



Q2 FY22 Earnings Conference Call

October 25, 2021 | 15:00 hrs IST

Moderator: Ladies and gentlemen, good day and welcome to Tata Elxsi Q2 FY22 Earnings Conference Call. I now hand the conference over to Mr. Lokesh Pareek from Christensen Advisory. Thank you and over to you.

Lokesh Pareek: Thank you Stanford. 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 business risks that could cause further results performance, on achievements to differ significantly from what it 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 – MD & CEO, Mr. Nitin Pai – Chief Marketing and Chief Strategy Officer, Mr. Gaurav Bajaj – Chief Financial Officer and Mr. G. Vaidyanathan – Chief Investor Relation 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 other participants an opportunity to interact too. If you do have further questions, do join the queue and we would be happy to respond to them if time permits. I now hand over the call to Mr. Manoj Raghavan. Over to you Sir.

Manoj Raghavan: Thanks 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 steady growth across industry verticals, and we continue to execute strongly on both top line and bottom line.

Our revenue from operations for the quarter gone by was Rs.595.3 crores, registering a growth of 6.6% quarter-on-quarter and 38.4% year-on-year. The growth was entirely volume led, reflecting in our constant currency revenue growth of 7.4% quarter-on-quarter and 37.2% year-on-year. We had forex losses to the extent of Rs. 4.7 crores, while we had an almost equivalent gain in the last quarter. We will continue to monitor our hedging policy and tweak as required, but the real focus is on driving operational performance.

Profit before Tax grew 11.1% quarter-on-quarter and 55.5% year-on-year to Rs. 171 crores. Net Profit for the quarter stood at Rs. 125.3 crores, reporting a growth of 10.5% quarter-on-quarter and 58.9% year-on-year.

The company's growth was powered by the Embedded Product Design, EPD, our largest division at 10.6% quarter-on-quarter and 34.4% year-on-year in constant currency terms. Within EPD, the growth was broad based across verticals.

Transportation vertical business posted a smart double-digit quarter-on-quarter growth of 12.9% and 29% year-on-year.

Media and communications and healthcare verticals delivered another steady quarter. Media and communications grew by 7.8% quarter-on-quarter and 32.9% year-on-year growth and healthcare grew by 6.6% quarter-on-quarter and 72.3% year-on-year.

We are seeing significant growth in automotive market with large and strategic deals with both OEMs and suppliers in the EV and autonomous technologies, underscoring our technology and engineering leadership, Tata Elxsi won a multi-million US dollar electric

vehicle software development program for a new-age EV OEM in the APAC geography. We also won a software platform development deal for Level 3 autonomy and beyond from a North American system supplier. Rest of the world, which is really Japan, Korea and China for us, has been muted for some quarters, especially because it is automotive heavy and travel restrictions also damp the start of new projects in these regions. We are seeing some revival here. We also won an EV system, software development deal from a leading Japanese Tier1 supplier, which will ramp up this quarter.

Our media and communications business continues to grow steadily led by organic growth and deeper mining in our top customers and platform led deals which are enabling entry into operators and broadcasters that were otherwise not accessible. We were selected as a platform provider and system integrator for a multi-region, Android TV launch, for a leading America based operator and this will be a multi-year engagement. Our award-winning iCX platform for customer experience was chosen by a leading global telecom operator to be adopted and deployed across multiple countries. We will see new countries signing on over the next few quarters.

Our Industrial Design Business declined 14.2% quarter- on-quarter. The sequential decline was due to a shift in program timelines for a large ongoing design-led innovation project with a US customer who also featured in our top 5 customers list. We have finished one phase of this large project, but subsequent phases are deferred, and we expect this to resume in the next 1-2 quarters, but the values would be spread over a few quarters.

Meanwhile IDV is creating traction through design led deals, which have a multiplier effect for the three verticals and has won significant projects for itself. One example is a deal we announced this quarter where we are selected as a strategic design agency to redesign an entire portfolio of appliances for a leading Asian appliance company. IDV grew smartly at 64.5% on a year-on-year basis and continue to baseline at a much higher numbers than the same quarter in the previous year. This is a

better sign of long-term trend of sustained revenues while some work is still project based and therefore subject to volatility quarter-on-quarter until new projects kick in fully.

Overall, we are also focused on deeper mining of our customer beyond the top 10. We believe there are great logos in our customer base that can deliver growth. We are also carefully adding customers in each vertical that can drive future growth for us.

We added over 700 new employees to the Elxsian family in the quarter, while attrition increased to 13.9% for the quarter, we are still lower than industry averages and continue to actively work on retention, especially for key employees, while continue to plan and add new employees to drive future growth.

In summary, it has been a very satisfying quarter with superior top line and bottom-line performance that are supported by industry leading operational excellence and talent retention. We are entering the third quarter with a strong order book and a healthy deal pipeline across key markets and industries. With that, I hand it over for the Q&A session. Thank you for your time.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of from Vimal Gohil from Union Asset Management, please go ahead.

Vimal Gohil: My first question is if you could just quantify the last quarter, we had about one-time, large bonus payout. This time around, I guess there will be salary hike that would have got executed. If you could just highlight what was the impact of the salary hike on margins in this particular quarter? And my second question was related to transportation vertical. We've seen a very good sequential uptick in transportation. If you could just take us through, what is our future in one of your largest clients over there, which is JLR? How is it doing, would you say that it is at probably at its closer to all-time highs as well, along with the client and we expect medical devices also we were expecting to take it to 20%. So, are we on track for that?

Manoj Raghavan: There were multiple questions. So, yes, we've had a full salary hike in this quarter, starting from July. So, the salary hikes were of the range of about Rs. 14 to 15 crores. So that's the sort of salary budgets, hike budgets that were incurred in the quarter. You talked about automotive business, yes automotive business has been subdued for many quarters and the last quarter and this quarter we have shown some decent growth. This quarter definitely a double-digit growth. So, lot of good traction in the marketplace from both OEMs and Tier1. Our JLR business definitely, has also grown which is very satisfying, but again we are nowhere close to the peak we were. I think the peak we were sometime in 2017-18 timeframe. We are much below that peak, so there is a long way to go. And we strongly believe that as JLR pivots into a full EV OEM and manufacturer, there are a lot of opportunities that will open up for us and hopefully pretty soon we should be able to cross the peaks that we achieved in 2017-18 timeframe. The medical business, continue to grow and as you've seen from a year-on-year basis, we have grown significantly and we continue to focus our investments and focus our sales efforts on that business and we hopefully will grow that business quarter-on-quarter, as well as year-on-year basis.

Vimal Gohil: What we've seen is the engineering budget for OEMs don't really get impacted because of any temporary slow-down in their volumes. But does that mean other engineering budgets or let's say other engineering outsourcing budget typically for OEMs and other large auto ancillaries, they have sort of decoupled from that volume growth. This trend has been accentuated in recent times, would that be a fair assumption to make?

Manoj Raghavan: I think so. Yes, the industry is struggling with the semiconductor shortage and so on. But that's more a temporary, this quarter next quarter sort of a situation. But long-term outsourcing long-term projects and so on., we don't see any effect of the temporary situation on any of that. And, and we're pretty confident that, unless this continues for the next 6-8 quarters and industry is in a real serious difficulty, we don't see the effect of this, on our business.

Moderator: The next question is from the line of Bharat Sheth from Quest investments, please go ahead.

Bharat Sheth: I'm trying to get some sense from medium term perspective. See if we really look, till Q3 of FY21 and full FY20, we hired almost in these seven quarters, 756 employees, whereas in last three quarters, we have hired, added almost 1800, which is almost more than doubled. How do we really seeing this medium term and the second thing on this attrition, have we seen on medium and higher end or at lower end. The net addition whatever we have done how do we see the overall employee cost as a sales?

Manoj Raghavan: If you look at it, overall employee costs, I think we have been able to manage pretty well if you look at it, 55% to 56% of our revenue is the employee cost. So, we have been able to manage it, pretty well. Yes, you're right, we have seen accelerated hiring in the last few quarters and that'll continue in the subsequent quarters also, because our utilization has gone up significantly. In earlier quarters the growth came, I mean, we had resources and we were planning for it, but the rate at which we have been growing, we definitely need to add more resources, both laterals as well as freshers. So, whatever you have seen the last couple of quarters that we've been adding, I think this quarter we've added over 1,200 engineers and last quarter also, we've added about 1000 engineers gross, and we hope to continue this in the next two quarters as well. So, what we are doing is, we are planning for this growth that we're seeing right now and for us if you look at it, I would say, there is a huge demand in the marketplace and we are gearing ourselves, we are getting ready to meet the demand and that is why you see those accelerated pace of hiring.

Bharat Sheth: In last year, despite, I mean, we grew 13%, but since the change in on-shore off-shore mix, we grew more than 40%. We're really like to like basis off shoring is increasing. How do we see the margin trending from here onwards?

Manoj Raghavan: I think you look at it from a H1 perspective, we are about 27.5%-27.7%% from a H1 perspective. I think that's a good margin. It gives us

cushion. even if we need to go out and hire experienced people and so on, it gives us a good cushion to be able to manage it without really, bringing down your margin significantly and the fact that, we have been able to move more work offshore, also gives us a cushion. Yes, we are sitting on a good cushion as far as margin perspective is concerned. That gives us a good confidence that, if, whatever investments are needed to grow our business, we can confidently go ahead and do that without really affecting the margin and overall performance for the year.

Bharat Sheth:

But this kind of growth. I mean and with the addition of the employee that we have grown almost 40%, so this kind of a growth do you think is a sustainable for at least a few years, the kind of pipeline. Second thing is, in your commentary, you were saying that we have won a very good business on a product and platform basis, digital platform. How are we seeing this platform traction increasing?

Manoj Raghavan:

So yes, we need to add our headcount just keeping in mind the sort of the demand that we're seeing in the market. As far as the platform is concerned, yes. We have been building a number of platforms, including Falcon Eye, ICX, Quotient. There are a number of things that we are building, especially in the media and communications vertical and that has really helped us to win customers and operators that are otherwise difficult. You need to bring something of value to them that they will engage with you. Our strategy of building these platforms has been pretty useful and we have shown some good customer wins including this quarter, where we have licensed our platform and built solutions around it, to win broadcast and communications customers who otherwise would be very difficult to engage. We definitely would continue building these platforms, building these intellectual properties and per se the licensing revenue from those may not be very significant, but what it really helps us is, it helps us to get engaged and then build our services revenue around those platforms and it also builds a very strong value proposition to differentiate ourselves from competition and also build in a lock-in with the customer. So, there are many reasons why we would continue to invest on these platforms.

Moderator: The next question is from the line of Naveen Bothra, an investor, please go ahead.

Naveen Bothra: Mr. Bharat has already asked about the employees and platform led deals. If you can throw more light on our inorganic acquisition and further capital allocation towards the organic R&D and innovation led investments, inorganic acquisition if you can throw some more light on that and relating to that if you can provide us the data, where our IPR led revenues are even now below 5% or more than 5%.

Manoj Raghavan: The IPR, I'll answer the second question. The IPR is definitely, below 5% from a standalone basis. But as I said, what is really good for us is IPR led revenues, which are services around the IPR that we have, that is showing a good traction. That is what we are depending on. From, inorganic strategy, I've always repeated that we are not shying away from an inorganic activity and the situation is the same. There is nothing to report as of now, as and when there is something for the investors, we will let you know.

Naveen Bothra: Okay. Second question is regarding the introduction of new verticals, in the Edutech and all the training and all that, because in the social media, we are seeing some posts... If you can share that, just like healthcare, going forward, we will be introducing new verticals, standalone verticals, little more focus on Edutech and all this.

Manoj Raghavan: Yes, we are continuing to invest in our edutech business. Still a very-very small business but there is a definite focus. Similarly, on industry 4.0 and manufacturing, we are continuing to invest. These are two new areas that, we're not calling it out as separate industry verticals and so on, but we continue to invest in that and we have early customers in both those cases, however at an appropriate time we will, lay it out to the investors. It is still at incubation stage right now.

Naveen Bothra: Just a small question regarding the hiring target for the next two quarters if you will be touching the 5-figure employee 10,000 ?.

Manoj Raghavan: Yes. I guess we should be able to. Our hiring would be in the range of again, similar 1,200 to 1,500 a quarter for the next two quarters.

Naveen Bothra: So, end of the year we will be around 10,000?

Manoj Raghavan: Yes. Looking at the way, we continue to hire, yes that is the figure that we are looking at.

Moderator: The next question is from the line of Saravanan Balakrishnan, an individual investor, please go away.

Saravanan Balakrishnan: I have a couple of questions, the first question primarily on the client concentration. Earlier you have top five clients used to contribute somewhere around 35% to 40%. How is that changing? And second question is primarily on the ER&D space. Where like since global OEM spend has increased, so what the trends are looking like. What I see is across all ER&D companies they show similar growth rates where the industry itself is growing higher, where Tata Elxsi is primary on the league. Just want to get a sense of like what's driving this trend, will this trend continue for 3-5 years? And for any reason if the trend reverses how are we capped at, since we are adding 1,500 employees every quarter, so how is that project portfolio mix getting balanced in terms of any macro impact?

Manoj Raghavan: Yes, so at the top 5 customer concentration is almost 37%. What we have been definitely looking at is, to definitely mine the top 10 account as well as get beyond the top 10 customers and also aggressively grow the top 10 to 20 customer base also. So, there is an active effort going to really look at the top 20 bucket and see how we can grow that particular customer base. Regarding the ER&D question, its well-known that there is going to be a boom in the ER&D outsourcing and all data and trends indicate the same. What is happening in the digital space, especially in the ER&D space, including AI, big data, digital twins, this trend towards digital manufacturing, all of that, would definitely mean a lot more growth for companies like us. We are seeing traction. If you look at the industry or industry segments that we are in, automotive because of EV and entire car industry going digital in a way. So that is

a positive trend for us, and we continue to leverage and benefit from that trend. Of course, the media and communication with OTT, with digitization, with digital ads, all of that coming in, the opportunity in front of us is pretty big, I would say the same for medical devices and healthcare space also. All the three industry verticals that we are in are showing growth and the investments that we are doing right now in head count and so on is to really cater to this growth. I do not foresee a slump in any of these industry segments in the next 2-3 years at least. So, as and when, if at all that there is something happening, I'm sure we will be able to see it much before a lot of others. Then we will take, corrective actions and that's why we've also built-in adjacencies for us. So, I would say we are pretty much covered from an industry risk perspective, unless something drastic happens in the world. I think the next 2 to 3 years we don't see suddenly our pie of the overall industry segment slowing down and decreasing and so on.

Saravanan Balakrishnan: One last question regarding the M&A part, since almost all the ER&D companies are also trading at historically high valuations especially from price to sales, are we facing any challenges in getting good acquisition targets primarily from inorganic standpoint?

Manoj Raghavan: Yes. We are not looking to acquire any company which fits the bill. What we're looking at is, we are really focused on adjacencies that we are in and we're trying to identify companies that can come at a reasonable margin. Yes, as you rightly pointed out, the market is pretty hot, and companies are overvalued at this point in time. So, unless something comes up that really meets the criteria, we will not rush in and buy a company just for the sake of buying.

Moderator: The next question is from the line of Amit Sawani an individual investor, please go ahead.

Amit Sawani: I just want to confirm that JLR is our largest client for this quarter?

Manoj Raghavan: No, JLR is not the largest client for us this quarter.

Amit Sawani: The other point is that you mentioned that the employee cost went up by Rs. 14 crores because of increment, but QoQ increase in the employee cost is Rs. 8 crores and our number of employees have also gone up, it was just not adding up.

Nitin Pai: Just one clarification here. You have to remember that we did have a one-time bonus last quarter. So that came in last quarter but does not have much of an effect in the quarter that just gone by, I am talking of Q1 versus Q2. Q2 really sees two big ticket items. One is salary hikes that are deployed with existing employees and all the additions that we did of new employees.

Moderator: The next question is from the line of Kshitij Saraf from Tusk Investments.

Kshitij Saraf: It's on the M&A bit. Mr. Raghavan mentioned on the geography as well as the capability front in terms of the M&A, what are the adjacencies that Tata Elxsi is looking to get into, that's one question. And related to that is given the market scenario at present are there any plans to build certain of these capabilities in-house in the event that a good deal doesn't go through.

Nitin Pai: I think the natural path and the preferred route for us for entering new areas, building capacity as well as capability is organic. So, to that extent we are very clear. Anything that can be done by us and can be done in a given time period with a reasonable chance of success and customer acquisition is preferred. And if you look at M&A it is really when we do our NPV calculations that the path of organic is not as efficient as M&A and therefore the value that you are acquiring at the risk of integration, then balanced out against what will take us to do it ourselves is really what creates the case. So, to that extent we are not waiting for M&A to deliver for us. So, I think Manoj did refer to certain incubations of certain new practices, some new technology capabilities as well as some new verticals. All of these are being done organically, but what we are doing is examining inorganic options to accelerate that journey. And this is true for adjacencies. So, when I talk of adjacencies, we have called out rail and off highway vehicles, we have called out

OTT and new media in the context of media and communications, we have called out pharma and digital health. So, all these are declared adjacencies, and these are somethings that we are working already organically on. And we are building and accelerating our revenues there. So, when M&A comes in, it's only to create a shortcut or a shorter path to scale only if it makes sense for itself.

Moderator: The next question is from the line of Manish Malkani, an individual investor.

Manish Malkani: There have always been rumors of Tata Elxsi merging with TCS. Every now and then this news keeps coming in. So, what are the possibilities of that happening in the near future, if there is? And considering for the investors the prices right now are skyrocketing for the investor. So, any chances of a stock split or bonus in the near future?

Manoj Raghavan: This question keeps getting asked every now and then and this is not only now. 25 years ago, when I joined the company, it started. So, it still continues. It's amusing to say that it is still continuing. If it happens, it will happen. But right now, I don't think there's any indication whatsoever on this topic. Bonus, stock split, yes, I think usually these are decided in our Q4 board meeting, so would request you to wait till then.

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

Hiren Ved: Hi Raghavan and Nitin. I have no questions actually. I just came on the call to congratulate the two of you on a very strong set of numbers and fantastic execution. Keep the good work going.

Manoj Raghavan: Thank you.

Moderator: The next question is from the line of Apurva Prasad from Elara Capital.

Apurva Prasad: Manoj, I had a question on the client bucket, so it just seems like top 2 to 5 had a close to double digit sequential decline. So, is that comparable to the previous quarter, the top five or is that changed? Because it looks like a double-digit Q-on-Q decline. So that is one

question. The other is if I can get the utilization number for the quarter. And finally, on the impact is there going to be another one-time follow-on impact in the third quarter?

Manoj Raghavan: The top five there is no change. It is just that in the order of sequence there is a change, but otherwise the top five it is the same, there is no change. And again, we have already called it out. It is a specific customer in our industrial design business that we were executing a large project, a design led project which concluded and the follow-on projects which were supposed to happen immediately got delayed. So that's the only reason. We don't see any impact of it moving forward also. Of course, this particular client the engagement continues, but the ramp ups will happen now over a few quarters. So, to that extent, there will be some muted growth there, but however it will not impact our overall top five customers and so on. Utilization has touched 80%., so that's the figure

Nitin Pai: Just a note there Apurva that excludes fresh campus hires. So, if you include campus hires that's about 75%, but when you consider only lateral and experienced resources, it's about 80%.

Apurva Prasad: Is there a follow-on impact of the wage bonus that comes in Q3 or is that all done in the first quarter?

Manoj Raghavan It's all done in this quarter, Q2. Q1 and Q2 put together, it's all done.

Apurva Prasad: I mean the one-time which happened in the first quarter does that also spill over to Q3 or was that also a part of the Q2?

Manoj Raghavan: It doesn't move on to Q3.

Nitin Pai: It was primarily Q1 with a little bit spread to Q2 and that's the end of it.

Moderator: The next question is from the line of Dhruv Shah from Ambika Fincap.

Dhruv Shah: I really want to know what's the outlook on our onsite and offshore mix because every quarter you surprise us positively with the mix, but do

you see it going above this or with work-from-home closely ending, we should go back to 65% to 70% range.

Manoj Raghavan: We are at 75:25 right now. So, onsite literally speaking is lesser effort. For the same hard work, we have put in I can get double the revenue. You should sort of imagine this growth, we are primarily pushing this growth through offshore revenues, and which means we have to work doubly hard to get this revenue growth. Unlike other companies and so on this growth comes from purely project led offshore engagements. And if you look at from a headcount perspective, so that's also another reason why we are aggressively adding headcount because we are growing offshore, the project execution and offshore revenues. Having said that Q3 some economies are slowly starting to open up so we could see a little bit of on-site opportunities trickling back. But I don't see too much of an effect of that in Q3, but we would closely watch Q4 and the next Q1 to see how the situation changes. But at this point of time, I think we would be trending between 75-76-77% offshore. That's the visibility that we have.

Dhruv Shah: I wanted to add on one point you made that Japan, Korea and China are coming back. So maybe 3-4 years what would be as a percentage of transportation, these three countries put together?

Manoj Raghavan: 3-4 years down the line?

Dhruv Shah: No, before like 3-4 years back what would be their share of the transportation vertical?

Nitin Pai: That would have been about 20% or so, but you have to remember something is at that time it was primarily Japan only while China and Korea were just starting to build up as geographies. And over a period of time, we have added China and Korea. We have had a lot more customer wins and addition of customers in these two regions. But on the other hand, Japan has always been muted for some years now.

Moderator: The next question is from the line of Ravi Naredi from Naredi Investments.

Ravi Naredi: When everyone is facing attrition, you have done wonderful job. Sir, some investors have asked to split the share and bonus. Please never do that for investor benefit because due to this so many small investors in the company and whenever the market goes down, they exit and then share price is impacted for the company. So, our request is this. No bonus, no split please. Thank you.

Manoj Raghavan: Your points are noted.

Moderator: The next question is from the line of Rishab Surana from NIUM.

Rishab Surana: My question is basically on work-from-home culture. Are we seeing the structural shift in working, like working in for our employees working from home, or are we planning to bring them on board or like working from offices on a face-to-face manner? This is my only question.

Manoj Raghavan: Right now, 6%-7% of the employees work from office, but majority of our employees are working from home. However, over the next period of next few months, we are gradually bringing back all the senior people, the leadership teams and so on back to office. And of course, certain customer engagements that are more efficient if they all work together because of lab facilities and so on. So, some of those we will bring people back to office. But in general, from January onwards we see a move towards this hybrid working culture wherein a few days in a week on rotation basis people will come to our office and otherwise they will work from home. So, I think the way forward is clearly a hybrid sort of an option and we are exploring various ways of making this more effective as we speak.

Moderator: The next question is from the line of Tushar Bohra from MK Ventures.

Tushar Bohra: You had few quarters back mentioned in one of the calls to a question of mine that you have a stated intention of say 10% quarter growth run rate, 10% revenue from IP, and also looking at shifting more projects to a long-term engagement mode. If I could just understand where we are in that journey today and qualitatively how things can shape up say over the next few quarters?

Manoj Raghavan: So very clearly on a long-term projects and engagements, that is a work in progress. And there is sort of growth that we have seen over the last eight quarters is a primary indication of the sort of client mining that is happening and the sort of long-term deals that we are winning. So, all the policies within the organization from the salesforce incentive policy, etc., is really focused on rewarding long term deals and so on. So, I think we are progressing pretty well from a long-term perspective. From an IP perspective, I think we are still below 5%, but what points to note for you is that we are pretty okay with that because what we see instead of a standalone IP and revenues attach that alone, the add on revenues that we get by licensing our IP and building the services around those IP, that is what we are leveraging and that is what is helping the company grow. So, I would say that is okay. What was that question, 10% quarter on quarter? I didn't get it.

Tushar Bohra: You had in one of the earlier calls sort of hinted the management intention to see a double-digit quarter-on-quarter kind of a growth run rate. That was the stated intention which this quarter we are there in revenue terms.

Manoj Raghavan: I am not sure if I have intended any double-digit quarter-on-quarter growth. Yes, double digit year on year is what I have talked about. I am not sure of whether I have said anything quarter-on-quarter.

Tushar Bohra: I think you have specifically mentioned quarter-on-quarter. But I think the bigger point is that the kind of growth we are seeing right now is this something you think that can be sustained for a few quarters? Do you think that this is a more strategic shift in terms of your own business trajectory?

Manoj Raghavan: So, we have grown this, or if you look at our 8-quarter performance, we do a CQGR, you see that we are around that 8% sort of a mark. So, we have been consistently growing between, I would say 6.5% to 10% over the last 8 quarters. Yes. One or two quarters, one quarter maybe we have had a little bit of a dip here and there, but by and large CQGR perspective, we would have grown in this range. So, that's the focus that we have as a management team and as an organization and we

are putting in everything including investments, hiring, focus on customers, deeper mining, top 10, top 20 accounts. All of that focus has been to really push, continue to grow at this rate. So that's what we intend to and that's the focus. But we really don't know what the future looks like and what challenges we will face. But come whatever challenges I am sure that we will be able to get over that and continue our growth momentum.

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

Bharat Sheth: On this design led growth which we were harping a big, of course, it's an initial stage. So, when do we really think that this design business will give us a sustainable growth every quarter-on-quarter? How are we deepening our relation with the client and within the business on that, what we are doing on the IP side?

Manoj Raghavan: Absolutely, so industrial design is critical because it's an entry strategy for us to be able to get into and mine customers and also maintain our margins due to the design led innovations that we bring in. So, if you notice it, Mr. Bharat Sheth, as compared to last year the industrial design business is almost at 70%-80% higher than the last year's run rate. That itself should give you a good indication of the changes that we have made to enable this sort of a growth. Yes, design led deals and industrial design customers not always do we have multi-year deals and that is still a work in progress I would say but we have a great team, great potential. It is just that we need to be a lot more consistent, and I would say it will take another three to four quarters to get there. But I am saying that even at this stage, I am pretty happy that we are in a good shape as compared to the last year.

Bharat Sheth: This is the really related more with the media business or healthcare?

Manoj Raghavan: It cuts across; it cuts across media, healthcare, automotive, industrial, manufacturing, education. It cuts across multiple industry verticals.

Bharat Sheth: Second thing, since we have done a lot of campus hires. How much time really it takes us to deploy the same people?

Manoj Raghavan: Usually it takes about 9 months to 12 months. We take them through rigorous training programs and so on but this time what we have done is, we have moved everything into online learning and so on. In fact, with many colleges, we also have tie-ups wherein even before the engineers join, we really make them ready. So, what right now we are hoping is to crunch the timeline to between 3 to 6 months but what we really need to see how that works out.

Bharat Sheth: Last question with your permission, earlier in ERD business clients were insisting more of on-site but since the COVID has provided us the opportunity and we have been able to prove successfully that offshore also can do, which can help in saving the cost to the client also. Even if the things open up, how do we once look at them in this onshore offshore mix going on medium term perspective?

Manoj Raghavan: If things open up, I would say medium term we should be anywhere between 65% to 70% offshore and remaining onsite. I doubt if we'll go back to our earlier 50% onsite, 50% offshore. We may not go back to those ratios.

Bharat Sheth: Typically, it will look a little lower, initial quarter growth terms will be lower, correct?

Manoj Raghavan: Yes.

Moderator: The next question is from the line of Mayur Matani, an investor.

Mayur Matani: In our earlier calls, we mentioned that there is order book visibility for our kind of company for next 6 to 9 months. Now that you are talking that you are confident of growth for the next 2 to 3 years so what has made you change your mind or what has changed in the industry that makes us confident for growth for the next 2 to 3 years? And the second question is that how is rail segment picking up within the transport vertical and what kind of opportunity do we see for that segment and

how much it can contribute to the transport segment maybe within the next 3 to 4 years?

Manoj Raghavan: Order book visibility, as I said, it's pretty good and order book visibility is one thing versus overall growth industry. When I say growth in the industry, growth expectation, right? I am not saying that next 2 to 3 years 100% we will grow. What we are talking of from an order book visibility is 6 to 9 months. So that's continuous, that visibility is there. But all indications; all, whatever you read, the trends that you see in the marketplace, whether it is on the EV side, whether it's on the OTT side, on the connected healthcare side, you talk about customers, you talk about the overall industry, the ER&D trend, whatever you read indicates that this cycle continues for the next 2 to 3 years. And that is the confidence that I talked about. It's not that we have an order book coverage for the next 2 to 3 years. That's not true, okay? Rail segment, yes, rail segment continues to grow for us. We won some good deals even in this quarter. From a 5 year perspective I would say we would expect rail and off-road, that segment to contribute about 20% to our transportation business.

Moderator: The next question is from the line of Naveen Bothra, an investor, please go ahead.

Naveen Bothra: My question is, taking from the last con call, our aspirational dollar 1 billion revenue target, if you can enlighten us more about this. Is the right time or you will take a little bit more time to articulate that dollar 1 billion revenue aspiration by 2026?

Manoj Raghavan: No, we have never talked about anything like that, Mr. Bothra. We talked about having some internal goals and so on, but we have never talked about it to external investors. So, we are not in a position to talk about something about which we are not ready to talk about.

Naveen Bothra: In the last con call we had a discussion that we are in the process, right now we are in the process?

Manoj Raghavan: No, what I told you very clearly is there are internal goals, and we are working on those internal goals but that is not for the external world.

Naveen Bothra: Okay, thank you.

Moderator: Thank you, ladies and gentlemen, we take the last question from the line of Rohan Advant from Multi Act, please go ahead.

Rohan Advant: Sir, my question is again on the onshore offshore mix, which is 75:25 now. Now, say in FY23 or 2024 we go back to 65:35, what does it mean for revenue growth and margins? Will customer reduce volume because otherwise they will have to pay a lot more? Or will we still have a revenue growth but lower margins but more absolute profit. So, if you could just throw some light on what happens when we move on the other direction to say 65:35, what happens to huge volume growth that we had in the last 18 months or so? Thank you.

Nitin Pai: I would put it very simply. These are all scenarios. Now, what is desirable is different from what scenarios may play out. I think what is desirable for us is very clear. We would like to demonstrate offshore delivery because that is where both scale and capability is fully at play. So, when you deploy people onsite, the capability of your organization is limited to whoever is onsite and how much ever little you can convey through him and with him or with her in this case. So, we are very clear that from a strategic perspective, offshore is far more preferable to on-site, it is not purely for margin and all. It is simply because the value delivery is higher. Now having said that how does the market trend is slightly different because there may be certain customers who by themselves have a slightly greater preference for a lot more on-site than we would like. There may be certain projects which naturally demand a lot more onsite. Similarly, we look at the rest of the world, especially Japan, Korea, China and so on because of language barriers, there's a natural inclination for some onsite, especially multilingual and so on. So, you have to look at it as a combination of what dynamics come from, the kind of projects we execute, regions we are executing in and what is desirable, we are very clear. We would like to promote and accelerate offshore delivery because we believe that is not only margin accretive

but more importantly strategically differentiates us from anybody else in the market because of our ability to deliver. So, I am just making the point that 65:35 is not a desired position and nor is it that we expect it to go all the way there in a hurry. We expect we will pivot very slowly and that is where a large part of our focus will be, how do we make sure we can continue to deliver offshore.

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

Nitin Pai: On behalf of Manoj and the management team at Tata Elxsi, I would like to thank all our investors for taking the time to join us today for the call. We have had a good quarter. We hope to keep going on these lines and we look forward to connecting with you again at the end of the quarter. Happy festive season to all of you, goodbye.

Manoj Raghavan: Thank you. Bye.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Tata Elxsi that concludes this conference. We thank you all 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.