



## “Tata Elxsi Q4 FY21 Investors Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY21 Investors Conference Call for Tata Elxsi. 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. Lokesh Pareek from Christensen Investor Relations. Thank you and over to you, Sir.

**Lokesh Pareek:** Thank you Lizann. Good afternoon, all the participants on this call. 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 results performance or achievements to differ significantly from what is said 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 Mr. Manoj Raghavan, MD and CEO; Mr. Muralidharan H.V., Chief Financial Officer; Mr. Nitin Pai, Chief Marketing and Chief Strategy Officer and Mr. G. Vaidyanathan, Chief Investor Relations Officer. We will start the call with a brief overview of the past quarter by Mr. Raghavan followed by a Q&A session.

We would appreciate your cooperation in restricting your questions to two questions per participant to allow other participants an opportunity to interact too. If you do have further questions, do join the queue and we would be happy to respond to them if time permits.

I now hand over the call to Mr. Manoj Raghavan. Over to you, Sir.

**Manoj Raghavan:** Thank you Lokesh. Good afternoon everyone. Thank you for joining the call today and hope you and your families are safe. At the outset, I would like to thank the entire team, the employees at Tata Elxsi, it's been a great performance in an extraordinary year and with the COVID posing huge challenges to maintaining our business continuity and customer centricity, while at the same time ensuring the safety and wellbeing of our employees across the world. The entire team has demonstrated great commitment and passion to ensure that we stay focused on our customer's needs and focus on delivery excellence, customer delight and really look at opportunities for growth.

Coming to the quarter, it was definitely a very satisfying quarter with continued growth across our offerings, industries and geographies to wrap up a remarkable year for us. Of course, our revenues from operations for the quarter was 518.4 crores translating to a growth of 8.7% quarter-on-quarter and about 18% year-on-year. And as you may have noticed the growth was almost entirely volume led with a constant currency growth of 9.1%. Our PBT for the quarter was Rs. 151.7 crores, again registering a growth of 10.6% quarter-on-quarter and 47.2% year-on-year. Net profit stood at Rs. 115.2 crore reporting a growth of 9.5% quarter-on-quarter and 40.3% year-on-year. So indeed, it was a very-very satisfying quarter with great top line and bottom-line performance. The top line growth was driven by a strong performance in both our

divisions, embedded product design, division which is the largest division. It grew by 5% quarter-on-quarter and 15.5% year-on-year. And Industrial Design and Visualization, the IDV division also had a very smart growth, they grew by 40.1% quarter-on-quarter and 39.2% year-on-year. Our Design business continues to grow strongly with improved deal flows and deal sizes, as well as cross selling into our existing customers for upstream and design led work. Our System Integration business also grew by 21.2% quarter-on-quarter in Q4. And all of you who have been following our results for many years know that Q4 is typically a good quarter for our SI business as our customers spend their residual infrastructure budgets for the fiscal year and as it is also the year end for them. The margins are significantly higher this time though, due to a higher proportion of services involved in one of the large projects that we bagged in the quarter and that we commissioned in the quarter and that's the reason for a pretty good performance in our SI business. And also, if you look at the SI business at the beginning of the year, because of COVID, lot of the deals were really put off and many of those deals fructified in the last two quarters. That's also a reason why that business showed a good growth. Within EPD again it is a broad-based growth across verticals. We have had growth in the transportation business, media and communication business also grew, transportation grew by about 3.2% quarter-on-quarter and media and communication grew 5.8% quarter-on-quarter, and healthcare continuing to accelerate faster than the rest at 11.8% quarter-on-quarter. So, for the full year ending March 31<sup>st</sup>, 2021 revenues from operation grew by 13.4% year-on-year. Both EPD and IDV grew by 14.6% and 9.1% year-on-year respectively. So, all in all in a very tough a year this is a very credible performance from the entire team. So, from where we started in Q1 last year with so many uncertainties, I am very pleased to end the year on a high note, delighted to exit FY21 with an all-around growth in revenues, margins and customer additions, which gives us great confidence going forward into a new fiscal year. And I would like to thank our customers for their continued confidence in our differentiated capabilities and technology, design and digital.

Finally, I would like to also thank all the shareholders and I am happy to announce that the Board has approved a final dividend of 240% for the year, along with a one-time special dividend again 240% translating to a total dividend of Rs. 48 per share. Of course, this is subject to approval of shareholders at the forthcoming AGM. So, when you look at the overall situation in the country with COVID, what we have noticed is over the last close to 24 months, the number of retail shareholders or individual shareholders has increased significantly. So, given the situation with COVID and the economy and so on since we have done well, the Board decided to really give a good bonus so that all the individual shareholders and all the investors in the company benefit from the returns that we give.

So, with that, I would like to hand over to the Q&A session. Thank you for your time.

**Moderator:**

We will now begin with the question-and-answer session. The first question is from the line of Ikshit Naredi from Naredi Investments.

**Ikshit Naredi:**

I have a first question regarding the sensor technology. So, as the sensor technology is increasing. Are we aggressive on the segment or this is not your cup of tea?

**Manoj Raghavan:** Sensors, when you say, sensors are used in multiple places including in IoT, whether it is automotive, whether it is media communication, whether it's healthcare, sensor and sensor technology plays a very important role. So, a lot of the products that we work on have different type of sensors. So, it is very much an integrated part of our service offerings that we have for the last more than 15-20 years. That's what we do. So yes, it's very important for us.

**Ikshit Naredi:** My second question is, in life sciences business is that story long-term and how many months visibility you are having right now?

**Manoj Raghavan:** Yes, so instead of calling it life sciences we call it healthcare and medical business. And that business we have been investing over the last five years. And yes, indeed it's a long-term story and people who have been following our stock know that we have been aggressively growing that part of the business. Even in this quarter we have had a pretty good growth and definitely there is a good long-term visibility over multiple years, so we have no concerns there.

**Ikshit Naredi:** One last question is, I heard that the VR Technology is a very vast industry and growing very fast. Can you please tell something about it like are you working on this segment or something like that?

**Nitin Pai:** Hi this is Nitin here. So, if I can take that, yes, we do and I think we have a play in 2-3 directions. One, our system integration business helps integrate and sell VR gear for corporates where we are setting up larger enterprise visualization setups and so on. In fact, even in the last quarter we have actually had some deals on that front. So, that's one hand. On the development and design side VR is becoming integrated part of how you sell and market new products and services including automotive. So, we are working in such areas where you use VR both for education, for training, as well as in some cases for product development itself.

**Ikshit Naredi:** And do we see a great margin in this segment?

**Nitin Pai:** The margins are not exceptional. And I think the business is just about ramping up. So, we are in that sense I would call it, still riding the hype cycle. So, we will have to give it some time to really settle down into large scale use cases, widespread usage.

**Moderator:** The next question is from the line of Vimal Gohil from Union EMC.

**Vimal Gohil:** I have two questions. One was firstly, on the balance sheet just wanted a clarification on the 102-crore line item that is there, what would that be related to? Its in the Others Assets section.

**Muralidharan H V:** That is fixed deposits having maturity beyond one year period

**Vimal Gohil:** It will be considered as cash, right? But it just said that these are fixed deposit having maturity of over and above one year which is why they are not in the current cash balance.

**Muralidharan H V:** Yes, these are all bank balances, but the IndAS requires us to categorize it differently this year.

**Vimal Gohil:** Now, on the margins 30% EBIT margins it's sort of unheard of in the Indian IT services industry. How sustainable are these margins? And I also do note that there is a fair bit of offshoring pickup that has also happened. If you could just break us the margin improvement what you have seen this year into how much has come from offshoring and how much has come from utilization uptick and is it possible that utilization levels are still under shooting, they still have room for growth?

**Manoj Raghavan:** There are many levers for margin improvement. One is of course, increased offshoring. One is more long-term projects, more long-term engagements and so on. Of course, better realizations and so on, more complex projects, more realization and so on. And definitely this year has been very-very different primarily because of COVID and lot of expenses including travel, even normal expenses, employee related expenses, celebrations, none of that has actually happened. So, it is a one-off sort of a situation. We don't want to leave an impression that these margins will continue. But as and when the economy recovers and as and when travel picks up, we will go back to our original margin profile that we have been talking of. Having said that, yes, we have been riding the wave and if we can improve the margin then of course we will try to improve the margin, no issues there. But whether this will continue, there is no way that I can say that, hey, we will continue these high margins.

**Vimal Gohil:** What would be the reason behind, coming to the gross margins, your gross margins have seen a sequential uptick of almost 260 basis points to 43%. Clearly seems to be that employee productivity has improved quite sharply this quarter. Is there any IP led revenue that have been included here or how should we read that?

**Manoj Raghavan:** There is IP led revenue also but more important than that, there are certain new business models that we have gone into. And that is really not linked to number of employees that work on the projects and so on. So, we have been very innovative in the way we handle our customers and so on. So, there are certain things that we have done well over the last 2-3 quarters and that's actually resulted in improving our margins.

**Moderator:** We'll move on to the next question, that is from the line of Ashish Agarwal from Principal India.

**Ashish Agarwal:** Just a couple of things from my side on the industrial design business last 2-3 quarters have been very strong in this business. So, how should we look at the growth in this business, though the last 2-3 quarters have been great, if we look at last 3 years, the revenues have been flattish. So, should we consider that this business can grow at a high double digit, or how should we look at this business growth and the profitability in this business. Secondly, on the overall profitability, you said that once the travel returns normalcy returns, we will go back to a preferred range, so earlier the preferred range was 22%-24% EBT margins. So, are we looking at those type of range once the normalcy recovers?

**Manoj Raghavan:** As I have been talking of our industrial design business, yes, we have been underperforming for the last many years. However, we did do a number of things, including change the leadership and so on. So, this is a business that is immensely scalable, and I strongly believe that design is

a very very key differentiator for us. So, we have done certain things including on the front-end sales, including in the backend, including in the type of deals that we go after and also how we integrate our EPD offerings as well as our design offerings together. So, we have done a number of things while we were all stuck with COVID and so on, there has been a lot of transformational initiatives in that particular division that we have embarked on. I am happy to say that whatever we did over the last four quarters has really resulted in this sort of dramatic return of growth into that business. So, even though we grow very significantly, 30%-40% growth and so on, but you look at the year-on-year, we are still about 9%, we have grown at 9%. I think that is also because Q1, that particular business was deeply hit because of COVID and related things. Q1, and to an extent even in Q2, we were sort of down but however there was a very very smart recovery in Q3 and Q4. And that is how we were able to really show that 9% growth. So, we are definitely bullish on that particular business. We would see definitely much more accelerated growth as compared to the previous year in the coming financial years. And that is a key differentiator for us and that will really drive our business. So that is what we are also pushing. And you talked about margins. Yes, whatever margin profile we have been talking of over the long-term, now don't ask me what is long-term in the current scenario, I don't know. But over the long-term definitely that is what the margins that...we continue to have that projections. However, in the short term because of all these savings that we have in other expenses and so on, margins will definitely be on the higher side. But it will taper off eventually as the economy recovers.

**Ashish Agarwal:** Last thing, any issues on the supply side?

**Manoj Raghavan:** Yes. So, supply side is getting into a little tight situation to be frank, especially among the senior management or the senior leadership roles and so on, because we have been growing significantly over the last three quarters, quarter-on-quarter we have been growing and so on. So yes, we are stretched at this point in time, and we are actively hiring so that is why you if you look at our numbers that we have added in this quarter, will give you an idea of we are really going out and hiring people. So yes, we need to add a lot more people. And with the situation in the industry everybody's hiring, and salaries are shooting up. So, we have all those issues, but we still hope to attract people because of the brand that we carry and the type of work that we do. And we are hopeful that we will be able to address that situation.

**Ashish Agarwal:** The salary hikes FY22 will our normal salary hikes be here, or you will only give it in Q2?

**Manoj Raghavan:** Yes, we will have the salary hike from July.

**Moderator:** The next question is in the line of Mayank Babla from Dalal and Broacha.

**Mayank Babla:** My first question pertains to the transportation segment. As its reported, we have seen that the performance has been a big roller coaster over the last two years. Going ahead, what can be the sustainable growth that is visible in this segment?

**Manoj Raghavan:** This segment is most effected due to COVID and so on. Even now if you look at the second wave is coming in India, automotive companies are back to closing factories and so on. So, it's

very difficult for me to give any projection on this sector even for short term or mid-term. But however, over the long-term, yes, whatever trends that we are talking about, whether it is electrification, whether it's autonomous, whether it's connected car, all of those trends would continue, and we do not have an issue in the long-term perspective, but short-term to mid-term definitely there will be some amount of stress and we will have to navigate it as it comes.

**Mayank Babla:**

And my second question is on the healthcare and medical devices segment. Could you throw some light as to what is driving this phenomenal growth if some examples of some projects that we are executing that is differentiating us from the peers.

**Manoj Raghavan:**

As I said, we have been investing in this business for more than five years now. We have a very-very clear-cut strategy, and we are executing on that strategy. We are extremely good on product development on different medical equipment devices, diagnostic devices, point of care devices and a number of things that we are doing. We have very strong capabilities on the regulatory aspects, and that is another area where we have built our own frameworks, IPs that really helps us differentiate from any other service provider and really show tremendous value to the customer. See, the only reason why customers would continue to give us work and at these rates, the growth rates that we are showing is, are we adding value to them or not? Are we solving important customer problems that they have? If we are adding value, if we are solving the problems, the business will continue. So, we have sort of focused on a few problems that the industry has, few problems that the customer has, and we are attacking that, we are building intellectual property, we are building frameworks, got going with that, and we have a differentiated play in this as compared to competition. So that's the reason why we are growing.

**Moderator:**

The next question is from the line of Hiren Ved from Alchemy Capital.

**Hiren Ved:**

Congratulations for very-very good set of numbers. I think this is top-notch execution and needs to be lauded. And pretty much the same question that I had last time also is that what are we doing to maintain or increase the pace of the opportunity set that we go after across the three verticals? Obviously, for whatever extraneous reasons, partly because of that and partly obviously because of the new way of doing business, our EBITDA margins are very-very healthy and what are we doing to reinvest? So, while I am very happy with the EBITDA margins, I think I am more interested in increasing the opportunity size for our company, so that we can grow to \$1 billion revenue size company quickly. What are some of the steps that we are taking to reinvest some of that margins, or even otherwise, to increase the opportunity size?

**Manoj Raghavan:**

So, if you look at it there are two routes. One is of course the organic and one is the inorganic route. From an organic side perspective, we have investing a significant portion in our front-end sales, in consultants, in industry experts and that process continues. We have not stopped that investment, we are continuing and that is a way we are opening up new accounts, new logos. And also, within our existing large accounts we have been mining them well. If you look at our top three, top five, top 10 accounts, you will see that they have all been growing. And that is because of all the investments that we have been making in mining those accounts and taking them forward. At the same time, there are a number of initiatives that we have also started, and

we talked about adjacencies, we talked about growth initiatives. So, we are investing in all of those areas, whether it is healthcare, digital health, whether it is on the rail segment, whether it is on the OTT space, the product development that were going on, so all of those investments are ongoing at this point in time. And the hope is all of these investments over the next 6 to 18 months will give us force multipliers, will give us those weapons to go after and increase our business. So, that is one part of it. Of course, the second part of the inorganic route we have already identified areas that we need to strengthen. And we are targeting companies. We are in discussion with different companies, but the only thing is the good companies, valuations are very expensive even at this point in time. And those that we believe can really add value to us comes at a premium. So, that is that sort of an evaluation happening at this point in time as to how these companies can help us. And hopefully when things fructify you will hear some news here.

**Hiren Ved:**

Just one more question from my side, while traditionally we have been working with the top automotive companies who are trying to kind of move into a more connected cars, autonomous cars, etc., and build those technologies and their platforms, and last quarter and I think even this quarter you mentioned that you acquired one North American EV player. How serious is the opportunity amongst the new age EV players or do they have a concept of Tier-1s like you have in a typical automotive environment and do you see a large opportunity to work with some of those players as well?

**Nitin Pai:**

The answer there is a yes and a no, in a sense that new age OEMs on one hand represent the ability to work ground up, to participate in absolutely cutting-edge ways of doing things, because they tend to innovate. On the other hand, they also represent risk simply because they are as good as their funding in many cases and therefore, they have in some cases fairly bright but short lives, if I may put it that way. In terms of funding, in terms of R&D budgets how they want to get things done and so on. So, I think at this time we are taking a very judicious call on who do you want to work with. And how much of effort and time we want to invest with those as against the traditional OEMs who have to pivot to the new too. At this time, I think we are just taking a balanced view.

**Hiren Ved:**

And thank you for the special dividend. I hope it is not a one-time dividend. We continue to give that unless obviously we go ahead and make an acquisition, but congratulations to the team again. I think this is fantastic work and all I can say is I am a happy shareholder.

**Moderator:**

The next question is from the line of Bharat Sheth from Quest Investment.

**Bharat Sheth:**

Manoj, you have given a very good color that how we are moving from say on-shore to say offshoring, then complex deals, long-term vis-à-vis short-term duration contracts. So, what kind of opportunities still we have in each of these all these four verticals, I would say three in services, apart from that industrial designing. All are now showing good growth traction. How do we really look at sustainability whether it is offshoring, because despite offshoring, we have grown substantially in value terms.

**Manoj Raghavan:** So, sitting out here, I am pretty confident of the short to midterm prospects of the company. Long-term we never know, hopefully long-term also we should not have any issues. So, all our segments are firing very well. Yes, transportation is a little slow, but I am sure the situation in the economy and the COVID and all this improves, I am pretty confident that that segment will also pick up rapidly. So, the good thing is we have invested appropriately in various new initiatives in adjacencies, so that even during COVID even when other companies and other industries and even customers are struggling, we were able to figure out areas of growth, areas of opportunities and nearly ensure that the company growth we don't stagnate. And as a result, we reward our investors and our employees also accordingly.

**Bharat Sheth:** I believe margin has shot up. I mean not in long-term may come down a little, but not earlier. Because of a more offshoring, complex deals, so higher realization, and all these things. Plus, industrial design also started contributing. So that is one thing. Second thing, earlier we had ambition of growing say 8%-9%-10% QoQ. So, in that journey where do we really see us and how is the deal win that we have currently and deal pipeline also.

**Manoj Raghavan:** The last quarter was very good. Consecutively, even during the peak of COVID, I think in the last three quarters we have definitely closed a lot more than in the previous years and so on. And it is only possible, this growth 8% or 9% quarter-on-quarter growth that you see is only possible if you close those large deals and if you are able to ramp up and execute and deliver. So that discipline has been there, teams have been extremely disciplined. We have kept our customers happy, and we have really delivered value when in fact our customers were unable to work, and they were having furloughs and they were closed. It is our engineers who really helped them support them and help keep their business running. So, to that extent, I think, we have done an extremely good job. Many of our engineers have put in many hours per day, many hours per week solving customer issues and problems. Lot of appreciation from customers for the efforts that we have put in. I think all of this will really hold us in good state, especially when things return to normal, most of the customers will hopefully realize the value that we have delivered to them and continue their business with us.

**Moderator:** The next question is from the line of the Dipesh Mehta from Emkay Global.

**Dipesh Mehta:** I have a couple of questions, I think partly they are addressed, but considering over focus on three verticals over medium term if you can help us subsegment or sub-vertical where we are investing to fuel our growth over medium term. If you can provide some perspective, transportation, communication, healthcare, which are the sub-verticals which we have identified to drive future revenue growth. Second question is, can you share the utilization where we are in Q4?

**Nitin Pai:** In some sense, the sub-segments are reasonably clear, because if you look at automotive, it really carves out into connected, autonomous, shared and mobility. Shared is in some sense is a secondary derivative to connected and autonomous and electric. So, to that extent we clearly are investing in all three, we are growing capabilities and capacities in all three. And I think all of them are trending towards digital technology. So, it's not just about what is in the car, but what's

also in the Cloud and how do you optimize and manage and run both the Cloud and the in-vehicle piece better? As far as, media and communications is concerned, I think we are very clear. On one hand, you have the device companies, whether it is boxes, network equipment, and so on, that's traditional. We have the operators who form the second wave, when they started to take control of software, when they wanted to innovate faster and not be tied down to black boxes supplied by the device companies. And I think the third layer that is coming in now is the new media companies who don't necessarily need any infrastructure or CAPEX to run services. There I say light in some sense, though content access can be quite asset heavy, but these are broadcasters, media studios, content owners, aggregators, who can now deliver services directly. So, these are the key segments in the media and communication side. In healthcare, we started with medical devices, but we have now expanded to pharma and to digital health. So, in that sense these are new sub-segments that we are both investing in and building on. In addition to all of this, I think rail and off-road vehicles - though you can call them off-road automotive, but it's really not automotive, it uses the same skills, technologies, but in a different way. So, off-road and rail for us are in some sense B2B or B2B2G kind of businesses which are not directly dependent on consumer sentiment. Broadly I would call this out as the entire segmentation. On your utilization rate, it has improved further. So, we are I think at about 77% now for the quarter. We still have room to grow. So, like Manoj said, I am just making this point for everybody, there is still room in the levers, unwinding of these levers will take time, so it's not that there is going to be a sudden change or drop in margins and so on. But having said that, yes, 77% is where we are on utilization.

**Dipesh Mehta:**

Last related question, do we share the breakup? You said auto, we have shared mobility, connected vehicles, electrification. Do we share size and scale of each sub-segment in some way?

**Nitin Pai:**

No, at this time we don't, because we believe the world is a little complex. It's not that you do only autonomous, or there is no connected in autonomous, or there is no digital in electric, so it is sometimes impractical to even try and sub-segment each of these.

**Moderator:**

The next question is from the line of Madan Babu from Canara HSBC.

**Madan Babu:**

Earlier we used to have some volatility in revenues, but over the last few quarters it has stabilized, and we are doing very well. But going into next year do you see any softness in 1Q or any volatility on the revenue trajectory or we are confident considering the deal pipeline?

**Manoj Raghavan:**

The deal pipeline is good. I don't see such issues happening at this point in time. But all said and done, our business depends on our customer's budgets and so, can I say that further there will not be any customer dropping their budgets. At this point in time, we can't make that assumption. So, what I can tell you is even if one or a couple of customers pull the plug or they have some budget issues, Tata Elxsi is resilient enough to work on that and we have proved that we have shown it multiple times, we will be able to recover and grow. Our basket of customers has improved, the size and scope of business that we deliver to customers have also increased. So, we are fairly confident and believe that we have a resilient business model.

**Madan Babu:** Just one more, of the 7,300 employees how many are in on-site in Europe and US. Can you give the exact number?

**Manoj Raghavan:** Onsite is a smaller number, exact number I think we should be around 700 or so. I don't have exact number, but ballpark it is around 700-710 or so.

**Madan Babu:** Okay, 10% of your headcount. Thanks, Sir.

**Moderator:** The next question is from the line of Hussain an Individual Investor.

**Aarif Hussain:** My question is, where do we see ourselves in the medical space due to the uncertainty in COVID-19 scenario right now?

**Manoj Raghavan:** I think medical business continued to grow for us. I don't think because of COVID we have had any issue in our healthcare and medical devices space. So that business continues to accelerate. As long as there are no massive lockdowns. And the only problem that will happen is, how medical companies they make money is through these elective surgeries. So, when the elective surgeries come down, the medical companies don't make money. For example, in abroad in US and Europe, things are returning back to normal. Of course, in some countries they still have COVID related issues, but world over like most countries are coming back and many countries have vaccinated more than 50% of their population. So, things are returning back to normal. Elective surgeries are happening. Medical companies are making money, so that business will continue.

**Aarif Hussain:** Second question is regarding the shortage of semiconductor which is at this rate are locked. So, do we see any kind of opportunity in this segment?

**Manoj Raghavan:** We don't see an opportunity in semiconductor shortage. We don't make chips, so it is not an opportunity, it's sometimes a risk if some of the key markets like automotive market, there's a shortage then car makers are not able to sell their cars and as a result of which they decide to slash their budget. But however, that's a very small risk. We don't see this semiconductor shortage as either an opportunity or a risk for us at this point.

**Moderator:** The next question is from the line of Rohan Doshi from Finvest Advisor.

**Rohan Doshi:** I have two questions. My one question is pertaining to shortage of chips only. Will it affect only the automotive industry, or it can affect even the medical devices or even the communication devices, etc.? What is your take? Any of your clients have suffered problems because of the shortage of chips? Like in today's newspaper it had come that JLR production may be affected because of the chip shortage.

**Manoj Raghavan:** As far as we hear automotive companies being affected, but it has not affected any of our business so far. We don't see an effect of it on communication or on the healthcare or medical devices so far. We have not heard anything from our customers.

- Rohan Doshi:** But do you think it can affect us in future?
- Nitin Pai:** So maybe I'll answer that. Semiconductor shortage is fundamentally a disruption of the supply chain and some extraordinary events, water shortage in Taiwan, fire in some factory somewhere else also. If you think about it, these are one-time disruptions, extraordinary events. The industry is reworking the supply chain and already investing in additional capacity and plants. Yes, for the next six months, nine months, you will find disruptions. Disruptions will be in certain segments, certain types of chips and so on. My view, I think the industry in that sense is quite resilient to work around. Answer is, it will not be a quarter or two quarters. But I think the impact also is not going to be so bad for a quarter or two quarters.
- Rohan Doshi:** So, we not getting affected.
- Nitin Pai:** No.
- Rohan Doshi:** My second question is, in the earlier con call you said that because government has not announced this export incentive rates, you have not accrued any income. So, what is the position as of now?
- Manoj Raghavan:** The government even now has not announced anything.
- Moderator:** We move on to the next question that is from the line of Apurva Prasad from HDFC Securities.
- Apurva Prasad:** Looking at the acceleration in top 2 to 10, can you say that is the visibility also higher as the pipeline driver appears to be more from larger accounts? And related to that, based on your comments on addition of customers and large deals across the industry segments, is the trajectory of (+) 5% Q-on-Q sustainable?
- Manoj Raghavan:** Yeah, definitely visibility in the top 5 top 10 customers is, it's pretty good for us. The order book and the deal pipeline is good. And I think we have spent a lot of bandwidth in mining these accounts. I think we are in a good position especially with respect to top 10 customers. At the same time, we have announced, we have also won some new deals, and these are all again good logos that will eventually help us over 6 months 12 months to really ramp up our business. So yes, we are in a good position and unless something happens in industry or any particular customer decides to pull the plug in any which way, we should be able to show healthy growth.
- Apurva Prasad:** And on the margins while we spoke about this earlier, but this is more from a near-term perspective. Do you see any near-term headwinds to the margins, be it offshore coming down from the current levels or supply side impacting your attrition levels? And also, if you can talk about the hiring plans for FY22.
- Manoj Raghavan:** I think margins, we are pretty comfortable and as I said in the near term. The only thing is that we will have a salary hike again. And it's just not the salary hike, we have also, because our employees have really put in all the hard work and supported our customers, and the remote working has taken a toll. So, we have also rewarded our employees with, apart from the normal

salary hike we are also giving them a one-month bonus. That also we will roll it out. So, there will be an impact of both salary hikes and the bonuses and to that extent, our margins may dip a little bit, but I think over the next four quarters, we hopefully will be around the same margins as in the last fiscal.

**Apurva Prasad:** Just to clarify, you mentioned one month bonus which will be given out in the first quarter and the wage hike that happens in the second quarter.

**Manoj Raghavan:** Yeah. We will not give the entire thing in the first quarter. We will divide it between the first and third quarter.

**Moderator:** The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

**Shyam Sundar Sriram:** Very strong performance, both from a revenue perspective, as well as the operational perspective. One main question, you have been highlighting or are posed to increase our project work from a project based to a more annuity-based kind of a structure which will give you more visibility and margin leavers per se. So, if you can give some perspective on how our average deal duration for the new deal wins that has happened say in this year, how has that been, are all these multi-year deals that we have won in FY21 and that is the first part of the question. Secondly, given that we make such high gross margins are these new deals priced more aggressively by sharing some of these efficiency gains per se. If you can give some perspective on that as well?

**Manoj Raghavan:** I would say at least the large deals that we have been closing are definitely multi-year deals. We have closed three-year deals, five-year deals and so on. So, definitely that is that part of it. At the same time, it's not that all the deals that we have are these multi-year deals. We also have 6 months; 12-month deals. Again, it depends on customers and the area of work. But what I would definitely want to state here is the number of large deals that we are chasing is definitely much higher than the previous year. So, to that extent yes there is this movement towards large multi-year deals. Pricing wise, I think pricing is a function of the area that you are operating in, the value that you bring in, the type of deals that are there, for example digital or AI based, or we talked about virtual reality and all the new skills. So, it is depending on the area that we operate in and capability that we bring in, whether we have intellectual property, whether we have accelerators that we bring in. The pricing is not as a straight fit, it's not like an IT company where we just price based on so many dollars per hour based on the junior resource that we bring in. So, we try and avoid such a pricing scenario. We bundle value and price customers according to the value that we deliver. Yeah, it is not a straightforward answer, but yes, that's how it is.

**Shyam Sundar Sriram:** When you spoke about this inorganic way of growing, you spoke about specific capabilities that we may want to acquire. Which are some white spaces that we would like to strengthen ourselves from a capability perspective, is it more in the media OTT segment, is it more on the medical equipment side or on the automotive side, if you can throw some perspective on what are some of your top three focus areas when you look for acquisitions and what are the kind of deal sizes you look at?

**Manoj Raghavan:** At this point of time, we don't want to talk about all these white spaces. This is something that we are working on and it's confidential to the organization. I am sure you can guess what areas that...we have actually talked about some of those areas in the past also regarding adjacencies and so on. Those are the areas that we are really focusing on in terms of looking at inorganic. However, at the right time we will update you as and when we see some traction there and when we take some decisions then we will let you know.

**Moderator:** The next question is from the line of Harish Kawalkar an Individual Investor.

**Harish Kawalkar:** My heartfelt congratulations to you in navigating this COVID-19 situation and delivering outstanding results. I have two questions. First one is regarding the special dividend. I think, you have ROCE of around 35% to 40% and Return on Retained Earnings (RORE) of around 15% and you have reserve around 1,200 crores and you declared 149 crores around 10% of reserve. I think if you have that money, then it has a chance to grow at more percentage point, than giving it to the retail investor. I am a retail investor I don't have any issues with that. That might be my personal opinion but if the amount remains in the company it will help to grow company in the future. So, what is your take on that?

**Manoj Raghavan:** Yeah, so as I said it has been a tough year for many people. And as a Tata group, we felt that we have to really give back to the society especially in the tough year and that is the reason why the Board decided to give a special dividend because people are struggling, people are suffering, it will help them. That is the only logic where we decided that, okay, this year let us be liberal with the returning the money to the stakeholders. And that's why we took the decision.

**Harish Kawalkar:** My second question regarding the transportation vertical, other than COVID situation, have you identified any risk over there in transportation, why it is not growing, other than COVID situation?

**Nitin Pai:** I think we've talked about this in the past. The point is that industry is also been undergoing some structural changes because of the fact that EVs mean that you do not need the kind of structures and people and skills that you had in traditional OEMs. The manufacturing methods are different, the decisions on what you need to own versus what you could afford to get supplied by third-party suppliers is also changing, software is becoming very very important. Earlier OEMs did not have to worry about software. It came in a box, you gave it, sold it and you didn't have to worry about it. Now, software has to change over the air, your infotainment system gets updated, your ECUs get updated inside the car. I think there are structural changes that go beyond COVID. COVID only worsened the situation by making it even more difficult to spare R&D budget on all these things that you need to do. We believe in some sense, technology will continue to accelerate in the automotive space, electronics, and software and digital is what will drive the industry. I think our capabilities are very aligned to those areas. That is where I think we are quite confident in the long-term, but in the short term, yes, we will have to deal with this dual problem of structural changes and COVID and revenue and stagnation in the industry in terms of sales.

- Moderator:** We will move on to the next question that is in the line of a Raj Rishi, a private investor.
- Raj Rishi:** Would like to know what's your plan for the education sector? Are you making a foray in the education sector also?
- Manoj Raghavan:** Yeah, we have definitely we work with two large players in this segment. Our design team, the industrial design and visualization team does a lot of work in the education sector, especially around the graphics using various tools like AR/VR in all of that, how to make it interesting for kids and so on. So, we have a very serious play in that sector.
- Raj Rishi:** Can that become another pillar, like your automotive, broadcasting, or medical devices and adjacency?
- Manoj Raghavan:** I am not sure whether it can be a pillar as such, but definitely it can be a good sub-segment within the industrial design business.
- Raj Doshi:** Okay, it will be part of the industrial design business.
- Manoj Raghavan:** Yeah. Of course, software pieces are also there, so we cross leverage capabilities from other teams like the media and communication and so on, but it's driven by the industrial design business.
- Raj Doshi:** Given my understanding of the areas which you are trying to address, the scale of the opportunity seems to be such that the present turnover of say Tata Elxsi, the revenues which you are generating around not even 2000 crores, like many times that is possible. I am sure given the optimism which you have generally when I have heard you, you have some internal assessment as to where you can reach in three to five years. Can that be a multibillion-dollar possibility, Mr. Manoj?
- Manoj Raghavan:** There is a huge opportunity no doubt. We are in the midst of a huge market which is growing and exploding. Technology use is really-really exploding. Yes, I wish I can say yes, that there's a multi-billion-dollar opportunity and we will be there. Yes, definitely we have our own plans, and these are significant large goals that we have. Yes, it is a large goal that we are taking the next three to five years and we are working on it, but it can be a large opportunity, no doubt about it.
- Moderator:** The next question is from the line of Ravi Naredi from Naredi Investments.
- Ravi Naredi:** Very fantastic result. I am a shareholder since a very long here, and it is surprising to know you have given a fantastic return. This 3D printing is growing well, are we planning anything big in this segment?
- Nitin Pai:** There is no direct plan for us in the 3D printing segment. Why because, technology is fairly stable there. It is just that 3D printing kicked off big time after the patent expired there. It was held by one or two companies and therefore it was not available for the rest of the market. Once

the patents opened up after 20 years of a closed kingdom that is where 3D printing has taken off globally because economies of scale have kicked in. Everybody can produce at actual cost rather than what came with royalties and so on. In that sense, I think it's a transformative opportunity for certain sectors, like very complex engineering, footwear, personal goods, and so on. Design will benefit greatly. From a software development, etc., I don't think there is too much to count on. By the way, our system integration business does sell and service and support 3D printing technology for very specific sectors. So, they are starting to see some business too.

**Moderator:** The next question is from the line of Nitin Shakhder from Green Capital Single Family Office.

**Nitin Shakhder:** My question is more in specific to looking at the geography of Japan and looking at the business update on the health and life sciences segments there. Can the management to give a small business update on that segment and geography both in terms of outsourcing and design and development? Also, we understand Japanese people to be more using their workforce rather than outsourcing, so a bit of comment on that. As well as any opportunities which have come directly or indirectly to the company in the upcoming Olympics or companies that you would be working with the customers that would be working with?

**Manoj Raghavan:** Tata Elxsi has been working with Japanese companies for the last 25 years. Since 1996 we have been operating in Japan and we have a pretty strong and stable customer base there. You rightly said Japanese companies typically, there are issues that are cultural issues, there are language issues, they typically tend to work with their own subsidiary companies and outsourcing is not an easy decision for many Japanese companies. Having said that, I think from Tata Elxsi's perspective, we have about 8% to 9% of our revenues come from Japan. And it's been relatively stable. It's been growing, but not at the very accelerated growth rate and a lot of our business there comes from automotive companies right now, because as you know Japan, there are leading both OEMs and Tier-1s there. And in general, automotive industry is also, because of all these issues, outsourcing is not growing that rapidly. Having said that, yes, we have been winning projects and especially for Japanese companies when they win projects overseas whether in Europe or US, it's very difficult for them to manage those projects because of the language. So, that is when, companies like us, they tie up with us and then we support them in their customer communication and really understanding what the end customer needs and how to deliver that value to them. So yes, Japan is an important market, a steady market and we get good projects from there. We get good technology related projects. And these are typically long-term customers also. Regarding the healthcare and medical devices business, yes, as we have already stated in the press release, it's been going pretty well, it's in fact the fastest growing business for us, I think year-on-year, we grew upwards of 60% in that business. We are expanding that to other areas including India and Japan, but it will take some more time and however that business has been growing pretty well for us and we hope to continue that growth in the near term to midterm.

**Moderator:** The next question is from the line of Naveen Bothra an Individual Investor.

**Naveen Bothra:** Congratulations for industry leading excellent performance continuous third quarter in the go. Even if we leave out the first quarter, which I think the last 5-6 quarters we are performing excellently, so congratulations to all the management team and team Tata Elxsi. First of all, I would like to appreciate the thing about the capital almost delivered on that promise earlier in the last 2-3 calls. We appreciate that very much because you have all the free cash calls generated this year and almost been distributed. So, congratulations for that one, I appreciate. My question is regarding the hiring plan targets, what are our hiring plan targets in view of the large multi-year deals we have won in all the three verticals. So, in this year we have hired around 11% to 12% net addition. Going ahead this year's target, if you can throw some more light on this one, it will be helpful?

**Manoj Raghavan:** Yes, definitely. So, thank you. Naveen Ji. So yes, we have been growing pretty well and so our utilization is also going up, so definitely as you have seen in the last quarter also, we have hired a number of people and our plan is twofold. One is yes, we would be hiring people from colleges, fresh grads and so on. Approximately maybe 700 or so engineers we will be hiring from the colleges. And on top of it, yes, even we will have an accelerated hiring from lateral pool, because of the opportunities and the projects that we have bagged, and we really need to execute. So, we will be hiring maybe an equal number or even slightly more depending on how the deal pipeline and the closures happen. So, hiring will definitely be accelerated this year to meet the requirements of deal wins.

**Naveen Bothra:** If I can understand right, it will be 700 plus 700 lateral hiring?

**Manoj Raghavan:** At a minimum.

**Naveen Bothra:** Second question is regarding pharma business to Nitin Sir. What do you mean by pharma in the health and medical devices space? We have entered into pharma space. What do you mean by pharma? Are we hiring scientists and all these things in this vertical?

**Nitin Pai:** No. In pharma we see three different types of pieces. Two of them are skills that we carry on from the medical device space. There are lot of pharma companies that also provide for drug delivery devices, where their drugs are delivered through insulin pens, through the single dose pens, through very specific kind of delivery devices. Just like we do with medical devices there is work to do with pharma on drug delivery. Two, there is work to be done on packaging, labeling, regulatory and related work which has similar skills as what we do in medical devices. Of course, we need to bring in domain experience, core teams and so on, but lower-level skills are the same. What is the only thing that is absolutely different would be in drug discovery and so on which at this time we are not focusing on. So, we are really trying to build on adjacent skill sets but applying to the pharma industry.

**Moderator:** The next question is from the line of Ankit Shah from White Equity.

**Ankit Shah:** Can you share your thoughts on onsite offshore mix, let's say for next 2-3 quarters? And what could be a sustainable mix over the medium term?

- Manoj Raghavan:** I think the onsite offshore mix over the next three quarters will continue to hover around the same because most countries have already started stopping Indian engineers from traveling. There are no flights now. So, at least 1-2 quarters I don't think situation will improve. And also, customers have got used to this offshoring and delivering value from offshore. So, I think we may never go back to those earlier days wherein 50% used to be onsite and 50% used to be offshore. Even after 3-4 quarters maybe we should be in the same, maybe 30:70 or 35:65 that range.
- Moderator:** The next question is from the line Rudresh Kalyani an Individual Investor.
- Rudresh Kalyani:** When work-from-home is the in thing, I got to know that we expanded our office premises. What is the reason behind that?
- Manoj Raghavan:** I am not sure what you are picking up on, but we have definitely looked at expanding capacity especially in the SEZs. That is more to take benefit from what we do as overseas work. But otherwise, we have been careful about expanding office space.
- Rudresh Kalyani:** One more thing is, can you give me broad based growth guidance at least for next 3 to 5 years?
- Nitin Pai:** We don't do that as a rule, so I don't think we will change that for the next 3 to 5 years.
- Manoj Raghavan:** I think you can look at our growth trajectory and I am sure you will be able to plot it yourself.
- Moderator:** The next question is from the line of Nemish Shah from Emkay Investment Managers.
- Nemish Shah:** Just one data point, what will be our effective tax rate going forward?
- Manoj Raghavan:** Tax rate I think we should be about 25-26 in that range. So, what we are doing is, in this year we will expand our SEZ capacity also. So, we will have a lot more of our business coming under SEZ. So, there they will be tax free, so, we will have an opportunity to reduce the tax rate.
- Moderator:** The next question is from the line of Sanjaya Satapathy from Ampersand Capital.
- Sanjaya Satapathy:** It's a fantastic set of results. In fact, I can see that most of the people are not being able to digest the pace of growth that you have shown in last couple of quarters and you yourself are appearing to be bit shy of accepting that as a tremendous achievement, because 8%-9% quarter-on-quarter growth seems to be too strong or too good to be true. So, the way I just want to frame my question is that, of course there has been tremendous amount of operating leverage benefits which has happened. On the kind of domain that you are addressing, is it suffice to say that you were unlike typical IT companies who are in that 8-10% kind of growth industry, you are in 20%-30% kind of growth industry. That is what if you can just make us understand.
- Nitin Pai:** The answer is not a simple dimension of saying, are we in an area of service which is growing at 30% vis-à-vis our IT companies in our area of service which is growing at 10%. I think the answer will be multidimensional. One part of the dimension is industries that we operate in and

their growth rate. Two is, the areas that we operate in terms of what are we doing in terms of technologies and what is that adoption going to be. For example, autonomous or electric or connected car may be growing at completely different rates than the automotive industry itself, which technically at this time it is stagnant. The third dimension, I think also comes from within engineering what do we do? So, we traditionally have been always focused on electronics, software and digital. I think that by itself has higher growth and adoption and spend in relative budgets of customers and in all other areas. So, I think if you think about it, you should actually multiply all these factors and not look at it purely as one single dimension of are we in a growth industry alone. So that would be my suggestion.

**Sanjaya Satapathy:** I really appreciate this kind of a bit of a subjective understanding, but since we don't have the data, but can we really summarize it by saying that you are still catering to a much higher growth industry than the plain vanilla IT services?

**Nitin Pai:** Absolutely. That can be a straight assumption you can make.

**Moderator:** The next question is from the line of Arjun, an Individual Investor.

**Arjun:** My first question is, can I know a bit more about the multi-million connected car opportunity that you have declared in your results? What is the nature of the opportunity?

**Manoj Raghavan:** I presume you are referring to the deal announcement that we made. If you look at it, we have built an in-house platform for IoT that is tuned to deliver connected car services for customers, and this is predominantly meant for OEMs who want to deploy their own platforms on control over software. It works on the Cloud, but it is fundamentally delivering software ownership to OEMs. So, Tata Motors by the way was our first customer and that we went public with last year. We have now won another OEM who is global, and they have selected us for a specific market. That will be the first market that we launch in. And it's a multi-year program obviously because we will have to work with them not just by licensing the platform, but also helping them integrate it, implement it and run it. So, we believe that one, the deal itself is multi-year and multi-million but we are also hoping that there is an upside of being able to address other regions by demonstrating the capability and the power of the platform that we are deploying.

**Arjun:** My second and last question is our industry is fully with disruption, so which disruption worries you the most?

**Manoj Raghavan:** I always look forward to disruptions, so disruptions doesn't worry us at all. We have seen so many disruptions in our career and disruptions have always been fortunate for us. So, it is good. Let it come on.

**Moderator:** The next question is from the line of Manish Bhandari from Vallum Capital.

**Manish Bhandari:** I have two questions. My first question is regarding the deal announcement what you have done and one of the deal announcements is about the cyber security services. I just wanted to know is

this a new very strategic area for us, something similar to what it was, the healthcare sometime back?

**Nitin Pai:**

For us cyber security is more of a horizontal. So, while healthcare technically is an industry vertical by itself, we see cyber security as becoming an important topic for all our customers across industries. Now we have to note that we are not dealing with enterprise security, so we are not here to be a McAfee or an equivalent. We are looking at the context of what the cyber security mean for the kind of devices we work on. What does it mean for gateways? What does it mean for cars? Where are the ways to enter these devices? How do you protect them? What do you need to do from system software both in the device and in the Cloud? So, I think we are coming from our domain and our deep understanding of these devices and these industries and then trying to address the cyber security issue. So, I hope that clarifies.

**Manish Bhandari:**

Is that a consulting assignment for individual clients?

**Nitin Pai:**

No, it tends to be both. There is some amount of consulting and let's say like you would have a design project, you will have to think of cyber security in the design stage itself. It becomes just another dimension of what you need to design and develop for. And then there are also services where once products are deployed if you continue to monitor and make sure that there are no further risks occurring.

**Manish Bhandari:**

My last question is regarding the exchange gains. Do you have anything in this quarter to report, gains or loss?

**Muralidharan H.V:**

Yes, we do have a loss from the exchange in this quarter.

**Manish Bhandari:**

how much is the loss from exchange currency fluctuation?

**Muralidharan H.V:**

It's the currency fluctuation because we had some forward covers booked in advance and the currency movement went in the other way and the collections did not materialize as we thought and so we had a loss there.

**Murali Bhandari:**

How much can you quantify the number?

**Muralidharan H.V:**

It is 4 crores.

**Manoj Raghavan:**

It is disclosed in the results in the page, it is 4 crores.

**Moderator:**

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

**Manoj Raghavan:**

Thank you everybody for the call and look forward to seeing you again in the next quarter.

**Moderator:**

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