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Dear Sir / Madam,

Sub: Transcript of the FY23 Q1 Earnings Conference Call

Pursuant to Regulation 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the Earnings Conference Call held on July 15, 2022.

The transcript can also be accessible at the Company's website - <https://tataelxsi.com/investors>

This is for your information and records.

Best Regards,

For Tata Elxsi Limited


Cauveri Sriram
Company Secretary

engineering creativity

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“Tata Elxsi Limited Q1 FY2023
Earnings Conference Call”

July 15, 2022



ANALYST: MR. SHASHANK GANESH - ERNST & YOUNG

MANAGEMENT: MR. MANOJ RAGHAVAN - CEO & MANAGING DIRECTOR – TATA ELXSI LIMITED

MR. NITIN PAI - CMO & CHIEF STRATEGY OFFICER – TATA ELXSI LIMITED

MR. GAURAV BAJAJ – CFO – TATA ELXSI LIMITED

MS. CAUVERI SRIRAM - COMPANY SECRETARY – TATA ELXSI LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Tata Elxsi Limited Q1 FY2023 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 touchstone 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: Thank you very much Steven. Good afternoon to all the participants on the call. Good morning if you are logging in from the western side. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. Therefore it must be viewed in conjunction with the business risk that could cause further result performance or achievements 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 & CEO; Mr. Nitin Pai – Chief Marketing & 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 and 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 over the call to Mr. Manoj Raghavan. Over to you Manoj.

Manoj Raghavan: Thank you Shashank. Good afternoon to everybody and thank you for joining us today and hope you and everyone in your family are safe and healthy.

I am happy to report that we had a robust first quarter performance, our growth momentum from last financial year continues. Our top line and bottom-line growth stays strong. Our revenue from operations in the first quarter was Rs.725.9 Crores, growing 6.5% quarter-on-quarter and 30% over the same quarter of the previous year. This growth was predominantly volume led. Our EBITDA margin for the period was 238.2 Crores growing 7.6% quarter-on-quarter and 58.8% year-on-year. The 36-basis point expansion of EBITDA margin over the previous quarter.

Our profit after tax for the quarter was Rs.184.7 Crores, showing a robust growth of 15.4% quarter-on-quarter and 62.9% year-on-year. Both of our key divisions, EPD and IDV, performed very well. EPD -our largest division- grew by 6.2% quarter-on-quarter and our Industrial Design and Visualization business too witnessed a strong growth of 6.6% quarter-on-quarter, fueled by design-led deals and AR/VR deals. The robust performance of our EPD division was contributed by all the industry verticals. Media and communication business reported a steady performance of 4.7% quarter-on-quarter and 29% year-on-year growth.

Our transportation business unit reported another strong quarter with 6.3% quarter-on-quarter and 41.8% year-on-year growth. Our healthcare business continues to do stellar performance and has grown by 10% quarter-on-quarter and 53.6% year-on-year. This business is now almost a 100 Crores per quarter business, contrasting with just over 36

Crossed eight quarters before - almost a 3x growth in 2 years. So we are very happy about the growth of the healthcare business.

In terms of our performance by region: Our US geography contributed 42.8% of our revenue during the quarter and recorded a strong quarter-on-quarter growth of 10.6% and a year-on-year growth of 27.4%. Europe grew by 3% quarter-on-quarter and 28.1% year-on-year. India reported a robust performance of 16.5% growth quarter-on-quarter and 68.8% year-on-year.

We are focusing on deeper customer engagements and mining both for our top ten accounts and carefully curated portfolio of strategic accounts beyond the top ten. This is actually helping us with both wallet and market share growth.

On the employee front I am happy to share that the Tata Elxsi family is now over 10,000 people strong. Our net addition during the quarter was 771, which is more than double the net addition of Q4 FY2022. This has been supported by a concerted effort on employee engagement, reinforcing our employer brand proposition to attract the right talent from outside. Our attrition rate has dipped marginally to 19% as compared to the previous quarter.

To expand further our engagement with future design thinkers and to encourage young innovators to think out of the box, to bring sustainable solutions to the market we have launched iGNITE - a global design and innovation contest for sustainable design, coinciding with the World Industrial Design Day on 29th June.

Overall it has been a pretty good quarter with consistent growth across our key divisions, key geographies and industry verticals. We continue to focus on growing our talent pool with both hiring and retention, while maintaining and building on healthy margins. We are entering the second quarter with a strong order book and a healthy deal pipeline across the key markets and industry.

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

Moderator:

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

Bhavik Mehta:

Thank you and congratulations on a great set of results once again. I had a couple of questions firstly to Manoj and Nitin. Can you please talk about what you are hearing from clients on their R&D budgets for this year as well as next year, given the macro concerns everybody is talking about and if you can also give a flavor across the key verticals on this topic. Secondly, how are you looking at the supply situation, given that attrition still remains at elevated levels? Is there a plan to do another wage hike in FY2023 or shall we assume that the wage hike for this year is done, and the next cycle will be in FY2024? One question for Gaurav is if you can just provide percentage of margins for this quarter.

Manoj Raghavan:

Regarding what we are hearing from the market and from customers, I think yes we all are aware of the macroeconomic situation, the war and so on and so forth, inflation in the US and so on. We are a very niche

engineering service provider working in the ER&D business. From all our major customers we really have not heard any intend to reduce budgets and also if you look at our deal inflow and deal pipeline, as well as the sort of order book that we have. I think quarter-on-quarter it has only improved. Yes there is the macroeconomic situation, we are aware of it, we are watching it very carefully, but we have nothing to report from either our key customers or what we hear from the market. That could change maybe a couple of quarters from now, but as of now I think it is business as usual and our order book, our deal inflow, etc., continues to be pretty strong. Your second question was about wage hikes and supply situation and so on. I think we will take it as it comes right, I mean, we have done a substantial wage hike in January for most of the junior level and we have done one in April for all the senior people; we will wait and watch, the attrition is still high, but I think we have come off the peak of the attrition; it is coming down. Supply is still a challenge; I mean challenge in the sense that we really need to put in a lot of effort to bring in the resources and my HR and recruitment team has done an excellent job in the last quarter and the results are there to see. So I think the situation is improving, we will wait and watch. Whether we do a wage hike again; at this point in time it is difficult to tell so maybe a couple of quarters from now we will look at the situation and then take a call.

Gaurav Bajaj: I think your third question was on the margin performance for the quarter. I think we are very satisfied with the margin that we will be able to deliver in this quarter and as I mentioned in our last earning call also, I think we feel very confident and not worried about the margin situation. Of course there are inflationary pressures and we did the wage hikes, but at the same time we have other levers which help us to mitigate and setoff some of those wage hikes impact on our margins be it operating levers, price hikes we were able to secure from the customers and also the SG&A, optimization of SG&A with the scale also helps us in terms of sustaining our margin as we did in the last quarter. This quarter we have also moved some of our operation into the SEZ which boosted our profit after tax.

Bhavik Mehta: Okay that is very helpful, that is it from my side.

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

Vimal Goyal: Thank you for the opportunity and many congratulations on robust performance. Sir my question was on the hiring target that you have for FY2023. If you could highlight what kind of numbers are we looking at for the full year of FY2023 and what is the fresher intake possible in this year?

Manoj Raghavan: Yes, in FY2023 we are looking at hiring about 3000 to 3500 fresh intake, and laterals will be as per business needs and so on and we could add about 1000 or 1500 of laterals.

Vimal Goyal: Just to clarify the 1000 to 1500 will be included in this 3000 to 3500 or it is separate.

Manoj Raghavan: No, it is on top of that. The fresher's that we hire from university is about 3000 to 3500 freshers.

Vimal Goyal: Sir, just wanted to get a sense again on margins. If you could just maybe highlight what is the 32 bps of expansion that you have seen in your EBIT this time, or if you could just break up the impact of the wage hike and your cross-currency impact, given that you have a pretty significant exposure to Euro and GBP. Can you just highlight what was the headwind because of these two issues and what did you use to offset that?

- Gaurav Bajaj:** I will take your second question first, on the currency headwinds and all. If you see our results, both actual and the constant currency has delivered the same 6.5%. Of course there were headwinds and tailwinds when we compare USD, Euro and GBP, one is appreciating other is depreciating, but our mix of the portfolio is done so both actual and the constant deliver at the same growth rate, so there is nothing from those getting into the bottom line. On margin, I think as I already alluded on the previous question, basically the expansion of the margin is because of the length of scale which optimize SG&A expanses that we have, along with operating levers in terms of the utilization -able to get a better utilization this quarter compared to the last quarter- while also able to secure certain price hikes. While we would not be able to break down the precise impact, the 30 basis points can be concluded towards the operating lever and utilizations pyramid and some of the hikes that we were able to secure from the customers.
- Vimal Goyal:** Sir lastly, what is your forecast or outlook on the communications vertical? Auto we all know that it is in a structure of spend, so if you can just really highlight what is your outlook on communication? Also, you have also highlighted that healthcare will probably grow towards 20% and the progress there has been quite good, so if you could just highlight your outlook over there, given the macro situations we are in. Any headwinds that you are seeing in communication? At this point in time it is a largest vertical -even larger than auto-so your outlook over there will help.
- Manoj Raghavan:** Yes, so I think all of the verticals have been growing pretty satisfactorily over the last 7 to 8 quarters or 8 to 9 quarters. Healthcare as I said is the fastest growing vertical and it has been growing pretty well this quarter, we grew 10%, but having said that, we have also talked about how over a period of three years how the industry vertical mix would be 40/40/20, 40% media and communication, 40% auto and 20% the healthcare and medical business; If you see over the last many quarters, we have been trending towards this particular ratio. Medical is about 15% or so, but I guess in another two years' timeframe we would hopefully reach the 20% guidance that we have been giving. So, the media and communication vertical, definitely over the last six quarters it has shown very good growth rate, consistent growth rate I would say. This quarter also we have had a pretty good growth rate. We continue to be very significant and very relevant to all our customers and there is of course new opportunity with 5G coming in, with lot of investments that we are doing on the AdTech space and the OTT space and so on. I continue to remain bullish on growth rates; of course on quarter-to-quarter there would be plus or minus 2%, 3%. I do not think we need to make too much about it, but you can look at the long-term growth path and see how it is consistent. So, I think all our businesses are now on a pretty steady wicket and I continue to be pretty bullish on the growth prospects of these three verticals.
- Vimal Goyal:** Got it Sir thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Hi! Congratulations Mr. Raghavan and Nitin on the excellent performance and continuous performance over last 16 quarters. So, if I have to look at other players who are also in engineering R&D, their growth is lower than us and their margin is also lower, so what exactly we are doing differently from them to give this kind of a confidence?

- Manoj Raghavan:** Thank you. Mr. Bharat Sheth, you are asking me to disclose something which is very confidential and how do I do that?
- Bharat Sheth:** No Sir, I mean if you can give some color, or I mean broader outlook..
- Manoj Raghavan:** Whatever color I give I will not be able to answer that question. It does not make sense to answer that question in a public forum like this. Yes we have our strengths, we have our capabilities, we are focused, we have a very strong execution methodology where we plan for the long-term and we execute our strategy very, very carefully and we stay consistent. That is the key for our execution.
- Nitin Pai:** Yes, maybe I can add a little bit. I would only suggest that one should look at it as a combination of our factors and levers, because it is never one single thing that contributes to success, it is really the combination of it. Therefore, if you look at how we have driven the focus on three key verticals, rather than focusing on only one where you are subject to huge market risk, or focusing on many where we are then subject to lack of attention and focus. We have fixed a set of verticals where we believe that there is enough growth and space in these verticals to grow and we are investing in them deeply. We are also looking at the maturity of the delivery process, which is again very differentiated and that maturity results in the ability to drive offshore, because it is not offshore just because you wanted offshore; sometimes it is also offshore because the customer trust you to be able to deliver. So if you look at that offshore-onsite ratio, if you look at how we are driving fixed rate concentration. Again, the idea is not to become 100% fixed rate or 100% time material. I think it is the combination of these four or five elements that are reflecting in our growth and margins.
- Bharat Sheth:** Nitin, how much will designing add as a capability to deliver more, aside from the inception stage? I mean concept-level stage with the customer to deliver.
- Nitin Pai:** Yes, so I would encourage that this should also be treated as one more element of what drives that overall growth and margins. Design by itself will not drive all the growth. We look at it as one more lever where you are able to say ‘Why is Tata Elxsi different from the others? Because we are able to look at the customer experience part of the objective’. We are also able to look at what products need, from a perspective of human- centric design that will make it more desirable or more successful. So, in that sense, it gives us differentiation when we stand there in front of the customer along with the same set of other ER&D company which we are referring to. The second is it also allows us to add a little more value to the success of the customer. Success of the customer is not just in schedule quality time and that project that we did well, it is really in the success of the product when it goes to market. So, I think it is just those little things that add if I may say, the *masala* that makes it more tasty, for lack of a better comparison.
- Bharat Sheth:** Last question. In this quarter particularly, our India business has grown substantially. So how do we look at India business quarter-on-quarter? Do we see this sustainability of India business in becoming a larger pie?

- Manoj Raghavan:** India business is a combination of factors. If you look at it, our SI business has grown, and that growth comes entirely from India. So that has also contributed to the overall India business. Of course we work with lot of the captive MNC customers here and that business has also been growing pretty well for us.
- Bharat Sheth:** Thank you and all the best both of you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** First, congratulations on our market cap. It is now 50,000 Crores, which shows how dedicated Manoj and your team are in for working of the company. Next, the tax rate in this quarter is 19% versus 27% in March, so what is the reason behind it?
- Gaurav Bajaj:** I think I answered part your first question. I said that we extended our capacity in Trivandrum where we had moved into the SEZ office premises, which has helped to bring our tax down and also last quarter, there was a one-time tax impact that we had took. So to that extent also, there is a manual comparison; from the last quarter to this quarter there you will see a bigger contrast. But having said that, I think with the SEZ expansion helping bring down our overall effective tax rate, we believe that this year we would be lower on our effective tax rate.
- Ravi Naredi:** Means this year we may have tax rate around 19% to 20% right.
- Gaurav Bajaj:** We would not be able to project that but yes, it will be lower compared to the last year.
- Ravi Naredi:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Arun Maroti, an individual investor. Please go ahead.
- Arun Maroti:** Thank you for the giving me the opportunity and congratulations to the management for this stellar performance. So only I have a single question. Despite revenue growth, our other expenses are pretty much same as last quarter. So, I would like to understand the delta gained, whether there was something one-off in last quarter or something else.
- Gaurav Bajaj:** You said other expenses.
- Arun Maroti:** Yes.
- Gaurav Bajaj:** Yes, so other expenses, it is not directly proportionate to our revenue skills. Those are some of the other discretionary expenses that we have at the company level. So, there we do not see any major variation in any of the cost line items. Hence if you see, those are not very different from the last quarter. We have built our capacity and capability ahead of our operations, knowing the growth rate that we are achieving and delivering quarter-on-quarter. So, to that extent there is no incremental there.
- Arun Maroti:** Okay, thanks a lot.

- Moderator:** Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.
- Tushar Bohra:** Thanks for the opportunity and congratulations to the management for excellent set of numbers. I would like to understand the Management's focus and efforts being taken to increase beyond our top three domains today. In the past, you have referred briefly to maybe aerospace, maybe off-road, railways and other verticals. If you can just help us understand what is the work that we are doing in these areas?
- Manoj Raghavan:** So, I think what we have told earlier is that apart from the three main verticals, we have adjacencies to these three verticals. So, from an automotive or transportation industry perspective it is off-road, it is rail, it is a commercial vehicle side and so on. I think that is growing pretty well and even in the last quarter, we have won deal in the adjacency, especially on off-road vehicles and the commercial space. So that is something that we continue to invest in. From a media and communication verticals we look at the new media and the entire digital space as an adjacency and there we have been doing pretty well; a lot of projects that we have been doing on the OTT side and so on are part of this adjacency. From a Medical and Healthcare side, yes, again on the digital side as well as on the pharma side, we have been investing in. We have launched TEngage, that is our digital health platform and that is part of this overall strategy for the adjacency. I think we have shown that in multiple trade shows around the world with good traction-building and I think we are pretty satisfied with the adjacency framework that we have built, and we believe over the next three to five years we will see a decent growth from these adjacencies which are essentially to de-risk the main industry vertical that we are in; just in case those industry verticals go through any macroeconomic situation and so on. So, I think from that perspective we are pretty well covered, and I think I am pretty satisfied with the growth that we see on all these three adjacencies. We are also looking at a few other areas that we are investing in Industry 4.0 side, manufacturing side and the entire augmented reality and virtual reality side and so on. So, there are a lot of other things that we are investing in; building capabilities, building knowledge, doing trial projects with customers and so on. So as of now it is still pretty small revenue numbers from those new areas, but as and when it gets significant we will get back to you.
- Tushar Bohra:** Just related to this, I wanted to understand; we had this engagement with Panasonic few years back on consumer electronics, so if we have built up on that further, globally if we are working with other players, any thoughts around that? And if I may quickly slip in a second question, how is our innovation thought process working out, meaning IT-based revenues or any clarity around that or any outlook for the future?
- Manoj Raghavan:** Panasonic continues to be a key customer for us. We have set up a offshore dedicated center for them in our Bangalore facility and now we have completed five years of Engagement with Panasonic and I think we have seen good business growth as well as good projects that we have done; we have built a lot of capabilities in the consumer appliances space. Apart from Panasonic, there are a few other customers that we work with in the consumer appliances space. From an innovations perspective/IP perspective, yes, we have built our own products, our own frameworks which we license to customers and get royalties and so on. So that continues to be our focus, we continue to invest in new products, building new products and so on, but again from a revenue perspective, it is still not very significant to report; it is less than 5%. But we believe once we have good traction in this, it is another good

opportunity for us to build up a good revenue base without really hiring a lot more resources and so on. So non-linear space is what we are driving at, but it is too early at this stage.

Tushar Bohra: Got it Sir. Thank you so much.

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

Hiren Ved: Hi! Manoj, Nitin, Gaurav I do not have any questions but just wanted to congratulate on fantastic set of numbers and great execution as usual. All the best.

Manoj Raghavan: Thank you Hiren. Thank you so much.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Thanks for taking my question and congratulations on the numbers. Manoj, can you share some progress on the adjacencies across the different verticals? You touched upon some of that, but if you could just expand further? That is the first question, and the other one is on margins; how should we look at it? Do you think the current margins are sustainable and what are the different puts and takes in the more near-term that you see on this?

Nitin Pai: Hi! This is Nitin here, maybe I will take the first one. When we called out adjacencies and we called it out both as an opportunity to grow the addressable market, as well as to de-risk the cyclicality, if any, in the industries that we currently operate in, and to that extent what we have also looked at as a long-term goal is 80:20 ratio. Again, we like to set some numbers, and the idea is that they create lighthouse directions for us, and it is not a matter of whether we get that precisely, it is a matter of trending there. I think that is what we are doing very well on, and for example if you look at media and communications, our progress on new media far exceeds the milestone that we had set, so which means that we are going far, far better than what we had set out as milestones on the journey of 80:20. If you look at the transportation business, we had added off-road as well as rail and we looked at two markers there. So, one marker is about whether you are adding marquee customers; you just need to get those logos in first irrespective of the revenue or dollar numbers against them, the second is absolute revenues. I think we are doing well there, just about on target. While you look at healthcare, of course you have to give them credit because they have been so busy growing the primary business that sometimes there is no breathing space for anything called adjacency, but I will give them great credit that they have done a lot of efforts in terms of building out the service portfolio for pharma and digital health and I think the launch of TEngage which was done in March of this year I think is a very, very big milestone for us in that journey, because for that BU, part of the journey will be product and platform driven, part of it will be services. So again, I think we are making sure that they have the right milestones and markers for knowing that will make progress. So, to that extent I think we are still far from starting to declare what the adjacency numbers are and so on, it is not required because you see that it is an integral part of our growth, but we can assure you that we are on track.

Gaurav Bajaj: On your second question on the margin outlook, I think we tried to answer on some of the other questions. While we do not give an outlook of the projections, but I think we can say that at least in the short-term, to the extent that we

have visibility, and given all the macroeconomic environment and situations, I think we continue to believe and being confident with our tight execution and disciplinary focus objectives. We should not be too worried, we will continue to be in the range of that. Of course we have to see certain inflationary pressures though wage hikes are already behind us, but we have to see whether we have to do so something more or not. I think that is something very difficult to say at this point of time, but I think the other good factor is that given our target operating module, which is more offshore centric and end-to-end governance; I think that gave us little bit more flexibility and lever in terms of pricing some of those things and setting off some of those inflationary pressure. I think from this we can have those levers available to us wherever we can have the expansion or do more offshoring. Also I think things other than the operating levers such as expanding into the SEZ which also helped us to build at least on our profit after tax, giving the superior profitability, and that will continue because with that expansion our effective tax rate is going to come down this year, so that will also add to the bottom line when it comes to the EPS and the profit after tax.

Apurva Prasad: Got that. Just on the last point Gaurav, what is the one time in the ETR to the quarter and what should be our normalized ETR going forward growth?

Gaurav Bajaj: It would be a onetime, we would not able to put up a number but we feel that at least 2% to 3% we can drop our effective tax rate.

Apurva Prasad: Versus FY2022 ETR.

Gaurav Bajaj: Yes.

Apurva Prasad: And just on that margin point, so based on your medium-term outlook of the delivery mix, do you think this 32% plus is a more sustainable normalized level or do you envisage additional increments and scope to bring the margin structure down?

Gaurav Bajaj: No, I said that actually it is going to be in the range above. We do not feel that there will be a significant change or the variation from the current level. Of course there could be certain expansion, certain discretionary expense that may come back, but currently there are a lot of macroeconomic things that has to be taken into account. So, from short to medium-terms I think it should be okay, I think we were comfortable there.

Apurva Prasad: Thanks Nitin and Gaurav for the detailed answer.

Moderator: Thank you. The next question is from the line of Rohit M. Ingole from first Global Securities. Please go ahead.

Rohit M. Ingole: First of all, congratulations to all the team of Tata Elxsi. I have only one question about the EBITDA margin. So what were the reasons for our high EBITDA margins?

Gaurav Bajaj: I think we have already answered few times. We mentioned that the scale, the optimized SG&A with the economies of scale, and the top line growth and other operating leverage along with some of the rate hikes that we were able to secure from the customer, allowed us to expand our EBITDA margin by 30 basis points.

- Rohit M. Ingole:** Okay Sir, thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.
- Chirag Kachhadiya:** Congratulations on good set of numbers Sir. I would like to know your broader outlook on American market and European continent specifically.
- Manoj Raghavan:** The issues are different in both the markets, in the U.S. right now there is a high inflation scenario, people talk that there is going to be a recession, but then if you look at it everybody has a job, I mean, the job market is very, very hot and at the same time people say recession is happening. So, a little bit of a contradiction there. Similarly in Europe, the issue is more about the war and other macroeconomic situation out there. But having said that again, we are still a small to a medium-sized organization. From our perspective and the revenues that we deliver, I believe these factors really do not play too much of a role for us. We have not heard anything from our customers that they are going to reduce the spend or they are stopping some projects or any of that. So, to that extent in both the US and customers in Europe, we hope that we will continue to do well in these markets. Of course, in U.S. we have the dollar becoming stronger and stronger and on the other hand in Europe you have both pound and euro becoming weaker. So of course that will affect the net realization in INR in both these regions. But other than that, I think we continue to execute, we continue to keep close to our customers, we continue to deliver value to our customers and I believe unless something drastic happens -definitely not in the short-term, we do not see any short-term issues- but mid-term to long term again there are a lot of factors, including how this war will continue and the effect of that on overall global economy and so on, but whatever happens, it would not be that it is something very specifically to Tata Elxsi. We will still be better off than a lot of our competition or other players in IT industry. So, whatever affects them will affect us also.
- Chirag Kachhadiya:** I have one more question; can I ask now, or shall I come in later?
- Manoj Raghavan:** Go ahead please.
- Chirag Kachhadiya:** Sir, I have a question in terms of the constant currency calculation because the normal growth and constant currency are both in the similar range. So, if you can shed some highlight on the mechanics of this calculation?
- Gaurav Bajaj:** I think Manoj also touched base upon the fact that USD appreciated and is strengthening; on the other hand, if you see pound and GBP and some of the other currencies, those have been depreciating. Given out the mix of the portfolio and the revenue we recognize this year, I think both kind of played off to each other and hence actual and the constants are coming similar.
- Chirag Kachhadiya:** Okay Sir fair enough. Thank you so much and best of luck.
- Moderator:** Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

- Dipesh Mehta:** Thanks for the opportunity. Couple of questions. Sir, just want to get clarity about salary hike. Salary hike we gave with effect from April; was it fully given or a certain set of employee-only hike was given?
- Manoj Raghavan:** No, so I think we gave first salary hike for all the juniors, almost 60%, 70% of the staff from January in the beginning of the year, and the remaining set of staff was given a salary hike in April, so it is fully done.
- Dipesh Mehta:** And if I look this quarter, your employee expenses grew less than your head count growth. So, in a way it is not getting captured in terms of inflation. So can you help us understand that part?
- Gaurav Bajaj:** No, I think if you see the personnel cost, it is inclusive of both the wage hike that has been done for the middle and the senior management this time and also includes the incremental head count that has been added during the quarter.
- Dipesh Mehta:** That is right. Your head count growth quarter-on-quarter was 8%, your employee expenses or wages grew 6%. Now when you say you gave salary to almost half of the employees, it is not getting inflated, that is why I am trying to get some clarity.
- Nitin Pai:** Yes, maybe I can just clarify. It is because the added employees, they do not necessarily come in the beginning of the quarter, so they do not count for the full quarter, we add them throughout the quarter.
- Dipesh Mehta:** Even if you take average let us say 8% is end-to-end if I take 4% is average, still it is hardly any gap between this.
- Gaurav Bajaj:** It can't be averaged out and then it has to be getting the pyramid, the mix of the people, the regional makes, there are a lot of factors which goes into there and the personnel cost also includes other the contribution to the funds and the staff rates and all other expenses. So that straight match will not work like that.
- Dipesh Mehta:** Second question I have is about the offshore mix which we are seeing very steady improvement over last few quarters. Do you think considering things are opening up, that trend will now stabilize or may have some reversal, or you think this trend likely to continue?
- Manoj Raghavan:** Yes, I think over the last few quarters it has been pretty steady, yes, I think there is a slight uptick in the on-site revenues this quarter, but not a significant uptick. So, I think I would tend to continue that customers are reaping benefits from the offshore execution that we provide for these customers, so I do not think they will be in a hurry to move on-site.
- Dipesh Mehta:** So, you expect this 75%-25% is broadly stable, likely to happen even on medium-term perspective.
- Manoj Raghavan:** More or less; that would be a plus 1%, plus 2% here and there, but more or less it will be in that range.
- Dipesh Mehta:** That is broadly 75%-25%.
- Manoj Raghavan:** Yes.

- Dipesh Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dev from Invest Yadnya. Please go ahead.
- Dev:** Thank you for giving me opportunity to ask the question. My first question was on pricing. So, you said that you had some price increase. So can you elaborate on that, which were the hot skills, which were suitable, so that you could get price hike from your customers and across which verticals was this?
- Manoj Raghavan:** I would not say it is based on skills, of course there are certain skills that traditionally also command a premium. But the price hike that we are talking of is customer engagements, depending on how long they have been engaged and what value that we deliver to these customers over the COVID years and so on. So, we have been able to go back and negotiate price hikes with individual customers based on the value that we bring to the table.
- Dev:** And I have one more question, it was with respect to automotive vertical. So what is your contribution to the new age OEMs versus the traditional OEMs in the automotive vertical?
- Manoj Raghavan:** We continue to work with the new age OEMs as well as the traditional OEMs; the new age OEMs are primarily around the electric vehicles, the connected car platforms, digital twins and all the new areas, whereas the traditional OEMs is a mix of the traditional businesses of infotainment, body chassis, powertrain, cockpit plus the electrification scope and so on. At this point in time, we are not in a position to tell you how much percentage, we do not have the data.
- Dev:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Jayraman Krishnamurthy, an individual investor. Please go ahead.
- Jayraman K:** I have a question basically on the healthcare revenue. It is expanding more than what would be projected, is this due to any tailwind or there is a concentrated effort to expand the revenue, because what I know is we look at 20% of the revenue to healthcare; the way we are growing is there a possibility that you will exceed this 20%? The second question is with regards to the revenue, how much percentage of the new business that we are getting is from the existing clients? If you are not able to share the percentage is it possible to at least share if there is any increase compared to the last financial year? Thank you.
- Manoj Raghavan :** The medical business - I mean it is not this quarter alone, I think over the last eight quarters or, so we have been showing a consistent high growth. So, to that extent it is not something new. Whether we will hit 20% or not, I think when we reach 20% we will think about it, but at this point in time, as Nitin said, we put the target and we want to hit the target first. Of course, if there are opportunities to grow, we are not saying that we will not grow, we are not saying we cannot go beyond 20%. So, to that extent we will continue to accelerate our focus on medical, we have made a lot of investments in that area and I think we have built very, very strong capabilities that is relevant to our customer base and I think we have a pretty good team executing there. From your second question regarding new business, as I said in the beginning of the call, we have been focused on deeper account mining and staying relevant

to our key customers. So, to that extent I think almost 98% of our revenues come from our existing customers even in the quarter gone by and new customers only account for a very small fraction of our revenue. Of course, over a period of time the new customers also grow and then become significant, but in the quarter in which we get into a new customer, it is typically it is about a 1% to 1.5%.

Nitin Pai: Just to add a little more color, the point is that given the nature of the business that we are in, which is R&D and product development, typically customers do not start off with a big bang because they are not going after renewal contracts and so on. It is the small projects that you learn and the customer also learns and gauges you by, and you would build and expand on top of that, so that also kind of explains the ratio.

Jayraman K: Okay thank you very much for giving the opportunity. Thank you.

Moderator: Thank you. The next question is from the line of Amit Thawani, an individual investor. Please go ahead.

Amit Thawani: Hi! Nitin, Hi! Manoj, good to speak to you again. Just one simple basic question, the annual report mentioned about three more industries: one was the semiconductor, second one was the telecom and the consumer electronics. In our presentation we do not include that, so I am just wondering in which segments would these three come in?

Nitin Pai: If you look at semiconductor -because they form the foundation for electronics in every sector that you would work in- so to that extent we do have engagements even today with semiconductor companies. Addressing certain key markets and what is in the public domain for example is Renesas, where we have been working with them on automotive electronics and we have also announced the next generation EV innovation center which builds on top of silicon from Renesas and then brings in software that we develop. There are similar relationships when it comes to 5G and telecom. There are similar relationships when it comes to healthcare. So that is the semiconductor piece. Telecom is an integral part of media and communication. So, when you look at media and communications, that is what we call that vertical, telecom is that communications piece, we do not say telecom only for the reason that nowadays telecom players are also media players; they offer triple play, quad play and so on. So that is why we call the vertical media and communications. As far as consumer electronics is concerned it partly reflects in media and communications because there is some amount of consumer electronics involved in media, because when we work on set top boxes, when we work on gateways, fundamentally we are working on consumer products. Part of it gets reflected in design.

Amit Thawani: Got it, I have no other questions. Thank you.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest investment. Please go ahead.

Bharat Sheth: Hi! Thanks for the opportunity. In our earlier answer we said that we plan to add around 3000 plus freshers and 1000, 1500 laterals. So that is around 40% to 50% of existing head count. In a short to medium-term we look to be very bullish. Is that a fair understanding?

- Manoj Raghavan:** Sir you have to also take into account attrition, so there will be attrition also that we need to plan for. Of course this is the target that we have, 3000 or 3500 freshers, and in reality we may end up anywhere between 2500 to 3000 or whatever, it depends on how many of them really join. So, while we would target, it is not that 100% of the people who join us. So, I think we should be around 3000 people. This is what we target from fresher's and some laterals as I said depending on the demand and how attrition happens and so on. We will add anywhere between 1000, 1500 people.
- Bharat Sheth:** Do we expect offshore to go up in the next four or five quarters?
- Manoj Raghavan:** I think we have reached a good percentage for offshore. It could marginally go up but I think it would not be significant.
- Bharat Sheth:** And last question, despite us not adding much revenue from an IP business, does it really help us to improve our margin where we can deploy same into the client service business?
- Manoj Raghavan:** We have not yet reached that stage. Right now our IP, the products that we have, is primarily helping us get a foot in the door and opening new accounts, new customers and so on. At a later point in time, hopefully when some of these are matured products and we get repeat orders and so on, what you say would happen.
- Moderator:** The next question is from the line of Khandelwal an individual investor. Please go ahead.
- Khandelwal:** Hi! Good afternoon. I just want to understand right now employee cost is around 50.38% so what is the trajectory going in future, the trend, is it likely to increase or decrease?
- Gaurav Bajaj:** Yes, I think maybe that calculation may not be accurate, but I think employee cost is directly proportionate to our revenue. We have been working on other products and IP related and non-linear kind of revenue. So likely it will not exceed the current percentage. Of course, there would be intervention in terms of the wage hikes and all those things as we go along, and there could be other things, but it is going to be in the similar range.
- Khandelwal:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Mayur Matayni from Maheshkumar & Company. Please go ahead.
- Mayur Matayni:** Thanks for the opportunity and congratulations to the management on excellent set of numbers. I have two questions, one is related to our revenues from Asia apart from India. So it has been declining as a percentage of revenues. So, is it by choice that we are focusing on other regions and that is why our revenues are lower because Asia is a big market for automotive and communication? My second question would be on the initial response that we have gotten on our new healthcare platform.
- Manoj Raghavan:** Coming to revenues from Asia, yes it has been declining. I think especially revenues from China has come down, because China has been hit by COVID really badly. People are not able to travel to China, even within China there

are a lot of restrictions and so on. Similarly I think both revenues from Korea and Japan also have come down. I think in all these countries, the macroeconomic situation is not that good and customer spend and customers confidence is also down there in that particular market. So, I think naturally we do not see any large opportunities or big deals that are coming from that part of the geography. So yes the revenues are down but at the same time for us, from our perspective, our other major markets Europe and U.S. and India has been growing very, very rapidly so from our management focus also, we have been focused to really grow the other geographies but at some point in time definitely China and Japan and Korea would also come up and then hopefully in the near future we will see growth there.

Nitin Pai:

Just taking up the second question on the healthcare platform. I just wanted to clarify that we kind of announced and launched that just at the end of March, so it has just been about three months since we have gone actively to market with it. You have to appreciate the fact that a digital platform like that is a fairly big and strategic decision for customers. So, in some sense it does take time to make sure that customers see it, appreciate it, understand it, and then are able to move down the path of assessment and selection. But I think the big side effect for us is the fact that, even as we go into Greenfield opportunities where a particular target customer does not have a platform and wants to adopt ours, we are also already starting to see the benefits of Brownfield where they have platforms, they are not necessarily going to switch with ours, but they are seeing that we are bringing all the relevant design and digital capabilities that are necessary for such platforms; the elements of customer engagement, patient engagement, views that you provide for doctors, healthcare providers, patients; these are digital and design skills that are both compliant to industry standards, compliant to healthcare regulations and deliver the right experience. So, we are already winning projects in terms of services that address digital healthcare platforms for customers, but our own wins are yet to come. But we have no doubt, we will win some of those, but I think the benefit will be both in terms of services that are coming off the platform demonstrations and revenues that are coming from platform licensing and sales.

Moderator:

Thank you. Ladies and gentlemen, we take the last question for the day from the line of Karan Danthi from Jetha Global. Please go ahead.

Karan Danthi:

Hi! Management team, many congrats on the great set of results. I wanted to just dig in a bit a little more, just pressing the macro. Many software companies in the U.S. have started to see pressure, particularly from Europe and if you follow the hardware supply chain within I guess a server complex, you are starting to see some signs that server deployment is slowing. So, it is very clear, and I think Morgan Stanley said this on the earnings call yesterday that there is a prioritization happening, where companies are saying there are certain projects that are prioritized and certain parties that are not. Now I think we have done really well to orient to ourselves across I would call mission critical innovation tech projects, so I do not think we have seen any -if at all- impact from this and there is a good argument as to why that should continue to be the case but let us take a scenario where there is a recession in some parts of the world and the job market does get weaker in other parts of the world. What percentage of your project would you say discretionary for the customer i.e., they would do it if they could, but if they have to put it off, they will, because the trade-off of being innovative versus saving money; the math does not work at some point. So, it would be helpful if you could just frame that and then I have one follow-up.

Nitin Pai: Yes, maybe I will take a stab at the first one, because it is a complex question and obviously we are dealing with possibilities here rather than something that is concrete. I think you are right in the sense that over a period of years, consciously from our side and equally going through COVID, what has happened is a lot of the budget rationalization in favor of what is strategic, what is important, has already been done. So, in that sense I think COVID was a bigger recession than anything else because it really, truly squeezed decisions on what is important, what is strategic, what should stay, what should go from many companies. So, to that extent I think to a large, large extent the budgets that we are dealing with now and the kind of projects we are working on now are, like you said, mission critical. If I were to then extrapolate to say now there is further pressure and customers still need to kind of think of what do they cut down on, I would still say that we stand up really good chance and I will just justify why that is so. If you think about what are their options, their options is to do it in-house, first option is not to do it at all in which case there is no debate, nobody wins, but if their option is to say we have to do something but have to do it at the lowest cost possible, I think we become the most attractive option on the table, because we have predominantly offshore, we are operating on very, very competitive rates, we deliver ownership and assurance of the objectives that the customer has or the outcomes the customer has. So, in many ways I think we are a better option for continue, even if it is reduce continue, than a stop. So all I would say is that unless the decision of the stop and therefore they are going to fire their own employees, or they are going to cut out all the work that they are giving out, we would most likely still be the second last or the last on the option list, I can only envisage our future that way.

Manoj Raghavan: And the other thing I would say is that these events happened right, and we have seen it happen when COVID hit us in the first quarter of the 2020 we did have a situation where customers did pull the plug and a lot of projects were scrapped and so on, but the good thing about Tata Elxsi is that we have seen this before and we quickly reoriented ourselves and we were able to come out of that situation within the quarter, within a quarter by the next quarter we are up and running. So, I think there is a lot of confidence in the team that in the case of deep recession and deep budget cuts and so on, we will figure out alternate ways to deliver, to come back and continue our growth and we have proven that during the COVID time also. So that is the confidence we think.

Karan Danthi: Great, thank you. My follow-up is about the transport business, as you look forward it seems like there is a growing course that the semiconductor shortages are essentially moving in the right direction as slack in increasing consumer shifted and reallocated toward autos; does that benefit you in any way with production rebounds but I guess the budgets do not change people would have to innovate either way but I am just curious whether that has a kind of a second derivative impact.

Manoj Raghavan: No, if the semiconductor prices come down, all our customers will be happy and as you know right now, if you go to any auto dealer, you do not have too many options; there is a huge waiting list for most models. So, what happens is when all this pressure automatically comes down. OEMs are able to sell more which means automatically they generate a lot more money in the bank and that will funnel a lot more new R&D projects, so definitely we will benefit.

Moderator: Thank you. Ladies and gentlemen due to paucity of time and that was the last question. I now hand the conference over to the management for their closing comments. Over to you Sir.

Manoj Raghavan: Thank you. Thank you all the investors who attended today's call, this is a satisfying quarter for us, and we hope to continue this trajectory and look forward to talking to you again after our Q2 results. Thank you so much.

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