



Q3 FY22 Earnings Conference Call

January 19, 2022 | 15:00 hrs IST

Moderator:

Ladies and Gentlemen, Good Day and Welcome to Tata Elxsi Limited Q3 FY '22 Earnings Conference Call. As a reminder, all participants' 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 '**' and 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 Advisory. Thank you, and over to you, Mr. Pingle.

Diwakar Pingle:

Thank you very much Nirav. Good Afternoon to all the participants on the call, Good Morning if you are logging in from the Western side.

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. Therefore, it must be viewed in conjunction with the business risk that could cause further result performance or 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 Mr. Manoj Raghavan – Managing Director and CEO; Mr. Nitin Pai – Chief Marketing and Chief Strategy Officer; Mr. Gaurav Bajaj – Chief Financial 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 yourself to two questions to

allow participants an opportunity to interact. If you have any further questions, you may join the queue, and we would be happy to respond to them if time permits.

Having said that, I would like to hand over the call to Mr. Manoj Raghavan. Over to you, Manoj.

Manoj Raghavan:

Thank you, Diwakar. Good Afternoon everyone. Thank you for joining us today for the Q3 earnings call. At the outset, let me wish you and your family a safe, healthy, and a very Happy New Year to you.

I am pleased to report that we have delivered another quarter of consistently strong growth. Our revenue from operations in the quarter gone by was Rs, 635.4 crores registering a growth of 6.7% quarter-on-quarter and 33.2% year-on-year. The growth was almost entirely volume-led, reflecting our constant currency revenue growth of 6.5% quarter-on-quarter and 32.7% year-on-year.

On the bottom line, we have delivered another quarter of industry-leading performance. Our PBT grew by 17.1% quarter-on-quarter and 36.9% year-on-year to 200.3 crores, and the company's net profit for the quarter stood at 151 crores, reporting a growth of 20.4% quarter-on-quarter and 43.5% year-on-year.

We have crossed the 200 crores PBT and 150 crores PAT milestones for the first time in our history. The company's growth continues to be powered by our largest division, the embedded product design division, EPD. EPD grew by 9.6% quarter-on-quarter and 35.4% year-on-year in constant currency terms, and if you note, I think this is the second quarter that we are showing almost 10% quarter-on-quarter growth for EPD. Within EPD, the growth was broad-based across verticals. The transportation business posted third-quarter strong growth of 9.7% quarter-on-quarter and 30.9% year-on-year.

Media and Communications delivered another quarter of consistent growth with 6.5% quarter-on-quarter and 31.1% year-on-year growth, respectively.

Healthcare continued to grow faster than the rest and posted a growth of 22% quarter-on-quarter and 73.4% year-on-year.

As you would have seen in our factsheets, we continue to add new marquee logos to our customer base and win new strategic deals across key growth areas in all these three verticals. We are focusing on building a base of customers in each vertical and segment that can drive consistent growth for us. You will find this reflected in our overall performance across industry and regions beyond the top 10 customers.

Our design-led offerings are powering differentiations and deal wins for us with customers and provide a force multiplier with downstream development and integration. This also helps with

improved margins as we increase the overall competition of software work in the design digital deals. In the last earnings call, I had mentioned an existing top-end customer where a large design digital deal was put on hold, which affected Q2 and the full Q3 numbers for our Industrial Design business. However, the IDV business posted a growth of 61.7% on a year-to-date basis even with this impact, so we are confident that we will resume this project in the coming quarters.

We have been steadily adding our talent base throughout last year and the last three quarters with lateral and fresher hiring. In Q2, we added almost 500 fresh engineers, while we added about 150 fresh engineers in Q3. We are selective in fresh engineer hiring, and we will invest further in bringing in a large number of fresh engineers over the next three quarters.

I am especially delighted with the industry recognition from analysts and awards for innovation and technology. The safety center for Tata Steel uses augmented and virtual reality to deliver experiential safety training to 45,000 workers, the first time this is done anywhere in the world. 'The Videotech Award' for the 'Most Innovative OTT Technology of The Year' was won against some of the leading product companies across the world in the OTT space, again underlines our product and solution-led capabilities.

In summary, it has been an excellent Q3 with superior top-line and bottom-line performance supported by industry-leading operational excellence and talent retention. We continue to execute strongly on all our key strategies, driving growth across our three primary industry verticals and regions and building software and digital product engineering capabilities. We are also entering the fourth quarter with a strong order book and a healthy deal pipeline across our key markets and industries.

With that, I would hand it over for the Q&A session. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on your touchphone. The participants are requested to use the handset while asking the question. The first question is from the line of Bharat Seth from Quest Investments Advisors. Please go ahead.

Bharat Seth:

Hi Manoj and Nitin, congratulations on an excellent performance. Since FY '20-21 as well as in these two quarters, we are talking of everything, our growth is volume-led growth, so to understand what is driving our margins at one lever, you said it was because of this designing led, but what are other levers that are helping us because when we are doing more of an advanced work or advanced technology, so are we getting some price increase or not if you can give some color on that part?

Gaurav Bajaj:

Hi Bharath, I will take that question, and maybe Nitin and Manoj can add. A few things are very important to us regarding the margin, and we are constantly focusing on this. I think the first

and foremost, as you also rightly said, is the business growth and consistent business growth, and if you see that all our business verticals are doing well. For the past few quarters, we have given very sustained and healthy quarter-on-quarter and year-on-year growth at an overall company level, so of course, those scales and economies always help to foray your margin and bottom-line expansion. In the second, I think what we prioritize and strategize, you know at the start of this year-end, two years back is the quality of the revenue mix, so we always strategize that we want to prioritize the value of the offering the better margin deals. We have been finding a few sizeable deals and a multi-year contract, and these are at terms where we feel very satisfied and happy. Those strategies are working for us, which also adds to the better margin profile at a company level. The third probably is on the cost side, which is your operating leverage and arbitrage. Our internal focus is always the disciplined execution and operational efficiency, so if you see our utilization, our utilization has been at an all-time high. Earlier, we used to be in the band of 73 to 75, now that utilization is almost 80% up, it is almost 83%. In fact, the pyramid is the other sector where we can achieve a certain kind of leverage, and then the last probably is the offshore and onsite arbitrage. We have always had an offshore-centric approach and our customers also always accepted that. Still, during these pandemic times, it also further cemented that kind of approach with the customer, so that is also kind of helping us. Earlier it was, you know pre-pandemic level our onsite mix was about 35%-36% odd, now it is almost 23-24, so our offshore the revenue mix has improved in the overall business which is helping our margin, so probably it is a combination of both top-line growth, quality of earning, and operating leverage and arbitrage.

Bharat Seth:

Sir, it is a fair point, but we are reaching almost a full kind of operating leverage that we are enjoying, and now if we keep on adding lateral hires, and if volume continues, from a margin perspective, are we getting some better pricing or how long this kind of a trend will continue on the margin trajectory side. I am not looking at one quarter or two quarters, but more a medium-term perspective if you can give some more color?

Gaurav Bajaj:

We do not make any forward-looking statements on margins, but having said that see, we believe and are pretty confident we will continue to deliver one of the industry-leading margins and better to do on most of the parameters. As you know, in the current scenario and situation, everyone in the industry is kind of benefitted from some kind of suppressed SG&A and some discretionary spending. We believe that some of that will come back once things open up, but we do not know. Of course, that will not be immediate, but that would always be over a period, and we believe that it will never be to 100% level of the pre-pandemic level; it would be some percentage of it. Today, it would be tough to say when, how much it will come back. On the other side, if you see, with our growth and we believe that our overall pipeline and funnel and a robust mix of the demand for this industry, I think the growth will always be there and with our other operating levers along with our growth, I think with execution, strategies, and all those things, we will continue to drive and offset some of those parameters. We have set

ourselves some aspiration margin band, and we are pretty confident that I think we will continue to deliver one of the better margins of the industry.

Moderator: Thank you very much. The next question is from the line of Hiren Ved from Alchemy Capital. Please go ahead.

Hiren Ved: Hi Manoj and Nitin, congratulations on fantastic execution quarter after quarter.

Manoj Raghavan: Thank you, Hiren.

Hiren Ved: My question is that you mentioned that you are seeing growth back in the transportation vertical. You also had initiatives of essentially tapping into other adjacencies like off-road railways. Could you tell us if you have made any headway and what kind of progress you are seeing in the non-traditional transportation that we are already very strong in? That is question one? Second, given that skill sets in this area are still relatively few, are you able to get a pricing uptick on the services you are delivering with the customers?

Manoj Raghavan: On our transportation business, if you look at it, primarily a lot of our business used to come from passenger car vehicles, but over the last, I would say six to eight quarters, we have diversified our revenue profile to include commercial vehicles as well as off-road farm equipment and the rail segment. It has been steady progress. We won some excellent deals on the commercial vehicle base in the last quarter, which has helped us grow this piece of revenue. Our rail business is also growing steadily. Our focus is over the next three years that 20% of the revenues in the transportation business should come from these adjacencies that we called out. We are working towards that, so I do not see any concerns, and I believe we will achieve our objectives there. Skillset, as you rightly said, is enormous pressure on skill sets. These are not run-of-the-mill skill sets; you cannot use fresh engineers here. You need experienced people, so all of that is applicable. But, yes, we have been able to negotiate better terms with customers, which definitely helps us in our overall business growth.

Hiren Ved: One last question also I think this quarter as well your healthcare vertical has grown very well; do you believe that this vertical will lead in terms of quarter-on-quarter growth even in the future, considering the base is still small?

Manoj Raghavan: Yes, the base is small, but again the problem with some of these smaller businesses is that you can always have one bad quarter here and there, so while I would want to say that yes, growth is going to be indefinite, but I cannot predict the future right. Both quarter-on-quarter and year-on-year, we have been having a pretty decent growth in the healthcare business. Our long-term, three-year roadmap that we put forward talks about the 40:40:20 ratio between automotive, media and communication, and the healthcare business, so we are moving in that direction. If you look at the factsheet that we laid out, we are moving in that direction. I would focus on the, I think last year is when we laid out so we are one year into that and the next two

years, we hope that we will achieve this ratio, 40:40:20, so I would really focus on that and not what happens quarter-on-quarter and so on. So we are moving in that direction. I am pretty confident that we will achieve our objectives over the next two years' timeframe.

Hiren Ved:

One just last question from me which I have asked before and I am sure many shareholders would want to know is what do we intend to do with the cash that is now sitting in the balance sheet; I know you mentioned before that you would look at some acquisitions or if you would look to distribute that cash to the shareholders in the form of dividends or so on and so forth?

Manoj Raghavan:

Both options are available. Discussions are happening regarding M&A and acquisitions, and so on, so we definitely want to have some cash available to make an inorganic acquisition. I think we will be having those discussions in the next Board meeting regarding payback to investors and dividends. So essentially, yes, both options are available, and we will make those decisions in the next Board meeting.

Moderator:

Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

Aditya Ahluwalia:

Thanks a lot for the opportunity. My first question would be on the outlook sustainability of this growth that you shared last year. Do you think it is possible to continue at these numbers next year and the year after?

Manoj Raghavan:

Sustainability if you look at it, you need to go back eight quarters and see how the growth trajectory has been, so we have shown that sustainability over eight quarters, so will we be able to show the same growth the next eight quarters, I believe we are pretty confident about it, but you never know how the industry outlook would change, but as a Management team we are pretty confident and pretty bullish, whatever we laid out as a strategy two-three years ago and we have followed that strategy, and we have communicated that multiple times to investors. Whatever performance we are seeing are down to those strategies that we laid out, including adjacencies, including the focus of the medical business, including the sort of growth in the US market and so on, so we have laid out certain themes and so on and we have followed through on all of those themes. So I am pretty happy that we have been bang on whatever strategies we laid out. We have followed it, and we are seeing those results right now, and then we have a great set of customers, good logos to have, and quite a lot of them are underpenetrated. So there is a lot more that we can do with some of these key logos that we have, so I would be pretty bullish about sustaining this growth going forward.

Aditya Ahluwalia:

Thank you very much, that is very helpful, so you said you have a very good customer and the others the top customer has been doing pretty well and like the concentration and the share of the top customers has also been increasing in the last couple of quarters, so can you tell us what is driving this strong growth in the top customer and is it JLR or any sense on that?

- Manoj Raghavan:** I think it is primarily to do with deeper mining and focus and some of the large deals that we have been able to win over the last two-three quarters, right, and I would say some of the growth that we are seeing is a ramp-up of the deals that we won over two-three quarters ago, so yes, we are pretty happy with where we are.
- Aditya Ahluwalia:** Right, so the growth outlook on JLR is also the same as the rest of the company, Will it perform in line?
- Manoj Raghavan:** Yes, I think JLR's business is also looking up over the last few quarters. I think they have been affected by the semiconductor crisis, but I think they are on a very strong wicket. In the next two quarters, once it comes out of this semiconductor crisis, JLR will be much more profitable. They will have a lot more cash on hand, and we hope that will help us look at more outsourcing budgets and more R&D work, so we are pretty bullish there.
- Aditya Ahluwalia:** Is the deal structure similar as far as the lifecycles of the project, or has that changed in these times?
- Manoj Raghavan:** What we have been seeing is over the last six to eight quarters is that we have become more and more strategic with many of our customers. We have been able to strike long-term deals with many of these customers and provide value to these customers right, so I think there has been a shift from a one-off project basis to a more long-term sustainable win-win relationship from both parties, so we continue to do so see that.
- Moderator:** Thank you. The next question is from Mayank Babla from Dalal and Broacha. Please go ahead.
- Mayank Babla:** Thank you for taking my question; congratulations on a great quarter and consistency in performance. Sir, my question relates to the previous participant as far as sustainability is concerned. Sir, it would be great if you could give us your opinion on what percentage or component of our revenues is related to discretionary spending by clients? What indicators should one follow if things turn around or become better? What indicators should one follow for the demand environment?
- Manoj Raghavan:** What do you mean by indicators?
- Mayank Babla:** What macro indicators should we look at to gauge how demand translates into our revenue?
- Manoj Raghavan:** I think you should focus on how the world is moving towards more and more digital spending. That will give a good indication, especially on all three verticals. Increasingly, what we see is a lot of our business comes from integrating design and digital put together, and that is the theme that we have been focusing on, so whether it is our media and communication business wherein a lot of our new projects or new customers have been focused on the digital part of the business like the and even in the medical business if we look at it. How do digital

technologies, cloud, DevOps, and Agile affect the various industry verticals right and bang on? We are right there in all this transformation across the industry verticals. Even in the automotive industry, if you look at it, a lot of the new deals that we are winning are on digitals and connected cars, on cyber security, a number of those trends that are changing the way the industry is operating in, so I think that is sort of a hint to you in terms of where we are making our money.

Moderator: Thank you. The next question is from Naveen Bothra, an Individual Investor. Please go ahead.

Naveen Bothra: Congratulations, Sir, for this stellar performance and continuing the last 10 quarters more than 5% quarter-on-quarter sequential growth in this quarter also and as you spoke about, the confidence coming back to 10 quarters will be almost similar to like that, so congratulations for an excellent performance. My question is regarding the IDV division, we have performed quite better compared to last year-on-year, but when we see the numbers Quarter-1 was 78 crores, and after that, it has come to 56 crores around, so if you can throw more light on the IDV division going ahead and what are the prospects there? The second question is whether our top customer is still from the media sector or JLR has come back offshore?

Manoj Raghavan: Yes, IDV is a smaller business that we have, and IDV has seen some amount of yoyo in their quarter-on-quarter revenues and so on. It is essentially to do with one large customer where we have completed a particular work, and the next set of activities was supposed to happen in Q3. Still, that project did not get started right, but at the same time, we are hopeful that we will kick start that in Q4 or Q1 of next year, so again that is one of the customers in the top six to 10 bracket that we have and that is pretty sizeable engagement for IDV, so I think it is a temporary issue. As you rightly pointed out, if you look at the quarterly numbers, sometimes it is quarter-on-quarter numbers, sometimes it is misleading because it is a small business. So even one significant deal moving here or there will cause the numbers to look very different. Still, as you rightly pointed out from a year-on-year basis, if you look at the full-year basis, IDV would grow 60%-70% over the last year's performance, so that is the sort of confidence that we have and which is very positive for us, but we get your point. We are working on strategies wherein we are building a good customer base for IDV to consistently grow that business and consistently report the numbers there in line with what we have done in EPD.

The real issue is also that IDV's capabilities help the organization, not just IDV alone; it also helps our customers in EPD, so it is often a combined deal between IDV and EPD. Sometimes it is challenging to split the revenues between EPD and IDV. From an organization's perspective, IDV has contributed to EPD's growth. However, the numbers IDV shows the smaller number and maybe even quarter-on-quarter degrowth. Still, from an organization's perspective, the capability that we have in IDV has helped us win larger deals in EPD and get better margins and better pricing because of the capability that IDV brings in. Hence, IDV is critical, and we will see how to stabilize the IDV revenues moving forward. Also, I think last time we discussed it, we are also contemplating. Still, IDV is all said and done a service line, so the way we represent

EPD, IDV, and so on, we may have to relook it so that it is more aligned with the industry verticals that we are operating in, not the service lines, so that is something that we are working on.

Regarding the top customer, yes, it is still a media and communication vertical customer. We are pretty happy to grow those revenues, win large deals, and win market share from the competition. JLR also continues to grow; I think these are very positive for us.

Naveen Bothra: One last question from me, if you can share IPR and licensing revenue, we are still below the 5% or post the 5% if you can share?

Manoj Raghavan: No, it is still below 5%. Again, the product or frameworks we have are standalone even though the revenues are not very significant. Still, from a positioning perspective from right to win perspective, these are all important for us to invest in and build these products and solutions to help us win large deals and beat the competition. Hence, while standalone revenues may still not be significant, to build credibility in the space, we need to continue to invest in building these products and solutions, and we will continue to do that.

Moderator: Thank you. The next question is from the line of Karan Danthi from Jetha Global. Please go ahead.

Karan Danthi: I wanted to dig into the revenue side in your factsheet with the new age OEM; perhaps you can just give us a sense of the deal's size and components; that is the first question? The second question is somewhat related. It appears to be a trend where your peers are starting to win business from not just auto companies but also auto semiconductor companies such as Renesas or Qualcomm, or at least there are in trials with those companies; I am just curious as to whether you would be exploring the same opportunity? Then the last question I had is about the shortage, of course, Toyota announced recently or last week. However, we are still being impacted by the auto shortage, so you mentioned you think it is a one or two-quarter problem. Then after that, we are sort of in the clear; we want to push on that and ask how much visibility there is there; if that flips, do we see a slowdown in these transportation segments?

Manoj Raghavan: I will answer the second part. Yes, we work with the semiconductor companies; for example, we have been working with some of these names for the last 20 years, so auto semiconductor company is something that we have been working for many, many years. In fact, some of them are large customers of ours. So though we do not publicly announce these large deals, we are very well entrenched with some of these auto Semicon companies. In fact, we will be making some press releases so that you are aware of the type of activities that we do with some of these companies, so that is very much a part of our focus.

Regarding the last part of your question, I think you talked about the semiconductor shortage, and so on. Yes, I firmly believe that it is a couple of quarters away. In fact, even in this quarter,

I suppose companies like JLR and so on will show much better improvement in their sales because the shortage is easing down, so we hope that will help us translate into more business for us, so we are pretty bullish there.

Nitin Pai: Thanks Manoj. I just wanted to add to what Manoj said, that unfortunately, we do not have much to announce on the semiconductor side because we have been working with them for long, so there is nothing new about it to talk about. Still, coming back to that new AGV OEM, we have initial engagement on core platform software development. When you talk of platform software that essentially forms the architectural hub for everything on top, whether it is electric, whether it is autonomous, whether it is connected, so this is the platform architecture itself, so while we made a small start, we believe that it is the beginnings of something that can be much larger.

Moderator: Thank you. The next question is from Pranav Thakar, an Individual Investor. Please go ahead.

Pranav Thakar: Thank you for the opportunity, and congratulations on a great set of numbers. The yearly profit of 2016 is now quarterly profit of our company, so very happy and great going. My question is regarding the design linked incentive initiated by the Central Government. A certain percentage of the revenue of semiconductors chip being designed will be the company who will be eligible for it, so Tata Elxsi is eyeing to get that DLI scheme? Another is in reference to the number of EV players we are associated with. Can you share the number of semiconductor companies we provide services for?

Manoj Raghavan: The DLI scheme is something that we are evaluating. We definitely do a lot of chip design sort of activities, but we do not have anything else to report on that. We do work with close to four semiconductor companies in this space.

Pranav Thakar: Out of the top 10 EV manufacturers we are associated with because it is like follow-up for the clarification given before two quarters?

Nitin Pai: Manoj, I think that is difficult to call out because the question is when you say EV, who because all the conventional car companies also make EVs today and then you have a whole set of new-age OEMs who do not have except for barring one may be, do not either have volumes or even production commenced in most cases, so I do not think that is a fair count. We would not want to call out that number right now. We work with a very, very good number of traditional OEMs who are pivoting very strongly to EV and a whole set of new-age OEMs who are born EV.

Moderator: Thank you. The next question is from the line of Dev from Invest Yadnya. Please go ahead.

Dev: Good Afternoon, congratulations on a good set of numbers. My question was can you tell me the total contract value of this year's quarter?

- Manoj Raghavan:** Usually, we do not disclose these numbers, so I am sorry we will not be able to share those details with you.
- Dev:** Can you tell me about this ER&D space in general? What is the future of this and all?
- Nitin Pai:** I think as far as digital spend goes, as far as budgets outlaid by companies go, I think ER&D is seeing the largest growth among all of the spends that are possible from companies or enterprises, so you have typically IT spends for Run Management, you have application development spends, you have infrastructure spends, and you have ER&D spends, so within these buckets, while ER&D has traditionally been the smallest piece, it is now the fastest growing and that is simply because I think in general what is happening with companies is that the context of connected and intelligent products and services which can be monetized based on the kind of data that you have and the connectivity and the relationship you have with customers irrespective of which sector you operate in, whether you are a car company, whether you are a media telecom company, whether you are a medical device company, the fact that you are connected to consumers or customers and you are able to deliver more services to them because of that connectivity and connection and the data that you get from them allows you to enhance the value of what you are delivering, I think it is the strongest trend for what brands and products and companies will do for the future, so I think in simple words that is what is driving this industry, and therefore, the space that we are in which is software centric, design led, I think forms the crux of what we believe value will be delivered on the basis of, so I am hoping that kind of answers your question, but there is no simple answer or a small answer to your question.
- Dev:** Sir, any growth rate numbers if you can tell me?
- Nitin Pai:** Again, I think as Manoj said, we do not offer guidance on future growth, the closest you would get to is Manoj's statements on our past performance over the last many quarters and the fact that we do not see any significant reason for why that should not continue without any significant external factors changing.
- Moderator:** Thank you. The next question is from the line of Pradeep Gokhale from ITI Mutual Fund. Please go ahead.
- Pradeep Gokhale:** Sir, thanks for this opportunity, and congratulations on excellent numbers. My question is regarding operating margins; if you look at last year or even the December '20 quarter or this quarter gone by, the margin range was around 30 odd percent. I believe the COVID regulated cost savings, and all would have been there in those quarters. In your remarks, you said that growth is primarily volume-led, so what explains the almost 2 plus percent in operating margin or this December '20 or September '21 quarter?
- Manoj Raghavan:** I think Gaurav has answered that in the first question raised.

Gaurav Bajaj: I think that was the first one we took, so I think what we mentioned is always the combination of on the top line and bottom line what strategies and what we are doing. It will be a combination of growth and sustainable growth versus revenue quality. I think this year we have been focusing and prioritizing is the better margin deals and also prioritizing the value offering to the customers, so that is also helping in terms of building the better to both top-line and also the bottom line compared to what has been reported in the past quarters in the last years.

The other factor is on the operating leverage and arbitrage, I think in terms of the utilization factor, improvement in employee pyramid, and arbitrage that we are getting from the offshore mix in overall revenue, so all those factors and the parameters are contributing to the better margins, and of course, you mentioned yourself that certain SG&A expenses and discretionary expenses which is little bit suppressed due to the lockdown and pandemic, that is also helping the cost of margins currently.

Pradeep Gokhale: Yes, but those would have been similar in December '20 quarter. Also, it was post-COVID or last quarter. So those would largely be the same?

Nitin Pai: That is right, Pradeep; I think while on the travel cost and typical SG&A, we would have somewhat a similar situation two-three quarters before and now. I think the answer lies in the other factors. Onsite and offshore ratios have continued to lever towards offshore, which has delivered better margins. Our utilization has gone up by a few points, and all we need is a few percentage points of increase to give you that little boost. We have improved the quality of revenues in terms of the kind of work; we continue to improve that. We are not saying we have not improved. We continue to improve that, and we continue to realize better margins from the kind of design digital deals that we are signing.

Manoj Raghavan: Also, the business volume has also increased right, so the contribution of SG&A to that extent will go down.

Moderator: Thank you. The next question is from the line of Abhishek from Nomura. Please go ahead.

Abhishek: Thank you for the opportunity; congrats to the Management on an excellent performance. I am looking at the last slide of your presentation where I see that your fixed-priced projects have been rising consistently, and now they are almost 50% of the total revenue. Can I say that this also has been a factor behind your improving margin trends, and over a longer period, do you think there is further scope for you to make your revenue stream more fixed price, annuity related business, or the nature of the business means that might be the kind of mixes work in future as well, any color here will be useful Sir?

Manoj Raghavan: Yes, fixed price over a period of time has been going up, and you should understand that fixed price means we take a lot more risk in terms of ownership and delivering value to our customers and so to that extent, I think our internal systems, internal processes have helped

us to be able to deliver value to our customers. At the same time, ensuring that from Tata Elxsi's perspective, we do not bleed or we do not get into such deals wherein profitability gets a hit, so having more fixed-price essentially means that you need to have very, very strong internal control, your entire estimation capabilities, your project management capabilities, all of that comes to fore. I am pretty happy and proud to say that look we have built one of the very, very strong internal capabilities to be able to focus on project management and delivery excellence, so to that extent, yes, I would say the fact that fixed-price projects have increased have also helped to an extent with the margins, but again it is a double-edged sword. If we take some wrong deals and if you take full ownership and take it in a fixed price and so on and if you do not, if we underestimate or if the complexity of the program goes up then rather than what we had estimated, then there is also the possibility of losing money in those deals, we have to be careful. So I am pretty happy with the current situation. The idea is not to push more fixed bids, but eventually, we will have more fixed bids. As we mature in our service offerings and our overall confidence, we will move in that direction.

Abhishek: Over the longer term, do you think this number can even go up from here towards 55%-60% in line with the IT services companies who also have ER&D businesses? Do we see a scope of increasing towards that number?

Manoj Raghavan: It is possible, but I would not want to indicate any timeframe or anything. As the industry matures and you should understand IT deals and so on, which is typically maintenance; everything is known. But, on the other hand, most of the ER&D, at least the projects that we do, are fresh, new developments, primarily new technologies, new areas, so like any project company, venturing into any new development, there is a lot of risk in terms of whether the products will come out on time, on schedule with the quality, parameters all of that taken care of, so to that extent I would caution you to really, we will not move that in a hurry is what I want to say.

Abhishek: Sir, any comments on attrition, it has jumped up for us in line with how the industry is also behaving, but do you think we are closer towards the peak of attrition for ourselves and should possibly stabilize this in the coming quarters at basically 20% mark?

Manoj Raghavan: I seriously hope that we are doing several things to control attrition. There are a lot of initiatives with our employees and a lot of internal programs that we are doing to build a better place for our employees, so there is no doubt about it. This is taken very, very seriously. We are also looking at, for example, from a salary hike perspective. Two years ago, we did a salary hike in the October quarter. Then in about nine months last year in July, we did a salary hike and in six months from then, in January, we are proposing a salary hike so essentially what I am saying is look over the last 15 months, we will be hiking our salary three times, so there are several things that we are doing. So I think we should be able to control this.

Moderator: Thank you. The next question is from the line of Shitij Saraf from Tun Investments Ltd. Please go ahead.

Shitij Saraf: Thank you for taking my question. It is around how deeper we plan to go in our three verticals auto, media, and healthcare. You mentioned a 40:40:20 split, so how do you see the total adjustable market for these verticals growing for Tata Elxsi, and where do you plan to go deeper? So if you could throw some light, there would be very helpful?

Nitin Pai: Shitij, I think the way we see it as that on the one hand, the markets that we have picked are very, very large by themselves, so automotive obviously is among the largest here in the markets ever among any segment that you pick up. Media and telecom follow closely. On the other hand, the healthcare market in terms of medical devices is far smaller. Still, when you look at the expanded definition that we have, which is of digital health and pharma, we are again talking of a fairly significant market, so the first thing I want to clarify is that the market sizes are big enough. But, on the other hand, we represent only a fraction of that potential market. So for us, the way we see it is that we need to drive our growth both to realize the potential within each of these verticals and derisking between any industry cyclicality that we see right because all said done, every industry has a cycle. You will see that cycle turning up and down over a period of time, so we also want to make sure that we are not single industry-focused, we are not entirely dependent on the cyclicality of a single industry, so to that extent, the ratio that we called out as a strategy a few quarters back which is to drive 40:40:20 ratio, looks at both factors - one, the market and the market size; two, the opportunity in terms of technology and where the industry cycles are; and three, looks at risk and balancing out of this, so in that sense, I would call it out as a strategy that we have taken rather than a reflection of the potential of each of the markets because you could choose to take this one market and get all your money from it, nothing stops us.

Shitij Saraf: Thank you, that is very helpful; just one more thing so in the past couple of quarters, we had an announcement on an ad tech partnership, and we have the partnership with Green Hill as well, so from a partnership standpoint, could you also throw some light on the plan ahead, where are the areas that you plan to partner and for what specific areas, just any insight there would be helpful?

Nitin Pai: The way we look at partnerships is two-fold: the acquisition of technology and the go-to-market. From the acquisition of technology, we already have a large number of partnerships at play, which allow us to understand, absorb, and prepare ourselves for what is coming up. Therefore, there are partnerships that we have with very leading semiconductor companies that are inventing chips and software and applications for certain areas like 5G and the autonomous car, and so on. We equally have partnerships with companies building software components that go into any of the areas we are investing in. For example, in media and telecom, it could be adtech; in automotive, it could again be software that goes into autonomous vehicles or electric vehicles, and so on. So these are all technology-related

partnerships that allow us to make sure that we are ready. We are the first off the block in terms of what our customers are exploring and wanting to build on.

The second kind of partnership is where we acquire technology and include them in our solutions when we go to market together. Now, those are a little fewer in nature. Still, they are also more strategic, so when you look at areas like OTT when you look at areas like adtech when you look at areas like EV, you see that we will be announcing a lot more of these partnerships where two companies come together, build solutions together, and then take it to market together. Again, the idea is to increase the volume that we have accessible to us in terms of customers and make it easier for customers to select us in terms of time to market, cost, and innovation.

We have the ability to improve our right to win, so we have clearly laid out plans on both fronts, technology partnerships are many, and we already have them in play. Go-to-market partnerships are far fewer. We also had to be careful because that impacts our brand when choosing a partner. We go together; we have to make absolutely sure that we are selecting the right partners as much as the other party is selecting us and that it does not impact our reputation in the long term, so you will find that we will make announcements as we go along. You will find that they are all aligned to where we believe the world is going.

- Moderator:** Thank you. The next question is from the line of Amit, Individual Investor. Please go ahead.
- Amit:** Congratulations on a fantastic set of numbers; my question was pertaining to the non-linearity between the revenues and the cost this quarter. The revenues have grown faster than the cost, and our employee growth is also 5% quarter-on-quarter. Is this sustainable, this non-linearity, or is this the kind of a one-off?
- Manoj Raghavan:** I think we have improved on our billable pay and ratios, and so on. Yes, we definitely would need to add a lot more employees moving forward, so I think the non-linearity that you talked about is a combination of multiple factors, better longer-term deals, better pricing, and so on is also a factor so that part will continue. Still, we will definitely add a lot more employees right, so it is not that we will be able to do greater revenues with fewer employees, so we are not yet there.
- Amit:** Understood. My second question is that we have announced deals in EV, connected vehicles, autonomous vehicles. I just wanted to know what the average length of those contracts would be?
- Manoj Raghavan:** Typically, most of these deals are between 12-18 months, some cases 24 months, and so on.
- Moderator:** Thank you. The next question is from the line of Kunjan Chachan from First Global Securities. Please go ahead.

- Kunjan Chachan:** Sir, congratulations on the excellent set of results. My first question is on the margins' follow-up; can you throw some light on the vertical-wise margins between auto, media, and healthcare?
- Gaurav Bajaj:** We do not report margins at the industry vertical levels. Our operating metrics, we only do at a company level, so we will not be able to disclose the margins at the industry vertical levels. Still, it is spread across all the verticals, so we do not see a large difference.
- Kunjan Chachan:** Not exact numbers, just a rough estimate like is there a huge variance between two?
- Manoj Raghavan:** I think I have answered this question in earlier calls also. Our medical business continues to be on a higher side; the margins continue to be on the higher side, followed closely by media, communication, and automotive.
- Kunjan Chachan:** Thank you for that, and my second question is regarding the attrition rate, or you can say the employee cost, so what are you seeing the trends in the whole industry? This is not for Tata Elxsi only but across industries, so what are your thoughts regarding that? Can you throw some light on that as well?
- Manoj Raghavan:** Throw light on attrition, you mean?
- Kunjan Chachan:** Yes, the attrition rate is higher this quarter for all the companies, so I just wanted to understand?
- Manoj Raghavan:** I think the fact is that due to the pandemic, many industry segments realize that they need to have a digital play. It is not just from the three verticals that we are working in and all other verticals also. Those companies that have had a digital play were still able to continue their operations, service their customers and deliver value to the customers. So we see a lot more of the companies, even the traditional companies, are aggressively getting into the digital play. They want to have a digital play and what that means is more demand for engineers who can help them create that digital play, which has a spiraling effect on the entire industry.
- Moderator:** Thank you. The next question is from the line of Kanishka, an Individual Investor. Please go ahead.
- Kanishka:** Congratulations to each one of you, fabulous performance. I have two questions. First, I want to understand there is some marked initiative going in the EV side, so from Tata Elxsi's point of view, I want to understand that if you let us say consider a car, what percentage of contribution the Tata Elxsi is making in that particular car which is a ready product as of today and the technologies which you are working on and you also mentioned about partnerships, if I see the next two years and three years where this particular sector matures, from the current

percentage content where do you think you can take it to in the finished product in the next two-three years?

Nitin Pai: You have to look at it along two dimensions, one is in terms of what is that goes into a car today, and then if you look at it, you have mechanical components including structural materials such as steel, plastics, and so, and then you have electronics and software, software, of course, is intangible. When you weigh the car, you will find there is no weight attached to the software, but there is a value attached to the software.

Kanishka: I was talking from the value terms in terms of the software contribution or the content contribution that Elxsi does in a finished product today and the technologies you are working on, at what percentage of traction you want to take in the next two-three years when it matures?

Nitin Pai: Therefore, if you look at that journey, the first journey is software and electronics increasing as a percentage value in the car itself, and that is an absolutely upward trend all through, so while the total number of car units sold is increasing, what is really increasing is the percentage of sophistication in the vehicle driven by electronics and software, so that directly drives our growth too, part one. Part two is sophistication by itself, which is not doing the same thing that you did the year before and the year before that, so if you look at autonomy, we had absolutely no autonomous features. We had no driver assistant features. We are now starting to see that come not just in high-end cars. You are actually seeing even mid and low-end cars starting to talk of ADAS features. We expect sophistication to continue to accelerate and increase so that you will move from level one autonomy to level two, level three, level four, level five; that is one journey. Two is seeing more and more mid-segment, small segment cars starting to deliver autonomy features. The electric vehicle is a trend by itself, so we have always been working on electric vehicles. We believe that it had a long road ahead; it just seems to be pivoting faster.

Connected has always been there. We believe that more and more cars will now offer connected services, including infotainment and otherwise, so I think that is the driver. The one the fact that in general electronics and software is continuing to increase rapidly. Two, the level of sophistication is increasing in each of these technology trends. Third, a larger percolation is downwards from premium to mid and lower segments. The last and most important trend is also that a lot more of the software development, a lot more of that innovation is being delivered through software, which otherwise was electromechanical or electronic is now becoming purely software-defined and software delivered, so that again increases the amount of work that we will have to do quarter-on-quarter and year-on-year.

Kanishka: Thanks for that, and my second question is that you have mentioned three verticals auto, media, and healthcare. I want to understand from you there is this major shift which is happening in the manufacturing side, so I am talking about the manufacturing upcycle where the traditional ways of manufacturing are moving more towards robotics automation, and like

as I see a more mechanical car is moving towards more software-driven, do you see there could be a tremendous amount of opportunity in the manufacturing side globally where Tata Elxsi can actually work on that opportunity or maybe you guys have already started to look at it as an adjacency?

Nitin Pai: That is something that we are both watching and investing in, so that is something that is already underway, and you are right there is an opportunity there not in conventional manufacturing, but in transforming manufacturing to lot more connected and digital, more the industry 4.0 path of automation and connected factories, so we do see an opportunity there, and we are exploring and investing in some areas.

Moderator: Thank you very much. Ladies and Gentlemen, that would be the last question for today. I will now hand the conference over to Mr. Manoj Raghavan for closing comments.

Manoj Raghavan: Thank you all for taking your time today. I hope you got a good idea about Tata Elxsi and where we stand in this ever-changing market, but one thing is pretty clear. We are pretty confident in the capabilities we have internally as an organization. The thought of the senior leadership that we have to drive the business and a great talent pool of engineering team, architects, subject matter experts, and so on, so I am pretty confident that we have the right winning combination to propel our business forward. I hope we will get back to you next quarter on similar terms. Thank you so much.

Moderator: Thank you very much. On behalf of Tata Elxsi Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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