a very traditional market. I worked for 5 years in Japan. So I know in and out of Japan, right. So it is definitely a market that has huge potential, but decisions are very slow, especially in this situation where the pandemic and so on, Japanese customers' natural tendency is not to outsource but to really use their workforce. They do not let go of people. So whenever any such thing happens, they would really insource everything or want to use their workforce. So it is an important market; we stay invested, we look at opportunities that come. We have increased our focus on the medical business in Japan right now. However, growth for us will come from the US and Europe.

**Bharat Sheth:** And the last question on the growth perspective. Once you had an aspiration of Q-o-Q growth of mid-single-digit to high single-digit and with the kind of deal pipeline, we have already won, and it is there. So this is the beginning of those kinds of your aspiration and reaching to almost 3000 crores or half of billion revenue in 3 years timeframe, little broader without quarterly aberration, without factoring quarterly aberration.

**Manoj Raghavan:** Sure. We have huge aspirations. We have short term and long-term aspirations on where we need to take this company, but we definitely want to keep up these growth rates not just for

keeping investors happy, but internally also we have aspirations that we want to achieve. So yes, we definitely would like to grow much faster than in the previous years.

**Moderator:** Thank you. The next question is from the line of Naveen Bothra, an individual investor. Please go ahead.

**Naveen Bothra:** Congratulations to the team for the excellent all-round performance sir, for achieving the highest-ever revenue and century of a PAT in a single quarter and so coming of exciting times ahead, much greater times ahead, as you have already said in your opening remarks. So my question is regarding our company has now become a subsidiary of TATA Sons. Earlier also, investors, as well as all the things, were known that our company is promoted by TATA Sons which is just a documentation of consolidation and all these things. So how does the management sees our company becoming a subsidiary? Are we going to benefit strategically from this becoming subsidiary because it is said that in this decade, AI is going to be a much larger scale and especially ethical AI; so how do you see this development along with the AI and 5G opportunity, 5G which is going to increase the AI and all these things, if you can tell us about this one?

**Manoj Raghavan:** Shareholders have actually approved Tata Elxsi being a TATA Sons subsidiary, I think with effect from December 1<sup>st</sup>. I think it is good for Tata Elxsi because it shows the TATA Group's commitment and TATA Sons towards Tata Elxsi. There is a lot of exciting work happening within the group, as you said, whether it is on the AI side, whether it is on smart manufacturing, whether it is on 5G, and a number of things. Tata Elxsi is increasingly getting involved in some of these new initiatives. I think wherever there is technology-led development within the group; we stand a good chance to really support the group in their initiative. So to that extent, yes, it is a good step, and I think it is positive for the investors and shareholders.

**Naveen Bothra:** The second question is regarding capital allocation. In the earlier con calls and the AGM and the subsequent call after the AGM, you said that management is in discussion with the board, and we will soon come out with a revised capital allocation policy. Where do we stand now with the managements and boards and how these things are progressing if you can tell us about that?

**Manoj Raghavan:** We have had multiple discussions with the board. As you know, usually such announcements are made in Q4 results, So I would request you to be a little more patient. You would get to know maybe in the next call how we are going to proceed.

**Moderator:** Thank you. We will move on to the next question from the line of Hiren Vaid from Alchemy Capital Management. Please go ahead.

**Hiren Vaid:** I just have two questions. In your presentation, you mentioned that you started working with a leading EV player from North America. I just want to understand the quality of work and the

kind of work we are doing with them, what areas we are working with them, and do you see this as a start of a long term relationship?

**Nitin Pai:** This is Nitin here. I will take that. Yes, we have started working with that customer from this quarter. Obviously, that is in the technology space. So we are working with them in the connectivity and infotainment domain. With regards to whether it is long term and so on, I think that is an aspiration. I think we have been very conscious about the fact that for any new customers that we add, we want to make sure that there is a pathway to both the longevity of the relationship as well as the scale of revenues. So the hope is definitely that yes, we can continue to grow our engagement over time. But this is an initial start, so we just about started with them in this quarter.

**Hiren Vaid:** And secondly, TCS just announced sometime back that they launched Autoscape, which is a solution suite for autonomous and connected vehicle experiences. So I was wondering whether this would be competing with us or is there collaboration on this because we also have a platform, right, Autonomai?

**Nitin Pai:** Just to clarify, because I would not have first-hand knowledge of TCS Autoscape, but I have looked at what are the materials available publicly. To my mind, that is more of a service framework. It is not really a product or a platform. It is really to my mind the collection of services, capabilities, and some IP that they have, that they have built or put together as a combined offering for the automotive market supporting autonomous and connected use cases. In some sense, it neither conflicts nor contradicts what we offer.

We are very clear that we offer a fully packaged software platform for autonomous driving very specifically. Completely separately from that, we have a connected vehicle platform, which, as you know, is licensed to TATA Motors and so on. So in that sense, we have two distinct platforms, two distinct use cases, and of course, you can do a lot more on top of that in terms of services. So at this time, we see neither contradiction nor conflict.

**Hiren Vaid:** My last question is that you mentioned you are seeing a sustained recovery in the automotive vertical. In your opinion, are these projects more resumption of projects that possibly your customers put on hold because of the tough conditions that they saw in the early part of the year because of COVID, or are these people starting completely new projects as well?

**Manoj Raghavan:** It is a mix of both Hiren. It is also a new set of customers that they have on boarded and a new set of projects which we are starting and a few projects with our existing customers that they have put on hold, we have now restarted. So it is both.

**Moderator:** Thank you. The next question is from the line of Ravi Menon from Motilal Oswal AMC. Please go ahead.

**Ravi Menon:** I just wanted to understand your top 2 to 5 and non-top 10 client revenue addition. I think non-top 10 still probably the best quarter ever; it added nearly \$5 million quarter-on-quarter. So is it someone or two new customers, or is it very broad-based? That is the first part. In the top 2 to 5, are we seeing more of recovery or seeing a new set of programs?

**Manoj Raghavan:** Yes. So it is broad-based. It is not just 1 or 2 new customers or 1 or 2 new additions. I think beyond the top 10 customers, we have been successfully able to ramp up customers in different revenue brackets like 1 to 5 million brackets, moving up to 5-10 million bracket and 10-20 million bracket and so on. So we have been able to really transition a few of our customers from lower bracket to higher bracket. Of course, we have also added a few new customers. So I would say it is a broad-based growth. I think that is positive for us.

**Ravi Menon:** And sir, the top 2 to 5 customers, should we think about this as a resumption of a lot of programs that were put on hold during probably in the first quarter of these new programs that have been initiated?

**Manoj Raghavan:** If you really look at it, it is only the automotive customers that have held back. Whether the media and communications or healthcare, we never had any; that was really one positive for Tata Elxsi, right? We were not dependent on any one sector for growth. We had multiple sectors that are firing for us, and yes, while automotive skid a bit, the growth really happened from the media communication and healthcare vertical. So there, we don't see any hold-up. In automotive, yes, there were few programs that were put on hold that are now starting back.

**Ravi Menon:** Now that you are operating comfortably above the target margin band, do you think that you take this opportunity and invest in more sales and marketing or something to accelerate growth?

**Manoj Raghavan:** We are already doing that. I mean, we didn't want to waste this crisis. So while we are pretty confident because we have other segments of the industry vertical that were firing well for us, we were able to confidently make those decisions, move ahead, invest in sales and marketing, invest in industry consultants, invest in good delivery folks and so and so. In the last few quarters, we have done all of that.

**Moderator:** Thank you. The next question is from the line of Harit Shah from KR Choksey Shares and Securities. Please go ahead.

**Harit Shah:** I just want to get a sense of what percentage of the work you guys do would be related to design, so any kind of color on that, can you disclose that?

**Manoj Raghavan:** We don't disclose that because, and again if you look at our design business itself is about 9% or so; it is design business. But there is a component of how design and design-led thinking and

design-led businesses really affect our other embedded product design business also. Maybe Nitin would like to add something to that.

**Nitin Pai:** I just wanted to add that we do not want to go down that path of calling out the equivalent of digital revenues and then taking a bucket of water and putting a drop of color in it and calling the entire bucket digital, right? So I think you end up with the same kind of error in looking at the quality of revenues and judging what is design-led. I think we are confident that design is a force multiplier.

When you start and lead engagements with design, one, it adds greater value to customers in terms of impact, and two, it creates greater demonstration of capability to implement with those customers. So I think at this time, the focus is on making sure that we are able to cross-sell design and lead with design and use the growth and the resultant growth as a measure rather than looking at how much of revenue is exactly coming from design and how much of it is influenced from design. So if you get what I am meaning, I am going precisely in the direction of the whole business of calculating digital revenues. Then the company is dropping off this whole calculation because it is not a very clear quantifiable measure.

**Moderator:** We will move onto the next question from the line of Malhar Manek, an individual investor. Please go ahead.

**Malhar Manek:** Around 88% of the revenue is from export. So clearly, your revenue is quite susceptible to exchange rate fluctuation. So what measures do you take to reduce it?

**Manoj Raghavan:** Of course, we hedge our FOREX, so maybe our CFO can give a brief idea about our foreign policy.

**H. V. Muralidharan:** I am Murali here. Let me take this question. We have a natural hedge against the FOREX volatility because we do have foreign expenses to be incurred; a portion of that takes care of it. So remaining, we have a policy to cover through both options and forward cover. So depending upon the volatility and the market scenario and how the exchange rate movements happen, we take forward covers and options and protect our invoice rate.

**Malhar Manek:** I have just one follow-up question. Your top 5 customers are around 38% of revenues. So what steps do you take to reduce the customer concentration?

**Manoj Raghavan:** I do not think we take any step to reduce customer concentration. I think it is a very positive sign that and we are not a large company. So I think this is pretty, of course, companies like us would depend on the top 10 customers for a significant portion of the revenues. Simultaneously, as we said earlier, we are adding many new customers, which are all multi-year long-term customers. They may not show up within the top 10 this year or maybe next year, but as we mine that account and grow our business in a few years from now, many of

those customers that we open up today would eventually come into the top 10 list. So I think we have pretty covered that. I do not think we have a concern there.

**Nitin Pai:** Yes, we are only trying to make sure that the top customer concentration is a little lesser in the sense that we do not want to stop growth there, but we want to make sure that we are adequately protected against any upward or downward movements, but for the rest, I think we are on the right track.

**Moderator:** Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

**Sangeeta Purushottam:** I just wanted you to spend a little bit of time just taking us through the long-term structural drivers that you are seeing come through in your business, which gives you the confidence that growth is here to stay for the next 2 to 3 years if you could just spend a little bit of time giving a top-down view on that, please?

**Manoj Raghavan:** Sure. When we look at our business and how we have been operating, I talked about how we have moved from project-based business to more a long-term sustainable multi-year sort of business, so that has been the focus for us. If you look at 3 years to 5 years down the line, we operate in 3 clear verticals: the automotive industry, the media and communication industry, and the healthcare industry. What we have consciously done is we have looked at adjacencies within each of these businesses. For example, within the automotive industry, instead of depending on all of your returns from the automotive industry, we looked at what could be the adjacencies which we can look at which you utilize almost the similar skillset and resources can be easily fungible and so on. So we really looked at rail and offshore vehicles and commercial vehicles and so on. We de-risk ourselves from a passenger car, any uncertainty, and as you know, the passenger car industry is very cyclical. So that is one of the measures that we have taken.

Similarly in our broadcast and communication business, we really looked at media and new media. We were traditionally on the set-top box, on the video side, on the broadband side, and so on, but as you know, during the pandemic, everybody started using OTT services and so on, but we have been looking at OTT for the last 2 or 3 years. We have invested ahead of time, and we were well entrenched when the OTT wave really hit us, and we were the first to encash on it, right? So we really looked at that new media has an adjacency because every large company wants to get into this new media space, so that is the other adjacency.

Similarly, as we looked at it on the medical side, we looked at the pharma industry as an adjacency for the medical business that we have so that we can have a complete healthcare sector.

Our thought process is moving down the line about 20% of our revenues in 3 to 5 year timeframe will come from adjacencies. Right now, if you look at it, quite a few adjacencies, we have already reached 10% of that particular business. So we are on the right path there, and I think that will also give sustainability to our business. At the same time, de-risk the main verticals, and of course, we always keep also looking for new verticals to enter in so on, right and that is something that we keep dabbling in and as, and when we firm up a position, we will definitely let you guys know.

**Sangeeta Purushottam:** And is there operating leverage levers that you have in these businesses, or once you reach sort of stable state margins now, it is going to be at similar levels or what I am trying to say is, is there any kind of platformization of products led revenues which are possible, which could give you some additional kickers in the margins?

**Manoj Raghavan:** Yes, there are opportunities. There are platforms. We have already invested in a few of them. A few of them are showing good results for us, especially on the media and communication side, and some of these platforms actually helped us gain new customers, right. So, these are entry points for us to really get into some large customers and so on. So platforms definitely are there. There are innovations in business models. We are looking at several things so that we continue to show our growth both in revenues and profitability. So yes, there are different possibilities, and the management is really working on many of these at this point in time.

**Moderator:** Thank you. The next question is from the line of Anish Moonka from JST Investments. Please go ahead.

**Anish Moonka:** So my question would be given that the last few quarters' growth, we have continued to gain market share given that our listed players have degrown, other listed competitors have degrown. So what would you attribute this to? Is it just due to verticals mix like broadcast, healthcare, or would you ascertain that to some competitive advantage of ours and what would that be? Thank you.

**Manoj Raghavan:** Unlike many of our competition, we are much focused. We are a focused engineering player, we focus on a few niches, and we want to be the best in those niches. We don't really go for market share, and we don't really, when I say, we don't really drop our prices and so on and go after volumes. But where there is a very clear opportunity, where we believe we are the best player, we really go all out.

As Nitin said earlier, our design-led initiative is what really differentiates us from the competition. With these design-led proposals, we can go right up to the CXOs in our customer organizations and really pitch in a much larger way than a lot of our competition can. In essence, what we are saying is we can change the game. We don't play the same game. We try to change the game. That is how we gain market share, and we grow.

**Anish Moonka:** You are just trying to create more niche categories and basically defining new categories so that your customer can get better experiences or better products, something related to that, creating new product type of platforms.

**Nitin Pai:** This is Nitin here; I will take that. At this time, it is clear that customer growth, irrespective of which segment they operate in, is driven by end-customer experiences. Two, they also realize that the moment you get products connected and so on, you can mine a lot more, you can deliver experiences on a more continual basis than just one time delivery of the product or service. Those are the intersections that we are really focusing on, which helps customers build that differentiation to start with. The second is how you build those hooks into the products and services that you deliver so that you can continue to innovate on them. You can continue to deliver new features, new services, correct things that are not done too well, and that is really the journey we are on.

**Moderator:** Thank you. The next question is from the line of Pritesh Vora from Mission Holdings. Please go ahead.

**Pritesh Vora:** Sir, my question is about the margin improvement. We have seen that a couple of questions came on the margin, the first two questions. So my question was, how going forward, do we see because the Y-o-Y revenue growth is not much. So the leverage we have already exhausted, or do we have some more lever to see further margin improvement?

**Manoj Raghavan:** Margin improvement, I think I have answered that question. So we are at about 76% utilization rate? So if you ask me, is there an option to really up that utilization? Yes, we can definitely go up a few more points. So that is not an issue. Can we move a lot more of our business offshore? Maybe 1% or 2% more, so that is also possible. So, basically, there are levers to improve margins. Of course, our business models are also another way to improve our margins by looking at some outcome-based models and so on. So there are a few of them that are still available that we have not fully exploited.

**Pritesh Vora:** And my next question is, sir, somebody asked the question the product or platform-based revenue, so do we have what percentage of those products or platform-based revenue as present in present revenue streams? What percentage it has?

**Nitin Pai:** We have not calculated that as yet. But maybe we will have that calculated for the future.

**Manoj Raghavan:** The platform itself will not really bring us significant revenues, but the platform will enable us to get into new opportunity areas and new deals where the overall that deals can be much bigger than what the standalone platform licenses for, right? So that is how we look at our business. So again, we really don't want to be building products that conflict with our customers. So we are cautious about that. However, at the same time, we build our intellectual properties and products that usually are building blocks for our customers on which they can

license it from us, and they can build on top of it. So we will get back to you on that number, but that number will be not just an IP or product revenue, but IP enabled also.

**Moderator:** Thank you. The next question is from the line of Kaushik Dhanuka from Dhan Commercial Private Limited. Please go ahead.

**Kaushik Dhanuka:** How ingrained is Tata Elxsi in the JLR EV initiative?

**Manoj Raghavan:** We are definitely ingrained in JLR's EV initiative. This is pretty confidential information. I will not be able to share too much about it. But we are there.

**Kaushik Dhanuka:** Both for TATA Motors and JLR, both?

**Manoj Raghavan:** Yes.

**Kaushik Dhanuka:** But you cannot share as to what kind of business you are doing?

**Manoj Raghavan:** Not at this point.

**Kaushik Dhanuka:** And another thing, the government is laying a huge thrust on the electronic sector, development of various, trying to get chip manufacturing semiconductor, etc., mobiles, and even I think medical devices, various PLI schemes have been announced, and some are expected. So do you foresee any benefit which Tata Elxsi can derive with this ecosystem developing because of this?

**Nitin Pai:** This is Nitin here. We are examining that. So, in general, you would note that we operate in the product development space, so to that extent, manufacturing is the end result of the product development cycle. So while there is some assistance that we typically provide as manufacturing support for whoever is going to be manufacturing, whether it is a contract manufacturer or ODM or the customer's own factories, that service is not very scaled.

However, I think the real opportunity for us would be in two parts. One does the design or the product gets localized from both component and manufacturing process perspective and design perspective for the country. And two, whether there are opportunities to adapt and innovate for the local markets. So I think that is really where we would find revenues for us at scale and not just because manufacturing has moved to India.

**Moderator:** Thank you. The next question is from the line of Harish Kawalkar, an individual investor. Please go ahead.

**Harish Kawalkar:** Sir, I have two simple questions. The first one is where do you see Tata Elxsi over the next 5 to 10 years perspective, and the second question is where you see the difficult challenge in any segment of Tata Elxsi business?

**Manoj Raghavan:** We do have our own stated goals for the next 5 years; we have not looked at 10 years. However, that is internal to us, and these are very aspirational goals that we have put in place and something that we are working on from a growth strategy perspective. So yes, you would see us in 5 years to be a much larger organization. We hope to do things much differently. We hope to innovate on business models, we hope to really open up new segments and several things there in the plan, but I think that is something that we will let you guys know over a period of time.

Challenge, yes, there is always a challenge. There is a country-specific risk, there is visa regulation, and there is a number of all of that. But I think talent is not really not a risk because we believe we have good leadership development capabilities, good hiring plans, and training plans. So we have already built all of that to really help us scale our business. So challenges would be external, would be any specific industry risk that happens or any event like COVID. I don't think there is any specific challenge only for Tata Elxsi, let me put it that way.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta:** First of all, the demand is very strong, so how do you think the supply-side situation playing out? Do you find any difficulty, and what would be the attrition rate currently going on? The second question is about sales effectiveness. In the earlier part, we have faced some difficulty with selling to a new client. How do you think that is playing out for us now? Thank you.

**Manoj Raghavan:** Attrition is slightly above 6%. So attrition is not a concern for us. I think regarding hiring people and so on, I don't think we have an issue, especially in the high growth markets we are playing in. I think Tata Elxsi has a name for itself and in the areas we operate in, getting talent is not an issue. Of course, we look at the reserve pool internally that we have, and we plan our hiring accordingly at the junior level, and senior levels hire on a need basis. So I don't see that being an issue. What is the other question?

**Dipesh Mehta:** Considering work from home and remote working kind of environment, particularly to a new client?

**Manoj Raghavan:** So, in fact, we have seen acceleration as I said in the earlier question also that we have not let waste this crisis, right? We have been investing in our sales team. We have been investing in consultants and industry veterans. We have done several things, which has actually resulted in really a good inflow of new customers and new prospects. Our deal pipeline is again on an all-time high, and so on. So I think again that is not an issue, and I think internally, the team is also very motivated looking at these results that we can really aspire to grow in these terms. So I think we have a very motivated team there. We have added new sales folks to the team. So I think we are good there. We don't have an issue.

**Moderator:** Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

**Rohan Advant:** Sir, my first question was if you look at the onshore-offshore mix year-on-year, offshore has gone up from 59.7 to 67.8. This should have meant that revenue per employee should have been under pressure. But that has actually grown. Does that mean offshore billing rates have gone up significantly or that some employees are actually working offshore but billed like onshore rates?

**Manoj Raghavan:** It is a mix of something to do with our pricing and how we do it right. And you need to link it with the fact that we are also looking at that our utilization has increased so that our revenue per engineer will automatically go up. Plus, we have been, of course, you can't generate this profit margin if you have a depressed rate. So there are differentiated services that we offer that we are able to charge customers based on the value that we provide to the customers. So I think that has helped us maintain our revenue per engineer ratios.

**Moderator:** Thank you. The next question is from the line of Dipan Mehta from Excelsior Equities. Please go ahead.

**Dipan Mehta:** In the earlier question, you referred to maybe new verticals you would look at. So can you tell us which are the new verticals that would interest you and why because of just special kind of strengths which may be there or skillsets? So which are these specific verticals, and do they have the scope to be as large as the current verticals in the share of your revenues over the next, say 3 to 5 years or so?

**Nitin Pai:** This is Nitin here. I will take that from a strategy perspective. Manoj has already articulated the fact that we are expanding our footprint in our existing verticals. We are looking for adjacencies directly to our current verticals, including off-road and rail. We have looked at new media that requires skills and capabilities that are a little different from what you traditionally use and broadcast in the video. Equally, pharma, which is an entirely new space for us in the healthcare industry. So I think at this time we have our hands reasonably full.

We have a journey to do even in the current adjacencies that we called out to achieve depth, scale, and deep capability differentiation. So I don't think we would want to be distracted so soon with the addition of new verticals in a hurry. But at the same time, from a strategic perspective, I have to do my job, so we continue to look at those verticals that represent a reasonable opportunity not just for the short term but has to be sustained. The market has to be big enough as we grow. And lastly, we should have reasonable capabilities to execute even to start with. So that is how we would look at it, and I don't believe we are in a hurry to either adopt new verticals or declare new verticals.

**Moderator:** Thank you. The next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

**Madhu Babu:** Sir, on the broadcast and communication, could you talk about the subsegments because one part on the set-top boxes and all, so is there is a decline or stagnant growth there and on the OTT, are we seeing high growth. So can you talk about the subsegments because now that is the largest vertical?

**Nitin Pai:** Maybe I will take that. We classify that business into three broad pieces. One is vendors that supply boxes and equipment into that industry. So we would call them equipment vendors or CPE vendors, whichever way you would like to call it. The second is the operators, the pay-TV operators, or the telecom operators who then deploy these boxes as part of their services. So if you look at an Airtel or a TATA Sky and so on, they would traditionally count as the operator set, and then there is a third set, the studios and the broadcast channels themselves. The ones who develop content but deliver it via the pay-TV operators.

So, in general, for us, the OEM segment or the box segment has always remained steady, but we expect it to mature over a period of time, and that will not grow as much. We really expect the other two, the work that we do with operators which have always been increasing over the last 7-8 years now and that has also led to growth and the second piece I think is the media, the new media, really the broadcasters, the content creators who are also now going direct to consumer with OTT that we expect as the real accelerators to growth. So from our perspective, we really classified into three broad sets; equipment vendors, operators, and broadcasters/media companies.

**Moderator:** Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.

**Ankit Shah:** Sir, can you share the utilization level for the current quarter and the previous quarter, please?

**Manoj Raghavan:** I think we were at 76% this quarter, and the last quarter was 70; they are up by 6%.

**Moderator:** Thank you. The next question is from the line of Umang Shah from Amsec PMS. Please go ahead.

**Umang Shah:** Sir, from what I understand, auto companies have multi-year development cycles that hold true for the other two divisions. And sir, in that case, could you give a short qualitative statement on how much would be the one-time revenues and if there is any implementation or maintenance revenue subsequently? Thank you.

**Manoj Raghavan:** Both in the medical healthcare space and the media and communication space, as I had explained earlier, we have moved into multi-year larger deals rather than doing one time projects and so on. In fact, the message to the sales team and the business team is that we really need to focus on those customers that can give us these multi-year deals and larger deals. Over a period of time, most of our at least new customer additions have been multi-year deals. So that, I guess, would continue.

**Moderator:** Thank you. The next question is from the line of Kavalpreet Singh from Ambit Capital. Please go ahead.

**Kavalpreet Singh:** I wanted to understand the healthcare segment. Can you do like a past, present, and future because that segment is flowing very strongly? So I would like to understand when you started adding clients here; what your aspiration was? Today, like you say that the margins are higher maybe if you cannot quantitatively give what margins are like in this segment, but why are they higher compared to the other segment, and do you see the potential for this segment to be like 25%-30% of your overall revenue somewhere down the line, let us say, 3 to 5 years down the line? Thank you.

**Manoj Raghavan:** You are talking about the medical, right?

**Kavalpreet Singh:** Yes.

**Nitin Pai:** I will take that question here. This is Nitin. One, we started in the medical device space about 3-4 years back from now. Formally calling it out a vertical and investing in that domain specialism that we need, a set of doctors, for example, that we would want to onboard so that we could provide. Second, domain expertise, PhDs who come with relevant backgrounds, and so on. So we have invested in building that core team and then having relevant product engineering services, whether it comes from electronics or software packaged around that core team. The intent has been evident that we wanted to start with classic product development or new product development for medical devices. Over the last 3-4 years, what I think we have done is, one, make sure that we acquire marquee customers.

We are focused on very leading customers in the space in terms of their industry presence and size so that we could grow along with them. The second was to make sure that even as we engage with them in product development, we go downstream in terms of what else we can do for them through the development lifecycle. You would know that regulatory compliance and filing in the medical space are equally essential and merit as much spend as in the core new product development part itself. So I think we have done a fantastic job in developing that end-to-end capability. I think that is not only delivering us larger deals, but it is also differentiating us in the markets that we can take that responsibility end-to-end.

In many ways, we are bringing a lot more certainty to outcomes of product development than maybe many of our competitors are able to do, why because we are able to see further ahead in terms of risk of compliance, risk of regulatory and, as best possible, navigate through those right in the design phase. As we go forward, as Manoj called out, we are looking at what comprises healthcare as an industry. And when you look at that, of course, you have other pieces there, including the pharma sector. We already know that there are certain capabilities that we have built for medical devices that are as relevant to pharma. So we will start with those, and then we will expand capability further.

In terms of the industry's view, we have a very clear picture of how we want to be end-to-end in medical devices and how we want to be far more full-fledged in the larger healthcare space. So that is as far as the industry goes. As far as margins go, I think I already called it out. The fact that we deliver an end-to-end service, we are able to deliver far better outcomes, and we are able to project far better results because of our end-to-end view of development and regulatory and compliance, I think naturally deserves better margins.

**Moderator:** Thank you. The next question is from the line of Vidhi Dadia from Raedan Securities. Please go ahead.

**Vidhi Dadia:** I just want to know the liquidity position for Tata Elxsi. Could you state the cash on the book, the number for cash on the book?

**Manoj Raghavan:** It is around 900 crores now.

**Moderator:** Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.

**Hiten Jain:** Has the company given wage hikes this year?

**Manoj Raghavan:** Yes. We have done wage hikes from October 1<sup>st</sup>.

**Hiten Jain:** And any plans for the next year. Will it be in line with that like a normal year or any views there?

**Manoj Raghavan:** It should be in line with the normal year unless the world changes suddenly.

**Moderator:** Thank you. The next question is from the line of Karan Uppal from PhillipCapital. Please go ahead.

**Karan Uppal:** Sir, two questions. First on the top line. It was flat this quarter. What was the outlook here? And secondly, what is the overall view on the transportation vertical? Do you believe that the recovery which we had seen in the last 2 quarters is sustainable? And I have one more follow-up.

**Manoj Raghavan:** I didn't get the first question. The second question is about transportation vertical and recovery. Yes, we talked about it; in the last two quarters, we have been showing growth and recovery. I think it is an ongoing process. The industry is still no doubt; some customers are still struggling with COVID and all the changes. However, we are pretty confident that we are on a growth path. I didn't get your first question.

**Karan Uppal:** The first question was on the outlook on the topline?

**Manoj Raghavan:** I think we will continue to grow and definitely exit the financial year; though the year started on a bad note in Q1, we hope to exit Q4 with a bang.

**Moderator:** Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

**Mithun Aswath:** More on the transport sector, we have seen some sort of recovery emanate over the last couple of quarters, but still, we are way off in the auto cycle. I just wanted to understand from your perspective. Do you see this is just the beginning of an auto revival? And since that is the largest portion of your revenues, do you see overall growth on the top line increasing quite appreciably going forward?

**Manoj Raghavan:** The largest segment of our revenue right now is media and communication and not auto. That is number one. Auto, I would still be a little cautious even though we have seen that growth coming in, whether it will lead to superlative growth or not. I think it is still too early for large automotive customers and suppliers. I think we would need to give it may be at least a couple of more quarters to say that this growth can continue confidently, right? So we have seen some good green shoots, some new projects, and some large engagements that we have signed on to. So that is definitely positive for us. Our top customer has been flat, as you would have seen, the OEMs typically that business has been pretty flat, but we hope that in the next two quarters that will recover.

**Moderator:** Thank you. The next question is from the line of Ritesh Rathod from Nippon Mutual Fund. Please go ahead.

**Ritesh Rathod:** Can you give us some outlook on pricing for next year, particularly on the new technology as well as the legacy business like how are the things spanning out given if there is supply-side pressure in the coming 6 months. Can you go back and ask your client for pricing?

**Manoj Raghavan:** Again, we don't work on what you say. Legacy projects or the very small percentage of the service that we deliver is really on the low end of the spectrum. Most of the services that we offer are on the upper end of the spectrum, and it is more value-selling. We rarely compete on pricing and so on and go down. We really tend to look at the value that we provide to our customers and, accordingly, price services that we had. So will there be price pressures going forward? Yes, during COVID, we have had some price pressures. We had to give some temporary concessions, and you know credit terms and so on. But I think we are out of all of that, and we have reverted to our original rates, and so far, things are going in a positive direction.

**Ritesh Rathod:** Sorry, I think I have not put it correctly. My intention was would there be a possibility of a price hike if there is supply-side pressure in the coming 6 months. Can you go back to a client and ask for a price hike?

**Manoj Raghavan:** That is always a very sensitive topic? Especially large customers, nobody will entertain a price hike, whatever you say. So what is really essential is, you don't end up signing a customer at a

very low rate because you know that it will be next to impossible to go back and get a rate hike. So yes, we have to manage our internal, through productivity gains, through the right size of the team, the right experiences of the team. We have to maintain our profitability. We can't go back to customers always. Of course, we don't go back and try, but once we arrive at a particular rate structure for customers, it is usually at least a 3-year sort of a rate structure that we agree on.

**Ritesh Rathod:** And given your business mix has changed in terms of vertical wise in the last couple of quarters, particularly in last 7-8 quarters. Is there any meaningful change in the average or medium duration of your project length or project duration?

**Manoj Raghavan:** Yes, as I mentioned, right? Earlier the average median about 2 years ago was about 6 months deals or 8 months deal. Now, it is definitely above a year or multi-year also. So yes, the average size of projects has increased. The duration is increased; the average revenue is also increased per customer.

**Moderator:** Thank you. The next question is from the line of Amar Maurya from Alf Accurate Advisors. Please go ahead.

**Amar Maurya:** Sir, my question is more on the offshore and onsite mix. First, in the medium term, do we see that this kind of ratio will be maintained for another 2-3 quarters, and how do we see this ratio changing in the medium to long term?

**Manoj Raghavan:** Yes, I can take that. On one hand, I think a lot of this, like say digital was accelerated by COVID, I think this whole onsite-offshore mix change has also been accelerated by COVID the big question remains, how much of this elastic in the sense that when things all become normal, how many of the customers want to fall back and still want that same onsite-offshore ratio that we are used to and remember they have now got used to cost structures better too because obviously when you have less onsite, your overall projects also cost you less. You have to balance that against wanting people onsite and wanting greater control, visibility, and so on. I think we will most likely see that ratio change a little bit as markets open up and so on, but our intent is very clearly not to let it change too much.

**Moderator:** Thank you. The next question is from the line of Amit Thavani, an Individual Investor. Please go ahead.

**Amit Thavani:** I think the panel made a great point that our revenues, our order size, I mean our order duration used to be maybe a couple of months, 3 months and the order duration is going up and that is because we are now catering not only at the product launch state, but I guess over the life of the product, rather than maybe software update across the life of the product, as someone said the filing of pharma, so I just wanted to understand how do you see this pan out over the next few years, I mean how much change could we see in the life of, or the length of

the orders going forward. I mean, we are probably at 6 months today. It will definitely help us in de-risking the company and making revenues less lumpy. So I just wanted to know how do you see this order, over the product's life panning out over the next 3-4 years. How do you see the revenue mix changing there, sir?

**Nitin Pai:**

This is Nitin here, maybe I will take that, and I think that is related to the fundamental nature of products changing the world. If you look at products that were supposed to be one time delivery to a customer – fill it shut it, forget it kind of a model where you sell a car, and that is the only revenue that the OEM will ever see in his lifetime from that car customer unless he goes and buys another car. The same would have been true in a consumer product like a phone or even a medical device.

I think the simple fact is that the industry is reverting to the point that once devices are connected, once we are able to extract data, you can deliver a lot more services over that connection. You can monetize the data in many forms. I think that also leads you to require development that is not ending when the product is delivered. Software development actually continues. I think we already see that in media and communication, and that is why OTT is such an exciting segment for us because it is not just to do with the launch of the OTT service. It is really the fact that the OTT service continues to evolve and improve and continue to add features, and so on. We expect that products and services' fundamental nature will change to this model, where things are continuously updated, upgraded, and experiences continued to change. It is not that one big lifecycle where you develop a product, launch it, and then a small maintenance team. So I believe that is the real future of the world, and we hope that we are in the right place and with the right capabilities.

**Moderator:**

Thank you. Ladies and gentlemen, due to the paucity of time, that was our last question. I now hand the conference over to Mr. Nitin Pai for his closing comments.

**Nitin Pai:**

Thank you, Lizann. I should, first of all, thank all the investors who joined us today on the call. I am sorry that we ran out of time and if any of you have further questions, please feel free to reach out to our agency Christensen or write to our investor relations email id. I would be happy to take any further questions that we did not address. It was a wonderful quarter and the start of a new year that we look forward to. We hope you have a great year too. Thank you so much.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Tata Elxsi Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.

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**Note:** This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.