January 29, 2024

DGM – Corporate Relations
BSE Ltd.
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Scrip Code: 500408

The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C-1, Block G
Bandra – Kurla Complex Bandra (East)
Mumbai – 400 051
Scrip Code: TATAELXSI

Dear Sir,

Sub.: Transcripts of the earnings conference call for the quarter and nine-month period ended December 31, 2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed the transcript of the earnings conference call for the quarter and nine-month period ended December 31, 2023, held on January 23, 2024.

The audio recording and 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.

Thanking you,

Yours faithfully,
For Tata Elxsi Limited

CAUVERI SRIRAM
Digitally signed by CAUVERI SRIRAM
Date: 2024.01.29 15:56:28 +05'30'

Cauveri Sriram
Company Secretary & Compliance Officer

Encl: As above

engineering creativity

"Tata Elxsi Limited
Q3 FY '24 Earnings Conference Call"
January 23, 2024

MANAGEMENT: **MR. MANOJ RAGHAVAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TATA ELXSI LIMITED**
MR. NITIN PAI – CHIEF MARKETING 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 Q3 FY '24 Earnings Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal the 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. Good evening 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, must be viewed in conjunction with the business risk that could cause further results performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results and answer your questions today, we have the senior management of Tata Elxsi represented by Mr. Manoj Raghavan, Managing Director and CEO; Mr. Nitin Pai, Chief Marketing and Chief Strategy Officer; Mr. Gaurav Bajaj, Chief Financial Officer; and Ms. Cauveri Sriram, Company Secretary.

We will start the call with a brief overview of the past quarter by Mr. Raghavan, followed by a Q&A session. We would appreciate your cooperation in restricting yourself to 2 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.

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

Manoj Raghavan: Thank you, Shashank, and good evening, everyone. At the outset, let me wish you all a happy, healthy and prosperous New Year. Thank you for joining us for the third quarter earnings call. I'm happy to report that our revenue from operations in the third quarter stood at INR914.2 crores, which corresponds to a 3% quarter-on-quarter and 9.4% year-on-year in constant currency terms. We continue to maintain our EBITDA margin well above 29% and for this quarter, it was reported at 29.5%.

I'm also happy to report growth across our entire portfolio of customers, including, and beyond the top 5 and top 10, which reflects the differentiated proposition that we bring to customers. If you look at our -- the split of -- split between different businesses, EPD came in at about 84.7%, IDV at 12.3%, and the system integration business at 3%.

In terms of regions, Europe grew well at about 5% quarter-on-quarter. We also saw smart growth in Japan and rest of the world, including some large deals and new customer wins, especially in automotive sector. If you look at our various businesses within the EPD, our transportation business grew at 1.9% quarter-on-quarter in constant currency terms.

We had some delays in the ramp-ups in this quarter due to the shorter quarter and year-end holidays. We are in a good position to capture growth opportunities in the continued transformation of the automotive industry and the software-defined vehicle space with a strong deal pipeline. In the Media and Communications vertical, where business environment for the media, telecom and technology industry is challenging, our performance has been quite satisfactory overall.

Our revenue from this business has declined marginally by 0.1% quarter-on-quarter in constant currency terms. We continue to engage with our key customers in helping them drive efficiencies in current operations and also help them create new revenue streams for their businesses. You will note that we have significant contribution from the U.S. for this vertical and the media and technology sector was the most impacted in this region.

Healthcare and Life Sciences business performed strongly, registered a 3.9% quarter-on-quarter growth on a constant currency basis. During this quarter, we won some large deals, both in regulatory and new product engineering services.

Our Design Digital strategy is continuing to drive differentiation and growth for us. The Industrial Design & Visualization business grew by 11.7% quarter-on-quarter in constant currency terms. And during this quarter, our design teams have executed some landmark projects that spans user research, design and implementation and leading the way for our customers to transform consumer experiences across industries.

I'd like to highlight the recognition of our Design Digital capabilities with the German Design Award 2024 for Excellence in Design. This award for the Gen 3 next-gen automotive HMI that we won along with Tata Motors truly showcases the power of design when aligned seamlessly with technology to elevate driving experiences for future cars and electric mobility.

I'll now briefly discuss about our investments in people and capacity. We continue to invest in building a talent pipeline with a net add of 350 Elxsians in the quarter. This brings the total net addition to over 1,350 in the first 3 quarters of the financial year.

Our employee engagement and talent retention strategies have contributed to attrition further improving to 12.9%. We're also investing in building solutions offerings in capacity for AI. We are working with customers and executing some exciting internal projects to harness the power of AI and Gen AI, targeting to solve problems, drive efficiencies and drive and deliver completely new value for our target industries.

We expect to ramp up investments further in the coming quarters as we expand the purview of applications and offerings across industries, product life cycles and domains. As we move into the fourth quarter, we carry the confidence of a strong pipeline across our businesses and some great conversations going on with our key customers.

I would now hand over the floor to Shashank from E&Y for the Q&A session. Over to you, Shashank.

Shashank Ganesh: Thank you very much. The first question is from the line of Vimal Goel from Alchemy Capital. Please go ahead.

Vimal Goel: Thank you for the opportunity. I hope I'm audible.

Shashank Ganesh: You are audible, sir.

Vimal Goel: Thank you. Sir, my question is around Transportation. We have been highlighting a strong deal pipeline fairly consistently despite whatever macro-related uncertainties that are ongoing. However, the strong deal pipeline doesn't seem to be sort of [inaudible 0:07:41] for us, barring 2-2, we've seen soft revenue growth as compared to this year. So, what explains that? That is point number one. The second point is if you can just help us break, what led to - how much of our softness was led by shorter quarter and how much was led by delay in the closure of projects?

Manoj Raghavan: So, we continue to be very, very bullish about the deals that we're chasing in TBU. And in fact, in our Transportation business, we have closed some significant deals in Q2 as well. But however, some of the ramp-ups are taking some time, which was expected to ramp up in Q3. Part of that ramp-up has been pushed out to Q4. So, I think that's what we are seeing in the industry. I don't think it's something that is really bothering us at this point in time. We continue to invest in our talent and get ready to execute those programs as seen in the sort of strong hiring that is still ongoing.

So, it's a question of some of these deals, the start of these deals or some of the ramp-ups of these deals getting pushed a little bit here and there, again, due to customer-related issues and we've had some union problems and so on with our customers and so on.

So, some of those issues are getting sorted out. And hopefully, in Q4 and subsequently in Q1 and so on, we will see a strong ramp-up in these deals. So, we're not worried so much about that. However, the fact is that we continue to invest in talent, invest in our - building up the sales pipeline, and we are still very, very confident about the transportation industry.

The second question, I think, a lot of it, especially in the Media and Communications industry, what we are seeing is because of the shorter quarter that we have. And also, we've seen an increased furloughs in that particular industry, especially in the U.S. geography. That has also contributed to our Media and Communications, that business being pretty flat. We are taking steps to see how we can build up the funnel and pipeline there. But I think definitely that industry is stressed, and it will take, I would say, a couple of quarters more before we get a clarity on it. And there's a lot of changes happening.

There are M&As happening. There are cost takeouts happening. So, our focus is a lot more on consolidation opportunity and trying to increase our wallet share within our customers. And because we are a lot more offshore-driven execution and so on. We are bringing that efficiency to customers and saying that, hey, given the situation you are in, doesn't it make a lot more sense for you to move a lot more work offshore and let us execute it and then really take a lot more pie from our competition. So that's something that we are working on. So, we will have a lot of consolidation and cost takeout deals where we are focused on. So that's something that we will focus on especially on the Media and Communications business.

Vimal Goel: Manoj, one follow-up there. In the transportation business, do you think that there has been a higher contribution of short cycle deals leading to a lot of volatility in the quarterly performance?

Manoj Raghavan: No, no. Absolutely not. There is - I mean, a lot of the deals are pretty long term, significant large - significant deals not so much. Three years ago, 4 years ago, we used to have many of these short cycle deals 2 months - I mean, sorry, 2 quarters, 3 quarters sort of a deal. Now, we have got out of that scenario, it's - most of the deals are long-term deals.

Shashank Ganesh: Thank you. The next question is from the line of Karan Danthi from Jetha Global. Please go ahead.

Karan Danthi: Two questions. The first is a little more high level. As we are primarily an offshore driven business, will the advent of AI allow us to effectively move up the value chain and are we seeing evidence of that, i.e., the quality of work that you can do offshore with some of these AI tools should be significantly enhanced. And I'm wondering if you're seeing augmentation for your existing deals or perhaps even new deals where you're clearly doing higher value work. And if you could just speak to some of the AI deal sizes or examples of AI work that would be great.

The second question would be on healthcare. You've shown a little bit of an acceleration, which was nice versus the previous quarter. Can you keep going? Can this vertical continue to accelerate as there are numerous other examples of AI applications, both within medical devices, drug discovery and other areas. It seems like it's an area that's ripe for AI to be used to bend the cost curve. So, I'm just curious whether that vertical can perhaps make up for some of the weakness of media and comm.

Manoj Raghavan: Yes. Let me take the healthcare question, first. Yes, healthcare has seen a good uptick in this quarter. And that's very satisfying for us because a lot of effort has been put in both from new deal wins and really going after new logos and so on, right? That is definitely there. Plus, we strategically really focused on a few top customers in our healthcare business and really deep dive in terms of farming deeper into those accounts and so on, taking new value propositions.

You - rightly, you talked about AI-led value propositions and so on. So, we've been successful to, I would say, enhance our overall market share even in our existing customers as well as win some new logos there. We hope to continue this momentum that we have. However, it's pretty early. I mean the sense that we've had a situation last financial year with the overall MDR business falling off the cliff. And I think we've done a significant piece of derisking there and our ability to withstand that sort of a business situation and come out of it and really generate new revenue stream.

I think I would like to give credit to the team who have done a fantastic job, both sales and the delivery organization to really retarget our offerings and embrace some of these new paradigms, including AI and bring in new opportunities for us. So – but again, it is a start, we would definitely want to look at a few more quarters to really be confident that, look, this is a secular sort of growth that we can expect. In general, on the AI, maybe I will request Nitin to address that.

Nitin Pai: Thank, Manoj. So, Karan, first of all, I don't think AI has particular inclination toward offshore or onshore. I would rather align it to the nature of the work that you do and the ability for AI to bring in value there, whether it's of efficiency or of completely new KPIs and value. To that extent, I'll just state that AI has been part and parcel of what we do for many years now, right? So, in AdTech and OTT, whether it's recommendation engines, dynamic pricing engines, all these are fundamentally AI based.

If you look at automotive, AI has been part and parcel of everything that we do in autonomous cars and ADAS features and so on. So, to that extent, there is progression even in that part of AI. We continue to work on that. Gen AI, I think, is the new paradigm where you're now able to capture learning, capture organizational learning and knowledge and then reflect it back into either faster time to market, better code or hopefully also discovering completely new applications.

I think for us, AI is and continues to be part of parcel of what we do. Gen AI and how to use that to drive efficiency or to create completely new revenue streams, I think, it's a new journey that we are on. And you will see that we're actually starting to make fairly significant investments both in terms of new people, ramping up and training and retraining existing people as well as infrastructure and related investments that we are making in- house.

To that extent, I think, in our deal announcements, you will actually see AI reflected in 2 slightly different contexts. In one context, it's about not only delivering consolidation in the media and telecom industry with a particular customer, but doing it on the back of offshoring, ownership and AI. While in the second deal, where it is to do with healthcare, we're actually making AI part of the process of automation and speed in order to bring that value to customers. So, we're actually seeing that already reflect in the nature of the deals that we are winning, and we are building. So that's where I would put it, Karan. Gen AI is still early, but we're already seeing some use cases we're able to leverage it. But for us, AI is well beyond Gen AI.

Shashank Ganesh: Thank you. The next question is from the line of Akshay Ramnani from Axis Capital.

Akshay Ramnani: So, first question is a follow-up to the question which a previous participant asked on the transportation segment. So, if I look at the transportation growth on a Y-o-Y basis, it has moderated substantially what we were growing in, say, FY'22 and '23. So, on a 9-month basis -- leaving this quarter aside, even on a 9-month basis, we would be at closer to about 16% growth versus what you are delivering at about 30% growth in FY'22 and '23.

Now this is compared to other peers who have either seen a steady or an increase in growth rate in automotive ER&D. So, I wanted to understand what is leading to us seeing a slowdown or deceleration despite us having strong capabilities and conducive market conditions. So, if you can touch upon that aspect of how we are seeing a different trend versus other peers?

Manoj Raghavan: I'm not sure about other peers, but I can only talk about Tata Elxsi. I think year-on-year, 16% growth in this market is it's pretty creditable, I would say. And as I said, right, we have accelerated this growth a lot more because there are deals that are there in the bag. We have not been able to turn on the tap fully on resourcing because of certain constraints at our customers end. And it's a matter of time that those constraints are removed. And if those situations at the customers' end open up, we will be able to accelerate. And that's what we are looking at both in Q4 and subsequently in Q1.

And we're pretty confident, and that's why we are also investing in the resources and ramp-ups that are happening, we are having all those conversations with our customers. I want to also emphasize that yes, one part of the business is we are winning a lot of OEM opportunities, right? And that's a good part of our business. The other large part of our business is also the work that we do for Tier 1s. And unfortunately, you know that the Tier 1 situation, you have a lot of consolidation happening.

And Tier 1s are also - their business is also getting affected because OEMs are taking more and more ownership and more and more responsibility. At the same time, the Tier 1s are also setting a lot of captive centers in India and so on. So, there is some amount of, I would say, attrition in our Tier 1 business that gives you an impression that they are slowing down. But in reality, our push and focus toward the OEMs is still pretty strong, and that is really propelling our business forward.

The relative slowness, I would say, is attributed to the part of the Tier 1 business coming under stress, either due to Tier 1s themselves losing business from the OEMs and so on because of what the OEMs are going through as well as the Tier 1s deciding to set up their own captives in India, and that's moving business away in some sense from us. But however, we have a long tier of customers, and our focus is to really focus on some of the large Tier 1s who have been our customers for the last 10 years, 15 years and go back to them with the consolidation proposals and features.

And our focus is not to really focus on the entire landscape, given the fact that market is going to be very difficult going forward. We are putting all our energies on some of our top customers there and consolidating business and winning market share. And that's something that we're working on. I hope that addresses your question.

Akshay Ramnani: Yes, yes, yes. But extending that discussion forward to the geographies part. So, if I again look at the incremental growth, majority or most of it has come from Europe over the past 9 months, like Americas is flat and I understand Media and Communications is - has a role to play. But even if I try to adjust for that, America even looks weak on an adjusted basis. So, if you can help us understand, is there some particular weakness on the transportation side as well on North America, which may be impacting growth there. How should one read this?

Manoj Raghavan: So exactly the same answer that I told you, right? A lot of our North American business has been driven by our Tier 1 supplier business. The OEMs there have been very, very competitive from a pricing perspective as well as for some of the terms and conditions of doing business has been very difficult, right? It's very difficult for us to accept some of those terms and conditions.

And so, we have been generally very careful with some of the North American OEMs, including unlimited liabilities and so on, which we know some of our competition has accepted. But these are things that we are very careful about and so our focus has been a lot more on the supplier side of the business.

And given the fact that we are having those situations with the suppliers, that's why you would see some amount of slowness in our North America business also. Having said that, yes, there are a set of OEM customers that we are engaged with in North America as well, especially on the new age OEMs and so on.

Plus, we've also been shortlisted by one of large OEMs for SDV program there. So, I think we are - it's not as if everything is going down there. We are carefully managing our business without adding risk to our overall portfolio without really decelerating too much. But at the same time, focusing our energies on where we see maximum growth happening and where we see maximum returns for the investments that we're making.

At this point in time, both Europe and APAC in general, right, including Japan, we're seeing very, very good traction, especially I'm happy to report the APAC region recovering very significantly for us in automotive side.

And I think that gives us great confidence. We will be cautious on the U.S. business, but it's not as if that we are giving up on that. We have strategies in place to address that particular business. But yes, it is a tough business, and we need to navigate that very carefully.

Akshay Ramnani: That's very clear, Manoj. Just one for Gaurav, which is can you share the margin for the quarter, please?

Gaurav Bajaj: Yes. So, Akshay, I think our EBIT margin, operating margin came 30 basis points lower compared to the last quarter. I think most of those investments and the cost that has been done is well calibrated and has been made keeping the long-term view of the organization in terms of the capability, building development of the infrastructure and other talent management.

Most of the expenses has increased in the other expense bucket. 70 to 75 basis point increase toward the travel and the visa expenses in the quarter because there was a lot of sales pursuit, sales promotion activities and other events that has happened during the quarter, which was well known in terms of the investment that has to be done in this quarter for us. And it also includes some of the training that we do for the campus batch that we have been taking over the last few quarters. So that is one.

Second, I think we have talked about in some of the earlier questions that we are making a little bit of green shoots and early shoots into the AI kind of investment, involving capability, building infrastructure development and training and retraining of available talent in the organization. So, we have started to make a well-educated investment into those - AI-related investment into the offering that is more relatable to the sectors and industry where we operate, which add another 40 basis points.

So that both put together is about 115 basis points. People cost was mainly in line with the volume increase and the revenue growth that we have registered on a quarter- to-quarter basis. So, it's hardly 10 basis points, I would say, on a quarter-to-quarter kind of an impact from quarter 2 to quarter 3. So overall, people plus other costs increased by 125 basis points. At the same time, you will see that our cost of sales has gone down by 55 basis points. It is, again, completely related to the project and the cost undertaken under those projects.

Last quarter, we had significant cost toward the - some of the product-based revenue, including tools, hardware and software. This time, I think, the revenue has been more from the people-related effort and less on the hardware and the software. So that gave you a 55-basis point kind of a dip if you have to do a comparative analysis from a quarter-to-quarter basis point. And overall cost increased by 80 basis points.

And with the exchange benefit of 50 basis points, the EBIT has been down by 30 basis points. And I think it has been within our range that we have narrative over the last few quarters that we like to operate in a range of 30 to 40 basis points in and around 27% on an EBIT basis.

But if you see on a PBT basis, we have a slightly better other income due to the interest on our investments and the funds surplus available to us and also on the exchange side, and we're able to recoup some of the lost basis on the EBIT side. But at the PBT side, if you see, we are similar and at the same level of 28.9% compared to the last quarter.

Shashank Ganesh: Thank you. The next question is from the line of Bhavik Mehta from JPMorgan.

Bhavik Mehta: So, a couple of questions. Firstly, on the Transportation business, you highlighted the U.S. OEMs are being quite competitive on pricing, and we have been cautious over there. So, can you just explain to us what is driving this price competitiveness from the OEMs in the U.S.?

The second question is, I understand that 3Q was impacted by delay in deal ramp-ups in the transportation vertical. But going ahead, should we see ramp-ups normalized? Or it will be more of a gradual recovery over 4Q and 1Q? And lastly, on Media and Communications, I understand it's been quite weak over the past few quarters. What are you hearing from clients? Is the worst behind? Are we seeing any green shoots at all? Or do we still have to wait for a few more months before some clarity emerges?

Manoj Raghavan: I'll go the easiest question first. Yes, the Media and Communications vertical is still pretty weak. I think we don't have full clarity yet in terms of how next financial year is going to look like. We are having discussions with our customers. And again, we - at this point in time, it's very difficult to say that, look, we are seeing some green shoots and so on. So, I think we will wait for one more quarter to see how some of the moves in the industry, right, including M&As and including the cost pressures that are there on some of our customers due to their own revenue situation - revenue growth situation and so on, right?

So, I would say still that industry is under a lot of stress and - so the only option for us is to really stay relevant and see how we can gain market share and in a situation where the overall pie could remain stationary or even could decrease, right, could come down. How do we stay relevant? And how do we - what is the value that we can contribute so that we can take a larger pie of that business, right?

So that's where we're looking at from Media and Communications business. Transportation business, I think I discussed that detail where we are and so on. We are hoping that in Q4, some of those deals - ramp-ups would pick up, and we can definitely look at the end of this quarter, Q4, the situation and then assess further, right, what we need to do. What was the first question?

Management: I think, it was about the ramp ups in Transportation.

Manoj Raghavan: Okay. I hope I've answered...

Bhavik Mehta: Yes. So, the first question was what is driving the price competitiveness in the U.S. OEMs where we are being cautious and not participating to the extent we would have liked?

Manoj Raghavan: Yes, some of the deals are - you have 4, 5 vendors bidding together, and prices driven down drastically and also terms, right, terms. One is price alone in commercials. Other is the terms that come with those commercials, right, including legal terms, including payment terms and so on. If you put all of that together and when we are getting better deals in other parts of the world, right. So somewhere subconsciously, the teams tend to really move in those directions. But for us, the focus of U.S. is a large market, and we cannot ignore it and so on.

So, we are being very selective in the type of deals that we are picking up. We are playing to our strength and really not going after all the deals that are there, which could be the margin dilutive, or which could create issues for us at a future point in time. So, some amount of discretion, some amount of caution we are looking at there.

Shashank Ganesh: Thank you. The next question is from the line of Omkar Sawant from Marcellus Investment Managers.

Omkar Sawant: Manoj, I had a question on the Design Digital strategy. So, one of the key deals that you have mentioned on infotainment and in- cockpit that looks to be similar to what the deals you have won so far. So, can you elaborate more on the Design Digital strategy? And how exactly is it different from the business that we have won so forth, maybe some other examples?

Nitin Pai: Yes. So, this is Nitin here. Maybe I can take that, Omkar. I think for us Design Digital is where - while design stays constant, what we're looking at is a part of digital, which is ever changing. So, if you look at 4, 5 years back, you would - and I'm just taking automotive itself. The only interface available was really about touch. And that is the only thing that was digital about the infotainment system.

You look at what is happening now, you have touch, you have haptics where you have certain surfaces that vibrate or so on and so forth. So that you can better inform and better engage with the drivers and make sure that there's no driver distraction. And most importantly, there's also the interface voice, where voice is now taking over certain functionality.

So, when you think of design and digital, remember the design has to now adapt continuously to what digital can offer. So, if you now have voice interfaces, how does your design incorporate voice interface as one mechanism of interacting with the e-car. If you now have haptics, where is haptics best delivered?

And at the same time, you also have to make sure that you're not ballooning up costs. Because remember, each of these interfaces are very expensive. The in-cockpit lenses, whether it's of camera, whether it's of touch or of haptics, is a very expensive proposition.

So how do you drive the right balance of sensors that will deliver you the additional sensory inputs or output? How do you balance that with the design, which has to guarantee that the driver is not distracted? It is something that is intuitive enough for him to use. I think that is the moving target, and that is the holy grail for all designers. And I think that is where we really truly excel because we bring that deep understanding of how technology works, our absolutely fantastic knowledge of embedded technologies, coupled with design.

Omkar Sawant: And how exactly are we capturing downstream value here?

Nitin Pai: Yes. So, the downstream value was really the implementation of the HMI itself. The hardware and systems that now have to change in order to bring in these kind of sensory inputs or outputs. Two, the embedded software that has to implement the HMI on the infotainment systems. And if it is a connected car, how do you reflect some of this back in the app that the consumer uses too? So, in some sense, there is a downstream chain that is affected by, what design proposes first as the method of interaction.

So, what you would see as a new screen is not just a new screen. And it's very simple to think of it as here is a new web page. But remember, it's not a static web page, it is an interaction screen that has now been - behind it, there's a lot of codes that is now actually implementing what you want to do with it.

Omkar Sawant: And would we also take over the support of such systems?

Nitin Pai: That's correct. So, for us, I think the longer product life cycle opportunity is that, especially with connected cars, HMIs are not going to be constant. You will see updates every once in a quarter, if not more often in terms of sprint cycles of agile design. So, the intent is to support two parts. One, the maintaining of the code in terms of DevOps cycle, CI/CD and so on. The second is in terms of the actual incremental implementation that happens quarter-on-quarter, sprint cycle by sprint cycle. So, I think that is where we are starting to see that sustainability and stability of design and system integration business, which is coming from the fact that there is a tale of revenues that follows any project, and is no longer a project all by itself.

Omkar Sawant: Okay. Okay. And this is primarily in automotive, right?

Nitin Pai: No. So, this is true for media and telecom. Why? Because all our - work that we do in OTT, again, you'll find that whatever you're talking about in automotive is true in OTT because if you think about your search that's happening in your smart TVs or your OTT apps, you're using voice as much as you're using touch.

Shashank Ganesh: Thank you. The next question is from the line of Kireet from Jetha Global.

Kireet: So, the first question is regarding the transportation vertical. You've kind of alluded to how you plan to increase wallet share among existing clients. Can you maybe give us a sense of what the incremental opportunities are in terms of scope of work? It'd be good to understand what incremental, I guess, what this scope of work would be? And how much further and deeper you could go, for example, in the SDV vertical?

And the second question is relating to healthcare. So, you talked about retargeting new opportunities and how the sales team has done a commendable job there. So, can you share some color on what these opportunities essentially entail and what the margin profile for these projects would be?

Nitin Pai: Kireet, this is Nitin here. Maybe I'll take the first one. I just want to clarify that Manoj's point about the consolidation etcetera, was predominantly in the Tier 1 or the supplier business. I think suppliers are starting to see some amount of consolidation within themselves. You'll also see that some suppliers are shedding parts of their business, which are not attractive anymore and you have a lot of the Asian suppliers who are now buying out those businesses, which are more commodity while they retain only the very high-value, high-end electronics and software business.

So, his comment was in response to the point that we are seeing a significant shift of our revenues and very strategic to us intentionally from what was supplier dominated earlier to more OEM dominated now. So, the OEMs, it's a pure growth story and participation in SDV and all the deals that we are getting into our strategy because we don't want to be tactical or marginal to any of the OEMs that we work with, right. And that's why you'll find a lot of the commentary in the

U.S. is about that, that is possible to win deals, but there's no interest in being marginal or tactical. It has to be strategic, and that's why the quality of revenues matters. The consolidation part is where we are saying, look, instead of working with many, many suppliers, which, for us, the universe is open because of our capabilities. We are taking selective bets on a few. And what we want to do is to make sure that we grow very well and very sustainably with those few.

Manoj Raghavan: Right. On the healthcare vertical, as stated, we had a huge exposure on the MDR piece - regulatory piece. So, we have successfully retargeted all of those skills into other regulatory aspects of the business. So, our overall MDR dependencies on the regulatory business, we are hoping to bring it to less than 25%. It was at one point in time about 70%, 80% of our regulatory business used to come from MDR, and we have been able to successfully retarget to other areas, and that's been done pretty successfully.

We've - I mean we've also focused a lot on new product development, and that cycle has started. I think during COVID, some of the new product development businesses was sort of put on hold and we see that cycle coming back. So that's something that we are focusing on. And of course, digital is now a focus area for us, including in the medical space, and we are spending a lot of - we are winning deals on the digital domains there. And that's another area for us that we would focus on.

So yes, I think that's - from a margin profile, I think healthcare does provide, I would say, reasonable margin for us. We don't give out the details, but I think it's pretty satisfactory margins as far as we are concerned and we definitely want healthcare growth to lead the organization, especially in the next financial year and so on.

A lot of investments that we are making in that business, yes. So pretty bullish in terms of how that business will span over the next 4 to 6 quarters. And I think we have talked about that - this business to achieve about 20% of the overall revenues of the company by 2026. I think we are on track there.

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

Ravi Naredi: Sir, I am listening to your call. You are giving answer of all questions. Can you give what is our order book?

Manoj Raghavan: No, we don't give out those details, right, at this point in time. We don't talk about the order book. So sorry will not be able to share the details with you.

Ravi Naredi: Okay. Can you give how many quarters order book we are having like this in soft way?

Nitin Pai: Not really, Ravi. I'm so sorry. But...

Ravi Naredi: No need of sorry. It is our system, and you should not break for me. Second, our employee costs are higher in this quarter than year- to-year last year quarter. I think it was 50.5%, and it is now 54.5%.

Manoj Raghavan: Yes, I think the investments that we have made and so on, right? So, I think it's a temporary scenario. And if you look at it - if you look at all the companies, they have only been decreasing the headcount, right? I think we are one of the few companies that are adding headcount at this point in time. So, I think we will be a little cautious this quarter and the next quarter in terms of - and we have a healthy bench, right? So, there is no need to keep adding resources.

I think we've reached a point; we have focused, or we have planned for all the orders that we have won, and I think they're in a healthy position to be able to extinguish that bench as the utilization picks up. I think as the business volumes grow back; I think we'll get back to our older ratios of employee cost. It's a temporary situation. And we will keep a close watch on this in Q4 as well as in Q1 to see that we don't add too many resources because we have – already have a pretty healthy bench.

Gaurav Bajaj: The way things were, I think, during the COVID, on-site profile also went down a little bit. Now it has come back to the more stable level of 25%. So that's also another factor that adds to it. But I think we have been managing this at a very stable level for the last few quarters now, 6 to 8 quarters.

Shashank Ganesh: The next question is from the line of Sulabh Govila from Morgan Stanley.

Sulabh Govila: My first question is more of a clarification on the comments made earlier. So, on the healthcare piece, if I heard it correctly, you mentioned that it might take a few more quarters for us to be able to say whether this growth is secular in nature. If that is correct understanding, so I just wanted to understand whether the growth visibility for the next 1, 2 quarters, how is that?

Manoj Raghavan: So, let me clarify that, right? Yes, we've seen pretty good growth. That is deal pipeline that is available. So, we are hoping to continue this growth path, right, given the deal pipeline that we see. But however, since we've had a few tough quarters earlier, and we've sort of broken out of that tough quarters, and we're able to show some decent growth, I just want to be cautious that look, give us one more quarter, whether we can confidently say whether this will move forward in the right direction or not. We are confident that we are on a growth path. I'm just being extra cautious here. I hope that's understood.

Sulabh Govila: Yes. Okay. Understood. Very clear. And second bit is, on the last call, we had sort of indicated that we will try to do better in H2 versus H1. And given that now at least on a Y-o-Y basis, we are tracking below in the third quarter versus 1H. Does that aspiration still hold? Because the ask rate for 4Q then becomes a little high.

Manoj Raghavan: Yes. I think we were really hoping for a revival of our Media and Communications business. And unfortunately, that - we are hoping that at least in Q4, which is for most customers, it's a Q1, right? Many customers in the Media and Communications have a Jan to December cycle. And we were hoping budgets to be opened up in the Jan to December cycle.

Unfortunately, that clarity is still not there. And that's why we are being a little cautious about that business. So having said that, we're still focusing on our transportation business, healthcare business. If you have seen that we have significantly grown our industrial design business.

So, a lot of these businesses are actually helping to show the growth, even though our Media and Communications business is muted. So yes, so I think that is the real situation that we have. I don't have that data immediately with me to say over H1, whether - how much we will grow and so on. But it's our focus to really see how we can grow the overall portfolio over H1.

So, we have some setback – I would not call it a setback in terms of from our Media and Communications vertical. We're not seeing that green shoots yet. If we had seen those green shoots, we would have been a lot more confident. But having said that, all other businesses are tracking reasonable growth.

Sulabh Govila: Understood, sir. One last bit, if I may. Just wanted to extend that discussion on the headcount addition. Given that we are sitting at healthy levels today, I just wanted to understand how much room or leeway we have on the utilization bit to inch up in the next couple of quarters?

Manoj Raghavan: Yes. I think from a utilization perspective, definitely, we can move. I think we are - I mean, okay, let me answer it in this way. We talked about all the deal wins that we have won over the last quarter and the previous quarter. So, we have provided for all of the expansion, for all of those deal wins that we have.

If the ramp-up happens as per our expectation, without adding additional headcount, we'll will be able to increase our revenues because all of those we have planned for, resourcing is already planned for. I'm not giving you a number out there. But yes, from a perspective of addressing all the deals that we have won, we are ready. We have trained people. We are ready. We should be able to pick it up.

Shashank Ganesh: The next question is from the line of Amit Ashok Thawani from Clear Blue Capital Advisors.

Amit Ashok Thawani: My first question is, it seems to me at least from top Media and Communications are underinvesting in technology or they are like behind the curve. Is that a fair comment? Or are they doing the technology investment in-house?

Nitin Pai: Yes. So, Amit, maybe I'll take that. This is Nitin here. There are 2 parts here. So, there is capex investments that have been significantly done over the last 2, 3 years, especially in 5G when you look at operators across the world. There are certain operators who continue to do it. So, if you look at India, we are in the middle of the cycle, right? So, there is capex investments. These are fairly large and fairly long term.

I think the bigger problem that telcos are facing is, where is the money that is coming back to them in terms of subscriber increase, ARPU increases, premium value? So that, I think, is the problem. There is a gap between capex and expected returns and the actual uptick in terms of subscribers or per subscriber revenue.

Two, there has been a global slowdown in terms of OTT uptake. So, all through COVID, not only were consumers subscribing to 3 or 4 services, but it looked like they would be happy to consume more and more, both in terms of time and cost. I think, one, the fact that a lot of people have now returned back to offices, life is getting back to normal and not so much

COVID. There is inflation across multiple regions. Part of it, quite severe, especially in Europe. I think it's all leading to consumer spend, especially discretionary, impacting the amount of subscription and the money that they spend on entertainment.

So, you'll see that there are noises being made right from the likes of Netflix to others who are saying, no, look, maybe we should be thinking of ad-based revenues because subscription is not good enough. So fundamentally, Amit, the point I'm trying to make is, it's not that there's no capex spend, it's not there's no investments. There are investments that are committed investments. The big question is, are they bringing back money?

And therefore, a large part of what we are doing actually is driving two tracks and you would have heard this on previous calls, efficiency parts, which are - look, if you're going to be pressured on bottom line and how do you improve your own margins, then definitely on the engineering side, we represent a fantastic value proposition of offshore and responsibility and ownership. If you're looking at growth, we are building very specific offerings around growth alone, right, from AdTech to others.

The question is, how much money are telcos and media operators and so on willing to spend at this time? Because you have to also remember like Manoj mentioned, there's a lot of M&A and consolidation that's been happening there.

In certain cases, M&A and consolidation that is unraveling too, as you would see in India and what is happening with Sony and Zee. But you're also seeing that industry being pressured into all of this, too. So that is why I think we are being cautious. We would like to say many things, but I think at this time, I think it's best to exercise caution in terms of outlook.

Amit Ashok Thawani: Understood. The other question I had is that traditionally, we've had a tailwind of currency - U.S. dollar appreciation, but we may now be in a different era of maybe lesser depreciation of the rupee, how do we plan to kind of - how do we plan to address that?

Gaurav Bajaj: Amit, there is nothing that we can do about the currency movement. I mean I think, the only thing we can do is that we can focus to remain strong on our business and do the execution and the delivery of the projects, what we undertake. I think for the currency management, we have a very robust hedging policy internally in the company, and we continue to monitor the currency on a daily basis and take the right hedge in terms of the exposure that is there in the organization.

So that is how we are well managing within the SOPs and the policy governance under the Board of the company. And I think we have been doing fairly well in terms of stabilizing any impact or the negative adverse impact from the currency movement for the last few quarters.

Amit Ashok Thawani: My last question is, Manoj mentioned that some of our customers are getting acquired by AUM - OEM. And then the OEMs are doing the ER&D in-house. Can you maybe elaborate on that? And is that something to be concerned about as a broader trend?

Nitin Pai: Yes, Amit, maybe -- this is Nitin again. Maybe I'll explain a little more clearly. I think the reference that Manoj made was to suppliers. And what we are seeing is that suppliers who otherwise were tasked with and delivered full systems and subsystems to OEMs. And OEMs are very light on engineering. They typically focused on specifications making sure that suppliers understood their specifications, find the right supplier, ring the right price out of them and make sure there is supply and integrating everything that came back from suppliers into the vehicle to make sure that the vehicle works, and they meet all the required safety and regulatory requirements.

This was predominantly the domain of OEMs barring a few areas that they would directly invest into, including powertrain and engines and so on. I think with software-defined vehicles, we are seeing OEMs taking a little more central role in the software that goes into cars, not necessarily hardware. They still depend on Tier 1s for hardware, but there is less dependency on full systems. And I think that is the part we were talking of.

Shashank Ganesh: We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Manoj Raghavan: Thank you, Shashank, and thank you to all the investors for patiently hearing us out and hearing our answers. We will definitely look forward to a good Q4 and another session of a really good conversation. Business is so dynamic, and I really hope whatever we talked about today, we'll be able to talk with a lot more confidence in the next quarter. Yes, so look forward to talking to you over this period and all of you take care and hope this New Year is good for all of us. Thank you so much.

Moderator: Thank you. On behalf of Tata Elxsi, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

Audio recording of Q3 Earnings Conference Call

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