



“Tata Elxsi Ltd. Q1 FY22 Investors Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY'22 Investors Conference Call for Tata Elxsi limited. I now hand the conference over to Mr. Lokesh Pareek from Christensen Advisory. Thank you and over to you, sir.

**Lokesh Pareek:** Thank you, Aisha. Good afternoon to 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 businesses that could cause future results performance or achievement 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 – M.D. and CEO; Mr. Nitin Pai -- Chief Marketing and Chief Strategy Officer; Mr. Muralidharan H V -- Chief Financial Officer; Mr. Gaurav Bajaj – CFO-Designate and Mr. G. Vaidyanathan – Chief Investor Relations Officer.

We will start the call with a Brief Overview of the past Quarter by Mr. Manoj Raghavan followed by the Q&A Session.

We would appreciate your cooperation in restricting yourself to two questions per participant to allow others 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 everybody. Thank you for joining us today and hope you and your families are safe. I am happy to report that we have delivered another quarter of strong all round performance. We have actually carried our momentum from the last fiscal year to the current one and we continue to execute strongly on both top line and bottom line.

Our revenues from operations for the quarter gone by was Rs.558.3 crores, translating to a growth of 7.7% quarter-on-quarter and 39.4% year-on-year. The growth was predominantly volume-led, with a constant currency growth of 6.4% quarter-on-quarter and 37.4% year-on-year. The PBT for the quarter was Rs.153.9 crores, registering a growth of 63.9% year-on-year and net profit for the quarter stood at Rs.113.4 crores, reporting a growth of 64.6% year-on-year.

Please note that, as disclosed in our fact sheet as well, the bottom line factors an additional Rs.33 crores of employee expenses on account of the special one-time bonus for all our employees as conveyed in the previous investor call.

Growth was driven primarily by strong performance in both our key divisions -- EPD and IDV. The Embedded Product Design, (EPD) our largest division grew by 7.5% quarter-on-quarter and 31.4% year-on-year, and the Industrial Design & Visualization business (IDV) posted a smart growth of 13.9% quarter-on-quarter and 132.1% year-on-year.

So geography wise, our growth was led by the Americas with 17.5% quarter-on-quarter and 69.3% year-on-year growth. Europe grew by 5.4% quarter-on-quarter and 30.1% year-on-year. India grew by 2.8% quarter-on-quarter and 47.6% year-on-year.

And again within EPD, the growth was broad-based across industry verticals. Healthcare continues to grow faster than other industry verticals with the growth of 19.3% quarter-on-quarter and 80.2% year-on-year. Media and Communications delivered another steady quarter with 8% quarter-on-quarter and 31.6% year-on-year growth. Transportation business continues to show revival with a 3.4% quarter-on-quarter and a 20% year-on-year growth.

So if you look at it, the growth in our business was primarily driven by deep mining in our existing customers, especially in the top five customers. Even as COVID first started to affect our customers around the world, we pivoted quickly and supported by our mature offshore delivery capabilities and for the past few quarters, as a business we have been focusing on creating sustainable and long-term engagements that allow higher degrees of predictability and order book as we progress from one quarter to another. We have been constantly improving on this front with all our customers which actually builds confidence as we move forward. Equally, we have been focused on high quality customer additions, especially led by solutions and design-led digital engagements. I am pleased to see that it is starting to work well and sets up a platform for larger growth and mining.

So all in all, it has been a pretty satisfying quarter with growth across our key divisions, all our key geographies and all industry verticals. We are entering the second quarter with a strong order book, and a healthy deal pipeline across key markets and industries.

With that, I hand it over for a Q&A session and we look forward to interact with you investors. Thank you.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Mr. Vimal Gohil from Union Asset Management. Please go ahead.

**Vimal Gohil:** Sir, my first question was on your automotive vertical. So if I were to look at the numbers, your top customer has grown at about 12% on a quarter-on-quarter basis, but if I were to exclude that from the automotive business, non-top automotive business has actually shown a decline. So if you could just give me some reason as to why that has happened? If you could just provide an overall outlook on your automotive business going forward? The next question I have is on margins, the company continues to surprise on the upside. So if I were to look at your adjusted margins, they are still 30%-plus. And I think they are above the band that you have sort of provided of 25% to 27% EBITDA margin band. Is there a need to sort of relook at that band and probably revise it upwards given the fact that you have been very consistent in reporting these numbers, this is notwithstanding the eventual salary hikes or wage hikes that we see next quarter? And lastly, if you could just give us the wage hike number that you are planning to do in Q2 of FY'22?

**Manoj Raghavan:** From a wage hike perspective, I think it will be in line with what we have done in the last year about 7% to 8% will be the average wage hike and the wage hike will be effective from July 1. From a margin perspective, yes, if you look at adjusted margins, yes, I think we are in line with what we delivered in the last quarter. However, again, I would like to reiterate that these are extraordinary times and there will be expenses which will go up once travel and everything starts. So, I think we are pretty comfortable with what we reported in this quarter and that is something that we would focus on. Regarding the top customer, I think the automotive industry in general has had picked up for us which is good, and we have been continuing our growth from the previous two quarters. If you look at it when COVID hit, most of our competition both in India as well as abroad had a revenue dip of anywhere between minus 10% to minus 6% or so, but we managed to be almost flat YoY. So, from that I think we have grown almost 3%, right. So, that is a very creditable growth. And, you had inferred the top customer, I would like to say that that is a wrong inference as the customer that you have indicated is not the top customer. So from that effect, your assumptions are wrong. You need to relook at it.

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

**Bharat Sheth:** Mr. Raghavan, in these last two quarters we have added more than 1,000 employees which is roughly around 15% of the total employees as of June 30. So how do that infer from the gross perspective since we are on very good strong order book, so if one has to really look at our medium term growth number, this quarter, we have grown 7%. And if we continue to do so our growth number anywhere annual should be around what we were aspiring about 30%-plus, so do you think this number indicate those kinds of things?

**Manoj Raghavan:** The fact that we have been adding significant headcount would give you an indication of how we see our business, and how confident we are of our business. So, what we are doing is, we are building capacity to address the pipeline that we see, and address the deals that we have already won, and that shows the confidence that we are moving in the right direction. Whether we will achieve the numbers that we have talked about, that is secondary but what we are doing right now is, we see the pipeline, we see the strong order book that we have, and we are building capacity to address what we have.

**Bharat Sheth:** In this quarter, we have won a new deal including EV space also. Earlier you were talking much on the EV side also. So how do we really look at our company?

**Manoj Raghavan:** If you look at automotive industry, automotive industry is moving towards the electric vehicles, right, most companies, most OEMs, most suppliers are investing in that. So I think there was a little bit of slowness because of COVID and because of all the structural issues in the industry. We see that situation slowly improving, and we see a lot of deals coming our way and we have been preparing for this, and I do not think this is the first deal that we have, we have had earlier deals also in the space. But we are calling it out now because these are significant deals for us, and we hope that will help us. As the automotive industry recovers, and investments begin to flow in, we are ready to catch on the opportunities that come our way and deliver value to our customers. So that is the way I see it.

- Bharat Sheth:** When we say a large deal, can it be upward of a 25 million or what is our definition for the large deal if you can give some color?
- Manoj Raghavan:** I do know that even a few of our competition talks about large deals, but those are typically projected deals, right, assuming that the deal will go on for three years or five years, but typically in our engineering space, customers would start off with about 12 months an opportunity and then as we grow that particular engagement, it converts into a multi-year opportunity and so on. So, in my view, if a deal is around 5 million, especially a new customer, I would consider it as a large deal.
- Moderator:** The next question is from the line of Hiren Ved from Alchemy Capital. Please go ahead.
- Hiren Ved:** I had one question on your QoQ run rate. You mentioned Americas was 17.5%, I mean, that's quite staggering, right, and Europe was just 5.4%. So, was there something in the base in America that we have had a strong quarter, or it is just organically a strong quarter, and do we continue to see a strong run rate in the US? And why is Europe still lagging compared to Americas. So just wanted to understand this geographical run rate is quite differential 17.5 and 5.4 for Europe, considering both of these are significant geographies for you.
- Manoj Raghavan:** Number one, we have been investing in the US geography for quite some time, including building up sales capacity, consultants, and so on and so forth. Europe is also important for us, no doubt about it. But if you look at our revenue distribution, our automotive business tends to be a lot more Europe-centric, and Media and Communications and Healthcare business tends to be a lot more US-centric. So if you see the growth that we have had, we had significant growth both in media, communications, and healthcare again. And automotive also grew, but at a slower rate. So that naturally reflects in the regions also, US versus Europe.
- Hiren Ved:** And therefore, you believe you will continue to see strong growth in the Americas going forward?
- Manoj Raghavan:** We are pretty confident the way business is going, we are pretty confident that we have done all the right things as far as US is concerned and we hope that whether we will have such a strong growth, it is a very difficult question to answer, but we believe we have some sustainability there on the customer pursuit and so on. So all the investments that we have done, we believe will continue to help us grow our business in the US. We also expect Europe will recover and that is something that we are definitely working towards. And we hope it will be driven by the new spending in the automotive customers there.
- Moderator:** The next question is from the line of Naveen Bothra, an individual investor. Please go ahead.
- Naveen Bothra:** First question is regarding the gross incremental revenue and against that adjusted salary increase is Rs.5 crores. So, how would you like to describe this due to utilization improving or offshoring increasing, or the major incremental revenues are coming from platform and licensing, my question is regarding the platform and licensing revenues. How much this is contributing to this

quarter as compared to last quarter, that is my first question? Second is regarding our Tata Elxsi Vision 2026, when we see on the public platforms, our website, social media, we are giving data from 2021 various research reports, which says that this sector is going to grow 42% in 2026 on these things. So, we would request you to kindly throw more light on our Vision 2026 it will help investors very well

**Manoj Raghavan:**

Regarding the platform and licensing, our licensing revenues are still below 5%. But that is not really the metric that we track that because we really look at how these enable us to really win new customers or within existing customers, this platforms and intellectual property that we have, how are we able to differentiate ourselves with respect to competition and ensure that our business continuity is assured with some of these customers, right? Because of the investments that were made because of the strong intellectual property that we have that is embedded in the solution that we provide for customers. If you are not delivering value, the customer will definitely move out. But there is definitely a barrier for them. It is not an easy decision. So to that extent, yes, we continue to look at the products and intellectual properties that we have and use that to really get into new customers and also strengthen our relationship with existing customers. Regarding Vision 2026, that is an internal thought process inside Tata Elxsi. It is nothing that we at this point in time that we would like to talk to investors about. It is something that we are planning on very ambitious goals. It is at very early stages though we are refining it and so on. So maybe at an appropriate time, we will let but there is nothing at this point in time to disclose.

**Naveen Bothra:**

Just coming back to the platform and licensing, the incremental revenue in this model out of Rs.40 crores, how much we would attribute to platform and licensing, because the salary increases excluding the bonus of Rs.33 crores plus is Rs.5 crores. So, is it due to better utilization...?

**Manoj Raghavan:**

Utilization has improved, offshore-on-site ratio has improved, we have also had other income, there is a foreign exchange gains for that. If you look at it, all of that helped us really bridge that gap.


**Naveen Bothra:**

Recently, we have signed a MoU with Kerala government institution regarding our expansion, where we are talking about in three to five years, scaling up from 2,500 employees to around 7,000 employees, if you can throw more light on MoU which we have recently signed.

**Manoj Raghavan:**

I would not request you to go by that. I think that release is given by the Government of Kerala. Yes, we have signed an MoU with them. We are entering into a new SEZ there. It is an extension of our current SEZ. So the phase one would be about 1,500 to 1,600 seats. So at this point of time, we are only focused on that. And maybe two, three years down the line if things go well and as per our growth plans and so on, we have an option to take in another similar facility again another 1,500 or 1,600 seating capacity. At this point of time, the commitment is primarily on the 1,500 seating that we are looking at. And that should come maybe by the end of this calendar year, December, January timeframe is what we expect.

- Moderator:** The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.
- Mayank Babla:** Who would be our direct peers in the global space if you could give us some names? Second question would be in terms of headcount, what would be the percentage of people onsite and offshore? And related to that, what was the utilization level during the quarter if you could give me that?
- Nitin Pai:** This is Nitin here. Maybe I will take the first part of the question and then of course I let Manoj and Gaurav take the other two. So on the competition set; you really have to remember that we compete with a spectrum of players, right. So at one hand, we do compete with everybody who is a scaled IT player, whether it is an Accenture, Capgemini, TCS, Wipro, and HCL and so on. They have always been there, they have always had some amount of engineering work, and we continue to compete with them. We compete with different organizations among this set in specific industry. So, for example, in media and communications, we always treat Accenture as a primary competition. Similarly for other industries, somebody else. So that's layer one. There is another layer which is specialized players, right. And those specialized players include some which already been acquired like Altron and so on, and some which are still there, Acca, Alton, Bertrandt, in Germany, all these represent multi-industry as well as auto transportation focused players. Then as you come to India, of course, you have companies like KPIT and LTTS and so on. So in that sense, if we look at the global landscape, we compete with two, three different sets of competitors, headquartered outside of India, but pure play ER&D, and then the large IT players have always been around. So that is a quick note on the first point. On utilization, we have moved up 2% from 77% to about 79%. So to earlier question from Mr. Bothra, yeah, this is also one part of the reason why our margins have improved or contributed to margin improvements.
- Manoj Raghavan:** The last question was on onsite, offshore. Headcount perspective, I think about 10% of our employees are onsite approximately, 90% is offshore.
- Moderator:** Thank you. The next question is from the line of Sanjay S from Ampersand. Please go ahead.
- Sanjay S:** I just notice that your attrition level has gone up quite a lot despite you announcing such a massive bonus. Is it because the employees have become quite restive about opportunities outside?
- Manoj Raghavan:** So the market as you know is very hot right now, right? If you look at it, most competition has shown attrition like 15%, 16%, and so on. So yes, there are lot more opportunities for employees given the fact that everybody is working from home and so on. Earlier, if you were based in Bangalore, typically you would look for work only in Bangalore, but right now, situation is such that you can look for work anywhere, maybe for next 12 months to 18 months most companies would allow people to work from home. So there are a lot more options for employees. So definitely, attrition is picking up and that is an industry issue, it is not Tata Elxsi issue alone.

- Sanjay S:** But are you comfortable with hike like that you were planning, which is similar to last year, despite this change in attrition level?
- Manoj Raghavan:** The wage hike, as I said, is an average wage hike,. So we know who the key people are and we are will ensure that our people will continue with us.
- Sanjay S:** Two more questions. I notice that your revenue from India geography has fallen sequentially from previous quarter. Has it got something to do with COVID, otherwise your numbers should have been better?
- Manoj Raghavan:** So yes, COVID is definitely one of the issues that resulted in numbers showing that.
- Sanjay S:** So is it a loss of revenue or you will be able to kind of get that back in Q2?
- Manoj Raghavan:** We hope that we will be able to bring that back. Again, it depends on there is going to be a wave three or not and so on and so forth.
- Sanjay S:** Your offshore mix has improved quite substantially, but you are thinking that once  travel opens up, something will change, but do you think that there will be again, the offshore mix will go down to previous levels, or it will stay at around this level despite travel opening up?
- Manoj Raghavan:** Once the travel opens up we will definitely see an increase in our onsite because even though a lot of our customers have got comfortable with Tata Elxsi delivering value from offshore, but still there are a few customers who would prefer engineers being closer to them and so on. So, yes, if travel restrictions removed, there will be some increase in our onsite numbers, but it may not go back to the pre-COVID. So, it will settle somewhere in between else.
- Sanjay S:** You said that you have prepared or about to prepare Vision Statement for 2026. While you do not have to really give us numbers or anything, can we just get some thoughts like what really is going to shape that Vision Statement?
- Manoj Raghavan:** Vision Statement, definitely, as employees, as senior management we have our own aspirations for this company right. Of course, there is the Tata Group from a board of directors and so on. Also, there our aspirations in terms of where this company can go. Then there is the whole market, the business out there that we can tap into. So it is a combination of all of this. And we believe that there is significant growth potential and significant opportunity for us to tap into. So we are working on those lines.
- Moderator:** The next question is from the line of Anish Moonka from JST Investments. Please go ahead.
- Anish Moonka:** Sir, my first question is, so, we have observed that most of the global auto companies are facing new supply chain pressures due to the semiconductor issues, and much of their cash flows have evaporated. So this situation will be over in next 18 months and not before that until the new foundry capacity will come online. So what makes the OEMs continue to spend hefty amounts

to be future-ready when they will continue to face VUCA type situations on a consistent basis? And what would you attribute to us gaining market share in a degrowing auto ER&D market?

**Nitin Pai:**

Maybe I can take that first. On one hand, you have to note that certain short-term pains cannot have magical answers in the short term either, right, for example, if you are looking at the kind of electronics software and hardware that goes into cars, and that is where the chip shortage comes from, the ability to substitute one component for the other or one product for the other is not very easy. And nor is it going to deliver in the short term either. So to some extent, there are some measures going on. There is some participation from our side and some of these switchover programs. But we also know that there is no short term or magical fixes, right. So that is part one. Part two, if you look at customers and R&D spend, yes, of course, R&D spend is always discretionary. I can choose not to continue to do any R&D. But that is not true. All companies have to do R&D because you will be that much more of a dinosaur two years later if you decided that you are going to stop everything from now. Equally what I will decide on even as I reduce R&D spend is where I want to spend it on. And I think that alignment is important that if you are aligned, and we deliver services in the areas that they would want to invest in where they see the future, then you are in a good place. If you are in a place where it is that particular R&D spend does not bring as much bang for the buck in the future, yes, you will find yourself cut out. So I believe based on this, we are in a reasonably good place especially set for the future.

**Anish Moonka:**

So my next question will be what are the initiatives other than the Rs.33 crores one-time bonus that the company has undertaken to showcase the best attrition rates in the industry and that too quiet consistently? So do you see it as a big risk going forward that there is a supply/demand mismatch for good engineers, which will lead to higher than expected inflation in the upcoming years, so what is the plan for the company to increase its employees from the current 8,000-odd to 20,000 or 15,000 and also deliver consistent numbers regarding the attrition.

**Manoj Raghavan:**

So, attrition is a function of many parameters, right, including the market situation, including the competition play, including the investment by multinational companies and so on and so forth, right. But we have been through the cycles multiple times, this is not the first time that we are seeing attrition go up, even in Tata Elxsi, we have seen earlier attritions up to 15% and so on, and we have been able to manage attrition. So, we will continue to do it. Why do employees continue to work with us is primarily because the quality of work, the sort of employee-friendly policies that we have, the sort of open communication that we have with all our employees, and in effect, it is like we are like one big family wherein each one of us support each other to ensure that ultimately the company moves forward in the right way. So, I am extremely proud of the culture that we have built in this organization. A lot of that will help us as we move forward. Of course, we are investing in our employees, as I said, we've done bonus for our employees to ensure that during the tough times, right, especially when COVID was hitting, we took care of our employees, we've had lots of support for employees from medical whatever services that we have provided, the vaccination camps that we have run, the sort of mental health campaigns that we have provided for employees, there are a number of things that we do to take care of employees. So, it is not just money at the end of the day, it is what employees feel about working for us. And I am proud that look, we did an "Employee Satisfaction Survey" in the midst of

COVID, as compared to the previous survey, we increased our employee satisfaction point by almost 22%, that is a pretty significant thing, that shows that employees are committed and value working with us, right. So, yes, there will be short term issues, short term pains, slightly higher attrition, but I think in the long-term, we have a great culture that we are building here and definitely the quality of work will motivate the good engineers to really come and work with us, right. So, yes, and moving forward, we will definitely take this as and when we see attrition is picking, we would take care of it, we have hand and feet, eyes, and ears on the ground. So, we will take appropriate action.

**Moderator:** The next question is from the line of Pranav Thakkar, an individual investor. Please go ahead.

**Pranav Thakkar:** If you can throw some light on the opportunities that lies within India especially with EV initiative and how is Tata Elxsi with Tata Motors and also if there are some opportunities lies in the Indian railways?

**Manoj Raghavan:** Tata Motors is an existing customer of ours and we look at that opportunity, especially as Tata Motors move, we went into the EV space, that will definitely be a significant role for us. So, that is something that we are discussing with Tata Motors, of course, not just with Tata Motors, but there are a number of other customers also in India. So, I think, we are pretty confident that there will be recovery in the space especially in India, and a company like us would stand to benefit because of the deep domain knowledge and capability that we have been building and our experiences in our global customers which will definitely help us deliver value to our Indian customers, right. Indian Railways is something that we have been working with for quite some time, we have been working on, especially from improving the station infrastructure, and we have done a number of projects for railways, and also for companies that supply into railways, so, we have been already working. And I think, as modernization happens, and as government spends a lot more money on that, we have a very good opportunity to really get a pie of that.

**Pranav Thakkar:** And a follow up question to this that how many automotive players like exactly, if you can give a number of accounts that Tata Elxsi is working with?

**Manoj Raghavan:** Specifically, a number of accounts, I do not think I will be in a position to tell you that, but I can say, five of the top 10 OEMs are our customers and eight of the top 20 suppliers are our customers.

**Moderator:** The next question is from the line of Ashish Aggarwal from Principal India. Please go ahead.

**Anish Aggarwal:** So to one of the earlier questions you indicated that the top client is not from the auto vertical. Just wanted to get some clarification, that would mean given the fact that we are expecting more than \$30 million of revenue from JLR in FY'22, will that mean top two customers will be closer to 25% of our revenue, am I right in assuming that? JLR is not the top customer and...

**Manoj Raghavan:** I cannot do the math immediately, but yeah, between 20% to 25%, you can say.

**Anish Aggarwal:** Which vertical will be the top client now?

- Manoj Raghavan:** It is in the media and communications vertical.
- Moderator:** Next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.
- Apurva Prasad:** Manoj, three questions from my side. So, I notice the strong sort of number of strategic partnerships in the release, in terms of nature of deals, it does appear that deal sizes are increasing, becoming more strategic. So based on the overall demand environment, and the kind of wins and the overall pipeline, do you think it is fair to assume the similar sort of sequential run rate can be maintained in the near term?
- Manoj Raghavan:** That is the intent, but there are no assurances in this business, right, so, we are doing everything we can to really keep up that growth momentum.
- Apurva Prasad:** But any color in terms of deals and how that is progressing to give confidence in terms of...?
- Manoj Raghavan:** As we see today, we really have a very, very strong order book. And that is the confidence that we can continue to grow at least in the short term, right. And you would have seen the performance in the last four quarters.
- Apurva Prasad:** Secondly, this is more from a group entities perspective. So, we have heard TCS as a group entity focusing a lot more on areas which are core competency areas of Tata Elxsi, I am referring to connected EV segment or it is the OTT based on some of the deals that have been out. So two-part question to that. Is there a joint go-to-market with TCS in automotive and the OTT side or the related entities competition; is there any demarcation really to avoid overlaps?
- Manoj Raghavan:** There is no demarcation or there is no collaboration per se, right? It is again deal-to-deal we collaborate, we co-exist, and we compete, everything together, right? But however, it is not just only about TCS, right. You look at the global industry, I mean in the last three, four years, ER&D segment has always been touted as a fastest growing segment and you know that companies like Accenture or Capgemini, they have made a number of acquisitions to really strengthen the ER&D phase. So it is not just about TCS. We see this focus on ER&D from all the big IT players. Not just that, we have always had strong companies like Wipro, HCL, TechM, and so on also getting a good percentage of the revenue from the ER&D space. So this is not something new. The large IT players have always been competition, and we continue to see the competition, and we have to really deliver value, based on our value proposition, and based on our core competencies, customers desire to work with us and not with the large IT companies, right. So, this has always been there, it is not new for us.
- Apurva Prasad:** Just your comments on strong growth in top five. So you did talk about the top account, but broadly top five showed very strong growth. So has there been a churn within that or are there any driving factors which you can talk about?
- Manoj Raghavan:** So when COVID hit us, right, we really took extra care to ensure that the relationship with the top five and the top 10 customers we do everything possible to address their requirements, right. So as I said, I think in Q1 of last year, and so on, right, we even had discounts and rate cuts and

so on so that we take care of those customers. So, what has happened is that, because of all that we have done to really be with the customers during their tough times, each of these customers, now we have a far deeper engagement with them, if you look at it, we have done extremely well in mining these customer relationships and strengthening this customer relationship. And that really has helped us deliver the growth that you are seeing. We are now strategic to each of these customers. So I think that is something that we are very proud of, and we would want to continue.

**Apurva Prasad:** Just finally on margins, just wanted to get your comments correct. You said that you are comfortable with margins where they are currently notwithstanding the wage impact and some of the discretionary spend increasing.

**Manoj Raghavan:** I think we would strive, I mean, unless suddenly everything opens up and our SG&A goes up, our travel budget goes up and so on, we should be pretty confident or comfortable is what I would say.

**Moderator:** The next question is from the line of Hansal Thakkar from Lalkar Securities. Please go ahead.

**Hansal Thakkar:** So I will just take Mr. Apurva's question a little further, apart from TCS, Tata Technologies has also expressed an interest in venturing into mobility. So, just wanted to understand essentially at a group level, I mean, what is the broad strategy?

**Manoj Raghavan:** Whether it is Tata Technologies or TCS, they are different companies, we are a different company, right, so we really cannot tell what that company should do or that company should not do. So we have to focus on our business, and that is what we have been doing.

**Moderator:** The next question is from the line of Arjun Balakrishnan, an individual investor. Please go ahead.

**Arjun Balakrishnan:** I have two questions. Congrats on the three product award on the NASSCOM. So on these products, are we trying to prevent from being an ER&D service company to eventually being a product and licensing company with services being a portion of the revenue thereby we can expand margin?

**Manoj Raghavan:** No, we are not trying to be a product company in the sense that a significant part of our revenues coming in from product, right. Products for us are enablers to really build services around that and help our customers' time to market and so on. We do not want to compete with our customers. If you start launching your own product, sometimes in this industry, customers will start worrying whether is this the company that we need to work with, they get worried about helping a competitor, right, build up capability. So, we would never be a full-fledged product company. However, we will continue to build products and properties that will help us make a meaningful impact from a value delivery perspective to our customer. And that is the intention.

**Arjun Balakrishnan:** So, all of these platforms and these things that we develop is more for our delivery rather than giving it to the customer and getting revenue as licensing, so more ramping on ...?

**Manoj Raghavan:** Yeah, we definitely license these intellectual properties of platforms to customers, but it is not a product by itself, around it, we need to build the product. So these are you can say like the building blocks or steppingstones.

**Arjun Balakrishnan:** Finally, we have been working with our existing customers and deeper as you said. Just to understand from the customer's perspective, how expensive would it be switch from a partner like Tata Elxsi to another partner, how would the switching costs work for them, I am trying to understand what is the competitive advantage, so can you throw some light on how strategic we are for the customer and how difficult it is for them to switch from Elxsi to somebody else who probably offer the lower price or something like that?

**Manoj Raghavan:** We are in the ER&D space, right, it is very different from the IT space. In IT space, typically the platform is already built, because you need to maintain, take a bank or any of the applications, right. So, all it needs is some domain knowledge and skills on around programming languages or databases and so on and so forth. And switching costs is not very different. One competitor can easily replace others by providing value which could be price or anything else or some IPs that they have and so on. But in the case of R&D services, it is also to do with the relationship that you build to the customer over a long time. See, globally also it is known right, not all R&D succeeds. So, if you have a partner with whom you have built a relationship and we have been delivering value and success to that customer, it is a lot of risk for him to move away from us and go into another relationship especially because the nature of work, the processes, the type of people that we have, there the confidence has already built in with the customer. Unless the product development is not a very complex product, unless it is a maintenance or a support sort of activities where domain knowledge is really not very, very critical and so on, it is relatively not easy to make that switch. But however, there are some of these large organizations that go ahead and do a vendor consolidation or do some such activity, right, primarily driven by the IT thought process. But in every such case, we are seeing whether it is a large deal that you would have read in papers over the last five, six quarters, especially in the engineering space, they have not really been successful because though it is all pushed by the procurement or the finance guys, the engineering guys feel that this is not the right way to move forward. So even though there has been competition that comes and says that, look, we have won over a deal over Tata Elxsi for example, and I can confidently say that we continue to exist in all those engagements, and we continue to deliver value.

**Moderator:** Thank you. Next question which is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

**Vimal Gohil:** Sir, over the past few quarters, you have been alluding to some opportunities in some newer areas in automotive. So if you can highlight has there been any progress there? I know it may be too early to ask, but at one point of time, even medical devices were strong and today it is one of your key revenue drivers. So maybe if we are at that stage in those segments as well in automotive, if you could highlight that and secondly, I just wanted one data point. You said that your effort mix currently is at 10% onsite, 90% offshore. What was this mix pre-COVID?

- Nitin Pai:** Maybe I can take both of them. I start the second one first. In some sense, it will be directly proportional to the revenue, right, because what we declare on the website is revenue, about 25%. So in some sense, you will find that there is some correspondence directly of revenue to people. So you can use the same percentage.
- Manoj Raghavan:** Pre-COVID, I think onsite would have been anywhere between 25% and 30% or so.
- Vimal Gohil:** You do not see this going back any time now, I mean, this is a structural change that has happened, maybe 2%, 5% here and there, but it is definitely not going from 25% to 30%?
- Manoj Raghavan:** Yeah, that is what.
- Nitin Pai:** On the first part, falling out the adjacencies and transportation which is rail and off-road. And I think like we said we want that to accelerate faster than the core vertical automotive. Not because we want to grow automotive slower, but we believe that growth is faster and possible in these two other segments that we have called. The other reason why we celebrate those were also because skill sets are complementary, we can carry over skills and capability to rebuild and automotive into these sectors. And we are measuring only two metrics, right, one is total revenue composition, how much of revenue does it contribute and is that changing, is that accelerating? And two, are we acquiring the right logos, because those industries are obviously much smaller. So, we therefore need to acquire those, if I may call it premium logos in those segments, and I think we are doing very well on both counts.
- Vimal Gohil:** So, would you want to quantify it right now, how much does it contribute or is it too early or it is not meaningful right now?
- Nitin Pai:** It is not meaningful right now, in the sense that we have set very, very definite parameters and we expect that there will be a time where we can start to call that out separately, like we call medical ground. Until that point, I think it does not provide any great insight to call out numbers on that front.
- Moderator:** That was the last question. I would now like to hand the conference over to Mr. Manoj Raghavan for closing comments.
- Manoj Raghavan:** Thank you all for your patience, and I hope we were able to answer all your queries. Would look forward to meeting you again in the next quarter. Take care. Bye-bye.
- Moderator:** On behalf of Tata Elxsi that concludes this conference. Thanks everyone for joining us, and you may now disconnect your lines.