April 29, 2024

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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 Investors' Conference Call for the quarter and financial year ended March 31, 2024

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed the transcript of the Investors' Conference Call for the quarter and financial year ended March 31, 2024, held on April 23, 2024.

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.

Thanking you,

Yours faithfully,
For Tata Elxsi Limited

CAUVERI SRIRAM Digitally signed by CAUVERI SRIRAM Date: 2024.04.29 16:58:07 +05'30'

Cauveri Sriram
Company Secretary & Compliance Officer

Encl: As above

engineering creativity

"Tata Elxsi Limited

Q4 and Annual Audited Financial Results for FY '24 Earnings Conference Call"

April 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 Tata Elxsi's Q4 and Annual Audited Financial Results for FY '24 Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star 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 in the call. Good morning for joining in from the Western side. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. Therefore, it must be viewed in conjunction with the business risk that could cause further results performance or achievements that differ significantly from what is expressed or implied by such forward-looking statements.

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

We will start the call with a brief overview of the past quarter by Mr. Raghavan, followed by a Q&A session. We appreciate your cooperation restricting yourself to 2 questions to allow participants and opportunity to interact. If you have any further questions, you may join the queue, and we'll be happy to respond to them as time permits.

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

Manoj Raghavan: Thank you, Shashank. Good day to all of you joining us for the Earnings Call for the Fourth Quarter and for the full financial year '23-'24. FY '24 has been a year of consistent operational performance with a revenue growth of 13% despite the global macroeconomic uncertainties and volatility in the media and communication industry over the last few quarters. We have done well to maintain industry-leading EBITDA margins at 29.5% for the year, even while we continue to invest in expanding our talent base through all the 4 quarters with a net addition of 1,535 Elxsians through the year.

Now I come to a summary of the financial performance in FY '24, our revenue from operations were at INR 3,552 crores, a year-on-year growth of 13%, EBITDA margin at 29.5%, PBT margin at 28.5%, profit before tax grew 11.9% to INR 1,048.7 crores. And actually, this is the first time our full year PBT crossed INR1,000 crores.

Coming to the summary of the financial performance in Q4 of FY '24, our revenue from operations came in at INR905.9 crores, a degrowth of 0.9% quarter-on-quarter and a growth of 8.1% Y-o-Y. And the operating revenue growth actually on a constant currency basis had a degrowth of 0.6% quarter-on-quarter and 7.2% growth Y-o-Y. EBITDA margin came in at 28.8% and the PBT margin at 27.9%.

The Board of Directors have recommended a final dividend of 700% that is INR70 per equity share of par value of INR10 each for the financial year ending March 31, 2024, subject to the approval by the shareholders of the company at the AGM. We had laid down a strategy of integrating our design business deeply with our key industry verticals, complementing our software and digital business with a design-led proposition. This is now complete with a seamless end-to-end proposition from ideation to market introductions.

This is enhancing our competitive differentiation, providing early visibility into customer product roadmaps, and creating larger downstream development deals. Over 90% of our industrial design and utilization revenues are now directed to customers in our 3 main verticals, while the remaining comprises of innovation and design-led projects in other industries, including consumer packaged goods, retail, energy and utilities, manufacturing, adding diversity to the application of digital design and feeding possibility for future verticals for the company. This has been classified as others in the segment report.

Starting with this quarter, we are reporting this integrated view of our industrial design and visualization business in all 3 verticals and not stand-alone. So our software development services, SDS, combines the erstwhile EPD revenues and IDV revenues into the respective verticals as 1 segment with a system integration and support constituting the other segment.

Now let me provide a summary of the key industry verticals and segments for the company. If you look at our transportation business during the financial year, our transportation business grew strongly at 20.5% year-on-year in constant currency terms and now accounts for almost 50% of our overall SDS revenues. A lot of this work that we do for OEMs constitutes over 56% of our overall transportation business and we are now embedded into the SDV programs of 5 global OEMs. This business grew at 1.2% quarter-on-quarter in constant currency terms, despite delays in the planned scaling of SDV large deal that we have been awarded previously. I'm especially delighted with the German Design Award 2024 for our work on automotive HMI, which underscores the design-led proportion that we are now delivering to customers globally.

We were selected into the SDV program of another global OEM and are ramping up teams to support infotainment, ADAS and EV software track over the next few quarters. The quarter also saw a digital technology-led deal in the rail segment, for development of an advanced collision detection and warning system for a rail operator in North America. This leverages advanced sensor technologies and AI to provide an early warning system.

Coming to our Healthcare and Life Sciences business. This business registered a growth of 7.6% Y-o-Y in constant currency terms in the financial year. We have established a strong foundation for continued growth with the addition of 5 marquee customer logos in the year, and expanded capabilities and platforms in new growth areas such as digital therapeutics and connected health. The offshore development center for innovation and R&D we announced in March 2024 for Dräger Medical, the German-headquartered leader in critical care and safety equipment, demonstrates the relevance of our technology and design expertise and deep domain capabilities for next-generation health care.

We are investing and winning deals with Gen AI-led solutions for the health care industry, including identification and elimination of toxic materials from the medical device supply chain. We are building platforms and winning deals for digital therapeutics, an emerging and strongly growing team for healthcare of tomorrow.

Coming to the Media & Communications business. This business declined 2.6% in constant currency terms during the financial year. This quarter saw a merger led impact of a deal ramp down with 1 customer. However, considering the severity of challenges in the media and telecom industry, we have done well throughout the year to protect business, add marquee customers and increase wallet share with key customers. We are seeing growth in operator revenues and our overall customer base. Even as customers continue to tighten budgets and optimize spends, we believe that there are opportunities in contributing to the revenues through advertising technologies or adtech and enabling opex reductions through automation and transformation of network operations. We are actively investing in offering platforms and partnerships for both areas. Both leverage AI and Gen AI to deliver speed and autonomous operations.

We are delighted with NEURON, Tata Elxsi's network transformation and automation suite being declared the platinum winner of the Juniper Awards for telco transformation. It was also the center stage of a showcase at the Mobile World Conference in Barcelona in February.

The power of our design-led proposition is best underscored with a multimillion U.S. dollar program we won late in this quarter for the customer experience transformation of video services of a leading Africa plus Middle East operator operating in over 25 countries. This also demonstrates new opportunities for us in new markets, such as LATAM, Middle East and Africa.

Coming to our system integration and support business, we continue to pivot to value-added services, innovation-led projects such as experience centers and supporting downstream deployment and run management of our products and platforms.

Q4 revenues and growth was impacted by hardware shipment delays due to the Red Sea shipping crisis, which did not allow us to deliver and build some revenues. Despite this, it grew credibly by 18.6% in the financial year '24 in constant currency terms, getting close to INR100 crores business in this financial year.

From a customer standpoint, we are transforming our customer base across industries with a significant shift towards OEMs in the automotive industry and operators in the media and telecom industry. While we continue to invest in deepening our key customer relationships, this is reflected in the strong growth in our top 10 and top 25 customers across the company.

From a talent perspective, we continue to invest ahead of time in building our talent pipeline. We are expanding our presence across locations in India and overseas. Our employee retention continues to be the best among our peers and industry at large, at 12.4%. We added 178 Elxsians, net - additions in the fourth quarter and 1,535 Elxsians in the full year, and we have a planned intake of fresh engineers and laterals through FY'25.

On the AI and Gen AI front, we continue to invest strongly in solutions, POCs and projects, and ramp-up of talent across the company. We have created and deployed specialized programs to be able to get 25% of our engineers AI ready by Q3 of FY'25. We are working on experimenting and innovating using Gen AI across design and software.

We are targeting areas that may be impacted by Gen AI and disrupt our business such as coding, automated testing that we proactively take to customers. Equally, we are applying Gen AI to workflows and processes, regulatory work, automation of network operations as a new service framework and solutions we can take to customers.

The large deal that we announced in the healthcare regulatory space already uses automation and AI to deliver efficiency, speed and higher quality to workflows for our customers. We are also enriching our reserves platforms such as NEURON, iCX, TEcare, with Gen AI to enable new use cases and customer experiences for our customers. In the quarter, we also hosted a Gen AI hackathon internally for our employees with over five to six teams participating across all industry segments.

Even as we step into the new financial year, we are pleased to announce two new members to the Board.

Mr. Soumitra Bhattacharya has had an illustrious corporate career, especially in automotive industry, with over 28 years at Bosch Group. He serves as the Chairman of Bosch Limited and is a Director for IFQM, an industry-led initiative focused on quality excellence and innovation.

Ms. Ashu Suyash is a highly respected leader and served as the MD and CEO of CRISIL, among leadership roles across many leading institutions. She has recently set up Colossa Ventures, an investment ecosystem for women entrepreneurs and is an independent director on a few boards, including Hindustan Unilever. We look forward to leveraging the rich experience in network, industry knowledge and strategic inputs from our new directors.

In summary, I'm pleased with our overall performance and resilience in revenues, margins and customer additions throughout the year in a volatile macroeconomic environment. We are entering the new financial year with a commitment for growth and the continued confidence in our differentiated and integrated design digital capabilities.

This is backed by strategic relationships we have built over years with key customers, the qualitative change in revenues towards OEMs and SDV programs, entries into new operators and marquee healthcare logos, investments in talents and hiring that we have made and continue to make, investments in strategic technology areas in AI and a strong deal pipeline we carry into the new financial year.

Thank you and we can open the floor for Q&A.

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

Bhavik Mehta: Thank you. Two questions from my side. Firstly on the media client, can you just give more color in terms of whether it was in the media vertical or in the telecom space? And if you can quantify the ramp down as well for the quarter and is this something which is completely done, or should we expect some further ramp downs in the coming quarters as well?

Second question is on margins. We saw margins decline by more than 100 basis points this year. So how should we think about margins for next year, given that the demand environment has not changed? Are you targeting to maintain margins or do you still have levers where you can see margin expansions? Thank you.

Manoj Raghavan: Yes. So I think the dip that we had with one account was in the media operator segment, it impacted almost 3%, that one single degrowth that we've had with one customer. Coming to the margins, I think we are pretty confident with the sort of pipeline that we have and the levers that we have to manage our margins. So we are definitely looking to come back to the margins for the full year that we delivered in the last financial year. So I think that is what we would focus on.

Nitin Pai: Just to add, Bhavik, we are done with the ramp down. So that doesn't continue or decline further.

Bhavik Mehta: Okay. Just a clarification, this 3% impact is for the quarter at overall level, right?

Manoj Raghavan: No, at the MCV level.

Nitin Pai: So Media and communications degrew just a little more than 4% for the quarter, out of which about 3% was attributable to the single customer and the single ramp down. We are done with that this quarter. So when you start the next quarter, we have no further impact from that customer.

Bhavik Mehta: Okay, got it. Thank you.

Nitin Pai: Otherwise, we would have ended up just about neutral. So that's the point.

Bhavik Mehta: Okay. Thank you and all the best.

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

Sulabh Govila: Hi. Thanks for the opportunity. So my first question is on the transportation business. So I just wanted to understand that there are multiple moving parts in the sense that, on the one hand we have OEM-related business where we see SDV projects coming in. And then at the same time, there is a delay in the form of ramp-up of some of these projects? And also ex of OEMs, some of the Tier 1 business could be coming off. So just wanted to understand right now, the sort of growth that we have posted, which is 1.2% Q-on-Q, when can we think about this accelerating given that there are multiple moving parts there?

Manoj Raghavan: Yes, it is as we rightly talked about, currently 56% of our business comes from OEMs. So if you look at it in the previous financial year, I think our Tier 1 business was more like 50% and OEM business was more like 40%. I think we've done exceedingly well to transition this into a lot more focused on the OEM business and the sort of deals that we have been winning.

Yes, there have been some delays in one deal that we have won, but we definitely see that ramp-up picking up towards the latter half of this quarter. So I think our focus is to continue to exploit the opportunities that we see in the OEM business. We used to have a large portfolio of Tier 1, so what we're really focusing is to really focus on select key Tier 1s that we believe will continue to grow strongly.

And in these Tier 1 businesses, we are looking at consolidation opportunities. So we are not abandoning the Tier 1 business, because we still believe that there are opportunities there and there are a lot of consolidation opportunities that we are bidding for at this point in time. So that is something we will strongly focus on.

We hope that the delays and the issues that we are seeing in the industry over this quarter, we will see that coming to a close, and we'll hopefully be able to ramp up on all the deals, because we have done all the necessary work that is needed for preparation, we have the pipeline available. So it's a question of ensuring that we ramp up and the customer decisions are taken, and we move forward.

Sulabh Govila: Okay, understood. And my second question was on the media vertical. So I just wanted to understand that while you mentioned that this particular ramp down is now over and you also see some of the opportunities in other parts of this vertical. So just wanted to understand that from an overall outlook for this vertical in the coming quarters versus what we've seen overall in the last year, which is sort of a decline for the full year. So should we expect in the coming quarters an improvement in the outlook for this vertical, given what you see today?

Manoj Raghavan: We believe that we have bottomed out in Q4 for this vertical. Internally, we have done some amount of restructuring in the way we go to market in this particular vertical. We made some strategic choices. I'm pretty confident that we will see growth coming back into this vertical as we move into Q1 and Q2 of this financial year. So the pipeline is building up, and I'm pretty bullish that we will see a recovery.

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

Vimal Gohil: Yes, thanks for the opportunity. Sir, two questions on auto. Firstly, on the deal ramp up last quarter, we had roughly 2% growth. We would have expected that with the deals that we had won in Q2, they would have contributed in Q4. And so this 1.2% growth includes those ramp-ups or this 1.2% has come without that, because we're talking about the delays in the deals that we won in Q2 as well, right? So how should we think about that match?

Manoj Raghavan: So we have ramped up a very small team. So the full ramp-up has still not happened. So you can practically say that 1.2% doesn't include any ramp-up from that deal. So we're expecting that ramp up to happen in the later half of Q1.

Vimal Gohil: Right but has that ramp-up already started?

Manoj Raghavan: Very pretty small ramp-up has started. The actual deal is a multimillion, multiyear deal, but we have not been able to ramp up to the initial expectations, because we had certain customer-related issues. And we are hoping that will get over towards the end of this quarter.

Vimal Gohil: And how much has our OEM business grown as compared to FY '23 in FY '24, if you can give me the number?

Manoj Raghavan: The OEM business was about 40% in the last financial year. FY '23 was 40%, FY '24 was 56%.

Vimal Gohil: Okay. So this 56% is for the entire FY '24, not for Q4?

Manoj Raghavan: Correct. Entire.

Nitin Pai: So Vimal, maybe I can just add. The OEM business grew by about 40% year-on-year.

Vimal Gohil: Okay. So, which implies that there is a significant decline in the Tier 1?

Nitin Pai: That's correct. That's correct.

Vimal Gohil: And we've bottomed out there is what we're saying?

Nitin Pai: That's right.

Manoj Raghavan: Yes.

Vimal Gohil: Okay. And next question is for Gaurav. Maybe if you can help us understand the puts and takes for the margin performance for this quarter?

Gaurav Bajaj: Sure, Vimal. So margin came down by 100 basis points, 30 basis points came from the cost currency headwinds. While we continue to invest and expand our talent base to capture the capability and capacity building and also keep investing into the talent pool in terms of the AI capabilities. So 80 basis points came from that cost towards talent building, which got added during the quarter.

We also done with the last batch that we on boarded for 2023 campus in this quarter, that together was 30 basis points from exchange and 80 basis points from people rate investment capability building, give you total 110 basis point dip. At the same time, we have some benefit from the cost of sales that we got to optimize that gave us a benefit of 10 basis points, and hence, the total EBIT drops from the quarter-to-quarter basis came at 100 basis points.

But if you see at the overall company level P&L, the cost has not significantly changed, just in the quarter, there was a certain headwind in a few of the verticals hence the revenue got a dip, which has an impact on the margin. But at the same time, we see there enough levers available, capacity available to tap those levers available for us to get back to the margins where we operated for the full year in FY '24.

Vimal Gohil: And last clarification is the erstwhile IDV business, which we have now merged with the software business that gets reported between Media and Comm's and the other verticals, right? Nothing gets added to auto?

Manoj Raghavan: It adds to all the three verticals. Just to explain why we had to do this - we have been talking about our integrated design digital offering and taking a design-led solutions to our customers. So we have been winning a number of integrated deals, and depending on which division was really leading it, the revenues are occurring to that particular division.

So in some cases, IDV used to get that revenues. It is not only the design revenues, it also included the software revenues. In some cases, the transportation or the Media and Communication verticals, they were getting the complete revenues. So it was sort of a little misleading in terms of how to segregate what is designed and what is the EPD offerings.

It was getting very difficult to go on a case-to-case basis and make this differentiation. So we've decided that, look, let us have an integrated EPD plus IDV offering because it no longer made sense to really differentiate what is EPD and what is IDV.

And this value proportion also resonated very well with our customers. And it only makes sense when we look at it, when we give an industry breakup for all our revenues, we were only giving the EPD revenues. And that was sort of misleading because 12-13% of our revenues, which used to come from IDV were not represented in this breakup.

So for apple-to-apple comparison, if you want to compare peers or if you want to compare us with any other organization, it made sense for us to give an integrated idea, what is the total market share of all the revenues that we are generating, how much is for automotive, how much for Media and Communication, and how much for Healthcare. So that was the reasoning why we decided that it is better to give a full view to the investors.

Moderator: Thank you. Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Manoj, I basically just wanted to get your thoughts on two, three aspects. Number one thing was that we've seen some of your traditional IT service companies acquire ER&D companies with deep customer relationships in some of the large OEMs. So how do you think that, coupled with the fact that, as customer spending moves towards middleware aspect, how do those two aspects impact competition for pure-play ER&D companies like us? That's question number one.

The second question was with regards to just understanding your prospects in terms of FY '25 in terms of growth across different industry segments, like this year, growth was led by automotive in a very significant manner, while we had some challenges on the media side, while Healthcare started to pick up towards the later part of the year. So how should we be thinking about the growth dynamics across the three industry segments going into FY '25?

Manoj Raghavan: So I think, yes, it is a fact that we have seen large IT services companies trying to get into the ER&D space, especially the automotive space, by acquisitions. And that is a challenge that we need to face. I don't have a specific view on it. We would treat it as any other competition. However, we are pretty confident on our design digital offerings.

And we have built the capability organically over many years, right, almost 30 years, we have been in this business. So we clearly know what ticks in this industry. We have built the processes that we need to deliver value on a sustained basis to our customers. And many of the relationships that we have with our customers are more than 10 years, 15 years, 20 years sort of relationships that we have.

So yes, we are looking at some of the news that we read in terms of acquisitions and so on -- and we will take it on a case-to-case basis. From our side, we are deeply focused on our existing customer base. We are really deeply focused on building our executive connect and deepening our relationship with our existing customers and ensure that we grow with those customers.

Coming to FY '25 growth, we don't usually give our guidance. But I believe that I'm very happy with the sort of growth that we are seeing in the automotive industry in the last financial year. And the push for us is to really repeat that sort of performance.

At the same time, I talked about bottoming out of the MCV business. We are really hoping that MCV business will start contributing to the growth of the organization. I'm pretty excited with the HLS business. You know that we've had an issue with MDR and as a result of which, our growth rates slowed down in the last financial year. I think we have put all of that behind us, and we really hope that we will be able to accelerate that in the financial year.

So overall, I strongly believe that we should be able to put up a better performance from a growth perspective as compared to last financial year.

Nitin Pai: Just to add a little bit from my side. And this is Nitin here, especially because I'm a little closer to some of these M&A's that we see and read about, my comment would be as follows, right? I think one, we're in the right space in terms of the industries that we work in; the fact that we have a presence in automotive, healthcare and so on. I think these are the segments that are growing.

Two, I think we have always been in the right service lines, very, very important. Software and electronics is where all the growth is. And I think we are absolutely in the right place for where growth is going to be. Three, I think we are winning the right deals. If you look at the pivot that we've made over the last few quarters, I think you're seeing not just the significant growth that we're driving from OEMs, but from the right kind of deals, including SDV. And lastly, I think we are in the right country because your scale, your capacity, your ability to deliver will all come from India.

In my view, I think some of the acquisitions that we're seeing is endorsing the fact that we have the right ingredients and the right ticks in the right boxes and many of the acquisitions are just an attempt to get into the same space with possibly companies that have relationships, legacy capabilities, and now they have a lot of lift and ship to do. That is the way I would read it.

Manik Taneja: If I can prod you on one more question. So you mentioned that we certainly expect FY '25 to be better for potentially bottoming out of Media and Communications vertical and while Transportation is expected to do well, given some of these ramp-up challenges on the Transportation side in near term, should one probably be expecting this growth improvement to be more back-ended with possibly near term being as subdued as what we've seen in the more recent past?

Manoj Raghavan: We will grow out of it, right? I mean we've had an issue in our Media and Communication business in the quarter. We definitely will grow out of it in the quarter. Similarly, from the Transportation business also, if you look at it, we will grow out of where we exited last quarter, right? So in my perspective, we definitely will do better, including in Q1, and that momentum will carry forward through the financial year.

Manik Taneja: Sure. Thank you. All the best for your future.

Manoj Raghavan: Thank you.

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

Apurva Prasad: Good evening. Thanks for taking my question. So Manoj, I wanted your thoughts on how should we look at a trade-off between growth and margins. So what I'm trying to get at is, would you rather be okay with growth at the current levels and 30% margins, which is what you have maintained in the past? Or do you think there is a business case for reinvesting some of these higher margins to chase better growth?

Manoj Raghavan: So the mandate from our Board is very clear Apurva, and I've maintained this repeatedly - we can't chase growth at the cost of margins. So we definitely need to maintain our margins as well as look at growing at a faster rate. The focus from our point of view, from management point of view and the strategies that we have in the organization, the sort of investments that we are making is all towards accelerated growth without reduction in margins.

Nitin Pai: I think what we're also saying is that we have enough levers to make sure that we can support the strong growth that we want and we are looking to without sacrificing margins. So I think the point we're making is that kind of net hiring that we have done over the last 8 to 12 quarters. In fact, you have to step back to look at the fact that we've absolutely been consistently hiring in large numbers, all through the last 8 to 12 quarters. Not all of it is consumed for sure. So we've been building capacity. So to that extent, I think there are enough levers.

Apurva Prasad: Okay. And to the earlier point that you were making, which are the subsegments that could be doing much better? So you mentioned, I think OEMs, which grew 40% for the year. So would you expect a similar run rate in the OEM subsegment and which would be some of the other pieces within the business that you expect to grow faster?

Nitin Pai: Yes, we won't comment on the growth rates. But definitely, what we can call out is to say that we expect the OEM part of the business to continue to grow strongly, partly because of the fact that we already won deals and have a path to ramping up. The other is we continue to focus on more, right? So to that extent, I would definitely call out that piece as one of superior growth overall, and nothing to do with last year, so I'm not doing a comparison.

The second is in the Media and Communication industry. I think we still have a lot of faith in the relationships and the capabilities that we bring to operators. So we definitely see stress in suppliers and device vendors and so on, just as much as we have seen the same in retail and suppliers in the automotive industry. I think the operative pivot that you made and the continued growth that we see there, because of our relevant services - not because they have a lot more to spend, not because they are increasing budgets - simply because we are more relevant. I think that will be the other piece.

In healthcare, in general, I think we are in the right place. So we are winning the right logos in terms of device vendors and the whole medical industry. I think digital therapeutics and connected health, are the two interesting areas that I think we will also see somewhat accelerated growth, obviously, on a very small base because industry service is just about picking that up now.

Apurva Prasad: Thanks for that, Nitin. Then just finally, you referred to the 3% Q-on-Q impact from the dip in media operator. I'm just trying to reconcile this with very strong growth in top 10. So would this be outside top 10? Or is there a change in the top 10 classifications?

Manoj Raghavan: No. This particular customer is outside top 10.

Apurva Prasad: Got it, got it. Thank you so much and all the best.

Manoj Raghavan: Thank you.

Moderator: Thank you. The next question is from Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Good evening, Manoj and Nitin. Thanks for the opportunity. Manoj, in your opening remarks, you talked about the transformation on the customer side, particularly on Transportation segment and Media on working directly with operator? And so can you give a little deeper insight into what exactly in OEM has grown? So how it will play out in coming quarters or coming years and is there any kind of leverage that we can have in EBITDA also directly dealing with OEM vis-a-vis Middleware people?

Manoj Raghavan: Sure. So I will maybe request Nitin to take that question.

Nitin Pai: Thanks, Mr. Sheth. A quick one. If you look at what we are saying, essentially we're saying that in two industries, the value is now accruing to the top of the value chain because typically, OEMs sit at the top of the value chain in the automotive industry. But traditionally, R&D, product engineering, delivery of systems and software has been done by suppliers who then work with the OEMs against their specifications.

OEMs traditionally have taken the role of saying look, we are integrators. We are assemblers and we are going to run the brand and the service for customers. Product and technology will come from our suppliers. And I think that is changing. And that is now accruing to the OEMs who are saying, look, there is economies of scale, there is greater innovation agility if we bring back the software to us, and we can also optimize on the hardware architectures and so on, which are all evolving; where instead of having 50 boxes that do different things in the car, I can maybe have just one or two large computers, which now run all the softwares, with enough safety, redundancy and so on.

So the swing of software development to OEMs, it's not going to be 100%, but there is more and more spend that is happening from OEMs at this time and will happen for the next few years, simply because of this appropriation of software and development and value from the suppliers. And that is a trend that we are now following and reflecting in our results. And we expect this will continue for a period of time.

The same is happening with operators, where operators traditionally have taken equipment from typically the likes of Cisco, Ericsson, Nokia and so on.

I think there is a strong move to open-source software, to software that runs on the core, you dump down and make hardware more commoditized at the edge and so on and forth. And I think that is exactly the trend that we are tracking in terms of who do we work with? Do we work with suppliers? Or do we work with operators?

In addition, I think OTT was a completely different one, where that opened up additional opportunities to work with customers we never worked with before, like broadcasters, content studios and so on. Otherwise, we have nothing to do for them. We suddenly found that we could actually help them go direct-to-consumer with OTT platforms and so on. So I think that is the trend that we are following. So I think both are consistent long-term trends for these two industries. And I think that is what we are really tracking and reporting.

Now this does not have a direct bearing on EBITDA. So to the extent, EBITDA is still a function of where do you deliver from, what services you deliver and the quality of your delivery. I think that is where we excel in general, and that is why our margins are superior, not because of the kind of customers who we work with, but because of the work we do. So that continues. It's just that who you go it for is changing. In fact, sometimes larger deals can also mean that you may have to give a little more in terms of the pricing that you offer. But we are confident that we will have enough levers to manage margins while we pursue growth. Sorry, it's a long answer, but I thought it's important to answer.

Bharat Sheth: No, no, it's fair. I sincerely appreciate that but with that, I mean, earlier we were doing short-term project and small size. So now the project size is increasing substantially and kind of a continuity, it is a little longer vis-a-vis what earlier you had in both those places?

Nitin Pai: That's correct. In fact, I would say that this is a trend that we've been both reporting and sharing with analysts and investors at large. We are slowly seeing the shift of product R&D and ER&D to more strategic and less discretionary and less project based, partly because for a life cycle of the product, especially with software where you're going into continuous mode of improvement and updates, it doesn't stop with the launch of the product into the market, it continues post the launch and the updates happen through the air, updates happen over cable, over connected. So I think that is a trend that we are seeing in product engineering itself.

Bharat Sheth: And last question on healthcare. So what are the underlying changes that we are seeing where we can have a sustainable longer-term growth? Earlier on a small base we were growing at very rapid pace, but there is now the pace has become negative. So when do we expect those kind of a pace again coming back on a larger base?

Nitin Pai: So I think on the healthcare side, you have to remember that about three quarters back or four quarters back, we had one impact of a particular medical device regulation for which we were, at that time, doing a lot of work that was suddenly extended and relaxed, which allowed customers to pull the plug on what they were doing with us.

And we had an actual significant hole in our revenue streams in a single quarter. I think the business unit has done very, very well to plug that, grow and show results despite that big hole in revenue that we saw on a very, very short-term basis. So I think you have to reflect the growth of the (BU) in the context of the hole that we were in rather than as year-on-year it was so much growth previous year and what is your growth now. Part two, I think we've added some very, very good customers over the year.

So I think the journey continues. I think they are in the right place. The medical and healthcare industry, obviously, because of the criticality, the nature of that industry, the regulatory environment, is much, much slower to change. I think they are in a place where they have to change. And I think we are in the right place.

Bharat Sheth: And can I go for one more with your permission?

Nitin Pai: Yes, please.

Bharat Sheth: Manoj, we have integrated our designing with the respective segments. So do we see anywhere, I mean, with design-related manufacturing opportunity in the future?

Manoj Raghavan: If you're asking about manufacturing, if Tata Elxsi is going to manufacture products and so on…

Bharat Sheth: Or getting manufactured by a third-party with our design and the whole software built in?

Manoj Raghavan: So typically, what we have been doing is we have been working with our customers, helping them in their design as well as when they take it to the factory to enable the products to be manufactured effectively. So, that is something that we have been doing.

We have been building, for example, samples for a customer, 50 units, 100 units and so on. We have not gone into mass manufacturing so far, but however, from a manufacturing perspective, it's also an interesting opportunity for us because manufacturing in India will definitely continue to grow.

So we have services from an IoT perspective and industry 4.0 perspective that we are incubating and we are building. And we believe that the manufacturing sector itself could also be a new opportunity area for us that we are incubating at this point in time. However, if your question was about will we get into manufacturing of the products for customers and so on, we may partner, but I don't think we will go and manufacture ourselves.

Bharat Sheth: Okay. Thanks and all the best.

Manoj Raghavan: Thank you.

Moderator: Thank you. The next question is from the line of Bhavik Mehta from JP Morgan. Please go ahead.

Bhavik Mehta: Just one question on Media Telecom, I think you said that you bottomed out and you should start seeing growth from here on. So what has changed over the last 3 months which gives you that confidence? And secondly, within Media- com, if you can throw some color on what are the sub-verticals where you are more optimistic from a demand perspective?

Manoj Raghavan: With key customers and prospects, we sort of have a better visibility on the spend from a customer perspective, especially the key customers, the top customers that we have in that business, we continue to grow strongly with those customers.

As I've also said, we have made some changes in the way that business unit is structured. We've brought in certain new leadership. We have restructured the sales organization also. So there's a focused, I would say, campaign that we have run in the last quarter and we are definitely hopeful of seeing those results in the subsequent quarters.

Bhavik Mehta: Okay. And within Media - com, like any color on whether it's the operators or….

Manoj Raghavan: It's primarily the operators, so I think as Nitin has mentioned earlier, last year we have seen that we have moved from the devices and the product space to the operator space. So almost 70% of our revenues come from operators.

And I think that is a way to move forward and we will increasingly see a lot more of our revenues coming in from operators. Operators are also thinking of digital, Cloud, AI, Gen AI and so on. So all the capabilities that we are building are focused for the operator market.

Bhavik Mehta: Okay. Thank you very much.

Moderator: Thank you. The next question is from Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: Hi Manoj, I just wanted to kind of reconfirm my understanding this -- the SDS reporting that you're now doing, is that just a reclassification or is there like an organizational change also that has happened in terms of reporting structures or business heads and so on?

Manoj Raghavan: At this point in time, Salil, it's a reclassification. We have not done a change in the structure internally for the organization. But however, we have put in certain processes to define what is the design revenues and how we will account them and so on from an individual business unit perspective and so on.

Nitin Pai: Yes. So maybe, Salil, I can just add a little more. This is the organic change that we have made over 8 quarters or so because the intent was that, look, if we had to really be able to co-sell, if you have to be able to package, integrate offerings and then take it to market, if we're able to be very seamless in how we can start with design, but then take all the views that we get, the inputs that we get, the conversations and the executive connects that we have and we're able to translate it in downstream, then the integration has to happen at multiple levels.

Manoj Raghavan: Okay. Let me correct myself when I answered that. We have integrated the sales organization. The selling happens seamlessly.

Nitin Pai: But the design plus digital is an organic integration that had done over 8 quarters. So in that sense, there are teams that are now fully aligned to each vertical. So you don't see it as two different business units now wanting to talk to each other, they're actually one team that are working with each other.

Salil Desai: And the second bit, I wanted to again reconfirm was you mentioned somewhere that the hiring is in a way that you've done through the year is in a way an indication of kind of hope for a better FY '25. These are what profiles? You've hired largely freshers, experienced people, middle management? Could you give some color on what profile that we've been generally having?

Manoj Raghavan: A lot of the hiring we do from the colleges and universities; for fresher hirings almost about 75% of the hirings that we would have done would be from campuses. Of course, we do take in laterals as well depending on the specific customer need and so on. But when we plan for a bench and when we plan for building capabilities and skills, a lot of it is based on freshers that we would then train and keep them ready for project engagements.

Salil Desai: Great. Thank you so much.

Moderator: Thank you. Next question is from Karan Uppal from Phillip Capital India. Please go ahead.

Karan Uppal: Thanks for the opportunity. I just have one question for Nitin sir regarding the comment which you made on automotive business. So Nitin sir, you mentioned about the shift of software development work from Tier 1s to OEMs. Now how much of the work is being done in-house R&D with OEMs versus outsourcing to vendors like us?

Nitin Pai: That would be a tough one to answer. Why? Because I think the journeys of different OEMs are different in the sense that if you look at couple of OEMs they've all been about we don't want to give it to anybody. Everything will be done in our homeland and will be done by our nationality and so on. And I think they also turned around and said, look, that it's not possible, not feasible, it doesn't work and it's too expensive. They have been significantly delayed in their own deliverables and their time lines. And they're now pivoted to saying, no, we need to work with vendors. We also need to work with organizations that understand how this is done, because we are trying to both learn and run an engine together and that doesn't work.

There are certain other organizations that have started working with a very good small set of strategic vendors and then also doing a captive in India or wherever else, and therefore, running a dual view of what do I get done in my home country? How do I use my own captives for certain work that I think they are best for? And how do I use vendors where they are best for. So I think there is no one single answer that I can tell you, and this is also evolving over time. Remember, all this is just about 2, 3 years old in many ways.

Karan Uppal: Okay. Thanks a lot.

Moderator: Thank you. Next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities.

Chirag Kachhadiya: Hello, thanks for this opportunity. I have one important question. Some of the global...

Moderator: Chirag, I am really sorry to interrupt but your voice is not very clear. If you're on a hands free, request you to use the handset.

Chirag Kachhadiya: Now it's better?

Moderator: Yes.

Chirag Kachhadiya: I have one broad question to Manoj. Some of global OEMs' software plan with respect to EV mobility and those are the known ones. So what's your thought on the revolving EV landscape like the growth which we are witnessed in the past 2 years in the Transportation vertical will continue due to those cuts? Or do you think that this will change as more and more people are now talking about this hydrogen mobility and hybrid stock instead of electric vehicle also?

Nitin Pai: Yes. So Chirag, maybe I'll take that. So what I understood from your question is with respect to electric mobility, do you see the fact that electric mobility may not be the only and single part that everybody pursues, but there are options emerging. What does that mean for us? Is that correct?

Chirag Kachhadiya: Yes.

Nitin Pai: Absolutely. So I think there are 2 parts here. One is that while you look at electric mobility, whether there is enough sales, no sales is a different matter, but you have to have our portfolio of electric vehicles. So I don't think new OEM has an option to say, I will not do electric at all. It's only a question of saying how much of electric and how much of others, right? So to that extent, there is a path for EV with every OEM in the world. That's part one.

Part two is the opportunities that come out from any alternate that you try, including fuel cells, hydrogen and so on, only means that there are other areas and other opportunities that we can also target from a software perspective. But I think the biggest point that I would make is the software-defined vehicle is not solely dependent on electric. Electric is one constituent of what goes into a software defined vehicle. But ultimately, everything that the car delivers, mobility, convenience, comfort, infotainment, connectivity, ADAS, everything is going to be driven by software. So to that extent, electric just represents one part of what we do.

Chirag Kachhadiya: Thank you so much and all the very best.

Moderator: Thank you. Next question is from Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: Hello. Thanks for taking my question again. So my question was on the head count and the hiring in the coming year. Given that in FY '24, we have added head count, which is to the tune of 13% growth, and it is stronger than the revenue growth. So you had some capacity, as you mentioned. So how should we think about the hiring trends going into FY '25 including the fresher issues?

Manoj Raghavan: Yes. So I think we would continue to add people from a fresher perspective because that is the source of talent for us. But we will be a little careful in the numbers that we add. We'll definitely also meter this a little bit, again, based on how deals shape up and how the revenue picks up. So from a fresher addition perspective, we are looking anywhere between 1,500 to 2,000 engineers. And whether we will be at 1,500 or 2,000 would depend on the business situation and how the revenues are growing. Lateral hiring would be again on-need basis, and that we would continue to do again based on business.

Sulabh Govila: Okay, understood. And with respect to the type of contracts, so if I look at the on-site, offshore mix as well as the fixed and time material contracts then we had strong offshoring. But in the past 3, 4 quarters, that's something that has sort of come off. And then same is with respect to fixed price projects coming off. So I just wanted to understand what's the incremental nature of change in these contracts? If you could highlight that?

Manoj Raghavan: So those are just marginal changes. I don't think it is very significant, it is not as if that suddenly we are going from 25% on site to 40% or 50% -- it's marginal plus or minus shift to 1% or 2%. I think...

Nitin Pai: Sulabh, don't read much into it. I think there's no fundamental change in trend.

Sulabh Govila: Understood. Thanks for taking my question.

Moderator: Thank you. The next question is from Rajesh Chaudhary from Zenith. Please go ahead.

Rajesh Chaudhary: Good evening. My question is, do we have any opportunity or do we foresee any opportunity in the semiconductor exchange? Because India and Tata Group is making a lot of investments in the semiconductor industry in India?

Manoj Raghavan: Semiconductor industry is something that we have been involved in quite a few years ago. About 7-8 years ago, we actually exited the design space, however we continued to work with semiconductor customers in the software, embedded and the firmware area. So definitely, we have capabilities, especially relating to the vertical markets that we address, right, whether it's automotive, whether it's media, telecom or healthcare.

We build solutions on the chips for these particular industry verticals. So as far as anything to do with these 3 industry verticals, we have a play. But at this point in time, we really are not getting into the chip design aspects at this point in time.

Rajesh Chaudhary: Okay. So we would only be involved in the testing phase or?

Manoj Raghavan: Application development - all of that.

Rajesh Chaudhary: But that would only be related to the software part and not to any of the hardware part?

Manoj Raghavan: Yes, not into the chip design space.

Rajesh Chaudhary: Okay. Got it. Thank you.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Manoj Raghavan: Thank you, investors. It was an eventful FY '24. A lot of changes happening in our market. But I believe we, as a team, Elxsians, we have come out exceedingly well, shown a strong growth of 13% year-on-year. When I stand here looking at the new financial year, we're really confident that on the pipeline and the conversations that we're having with customers. And we really hope for another strong performance this financial year. Thank you so much.

Moderator: Thank you very much. On behalf of Tata Elxsi that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

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