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Dear Sir / Madam,

**Sub.: Transcript of the Earnings' Conference Call on Q3 - FY 2022-23 results.**

This is in furtherance to our intimation dated January 21, 2023, intimating the schedule of Earnings Conference call on Wednesday, January 25, 2023, for discussion on the results for Q3 of FY 2022-23.

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, we herewith enclose the transcript of the above said Earnings Conference Call held on January 25, 2023, which has been uploaded on the website of the Company.

The transcript of the Earnings Conference Call can be accessed on the Company's website at: <https://www.tataelxsi.com/investors>.

This is for your information and records.

Best Regards,

**For Tata Elxsi Limited**

Cauveri Sriram  
**Company Secretary & Compliance Officer**

**TATA ELXSI**

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# TATA ELXSI

## “Tata Elxsi Limited Q3 FY '23 Earnings Conference Call.”

January 25, 2023

TATA ELXSI



**MANAGEMENT:** **MR. MANOJ RAGHAVAN – MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER – TATA ELXSI LIMITED  
MR. NITIN PAI – CHIEF MARKETING OFFICER AND  
CHIEF STRATEGY OFFICER – TATA ELXSI LIMITED  
MR. GAURAV BAJAJ – CHIEF FINANCIAL OFFICER –  
TATA ELXSI LIMITED  
MS. CAUVERI SRIRAM – COMPANY SECRETARY –  
TATA ELXSI LIMITED**

**MODERATOR:** **MR. SHASHANK GANESH – ERNST & YOUNG**

**Moderator:**

Ladies and gentlemen, good day, and welcome to the Tata Elxsi Limited Q3 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in 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 star and then zero 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:** Thank you very much, Faizan. Good afternoon, and good evening to all the participants on the call. Good morning, if you're joining 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 businesses that would 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 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. 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 evening, everyone. Thank you for joining the Q3 earnings call this evening. Wishing you all a very successful and prosperous 2023. I'm glad to report that in a challenging macroeconomic and business environment across regions and markets, we have reported a steady quarter with healthy growth in revenues and net profit and improvement in our margins as compared to last quarter.

Our revenues from operations during the third quarter stood at INR 817.7 crores, a quarter-on-quarter growth of 7.2% and a Y-o-Y growth of 28.7%. Our EBITDA for the quarter was at INR 246.9 crores, growing by 9% quarter-on-quarter. Our PAT for the quarter stood at INR 194.7 crores, growing 11.7% Q-on-Q. In constant currency terms, the company grew 3.5%.

We continue to lead design with our industrial design business, reporting a 19% quarter-on-quarter growth in constant currencies. This business continues to help us differentiate our offerings, seed entries into new projects and customers and set the foundation for larger downstream development projects.

SI business continues on its path of transformation and registered a healthy growth of 9.3% quarter-on-quarter in constant currency terms. It's building the foundation for what we call the run services, including tools, infrastructure and operation support, to help engineering teams develop and deploy products into the market. This includes support for some of the platforms that we have built and licensed.

EPD division grew by 1.6% quarter-on-quarter in constant currency terms. Within EPD, if you look at it, we are witnessing sustained growth momentum in our transportation segment which reported strong growth of 7.3% quarter-on-quarter in constant currency terms. During the quarter, we not only continued to scale with our existing customers but also won some strategic multi-year deals, including an STB program with a global OEM software organization and an offshore center of excellence for an EV systems leader from the US market.

Our Media and Telecom and Healthcare business units saw some impact of furloughs and delayed edition making. Also, this being a seasonally weak and shorter quarter, there was some impact on our Q-o-Q business growth. In constant currency terms, the Media Communication business witnessed a decline of 2.6% Q-o-Q basis.

Our Healthcare and Medical Devices business unit revenues declined by 1.9% Q-o-Q, but overall, in both of these businesses, we have done well to protect our business and position ourselves strongly for upcoming deals. We have also won key deals in strategic areas such as ad-tech and healthcare platform development that underscores the differentiation we bring to the customers.

On the people front, we continue to do well with employee engagement and retention, with attrition declining for the third consecutive quarter to 18.4%. Our investments in hiring and training a large number of fresh engineers who joined us in the last quarter and before are actually starting to pay dividends as more and more of them are getting onboarded into customer projects. We will continue to add fresh engineers over the next four quarters and laterals in key lead portions across deliveries, technology and sales.

As we move to the last quarter of this financial year, at an overall company level, we have a strong order book and a pretty healthy pipeline across key markets. So I strongly believe that we have a good story here. I'll now hand over the floor to Shashank for the Q&A session. Thank you.

- Moderator:** The first question is from the line of Bhavik Mehta from JPMorgan.
- Bhavik Mehta:** Good set of results and congratulations to the management. Two questions. Firstly, the weakness, you saw in media and health care verticals, is this over? Or do you expect some furloughs to continue into 4Q as well? So what's the outlook on these two verticals going forward? And the second question was on the wage cycle. If I remember correctly, last year we had wages in March and June quarters. So how are we looking at a wage cycle this year?
- Manoj Raghavan:** So regarding both the Media and Communication and healthcare verticals. We believe it will continue to be soft for a quarter or two, especially the Media and Communication vertical. In the healthcare vertical, we are a lot more bullish, we should be able to recover much faster. And we are seeing deals coming back. So I think we'll wait and watch. Regarding the wage cycle, our next hike will be in Q1 and then based on how the deals flow in Q4, we'll take a decision, but the wage hike is currently planned for Q1 next year.
- Bhavik Mehta:** And lastly, the ESOP plan volume introduced, any early comments on how much impact this will make on the margins?
- Manoj Raghavan:** No, I think there won't be a very significant impact. We'll cover it up with our operational excellence. Once we talk to regulators, we will be able to disclose a lot more in the coming days.
- Moderator:** The next question is from the line of Apurva Prasad from HDFC Securities.

**Apurva Prasad:** Manoj, I had a question on the IDV business. Now it seems that nearly half the growth has come from IDV sequentially. It seems counterintuitive looking at its historical cyclicality and the current macro. So it'll be good to know what's driving growth here. Are there more synergy deals here with EPD? Or are these standalone deals outside the traditional transportation/media verticals?

**Manoj Raghavan:** Good question, Apurva, and for folks who have been listening to our commentary, we have been restructuring our design business over the last four quarters. We have done a lot of things to really scale that business. If you look at it on a quarterly run rate basis as compared to maybe a couple of years ago, we have almost gone up 2.5x, so over the two years, we have really done a number of things to really grow that business.

And whatever we are seeing now is a result of all those initiatives that we have taken. Design business continues to win design digital deals for the company across our key verticals and also helps us seed larger development opportunities across the various verticals. So I think definitely, there is a lot of cross synergies with our current verticals.

We are pushing a lot more design digital deals in the three major EPD verticals. Of course, IDV also has their own customers outside of these three verticals. So that's something that definitely is positive. There is a lot of focus and emphasis on design aspects that are AR/VR-related, training-related and worker productivity, along with a number of other things that we are doing that is really combining the design capability along with the engineering capabilities that we have.

So yes, we have grown the breakup of our verticals, primarily for the EPD division. IDV also contributes to the automotive, media and to healthcare verticals. So, at some point in time, we will take the decision of showing the real picture of the total revenues, including EPD and IDV in each of these three verticals. That's something that we have not been doing, but we are really looking at it. Now that IDV is scaling, I think it makes sense at some point in time to really show the overall revenues, both EPD and IDV, put together for the three major verticals that we have.

**Apurva Prasad:** And my second question is on the top 5, which was flat sequentially. So is the performance uniform across the top 5? Or is it more top-client-specific? And if you could talk about what's the outlook and the funnel in this?

**Manoj Raghavan:** No. If you look at the top 5, it's not been flat. While the top 5 has grown, the growth has been slower than the next 5 and the next 20. So the growth that we have shown in this quarter has primarily been driven by customers outside the top 5. But the top 5 have also grown. You should also note that our top 5 accounts are bringing large revenues to the organization. And in a few cases, we have had furloughs and the impact of furloughs is also factored into the revenues that we have shown. So, to that extent, yes, you must have seen some slowdowns and so on. But the top 5 has grown. It's not flat.

**Moderator:** The next question is from the line of Vimal Gohil from Alchemy Capital Management.

**Vimal Gohil:** Congratulations on a strong quarter in considerably challenging macros. Sir, my first question was on margins. So last quarter, we had a fairly strong hiring. And the expectation was that there will be some cost effect into this particular quarter. However, that has not really happened, if you look at the overall employee cost as a percentage of sales.

Also, there is a reduction in employee costs given the fact that we were facing supply pressure, especially in the automotive piece. So if you could just help us reconcile this. And also, I just wanted to check, again on margins, would it be fair to say that our IDV business, the margins over there are slightly above company average?

**Manoj Raghavan:** The second question, is about IDV margins. I think we wouldn't want to disclose the margins at this point in time. Margins vary from deal to deal and IDV is a smaller business, so sometimes we are very aggressive to get that business and then build on it because it is not just the design business, but also downstream engineering. So we know that as an overall entity, we can make better margins. So it will be misleading if we really look at only IDV and say whether the margin is good or not. There are cases of standalone IDV deals where margins are extremely good.

So it's a mixed bag, and it will be misleading if I give you a commentary that margins are great. But we don't look at it in that way. We look at it as a combined entity, how IDV really helps EPD and EPD customers and we look at account margins, not so much about whether IDV margin is better or EPD margin is better. But the first question coming back, I really couldn't get the context, if you could repeat that?

**Vimal Gohil:** I'll just repeat that. The question was that the second quarter had very strong hiring. So the expectation was that there will be some costs that will pass through in this quarter; and there could be some pressure on margins before the margins improve going forward. But improvement has just come slightly better. So what helped that?

**Gaurav Bajaj:** So there are a few things there. I think you rightly mentioned that there is some tailwind from the past quarter's hiring because we will have that full quarter impact of this in quarter 3 compared to quarter 2 for both campuses along with the intake in quarter 2. But to offset that, I think we have superior topline growth and the people that we brought in across the previous quarter, have started to improve our utilization and those people have been put into the billable projects this quarter.

**Manoj Raghavan:** Yes. And apart from what Gaurav said, we've also had a reduction in more expensive consultants. Because of the situation in the market, we had contractors that we had hired. So we've actually reduced the contractor's headcount, and we've replaced them with our permanent employees at a lower cost. So I think these factors helped us to show better margins.

**Moderator:** The next question is from the line of Urmil Shah from Aegis Federal Life Insurance.

**Urmil Shah:** Congrats on a good quarter. So my first question is, if we look at the business from a medium-term point of view with the transformation that we are undergoing on our SI business, should we look at it from the perspective of IT services companies wherein our SI business should

enable us to drive cost savings for our clients? And that budget could be channelized towards the EPD business. And if that is the case, which of the areas are we already seeing at least a discussion starting to happen?

**Nitin Pai:**

Urmil, this is Nitin here. If you think about what transformation we are driving with SI, we don't want it to be orthogonal, in the sense that we do not want to try and grow it in conventional IT services and professional services areas. We are aligning it to the engine of EPD itself. We are in product engineering and more-and-more products are now getting connected therefore, the cycle of development is going to become a continuous integration and continuous deployment.

In some sense, like your connected car platforms, the digital health platforms or OTT, where you have constant updates of the software on the product, we want to be able to not just deliver the product that is on the assembly line. We also want to be able to manage the assembly line that is delivering it.

So to that extent, the DevOps engineers that are required below the plumbing and the infrastructure that is required to deliver this continuous integration is what we are focusing on. So in that sense, we are aligning it very strongly to complete the story for product engineering and to say that we are future ready for products that are going to be deployed and updated and managed continuously.

**Urmil Shah:**

Thanks. Coming to my second question, you sound quite positive on the IDV business, should we understand it in a manner where the visibility which was there two years before has increased drastically? And that's why the growth over there should be much more consistent as compared to what it was two years before?

**Manoj Raghavan:**

The visibility is definitely better. The synergies are playing out better now between IDV and EPD. But at the same time, I should warn you that it's still a small business. So, you should really not see it from a quarter-to-quarter basis, you should look at it from a financial year perspective. How have we performed last financial year versus this financial year, you have to look at it from a four-quarter basis.

It will be misleading if you really look at it from a quarter-to-quarter basis because they still do a lot of project-based engagements. There are deals that come in and once the deals are closed and we deliver, delays enter before next deal kicks in, and so on. So to that extent, there could still be a little bit of volatility and so on. But definitely, we are much better as compared to two years ago.

**Nitin Pai:**

Yes. I think just to add to what Manoj said, I think I can just drive three directions. One is the synergy part. We are saying, look, try to minimize standalone deals, which do not lead to larger downstream. So aligned to the verticals that you are in, let's scale in health care projects in HMI and UX and car automotive projects. Let's focus on delivering engagement and UI and experience for OTT and for media. So the point being that there, there is really a downstream play, and there is a continuous play as we continue to work with its customers even in deployment and downstream engineering. So that's the synergy piece.

Two is, I think we are selectively scaling around a set of customers. While earlier, we dealt with a whole lot of customers; we are starting to cull the number of customers we work with and start to build a base of fairly dependable customers, even if not dependable set of projects. So there are two, three things that we're doing that helps us mute volatility while providing for scale. But I think on the other hand, like Manoj said, there may be volatility at times.

**Moderator:** The next question is from the line of Naveen Bothra, an Individual Investor.

**Naveen Bothra:** Congratulations on a good set of numbers once again, and also congratulations to the management team for getting the board approval from the share-based incentive plans. My first question is regarding our recent announcement that on our TETHER platform, 5 lakh vehicles have been registered. To Mr. Nitin, my question is, if you can throw some more light on it, from 5 lakh to 10 lakh, 15 lakh or 20 lakh vehicles on this data platform growth, how will this help us in terms of revenue and performance?

**Manoj Raghavan:** Yes. So rather than Nitin, I'll take it. So yes, I think what we have published is only the TML deal. There are other deals also that we have won on the platform. And each deal is different; some deals are more NRE-focused. And then there are change requests to scale up the platform to meet larger numbers, we go back, and we do additional work; revenue streams come in and so on. Some of the deals are less of NRE and more of royalties per car. So in those deals, as the volumes grow, definitely, it is a non-linear revenue stream that we get. So we have a mix of that. So definitely, as the installations in the number of cars increase, there will be a lot more revenue either because the platform itself needs to be scaled up, and there are changes that we need to undertake to address the larger numbers that we are onboarding. Or, in some cases, plainly, it is a royalty per car deal. So as the volumes increase, the revenues also increase.

**Nitin Pai:** Yes. Maybe I'll just add to that. I think to look at the press release as an indication and the declaration of the market that one, we have reached a scale of 0.5 million cars, which is very difficult, to achieve in all markets. It demonstrates the power and scalability of the platform. But what is even more interesting is that we have now onboarded commercial vehicles, gasoline-powered or IC engines, as well as pure EV vehicles onto the platform. So what we're telling the market clearly is that across product types and product ranges, we are now able to handle any kind of connected vehicles, not even a connected car, but a connected vehicle need. So for us, the real benefits of the press release are going to be the deals that we signed further rather than what we get from Tata Motors itself.

**Naveen Bothra:** And the next question is to Mr. Gaurav regarding our overall human resource cost, the direct employee cost is direct line item. And as in the earlier questions, Mr. Manoj said that we have replaced the outside contractors' cost with our own staff. So Mr. Gaurav, can you throw some more light on the consultant cost in other expenses to get a better understanding about overall the cost of employees and consultants in our sales and revenue mix?

**Gaurav Bajaj:** Sure. As I mentioned earlier and what Manoj also said, the people that we took in the previous quarter, now are trained and those people are put to the billable projects. And with that, we were able to replace the contractor with our own billable people. If you see the employee cost is an



equation of some of the tailwinds from the previous quarter, some cost increase because of the on-site resources, because of the exchange increase in the currencies and also, it's a mix of the utilization improvement compared to the previous quarter. So in a way, if you see the employee cost plus the contractor cost, that tailwind is kind of getting offset with the utilization and the contract reduction.

**Naveen Bothra:** Because in the direct cost, we are seeing in the TTM basis, more than 1% improvement is there in the employee cost. But since the cost of contractors and all the outsourcing agencies are in the other expenses, if you can throw a little bit more light in financial terms, it will be quite helpful.

**Gaurav Bajaj:** It will be about 50 to 60 basis points.

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

**Ravi Naredi:** How do we plan to utilize the funds resting with the company? How do we utilize them for organic or inorganic growth, or do we distribute the gain?

**Gaurav Bajaj:** Okay. So basically, utilization is done at the time of the quarter 4. That is when we come up with our policy. And typically, what we have done in the previous quarter is that we have paid out the dividend. This time also, we will do internal discussion with the Board. And in the due course, during the end of the last quarter of the year, we will get back as what would be the stand for this year.

**Ravi Naredi:** Any inorganic growth acquisition in plan?

**Manoj Raghavan:** Yes. So that option is always there. And again, just want to make it clear that, look, we will really go that route only if we are fully convinced that really helps us. Any of those inorganic activity should not decelerate our current performance. So there are many considerations. There are many deals that come our way, but we will look at those that really help us achieve our objectives. So yes, so we keep on the lookout. There's nothing to report at this point in time.

**Moderator:** The next question is from the line of Mayur Matani from Mahesh Kumar & Company.

**Mayur Matani:** Congratulations for the good set of numbers. I have two questions. One is regarding our employee addition. So during the end of the first quarter, we had mentioned that we plan to hire about 4,000 to 5,000 employees in the current year. And this quarter, we had seen that the net employee addition is negative. So I would like to know what are the plans for the employee additions in the next three months and the year going forward? Because generally, it is taken as a lead indicator as to what demand we foresee going ahead. And second is with regards to the geographic mix. Contrary to the expectations, the European region did better than the US market. So can you give some comments on that also?

**Manoj Raghavan:** Sure. I think we have to be very pragmatic about employee additions. Yes, in Q1, we were in a good position. We really believed that we will be able to add 4,000-plus engineers and so on. And as a result, if you look at it, in Q1 and Q2, we did add a significant number of employees, headcounts and so on.

But in Q3, we had to be a little careful because of the macro economic situation, the market and also the fact that when you bring in so many employees, it's not a question of just bringing employees. It's also a question of how do you train them and how do you enable them to move in billable roles and so on.

So we had our hands full. We realized the numbers were pretty significant and we really decided that we need to take a pause there in Q3. But having said that, from Q4 and the subsequent quarters, we will continue hiring and whatever we talked about. Even from a fresher hiring perspective, we'll definitely add anywhere between 400 to 500 engineers per quarter over the next four quarters. And we will continue to add laterals depending on the business. So yes, employee hiring will definitely continue. From a geo mix perspective, yes, Europe definitely did well. And as you would have guessed, Europe is a lot more automotive for us and US is a lot more media and health care.

So to that extent, if you look at it, the macro economic situation that is really working, affecting us in the MCV and the HLS business is more US-centric. And as a result, the US growth is slightly lower as compared to EU growth.

**Mayur Matani:** And when do you see the recovery in media vertical? Because right now also, the situation is not that great. So when do you see the pickup in the media vertical?

**Manoj Raghavan:** I think we are closely watching the media vertical. We believe there are no easy answers there. It will take some more time, but we are a lot more confident that the medical/healthcare vertical will pick up faster. So maybe a couple of quarters more for the media vertical. We will wait and watch there.

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

**Hiren Ved:** This is Hiren here from Alchemy at the outset. Congratulations on a good set of numbers. My question is that we've had a very smart growth in the automotive vertical this quarter, which has done the heavy lifting for the other two verticals. Do you expect to see the continued momentum in automotive like we've seen in Q3, while the other verticals take time to take off?

**Manoj Raghavan:** See, that's the strength of Tata Elxsi, right. A year ago or 12 months ago, the situation was totally reversed. It was MCV and medical that were pulling up and the transportation business was going down. So we strongly believe in having a good portfolio of service offerings which are relevant for the market. There could be temporary issues for a quarter or 2 in some of these verticals.

But overall, we strongly believe that these three verticals, along with the strong design digital push that we have, gives us a lot of confidence that as an organization, we are well poised to really address the requirements of our customers. And that is what we would really focus on. We are really not worried about these slowdowns, due to reasons not related to Tata Elxsi such as the funding situation, the macroeconomic situation, the war and some other things that can happen out of our control.

But overall, we still strongly believe in the relevance of our service offerings and in our design digital positioning that we have. And we strongly believe that, it's a matter of time before we recover in both the Medical and the Media and Communication business. So I think, yes, overall, I still believe you talked about the transportation business. We do definitely see a good order book and good pipeline there. But at the same time, we also know that there are risks; you talked about Europe. You talk about the fact that it's anybody's guess about how this war would go. Automotive business is heavily Europe-centric, so that is also true. But at the same time, there are customers that are really spending. So we don't see an immediate degrowth or anything happening there at this point in time. And I think, yes, we are confident that we will continue our growth.

**Hiren Ved:** And my second question is that the benefits that we accrued from better utilization and moving some of our own employees versus contractors - do you think we still have some scope to squeeze efficiencies and margins for that in Q4 as well, or whatever we had to obtain is already done in Q3?

**Manoj Raghavan:** No. Of course, our utilization is still not where we want it to be. So there are still operational parameters that we need to focus on. There is still more juice that we can extract. So definitely, no, it's not that everything is done.

**Moderator:** The next question is from the line of Akshay Ramnani from Axis Capital.

**Akshay Ramnani:** Congrats on a good quarter. So my first question was on the software-defined vehicle deal which you have announced, I wanted to get some sense there. Is this engagement substantially larger than what we have been seeing historically in typical deal sizes? And do we have similar deals which are floating in our pipeline? Also, if you can just highlight competitive intensity for such deals, and how is Tata Elxsi positioned to drive multiple deals of such type.

**Nitin Pai:** Yes. So Akshay, this is Nitin here. So let me take that question. For us, this is a strategic entry rather than a size aspect. So to that extent, we have been onboarded into the next-generation software development platform that this particular OEM is developing. We have just been onboard into a few modules. We already are looking at deals that are sitting in the pipeline for the same customer, covering a lot more modules. So to that extent, for us, what is happening is we made a start. We're already in some areas. It is just for us to continue to grow. The highlight is actually about the entry into that particular customer because we've not had them in the software organization before. And we see a long runway ahead. As far as your question on other deals concerned, the pipeline for auto is very strong.

**Akshay Ramnani:** And another question was on margins. Last quarter, we saw frontloading of cost, which was led by some investments which we made in our talent, which also impacted margins sharply. Now this quarter, looks like we have stabilized on that investment and improved it quite a bit. So I wanted to understand, do you have any investment pipeline over the next in two to four quarters which can impact margins. Excluding that, on an organic basis, how should we expect these operational efficiencies of increasing utilization to aid margins? How should I think about the margin trajectory going forward?

**Manoj Raghavan:** When we hire freshers from the colleges, typically, they would come in, in large numbers either in Q2 or Q3, depending on the business needs. That is when the impact of the large headcount will happen in our business. So we have already done that for this financial year. So yes, if it all, it will happen only again in the next financial year. And that's a hit we need to take because that's how our business is and that's how we plan for resources. In one quarter, we need to take that hit, and we'll get the benefits of that over the subsequent few quarters. So apart from that, Gaurav, if you have any views on that?

**Gaurav Bajaj:** No, I think that would be the investment we typically do every year in terms of the intake and then we train them and that is how the forward-looking investment is done from our side. Apart from that, I think we will continue to work on the other operating levers to neutralize that impact of those costs from the intake that happens typically in the first two quarters of the financial year, along with the growth that we will be able to achieve with those billable people.

**Akshay Ramnani:** And if I can squeeze in one for Gaurav. So our ATR has been hovering at about this 19%, 20% range for the past three quarters. So is that a sustainable range going forward? Or do you expect any of these SEZ benefits to reverse over the next year or 2? How should one think about that?

**Gaurav Bajaj:** So we have not done the assessment for the two years but for this year, the effective tax rate will continue to be in this range. But yes, in the coming year, there will be a couple of SEZ units that will be coming out of the first block of 100% exemption. At the same time, we are looking at how to continue expansion and the growth of volumes in some SEZ units which will still have a higher exemption limit of 100%. We have to do that modeling for the coming year, but that will happen along with our business units. I think that's what we can tell at this point of time. In the coming quarters, we will let you know more on it.

**Moderator:** The next question is from the line of Karan Uppal from PhillipCapital.

**Karan Uppal:** Just one question for Manoj. So in comms and media vertical, is the weakness concentrated to a few large accounts? Or is it broad-based across the customers? And also, I believe that our top client is from this vertical. So what's happening in our top client? Is it also showing some weakness?

**Manoj Raghavan:** Yes. So we did have some furlough impact in the quarter from the top customer. This impact is not only from the top customer perspective, it is at least the top 10 accounts. It's not as if the deals are not there, but we are not seeing the large opportunities moving forward, rather most of those deals are broken up into smaller deals. So there is caution in the market definitely. We used to have a lot more order book visibility in this business, but right now, we see that large funnel breaking into smaller funnels. So that's how it is. But I think it's a question of a few quarters; the relationships are still intact. The intent from customers is also there. Especially with layoffs and other things happening, the customers are just waiting and watching. They don't want to take any large investment decision at this point in time, I guess, in a couple of quarters, we'll get better clarity.

**Moderator:** Next question is from the line of Anika Mittal from Nvest Research.

**Anika Mittal:** Just a simple question on the demand outlook in the medium term across all the segments that we are currently operating in, sir?

**Manoj Raghavan:** See, again, demand outlook is pretty strong. If you look at the automotive business, if you look at our entire design business, we continue to see very strong order book. Media and Communication, it's a little muted. The medical or healthcare business is a long lead cycle business and decisions are pretty slow. It takes anywhere between three to four quarters to six quarters before large deals are signed. So we're going through that process.

A part of our services come from the regulatory services, and for the European market that is a regulated service called EU MDR. EU MDR was mandated; all products have to be EU MDR certified by 2024. So there was a deadline and there was a rush by all companies to really get the product certified by 2024.

What has happened is recently, maybe just about a quarter ago, the commission there relaxed the deadline from 2024 to 2027. So what has happened is with a lot of these companies, because the time lines are relaxed, what was supposed to be done in about 1.5 years can now be done over four years-plus. So a lot of the companies since decided to make use of that.

So the TCVs are intact, but unfortunately, revenues are now going to be spread out. Not all customers, a few customers have got into that. And that has affected us a little, and that is why if you look at it, our revenues have dipped a little bit. But the good part is, now the budgets that are available with the customers, they can use them for other activities, including new product development and other activities.

So we hope in the subsequent quarters, we will be able leverage this budget availability to push for new product development deals. And as you know, we have been investing in the digital health platform for quite some time now. And that is another revenue stream that we are building up, we are engaging and having those discussions with customers. It does take some time to sign deals there. All of that will happen over the next couple of quarters. And that is where I'm a lot more confident that we'll be able to recover the situation in the health care business.

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

**Tushar Bohra:** Congratulations to the management for a good set of numbers. Sir, just a couple of questions. First, we continue to report our business along three verticals as on date today, the transportation, media & communications and healthcare. But over what period do you think that some of your initiatives in other sectors and sub-segments would start to become fruitful so that you would move on to reporting those segments separately? And does that happen in the near term?

**Manoj Raghavan:** That's a call that we need to take. Actually, if you look at it, the adjacencies that we called out are already pretty significant if you look at the individual verticals. So in some cases, they are close to 10%; in some cases, they're close to 15%, 16%. So that is something that is not out of focus. Adjacencies definitely are doing pretty well, and we are really monitoring them. So we will take a decision at the appropriate time to disclose those numbers. New verticals, I think we

will continue to be cautious. We are incubating a few verticals and at again, at the appropriate time, we will bring that in.

**Tushar Bohra**

Just to clarify on this, is defense or related area also an opportunity for us in some way?

**Manoj Raghavan:**

It's not an active opportunity for us, though we are looking at the defense avionics side, and we do work with ISRO and a few companies in India. But again, it's not a large business, and I don't think it will be a large business because you really need to cater to the US defense industry or the European defense industry, if you want to make a big splash. But unfortunately, there are a lot of restrictions there - you need to have US citizens work etc. There are a number of restrictions there that doesn't make it easy for us to enter that sector.

**Tushar Bohra**

Sure. So sir, second, just want to get some qualitative inputs on how our IPs are performing in terms of helping us win business or also in terms of actual revenue contribution and also some of the new work that we are doing. So in the previous call, we've highlighted about metaverse. This call, you mentioned about the AR/VR project and the software-defined vehicles. Just some inputs that help us understand the opportunity would say, next three years or so in these areas?

**Manoj Raghavan :**

Sure. So if you look at it, our products, we have done a lot of investments in the media and communication vertical from a product perspective, whether it is products like FalconEye, QoEtient, TEPlay. There's a number of advertisement-related platforms, there a number of things that we have done. At this point in time, I would say that is one area which is doing pretty well for us from a media and communication vertical perspective.

Automotive, of course, we have done a lot of investments, including on the ADAS side, the Autonomous Car, AUTOSAR and so on. Of course, we are working a lot on the electric vehicles, a lot of IPs and products that we are building from a validation perspective. But all of that is currently in the investment phase. We hope that we'll be able to really push that into the market and get revenues.

From a medical health care business, yes, the investments that we have done on the digital health platform, that is a pretty significant investment. And we hope in the next two to four quarters, that will start generating returns for us. So I think as compared to a couple of years ago, number one, we have a lot more products in the market. Number two, a lot more products are generating revenues for us. That is also a positive for us. And I think this investment will continue because even though the numbers are not very significant, from a year-on-year perspective as per internal projections, we're looking at a 100% sort of revenue growth from the products and product-led business.

So that's something that we will continue to focus on and continue to make those investments. I think at some point in time, it will be significant, and we will hopefully hit a gold mine somewhere. But yes, we will continue to invest.

**Tushar Bohra**

Yes, sir if I may just squeeze a couple more questions very quickly. Sir, one is on in the TCS con call, management interestingly made a comment about ChatGPT. And obviously, it's in rage

right now for a lot of reasons. Just wanted to understand if some of these technologies could end up being disruptive on either side, positive or negative for us and for our peers. If you can maybe throw some comments on some such technologies, which you hope to either avoid being disrupted or leverage better to actually gain better business wins.

And on a related area, in general, we've seen a lot of spending cuts and on the technology side, we've seen a lot of market corrections, valuations have come down for a lot of companies globally. Is there anything on the M&A side that you are starting to sense where things are coming close to your comfort in terms of valuations, so that you may look at an inorganic growth. Not immediately, but definitely in the near term?

**Manoj Raghavan:**

Sure. We have our targets, and we're looking at it from an M&A perspective. So again, as I said, there's nothing to report at this point in time. We are operating at 28.7% PBT and 30%-plus EBITDA, so we have to be careful in terms of the impact of acquisitions. There are very few businesses out there that operate at that level. So we don't want any M&A to be disruptive to our own financials and so on. So we'll be careful, we'll look at it and we'll evaluate the synergies a lot more as compared to other companies. Because we are already operating at a very nice level. So, that's something we'll be very cautious.

**Nitin Pai:**

On the first part, maybe I can respond. In terms of ChatGPT, we think of that more as an anchor rather than as a specific point. I think the fundamental differentiation we bring in the application of digital technologies is that we are not out to build a generalized AI platform like many of the large IT companies talk of. We are very clear that we will do very specific AI.

So if we're doing AI, we will do it in cars, it will enable autonomous driving. If we use it in media, we'll use it for personalization of content and for nothing else. If we're doing medical, it will be to improve the predictability and outcomes of the diagnostics that we're doing. So in that sense, if you look at it, these are not generalized AI problems. These are specific AI problems.

So to that extent, we are in a space which still continues to need what we do and the intelligence that we bring, as the intersection of domain and engineering. But equally, I think there are opportunities for us to use generalized AI technologies like ChatGPT, especially as you move out of the product and then we get into the cloud, I think there is a lot more potential in those areas. So for us, I think we see it as an upside, because it allows us to go into areas that we don't otherwise address in general.

The same is true for others, by the way. If you look at digitized technologies, really think of the deal that we called out, which is the use of AR/VR in worker and productivity training. It's actually the metaverse, except that we are applying the metaverse for Industry 4.0. So again, there, we are seeing clear application of metaverse in gaming and in entertainment.

We are looking at the application of the metaverse AR/VR in the context of either improving engagement or experiences within cars, we're looking at within factories and so on. So in general, I'll just put it this way. For us, what is important about digital is the intersection of that with a particular domain, and not digital for itself.

- Moderator:** The next question is from the line of Akshay Ramnani from Axis Capital.
- Akshay Ramnani:** Manoj, last quarter, you spoke about high on-site wage inflation, wanted to get an update on that trend? Has that moderated? Also, the new center in Germany, is this a large one for us? Should we expect any reversal in the offshoring trend which is holding up quite well for us?
- Manoj Raghavan:** I didn't hear the first question. Let me answer the second question, and then we can come back. So yes, I think we've recently opened a center in Frankfurt, we believe it's a good location for us. We get access to local talent there and there are a few customer engagements that we are going to execute partly out of that facility. We've always had a smaller center, this time we really scaled it up to a significant larger center. I don't think that our on-site offshore ratio is going to change drastically because of that. We still continue to be an offshore-centric organization and if you look at the ratios also, I think we are more or less at the same level where we operate. So I think that doesn't change. Coming back to your first question, can you repeat that question?
- Akshay Ramnani:** Sir, that was around on-site wage inflation. You had called out a high on-site wage inflation last quarter. I wanted to get an update on that trend? Has that moderated or how are you seeing that?
- Manoj Raghavan:** Wage inflation is still high. It's early to talk about all these layoffs and impact of that on the on-site wage inflation. I think we will wait and watch. But I think until last quarter, the inflation continues to grow. But there is some softening in the market right now with all the layoffs. But it's too early to comment on that. We'll wait and watch for until the end of the quarter.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like hand the conference over to Mr. Nitin Pai, for closing comments.
- Nitin Pai:** Thank you. And first of all, let me wish all the participants today, very happy New Year again. Thank you for joining us on this call. We look forward to meeting you again in the following quarter. Of course, this time, our results were delayed a little bit, not because we're not ready, but we have to enable the availability of the entire Board, which was otherwise occupied. So hopefully, we'll have our numbers coming up early as usual in the following quarters. Thank you, and have a good day.
- Moderator:** Thank you. Ladies and gentlemen, behalf of Tata Elxsi Limited that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.

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