



“Tata Elxsi Limited Q2 FY23 Earnings Conference Call”

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MODERATOR: **MR. SHASHANK GANESH – EY**

Moderator: Ladies and gentlemen, good day, and welcome to the Tata Elxsi Limited Q2F Y23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shashank Ganesh from EY. Thank you, and over to you, Sir!

Shashank Ganesh: Good afternoon to all the participants on the call. Good morning, if you are logging in from 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 results performance or achievements that 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 Ms. Cauveri Sriram – Company Secretary.

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 will be happy to respond to them if time permits.

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

Manoj Raghavan: Thank you Shashank!

Good evening, everybody. Thank you for joining us this evening for the Q2 Earnings Call. And I hope that you and everybody in your family is safe and healthy.

I am happy to report that we have delivered a steady quarter of growth, it was a good quarter for us, especially with our Industrial Design and System Integration Division too picking up on the growth momentum.

Our revenues from operations during the 2nd Quarter was Rs. 763.2 crores, growing by 5.1% quarter-on-quarter and 28.2% over the same quarter of the previous year. Our EBITDA for the quarter was Rs. 226.5 crores growing by 23.4% year-on-year. The PAT for the quarter was at Rs. 174.3 crores growing 39.1% over the same period of the previous year.

As you would have noticed in our Investor Fact Sheet released earlier today, we have a net addition of 1532 employees. That's the highest number of Elxsians have ever added in a quarter. And to support that, we have also expanded our facilities in existing locations and added new locations to diversify our talent base. This is an investment that we are making to position us for growth in the coming quarters. On the other hand, these investments have impacted our quarter-on-quarter margin performance. Nevertheless, we still reported industry leading EBITDA margins of 29.7% and PAT of 22.3%.

In terms of our divisional performance:

The EPD division operating revenues grew by 3.1% quarter-on-quarter and 29% year-on-year in constant currency terms.

The Industrial Design business witnessed a growth of 15.5% quarter-on-quarter and 15.4% year-on-year in constant currency terms.

SI division had a strong quarter by growing 26% quarter-on-quarter and 41.7% year-on-year in constant currency terms.

In terms of verticals:

Our Transportation business unit reported a strong quarter with 4.6% quarter-on-quarter growth and 34.2% year-on-year growth in constant currency terms. We are seeing good traction in automotive business led by EV and ADAS capabilities.

Our Healthcare business growth remains robust, registering 5.1% quarter-on-quarter and 45.1% year-on-year growth in constant currency terms.

Our Media and Communication business growth during the 2nd Quarter was 1% quarter-on-quarter and 19.5% year-on-year in constant currency terms.

The Media and Communication business did witness some deferment of platform deals and some large service deals. But we are well positioned to win these in the coming quarters.

While we continue to focus on EPD for Product and Digital Engineering in our three key verticals, we are now seeing our design and SI business expanding and growing. I am happy with the growth in our SI - System Integration and Support - business, even as they pivot their capabilities to run Engineering Ops and Managed Services, including some of our own platforms and products, especially in the Media and Communication industry. While this has impacted the numbers for the Media and Communication business for the quarter, as we transition some ongoing work to the SIS team, we believe this will create new and stable revenue streams for the company in this division.

During the quarter, we were impacted by supply-side challenges as a strong deal inflow and increased utilization of the past few quarters constrained our ability to immediately address new

deals. While our employee engagement measures have helped improve overall attrition for the second consecutive quarter to 18.7%, we saw heightened attrition in our onsite employees, signaling the talent mobility that continues in key overseas markets, especially for technology and engineering resources.

We are making strong investments in growing our leadership pipeline for delivery, technology and sales with lateral hiring and training programs right from technology leads, right up to delivery heads and technology managers. This is essential for us to establish the next base of talent to win, manage and grow the increasing number of strategic accounts and new offerings we are bringing to the market.

On the work from home front:

Senior leaders across the functions in delivery have been working full-time from office for a long time now along with employees in critical projects where we had infrastructure dependencies. We have rolled out a hybrid work policy and guidelines across organization, and most employees are now working from home two to three days a week. The average daily attendance is now above 50% across locations, with almost 70% of the staff coming into office at least once or twice a week. We will phase this out even as we commission new facilities and space for the increased employee headcount.

We are entering the second half of the Financial Year with a strong order book, healthy deal pipeline across key markets and industry, and customer confidence in the work we do. Importantly, we are investing in both capacity and capability to strengthen our ability to win, manage and grow customers and business.

So, with that, let me wish you and your loved ones a Prosperous and Happy Diwali and Happy Holidays.

I will now hand over the floor to Shashank for the Q&A session.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Bhavik Mehta from JP Morgan. Please go ahead.

Bhavik Mehta:

I have two questions. Firstly, Manoj, was the growth slowdown this quarter was mainly due to supply-side challenges or were there also some issues where clients would have deferred a project execution; did that also impact the growth this time around?

And secondly, what are you hearing from clients for the next quarter or the next six months, how are they thinking about project execution given the macro? Are there any furloughs you expect in this quarter, or any lengthening of the decision-making cycles which could lead to delays in deal closures?

And second question to Gaurav as you know, we saw very sharp decline in margins this quarter, it seems like the headcount additions was much higher than the top-line growth, which obviously

impacted margin to an extent, but were there also any other factors, which led to the sharp margin decline?

And what's the outlook going forward on margins, in case let's say the supply-side issues persist. So, what are the levers you have to go back to more than 30% margin level?

Manoj Raghavan:

So, let me take the first question. So, as you would have seen, over many quarters, our utilization rates have been going up and we have been winning pretty large deals and opportunities, and we have been able to maintain that momentum. However, at the mid-management level and slightly senior level delivery managers and so on, alongside the number of programs that we have been winning, we have faced a crunch at those levels on the supply-side. And so, what we have done this quarter is proactively, we decided to go ahead and invest in resources because we are not looking at this investment for the next one quarter or two quarters. I think these investments that we are making are for the next four to six quarters; we are setting the plank for us to ensure at those levels, we continue to grow.

Yes, in Transportation business and if you look at our Medical business as well, also our Industrial Design business, we have had decent growth. In fact, the pipeline is also pretty strong and we continue to be bullish there.

There have been some deferments of projects in our Media and Communication business. There has been some softness in the Top 5 accounts in that particular business. So, that is why, we have seen, almost like a flattish growth in constant currency. I think this situation in the Media and Communication business, it is also been affected (by) the macroeconomic situation; Europe as well as the high inflation in U.S. has affected (it) to some extent, but I think it could continue for maybe one more quarter, that is the visibility we have. Customers are a little cautious.

We continue to engage with all the top customers, we continue to look for projections from them. As of now, there is no cause of concern; we not hearing that projects are totally going to be shut down, and so on. But even our customers are cautious with their spends. So, we need to wait and watch for at least a quarter here in this particular business.

Gaurav Bajaj:

Bhavik, so you are right that margins for the quarter got impacted due to the highest number of the net add that we have done; about 1532 during the quarter. We have also onboarded the campus as part of this 1532 headcount and we did some campus onboarding during the end of the last quarter itself. Along with the campus and the lateral which has impacted our margin and increase in the people cost, there are certain other costs which have also come back, and we were always expecting those costs to be back whenever we started our operations back from the offices.

So, our facility operations are now in full swing, as Manoj mentioned, that we have asked our people to get back to office in this quarter. So, people are coming to office two to three days in a week. So, we have to have all the facilities running at a full scale now. Along with that, over the last two years during COVID, I think we expanded headcount by almost 2x. So, we also need

to add new facilities; we have kicked off new facilities in this quarter. We started three new centers, one in Bangalore, one in Calicut (Kozhikode) and one small expansion in Chennai. Along with that, I think there are certain discretionary spends: travel, recruitment and training of the new hires that we have done; those people will need to undergo various domain and other skill related training for them to be ready for productive billing in the quarters to come.

So, all those things have impacted our margins, but I think these are on par with expectation levels. We always knew that once we started our office and asked the people to come back, there would need to be realignment from the margins that have been reported in the last two quarters.

Moderator: Thank you. The next question is from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: So, a couple of questions from my side. First, on the supply-side challenges that we mentioned, is there a quantification to that? Was there an impact on the revenue, how much did was the impact in this quarter? That's the first one.

And related to that, you mentioned some deferment that happened in the Media and the Communication business. In the other parts of the business, which is Transportation and Medical, you have mentioned that it continues to remain strong. But in the new deals that you are signing or where you are part of the discussions, are you are you facing some sort of challenges there with respect to closures or the way clients are thinking about it?

Manoj Raghavan: Yes, I will address the second question first. Especially in the other businesses, including Transportation, Medical, even IDV and SI, we don't see deferment and so on. We continue to close deals, we continue to ramp up customer engagement. So, we don't see any of that happening. It is specifically focused, the issue that we are seeing is primarily in our Media and Communication business. And both in the U.S. and Europe, we are seeing some of the deals take a longer time to close and in some cases, the customer is also postponing the decision to the next quarter and so on.

Regarding your first question, regarding supply chain challenges, yes, we have seen these challenges across the industry verticals. Our growth rates could have definitely been higher if we had a sufficient number of people at the mid-management to senior level to really ramp up some of the deals that we have won and really move forward. However, we are taking efforts to sort that out and we are pretty confident that the supply-side challenges can be addressed. I wouldn't want to put a number there in terms of what we have lost and so on. But we are on it, we understand the challenges, and we are working on it.

Sulabh Govila: The second question from my side is on the cost side. So, I wanted to understand within this 1500 people that we have added this quarter, what is the breakup of freshers versus laterals that we have taken in this quarter? And the associated impact on utilization that we have seen on Q-on-Q basis.

The second related question is on the cost structure, as we mentioned that now we are running full scale on some of the facilities and we are ramping up so that the people that we have added can become productive and billable. So, just trying to understand from a cost perspective, this is going to be a steady state cost which is there in the P&L, and as and when these people become billable, you get benefit from the revenue that they generate, is that the (correct) way to think about it?

Manoj Raghavan: So, regarding the headcount that we have added, roughly around 1100-1150 is the number of freshers that we have added and about 350 is the number of laterals that we have added.

Gaurav Bajaj: So, Sulabh, I think Manoj mentioned that out of 1500, 1100 odd something was campus and rest was lateral. In terms of the cost impact, I would say that campus would have impacted our margins by 120 basis points and lateral - along with some the correction that we had to do for the onsite people in this quarter - would have impacted by 60 basis points. And rest of the impact in the margin is because of the facility expansions and the operationalization of the facility for the people to come back to the offices and other travel related expenses, and the training and the recruiting for those things. So, that is the breakup, and at the same time, we have some gains from the cross currencies in the USD improving in our favor. So, there is a 30 basis points gain from the currencies, that's how that walk from the quarter-to-quarter perspective works out.

Sulabh Govila: Just a quick follow up Gaurav, I just wanted to understand line items like other expenses and depreciation. So, is this a more of a steady state number from here on? Or you expect further increases in the coming quarters?

Gaurav Bajaj: Sulabh, see our business is like a proportional linear business. So, there are certain costs that will continue and all those costs depend upon the scale and the volume at which we are growing. These costs are not expenses for us, these costs are basically an investment in the right capability and capacity that we need to add for the future growth. These freshers take somewhere from six months to nine months to go through the various trainings, domain trainings. So, some of these costs will continue; there are certain costs where some differentiator of cost could be there in the next quarters to come because there would be certain costs that had gone significantly behind: hiring and onboarding and training of those people.

But yes, I think we feel that as we continue to have a positive demand outlook, some of these costs will get normalized over the quarter. Of course, there would be other levers, but there could be other costs also that can come back. We don't want to cut out on the cost and not invest on the right technology, right products. So, there will be a balance between these two.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Alchemy Capital Management. Please go ahead.

Vimal Gohil: Just wanted to check on the hiring outlook. So, we have done close to 2500 for H1. What is the expectation for H2?

Manoj Raghavan: I think our utilization has dropped to around 78.9%, almost 79%, from about 83% or 84%. So, I think the first focus for us is to get our utilization back to above 80%. We will continue to hire, especially for a specialized capabilities. But we will be careful about bulk hiring and generic skills till our utilization picks up. So, there will be a balance.

Moderator: Thank you. Next question is from the line of Chirag Kachhadiya from Ashika Institutional Equity. Please go ahead.

Chirag Kachchadiya: In last two quarters, we posted a very good set of numbers and also received a good amount of order inflow in the first half of the fiscal. So, is there any one-off which we experienced in revenue as well as an in order inflow due to disturbances in the tier operation in war-related territories, or any softness you expect in the H2 due to weak seasons?

Manoj Raghavan: See, it's very difficult to comment on the war and the macroeconomic situation in general. I think it is prudent for us to be a little bit cautious about it. What we are doing is proactively going and talking to all our top customers in Europe, especially in Germany, which could be affected if the war escalates and so on. So, we are really trying to have regular meetups and connections with them, to understand if there is any change in their own thought process, and whether they are going to be affected. Winter is coming, energy prices are going up in Europe, so will there be any cut in budgets and so on. These are the questions that we are asking our customers.

As of now, none of our top customers there are stalling any of the committed investments. Anything that they have already committed, and where we have already onboarded resources, and those projects are ongoing, we don't see too much of an issues.

What, if at all, there is any slowness, it is in the new opportunities that we are going after, I think customers in general are being a little cautious. The time to closures are going up. And that's something that we are watching closely. One never knows, when the situation goes out of control, how will the customer react. But the good thing is, I think 95% to 96% of our revenues in the quarter come from our existing customers. So, we are keeping a close tab on them. And then we don't see any sort of uncertainty at this point in time. But having said that, we have to watch it really month-on-month, we have talk to our customers, we have to really keep close to them. So, that's as much as I can talk about the macroeconomic situation at this point in time.

Chirag Kachchadiya: One more question. India has PLI Schemes and increased government focus on Make in India and manufacturing hubs on global fronts. So, will we find opportunities of our ER&D offering within India later on?

Manoj Raghavan: Yes, absolutely. We are having discussions with few customers who are utilizing the PLI schemes, launching products; earlier they used to just import products from China or anywhere else, and they just used to brand them and sell them in India. Now many of these companies are desiring to start manufacturing, desiring to design their own products in India and manufacturing. So, I think this scheme is positive for Tata Elxsi and we are in discussions with a few customers to see how we could be the design arm. Many of these companies don't have

the design capabilities, they earlier used to just import from China and just put their brand. Because of our design heritage, a lot of companies are talking to us to see how we can support them in their new product R&D.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Naredi Investment. Please go ahead.

Sandeep Agarwal: Other expenses increased to Rs. 102 crore from Rs. 82 crore Q-on-Q, is this a one-off item or is this recurring in nature?

Gaurav Bajaj: I think your expense line item is not clear. Which line item of expense you are referring to?

Sandeep Agarwal: The other expenses, increased to Rs. 102 crore from Rs. 82 crore, Q-on-Q basis. So, is there any one-off item or recurring in nature?

Gaurav Bajaj: No, there are both there. I mean, there are certain recruitment related, onboarding related one-time items also. But there would be ongoing expenses also like travel cost, facilities and maintenance, utilities that have come back. So, it's a mix of both.

Sandeep Agarwal: My next question is that we have 34% income from Europe region and 43% from USA. So, how did currency movement impact our company in this particular quarter, any specific number regarding currency losses in Dollar and Euro?

Gaurav Bajaj: If you see on our revenue side, we have a 40-basis point benefit from the USD moving in our favor. It partly got offset by the dampening of the Pound and the Euro, but overall, at the top-line basis, we have a 40 basis points gain. On a margin basis, I think that translates because we have certain costs also into those respective currencies. On a margin basis, it is a 30 basis point gain on our bottom-line.

Moderator: Thank you. The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: Just one clarification. I think you mentioned that we have added freshers, is this towards the end of the quarter?

Manoj Raghavan: No, we have added it throughout the quarter. In fact, on top of this, I think we had added about 250 freshers in Q1 towards the last month, so that full quarter impact is also there this quarter.

Sameer Dosani: And also, just generally speaking this industry as a whole, Q3 is a weaker quarter, because of furloughs. Is there some impact that we are expecting for normalization, if you can just throw some light on that?

Manoj Raghavan: Traditionally, yes, but if you look at our previous year Q3, we did a pretty good growth. So, yes, we are waiting and watching. We have not really seen furloughs and so on yet from any of our

customers so that is something again, we are closely watching and talking to these customers. So, we hope we will continue the trend like last time.

Sameer Dosani: And also on the facility and travel expenses as you explained there is an impact. Do we see more expenses coming through our way, going forward in Q3, Q4?

Manoj Raghavan: Yes see, facilities, as I mentioned earlier, we have actually mandated a hybrid work for our employees from October 1st. And earlier, there were about maybe 25% to 30% of employees who were coming to work in Q2 and a little lower number in Q1. Right now, if you look at an average number of employees in a particular week, right, unique people who are coming in, we are almost touching 68% to 70%. Hopefully, in this quarter, we will increase that number to almost 80%. Even pre-COVID, we were maybe 6000 or 6500 people at that point in time. And with all these employees coming back, we will definitely exceed that number, we will grow to maybe people in office being to about 8000 to 8500 and so on.

So, associated expenses, utilities, employee related expenses, employee draft expenses, cafeteria related expenses, you name it, all the expenses that will be associated with work from office, all of that will come back. I think that's a positive and I wouldn't be worried too much, because these are needed for us to deliver value to our customers. And I think that is something that we will have to take into account.

Sameer Dosani: Right, completely understand that these are necessary expenses. But additionally, do you think there are some expenses that would come because we already had at a respectable number in terms of, coming back to office, and we already have facilities that we have taken up?

Manoj Raghavan: Yes, so it is possible that either in Q3 or Q4, we may have to add to office spaces, because of the headcount that has come back. So, we would need to take additional office spaces, at least in a few locations. We are evaluating that, depending on when individuals will come. At this point of time, it is okay, but there could be additional leases that we would need to sign to accommodate for the growth and the new employees who are coming back.

Sameer Dosani: And lastly, on the Transportation segment - you already explained media had some caution in terms of clients - how do you see revenue/traction in your transportation business. Auto as a whole, the traction has been good. So, if you can give some color, whether it will accelerate from here or you see momentum continuing from here.

Manoj Raghavan: Yes, we will definitely see momentum continue, and we want to accelerate, and we want to really push the pedal there, because we have large opportunities that we have signed off. And so for us now, it's a question of how do you handle that from a supply-side, especially around what I talked about the mid-management and the slightly senior management folks who can manage customers, who can really handle some of these large programs and so on. So, that is a place where we are really investing in and really seeing how we can expand that.

So, again, in that business, demand is not an issue for us. Supply at that critical level is a little bit of an issue. Junior people, we have no issues, we have a number of them available. So, that's something that we are working on and both Q3 and Q4, we will put a lot of focus. In Q2, also, we have done a lot of focus, and really brought in a huge number of resources in that band. And hopefully, all that will help us accelerate our business in Q3 and Q4.

Sameer Dosani:

Last question, what is the timeline that you expect for freshers getting deployed? What is the client feedback overall? And what levers do we look for in our margins?

Manoj Raghavan:

For us, it is not margin, we are not looking at freshers from a margin perspective, we are really looking at building the bench strength for us, for the next few quarters, how are we able to grow our overall revenues and so on. I would say, out of the number of people that we have hired, maybe less than 100 odd freshers have been made billable, and that's because these guys have interned with us and worked with us and they have already been trained, and they could hit the ground running. So, that has really helped.

The other set of freshers, I think it will take at least two quarters to get majority of them billed. So, in Q3, we could target maybe another 200 or 250 people to get billed and subsequently, within Q4 and Q1, we should have a majority of them billed.

Moderator:

Thank you. The next question is from the line of the Debashish Mazumdar from B&K Securities. Please go ahead.

Debashish Mazumdar:

Some of the IT service companies have clearly called out that there is a pressure on the discretionary spending. And clients are moving towards more maintenance projects. If I understand correctly, ER&D as a business is more discretionary in nature, so the hiring planning seems to be fine as we are not seeing that kind of pressure there. So, is there any change that we are dealing with today, or are the clients in the discretionary level maintaining their budget despite having uncertainty at the economic level?

Manoj Raghavan:

Yes, I think I have answered that. Most part of our business, we see customers continuing to invest and we don't see any slowdown. Slowdown, if any, is because of our supply constraints and we are working on that, and that will be sorted out. On the Media and Communication business, we do see some slowness and that is where we are looking at seeing how we can go to the customers and see what budgets they have, and where we can expand our services. So, to that extent, yes, in a part of a business, we see some effect. But it's too early, I think it's a question of really talking to customers and understanding what is causing this deferment of projects. And hopefully, it's just a one quarter issue. And, the confidence will come back, and we will be able to ramp up our business back. So, Yes, I think we are working on it.

Debashish Mazumdar:

Just a related question: the growth that we are getting is due to the increased market gain or the overall market itself is also growing?

- Manoj Raghavan:** It is both, you can't say there is only one or the other. The overall market is definitely growing with a lot of digital opportunities, especially in all areas that we are working in. At the same time, yes, we are also winning market share from our competition. It's a combination of both.
- Debashish Mazumdar:** If I just read the fine print, it seems to be that some of our media entertainment projects related to India and APAC has slowed down, any specific color on that side? Is it a one-off or it is a permanent loss of business?
- Manoj Raghavan:** I am not really sure whether that is true. Majority of our business in the Media and Communication is from the U.S. And the slowdown that we see is definitely a lot in the U.S. and some in Europe. India is also important market for us. And I don't say it is specifically APAC that is causing this sort of a slowdown, it is across the board.
- Moderator:** Thank you. The next question is from the line of Akshay Ramnani from Axis Capital. Please go ahead.
- Akshay Ramnani:** So, Manoj you mentioned about deal wins and pipeline being strong. But you also talked about delayed decision-making environment to close those deals. So, I wanted to understand what are the clients indicating to your conversations, especially your top ones. Any sense you are getting on the visibility of their spending over the next four to six quarters or CY'23, because it looks like you have made a very strong investment in hiring to fulfill demand over the next four to six quarters. So, of course, there would be some visibility that you might be having to make such a strong hiring commitment. So, wanted to understand your thoughts on visibility of demand over the next few quarters?
- Manoj Raghavan:** Absolutely, Akshay, so I think we have been talking to all our Top 20 customers pretty closely. If we look at it from Top 5 customer base or Top 10 customer base, we have been steadily growing, I don't think there is any cause for concern there. So, we have done this investment primarily based on the sort of pipeline that we have, from our top customers. And you are right, this hiring is not for this quarter or the next quarter, it's for the next four to six quarters and that we are in alignment.
- So, especially in our Transportation business, medical business, as well as in our Industrial Design business, we see a strong traction, we see a lot of requirements coming in.
- In the Media and Communication space, I believe it's an issue, just in this quarter, maybe next quarter also, but there are a lot of transformations happening in that market. Our customers cannot just stop the innovations that they are doing. We strongly believe that some of the work that has been deferred will come back; it's a matter of a quarter or two. And I think the general discussion with our customers in the Media and Communication space is they value our relationship. And these relationships, especially with the top customers have been for the last 15 to 20 years.

And then we have seen this sort of a situation, when the macroeconomic situation is not very clear, sometimes the customers take a pause. When I say pause, it is not on the existing projects that we are executing, those projects continue in full steam. It is the new opportunities or the new areas that they are looking at, there it's just a pause. And I am sure in a quarter or two that will come back. So, we are still pretty bullish there. And you should imagine that this is the business that has really helped us during the COVID time, right, when our automotive business was really not doing well, the Media and Communication business was one that really pushed us forward. So, we have really had a tremendous run over the last eight quarters in the Media and Communication business. So, I think it's just, I tend to believe that this is just a pause. And they are reevaluating their overall strategy from their end customer perspective, and from their market perspective. Relationships are extremely strong. I don't see a cause for concern. We are in very close discussions with all our top customers. And I strongly believe it's a matter of time before we get back that growth. And yes, we are investing for the future and not for just the next quarter.

Akshay Ramnani:

So I asked this because historically we have seen volatility in revenues in an environment when decision making slows down. And so I just wanted to understand: has something changed this time around, which is giving you a higher visibility in an environment where decision making is slowing down, maybe some larger deals which are getting to add into your order book, what is giving that visibility?

Manoj Raghavan:

No, I think over the last two or three quarters, right, we have closed some large deals and so on. And naturally, there is a ramp up plan for all those deals. And the resourcing that we have hired in this quarter is to really address the ramp up that is going to happen in the next quarter and the quarter after that, right. So, we are actually getting ready, prepared to ensure that we can meet the pipeline and the ramp up that has already been closed. So, that's what we are doing.

And I think we are there with the sort of a ramp up that we have done. It's just a question of how quickly we can get these people ready for customer engagement and how quickly we can get them into billable roles. So, that's what the focus will be for the next at least one quarter. And I think the teams are working pretty hard along with the customers to make that happen.

Akshay Ramnani:

And just a small one, so what is the outlook on offshoring? What are clients talking about offshoring, any return to onsite or they want to still increase offshore in an inflationary environment?

Manoj Raghavan:

Offshoring continues to be strong. In fact, I am not sure if you heard it from anybody else. But the onsite environment has become very difficult in U.S. and Europe because of inflation and so on. The salary levels are going up very fast. I think one of the things that also hurt us in our MCV business is, we have had a lot of attrition onsite. And if one person quits onsite, it's almost like two or three offshore revenue that gets hit. So, onsite attrition definitely is an issue. These are guys joining Amazon or Google at maybe 2x or 3x salaries. So, these are things that totally disrupt business and it's very difficult for us to really hold such people back.

So, that is a little bit of a challenge that we have. But the good part is, as you all know, our onsite presence is anyway about 10%. So, we continue to pivot with our customers strongly on the offshore. And I think this quarter also ratios have not been very different from the last quarter. So, I think customers are okay, I don't think they are asking us to return back employees to onsite and so on. We have not seen that trend so far.

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

Naveen Bothra: So could you please throw some more light on the India business? Just in this quarter, it has been quite shocking, having gone down around 2%. But when we see for the last four, six quarters, it has grown recently from Rs. 50 crores to around Rs. 125 crores to Rs. 130 crores.

Also, in the last con call, you said that rest of world like China, Korea and Japan, you did not see some new deals closing there. We are seeing 3% growth over there in rest of the world revenues. So, could you please explain environment for both these geographical areas ?

Also, I have one question for Mr. Nitin regarding the healthcare vertical, specifically TEngage. We have been marketing this since March quarter, so, if we have seen some commercial closures or orders that we have started working on, it will be quite helpful to know.

Manoj Raghavan: Yes, our India Business has been pretty soft. And I would say it is not because we don't have order inflows and so on. There is a lot of order inflows in the India region. But unfortunately because of the supply related issues, we had to sort of prioritize some of our overseas customers and we had to really move so that we earn better realization. So, I think that's a very simple reason why India business is down. There is lot of opportunities in India. We are being a little selective given the resourcing situation as to how we can address that.

Regarding other markets, China, Korea, Japan: China continues to be down because of COVID and all the issues. We are really not focusing on China. I think same is with Korea. However, our Japan business is definitely ramping up, there have been some good deal wins in Japan in the last quarter, and there are some good funnel this quarter also. So, we are pretty positive and we are hopeful that Japan business will definitely grow.

Nitin Pai: Hello, Mr. Bothra, so on TEngage I just want to comment that you have to look at that as a strategic platform because this is a make or buy decision that customers make. So, it's really about: will you license TEngage, will you use this as the primary platform where you will build your products and services on top, or would you rather build your own. So, to that extent, because these represent strategic budgets, we never expected anything to close in a quarter or two quarters. So, in fact, our view is that, most likely it has to be part of the new budgeting cycles because it's a strategic expense. So, I would expect something that happens in Q1 2023. When I say Q1, I am talking of calendar year because typically, our primary markets being targeted is U.S so it is really the 1st Quarter of the calendar year there accounts for budgeting.

But having said that, we already have some discussions going on in terms of RFPs, RFIs where we are part of the conversation. More importantly, it has brought business in services business where customers are saying, look, we are not going to buy, we are going to make, but your relevance and your capabilities are already proven with your platform. So, we would like you to take up services work. That we have already actually won some deals on.

Naveen Bothra: Just a follow up regarding the India business, as we are saying that in the media vertical, we are seeing some softness or deferrals. So, you said that resources were used in the other overseas markets and all these things so that's why there is some softness in India business. So, going ahead in this second half, do you see India business growing? Because you said that demand is quite good and pipeline is also good.

Manoj Raghavan: Yes, since we have also ramped up hiring, if we are able to convince customers in India to make use of those resources for billable engagements, we will be able to service those requirements that we have not been able to service the last quarter. So, that's something that we are working on. Mr. Bothra.

Moderator: Thank you. The next question is from the line of Urmil Shah from Ageas Federal Life Insurance. Please go ahead.

Urmil Shah: Good to see you being the only company to see a double digit employee addition in this quarter. Just for more clarity on the softness which we talked about in the Media and Communication business, it's more on the communication segment side or in the media side? Or we have seen a deferrals in both the subsegments?

Manoj Raghavan: So, I would say a lot more on the media side; communication is still picking up; we are looking at investments in 5G and so on. So, we are investing in that. But a lot of our current business is on the media, on the OTT side, on the operator side. So, that is where we are seeing a little bit of a softness. On the communication side, I think there are a lot of opportunities that are coming up and we are investing there. So, Yes, so I think media is where there is some amount of slowdown.

Urmil Shah: And was this deferral more towards the end of the quarter? Could that provide a positive surprise in Q3 or Q4?

Manoj Raghavan: I didn't get that question.

Urmil Shah: So, the deferral was more done towards the end of the quarter. And once the clients have more certainty, the spend might come in and that could provide a surprise in Q3 or Q4. Or it was towards the mid or the start of the quarter itself?

Manoj Raghavan: I think it's very difficult to say whether it is the end. We have been seeing these weaknesses for some time now. But to my mind, it's a one or two quarters issue and these deals are not gone, these are just deferred. We are still engaged with the customers. And they should come back at some point in time.

- Urmil Shah:** Just a last question as regards the commentary of your larger peers on Europe, it's more of a uncertain kind of impact right now. What would be your commentary on both the media and communication and transportation segments, specifically in the European geography?
- Manoj Raghavan:** We don't see any concerns on our transportation business. We definitely have a good pipeline and customers that we have actually closed deals with. And for us it is a supply-side issue and those are the steps that we have taken to address those supply side issues and hopefully we should continue that growth. On the media side, definitely, there is some slowness that we are watching in the marketplace itself. And that is something that we hope is just a one or two quarter issue and we will get back to our recovery path.
- Moderator:** Thank you. The next question is from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.
- Salil Desai:** You are moving now to a hybrid model from October 1, so can you just throw some light on what deficiencies are you trying to plug to get people back into offices? And is this across all geographies? Or is this specific to say India or to some cities within India?
- Manoj Raghavan:** I am not sure if I understood the question, right, but 90% of our resources are in India only. And this applies to all the resources that are there in India. So, what we have mandated is that all the senior management had to come to office. And wherever there were some infrastructure related projects and so on, which needed certain infrastructure that can't be shipped outside the office, those teams were working from office. And then if there are very tight projects, schedules are very tight or there are customer escalations and so on, we have mandated all those teams to come and work in office. So, that was how we were managing and about 25% to 30% of the team used to use to come to office, but come October 1, we have said employees have to come back to their base location, at least two to three days, they have to be in office in a hybrid sort of scenario.
- So, yes, we still have a few set of employees that continue to work from home, due to certain issues that they have and medical emergencies or young parents, but apart from that, almost close to about 70% of our employee base now comes to office. So, I am not sure if I have answered your question.
- Salil Desai:** So, just to clarify you would think that there is some productivity enhancement you will see then you are calling people back to work and that should reflect in some metric somewhere down the line.
- Manoj Raghavan:** Yes.
- Moderator:** Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.
- Apurva Prasad:** Manoj, could you quantify how much would be the impact of lower growth in IDV arising from the supply constraint and the onsite problem that you referred to? And would there also be an impact from lower IP contribution in the current quarter vis-à-vis the previous quarter?

- Manoj Raghavan:** Sorry, you mean lower IP?
- Apurva Prasad:** Yes, so I mean would Q2 have lower IP revenue, as compared to Q1 which had impact on revenue and margins. And if you could quantify how much would be the miss on EPD growth, from the supply constraints that you referred to?
- Manoj Raghavan:** I don't have the data immediately, I will check if Gaurav has the data. But I don't think there is a perceptible difference because of IP, it's not as if in Q1 we had a lot of IP deals and in Q2 the IP deals dipped and so on. Yes, there are some IP deals that we are hoping to close that have been deferred, especially in the media and communication vertical. Gaurav would you have that number?
- Gaurav Bajaj:** It's very difficult, Apurva, to put a number to it. I think, as Manoj mentioned, I think some of the deals are taking a little longer on the IP side to get closed. So, from that perspective, we are hoping those still gets closed and accrue us revenue in the quarter to come. Basically Quarter 3 and Quarter 4.
- Gaurav Bajaj:** But, any which ways I think our IP revenue, as you know is not significant, so doesn't really impact much on from the growth perspective.
- Apurva Prasad:** And what led to IDV sequential growth this quarter? And finally, on the fresher edition for full year, would you still hold on to the 3000 to 3500 target set earlier?
- Manoj Raghavan:** After the design digital event and the focus on including IDV capabilities in our sales pitches, especially to the Top 20 customers, we have had focused campaigns going after our existing customers with the IDV capabilities. I am happy to announce that at least half of these customers have strongly embraced the IDV capabilities, and we are seeing some good design wins there and I hope this would continue. I am pretty satisfied with the way IDV is now moving. And the good part is, we have a lot of our EPD sales, fully engaged in selling IDV services and so on. So, that's definitely a positive for us in this quarter. That's something that we have been working on over the last two quarters and I think we have seen the results of that this quarter.
- From a fresher addition perspective, I think we would have added in the financial year almost about 2000 freshers to date. So, yes, I think we have a pipeline of another 750 to 1000 freshers that there is a plan to onboard. So, we will be looking at the business growth, and specifically in the sort of areas that we are really growing, transportation and the medical business. That's something that we will focus on. So, over the next two quarters will bring in the remaining freshers.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Manoj, correct me if I am wrong, in last three quarters, we have added around 30% of our total headcount through laterals plus freshers. Prior to that, our revenue growth was much higher than

the addition of headcount. When do you think we can expect to return to that level of revenue growth?

Manoj Raghavan: I think whatever headcount that we have added, Mr. Sheth, I think in the next two quarters, we should be able to really utilize them. And the thing was, with the growth that we have seen, both in Q1 and Q2 and utilization, I think almost reaching 85% level was tough, given the state of the mid-management level and senior management level. We have done a number of things to groom people and get them to that level, but the sort of inflows we have seen is far higher than what we had projected. So, we were caught a little bit there and that's something that we are correcting. We are actually preparing on a way not to get into the situation that we are in Q2; to be able to really encash all opportunities that come our way. So, we will take it at a quarter at a time. And then looking at maybe end of next quarter, we will, once again relook at our resourcing situation and take a call, if we have to accelerate for the next four quarters.

Bharat Sheth: And one more question for Nitin. Nitin, you said that in the past, our customers chose to build a new platform and simply opt for our services, rather than using our own platform. So, in this challenging macro environment, do you think that can be a cost effective solution that we can give it to our client and hence gain more traction towards our platform business?

Nitin Pai: Yes, Mr. Sheth. On one hand, what you are saying is absolutely logical that instead of making a make-decision which then involves investment that takes some time and risk, a buy makes much more sense. Buy also has other advantages: with the SaaS model you can also pay as you grow, you don't have to pay a lump sum right at the beginning. But having said that, both of them are strategic decisions, because if you look at TEngage especially, it is a business platform, it is not a productivity platform, it is not a test automation platform. It's not to improve something that you already have, it is to start anew. So, in that sense, I think we will still see some slowness in adoption, because companies still have to make that big decision of: are they going to run a new business? And are they then going to do it themselves or are they going to license the platform? So, I would still say that it's a strategy call. But logic says that we would actually be a better choice when the environment is tougher, because there is lesser risk, and you can choose to pay as you grow.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the Management for closing comments.

Manoj Raghavan: Thank you all for the time today. And I think in spite of all the difficult macroeconomic situation and supply side challenges that we had in parts of our business, I think we have done reasonably well from quarter top-line perspective. Our bottom line has been hit a little bit because of the investments that we had made preparing ourselves for the subsequent quarters. I think personally, we are pretty comfortable and confident with the numbers that we have achieved. And I think we have done all the right investments, whether in resources, whether in office spaces, to really help us in the next two to four quarters. So, we will continue to execute our strategies and hopefully we will continue to deliver results that delight our investors. With that,

I would like to thank you all and Happy Diwali and Happy Holidays to all the investors and I look forward to talking to you again at the Q3 investor call. Thank you so much.

Moderator:

Thank you. Ladies and gentlemen on behalf of Tata Elxsi Limited, that concludes this conference call. Thank you for joining 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.