January 15, 2025

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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 / Madam,

Sub.: Transcripts of the Investors' Conference Call for the quarter and nine months period ended December 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 nine months period ended December 31, 2024, held on January 09, 2025.

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: 2025.01.15 14:27:30 +05'30'

Cauveri Sriram
Company Secretary & Compliance Officer

Encl: As above

"Tata Elxsi Limited

Q3 FY '24-'25 Earnings Conference Call"

January 09, 2025

MANAGEMENT: **MR. MANOJ RAGHAVAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE 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 Limited Q3 FY '24-'25 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone 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 Mr. Ganesh.

Shashank Ganesh: Thank you very much. Good evening to all the participants on this call. Good morning if you're logging in from the Western side. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. Therefore, it must be viewed in conjunction with the businesses that would cause further result performance or achievements that differ significantly from what is expressed or implied by such statements.

To take us through the results and answer your questions today, we have the Senior Manager of Tata Elxsi, represented by Mr. Manoj Raghavan, Managing Director and CEO; Mr. Gaurav Bajaj, Chief Financial Officer; and Ms. Cauveri Sriram, Company Secretary. We will start the call with a brief overview of the quarter by Mr. Raghavan followed by a Q&A session.

We would appreciate your cooperation and 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 as time permits. With that, I would like to hand over the call to Mr. Manoj Raghavan. Over to you Manoj.

Manoj Raghavan: Thank you, Shashank. Good evening, everyone. Thank you for joining us this evening for the Q3 Earnings Call, and I hope that you and everyone in your family are safe and healthy. I'm happy to report that we have delivered a steady third quarter in terms of top line in a seasonally weak quarter.

Our revenues from operations were reported at INR939.2 crores. During the quarter, EBITDA margins stood at 26.3% and PBT margin was reported at 26.1%. This was the first quarter in which the full impact of salary increases for all our employees was seen. Margins in the quarter was also impacted by adverse currency movements in GBP, Euro and JPY.

It is important to mention here that our margins in the previous quarter were aided by onetime R&D incentives and tax credits from previous years. We continue to see positive outcomes of our strategic business focus on Japan, emerging markets and capitalizing on the India opportunity. During the quarter, our revenues from India has grown by 21.9% year-on-year, while Japan and emerging markets grew at 66.8% year-on-year.

This will serve us well over the next few quarters, even as we navigate geopolitical uncertainty, currency volatility and industry-specific challenges in Europe and US. Coming to our businesses. The automotive industry has seen significant business challenges in the past few months with OEMs, especially in the U.S. and Europe reporting sales and growth challenges in their major markets.

This has impacted new deal closures and the Tier 1 supplier spend. Amidst this business environment, Tata Elxsi continues to do well to win and execute on large deals won over this year and demonstrated differentiated value to customers to protect and grow our revenues in a difficult quarter for the entire automotive industry. During this quarter, our transportation business grew 0.5% quarter-on-quarter in constant currency terms.

In the last quarter, we announced an offshore development center for Suzuki Corporation, Japan, to support their global technology software and engineering development. Suzuki's CTO, Kato-san, highlighted the importance of the center as a strategic and core component of Suzuki's innovation strategy, helping it accelerate software and virtual development across connected, autonomous and electric technologies. We are delighted to be launching our AVENIR Software-Defined Vehicle suite at the CES 2025 conference, which is happening this week in Las Vegas, the premier global showcase for technology and innovation.

AVENIR encompasses a cloud-native virtual development platform and a hybrid global validation platform and is powered by the Snapdragon digital chassis platform in partnership with Qualcomm. We offer a compelling proposition of a ready to adopt solution, coupled with deep digital and software expertise and scale talent base to help global OEM shift left and accelerate the SDV and future mobility road maps.

Our media and communication business reported a 0.4% quarter-on-quarter growth. We are positioned well to help customers in the media, entertainment and telecom industry on all 3 levels of growth, efficiency and innovation. We won a large multi-year deal with a U.S. headquartered-operator to develop and manage their portfolio of applications and expect to ramp this up over the next few quarters. We are positioned well in some very large deals across the world with decisions and outcomes expected in the coming quarters and beyond.

Our Healthcare and Life Sciences business reported a growth of 1.1% quarter-on-quarter. We continue to win new marquee healthcare customers and our Gen-AI-powered regulatory, digital engineering and sustainability offerings are seeing significant traction in the market.

Our system integration business witnessed decision delays in some large projects that had a significant impact on revenues in the quarter. While we are aiming to win and execute them over this quarter and beyond, we continue to work on pivoting the business away from project-based to annuity and service-based revenue streams. In terms of our employee base, we continue to do well with attrition remaining low at 12.4% during the quarter on an annualized basis. During this quarter, we've added net of 85 employees into the system. We step into the fourth quarter of this financial year with confidence of large automotive deal wins in the year and quarter that will see continued ramp-ups even as we navigate the current volatility in automotive market.

The stability and return to growth in the healthcare and media and communication verticals and large strategic deals in the pipeline across all our key verticals. With this, we will open the session for Q&A.

Moderator: Thank you. The first question comes from the line of Bhavik Mehta with JP Morgan. Please go ahead.

Bhavik Mehta: Thank you. Couple of questions. Firstly, Manoj, if you can talk about the outlook for the auto vertical in terms of when do you expect deal closure to normalize or deal ramp ups to normalize and by when we should go back to the kind of growth we saw in the first half? The second question is to Gaurav - if you can just give the margin walk for the quarter? And how should we think about the tax rate going forward because tax rate has been quite low over the last couple of quarters? Thank you.

Manoj Raghavan: Yes. If I break the automotive market into 2 parts: Europe, in general, we see automotive market would take some time to recover. So, I would say a quarter or a couple of quarters is where we see continued pain in the European market. The U.S. market is seeing a little bit of traction. We are seeing some positive work happening, and that should recover maybe in a quarter or so. However, we're seeing a lot of good opportunities in Asia, in India as well as in Japan. We are hoping that business will continue to grow as we've seen in this quarter. We will accelerate the growth because we have won some good opportunities, some large deals, and we would definitely want to grow and focus on delivery excellence and really accelerate our revenues for Q4 and subsequently. So yes, Europe will be a little slow. APAC, India will definitely accelerate. U.S. will be steady. So that's the outlook for the automotive industry. From a margin perspective, I would request Gaurav to take that.

Gaurav Bajaj: So, Bhavik, I think what we alluded, also Manoj mentioned that at constant currency basis we came flat. However, there has been adverse movement in some of the major currencies in which we operate, specifically Euro, Pound and JPY, which has led to almost 140 basis point impact on our margins. So, most of the differential margins that you see from the last quarter to this quarter on the operating EBIT basis is due to the currency impact.

This quarter also intakes the wage hikes that has been done by the company, which completes the wage hikes cycle for the company at overall employee base for this financial year. The wage hike impact was almost 100 basis points, but that was also compensated and mitigated through some of the other operating leverage and efficiency that we can bring in towards pyramid optimization, utilization improvement and also on-site salary cost due to the currency movement helped in terms of the reduction in the cost. So, most of the wage hike has been compensated and mitigated through other means and leverages that we have on the operating front.

Apart from that, there is a slight increase in the other expenses because of the third-party contractor that we have to intake in this quarter for some of the positions that require to be filled, where we don't have the required skill set. Probably over the period, we can roll over those third-party contracts with the internal workforce. Also, some increase has happened on the travel and the Visa front due to the renewals and some of the positions that were required to be fulfilled at the on-site.

This is an expense impact of 60 basis points. And apart from this, there is a reduction in the cost of goods sold towards the equipment and other parts to the related product revenue in the quarter and there's a dip in the depreciation and the finance cost of another INR1.5 crores. So, both put together, cost of goods sold and depreciation, would give you 45 basis point kind of a benefit into the margin. So, in all total, there's an impact of about 150 basis points when you compare 25% EBIT last quarter to 23.5% this quarter.

I think your second question was on the tax benefit and the tax rate for the current period and for the full year. I think we stated at the start of the year that most of our SEZ unit has come out of the 100% benefit slab and it's moved to the 50%, and we believe that this year, our tax rate would be upwards of 25%.

As you know, last quarter, it was lower because of one-off income tax refunds that we received last quarter. This quarter also, tax rate was at the same level or slightly lower to the last quarter for 2 reasons. One, due to the differential in the deferred tax asset because of reduction in the depreciation and we didn't incur any additional capex during the year. There is also the end-to-end for the exchange-related profit that is not computed for the income tax purpose when we do the tax provisioning. So that has led to the income tax rate for the current quarter at 22.2%.

With that, on a YTD basis, tax rate has been at 24.1%. We believe that quarter 4 will not have those one-time off unless there are some other favorable tax orders that we can receive. On a normalized basis, I believe that our tax rate would be upwards of 25%, probably 26%, but we may exit the full year at an effective tax rate of something between 24.5% to 25%.

Bhavik Mehta: Okay, that's very helpful. Thank you.

Moderator: Thank you. Next question comes from the line of Vimal Jamnadas Gohil with Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: Yes, thank you for the opportunity. Sir, if you could help me with what was the mix of OEMs within our auto verticals for this particular quarter?

Manoj Raghavan: You're talking about the revenues from OEMs, right?

Vimal Gohil: Yes.

Manoj Raghavan: Revenues from OEMs has increased I think from 67% to 72% this quarter.

Vimal Gohil: Okay. So, the Tier 1 continues to be a source of a challenge for us. Would that assumption be right?

Manoj Raghavan: That is true. That is the industry trend that we are seeing, especially in the Western world, the large Tier 1s are not winning deals, as a result of which their outsourcing towards companies like us is also coming down. So, a lot of our revenues, we are focusing on the OEM side, yes, that's true.

Vimal Gohil: Right. And sir, in the auto vertical, most of your peers are also calling out a bit of softness. But are OEMs also relooking at their long-term spend on their EV architectures or their software architectures for, let's say, four years, five years out? Is that also being reconsidered or are some of the near term typically what we've seen in a soft auto market in EU or the U.S. is that the immediate capex on the existing platforms is cut, but in this particular down cycle of autos in the West, are you seeing some of the EV platforms or the software platforms being reconsidered upon?

Manoj Raghavan: It is the near-term projects that are being reconsidered because as you would have read, most companies are really looking to refocus back on ICE and hybrids, so that is where we see that some amount of reprioritization in their near-term EV R&D budgets. Long-term EV strategy continues, but it's just the near-term budgets that are being relooked at.

Vimal Gohil: And most of the projects that we are working on would be towards the long-term initiatives of these OEMs, right?

Manoj Raghavan: It's a mix. It's not that 100% of it is long term, but it's a mix of both near term and long term.

Vimal Gohil: Understood. Thank you so much. I'll come back in the queue.

Moderator: Thank you. Next question comes from the line of Vijay Pandey with Nuvama. Please go ahead.

Vijay Pandey: Thank you for taking my questions. I have one question. I just wanted to understand like the electric vehicle services in Western market, particularly in the U.S. and Europe, are stagnated but how do you look at how the software-defined vehicle and ADAS levels? Is that also where you are showing seeing a slowdown, or is it continuing at the similar pace as what was expected? My understanding is since that it has slowed down, if you can highlight what is the level of penetration you expect particularly by end of the decade, by FY 2030, auto?

Manoj Raghavan: If I understand your question right, you're asking how is the software-defined vehicle market outlook for Tata Elxsi?

Vijay Pandey: Software-defined and ADAS.

Manoj Raghavan: So yes, I think Tata Elxsi has been investing in building our own SDV framework. And we have announced it in the Consumer Electronics Show, CES, this week. It's AVENIR, which we have partnered with Qualcomm. It's built on a Snapdragon Qualcomm chassis. So, we are pretty confident that SDVs are here to stay. We have interest from many of our customers, not just the passenger car companies, but also commercial vehicles, because from a fleet management perspective, SDV makes a lot of sense.

So, we have ongoing customers where we are engaged on the SDV platform. Plus, we are also in discussions with a few OEMs, both passenger vehicles and commercial vehicle companies, to license the solution that we have and build over that so that we can give time-to-market benefits for our customers. So yes, I think SDV definitely has a lot of interest.

AD/ADAS, of course, it's another area that we have been investing for quite a few years now. We see continued interest in ADAS opportunities from the OEMs to bring in differentiated solutions to the market. There's a lot of opportunities also on the verification and validation side of AD/ADAS. So that's something we believe the spend will continue. So, if you ask me by 2030, what is the outlook? I would say, especially if EVs pick up, definitely there will be SDV play both in the passenger car vehicles as well as in adjacent markets of commercial or off-road and other areas as well. So, we continue to invest in SDV.

Moderator: Thank you. Next question comes from the line of Ritesh Poladia with Girik Capital. Please go ahead.

Ritesh Poladia: Thanks for the opportunity. My question is on the automotive segment. Sir, with China EV exports rising maybe 2025 might be flat here. How does that change the segment for us?

Manoj Raghavan: So, I think a lot of the reason today for I would say the softness in the automotive market, especially in the West, is due to the rapid growth of the Chinese OEMs, right? And actually, if you look at it, many of the auto OEMs, you look at the big three in Germany, look at the U.S. companies, they used to make a lot of money in China. And China market used to be pretty big for many of these customers.

With the Chinese OEMs now launching EVs that are at par or even better than some of the equivalent models available from the Western car companies, many Chinese consumers are buying Chinese cars, which automatically means the market share of the Western OEMs in China is coming down. And hence, the top line and bottom line for these companies are actually coming down because of the effect of impact of the successful ramp-up of the Chinese OEMs like BYD and others.

So I think, yes, that is also one of the reasons why the western market is in a state of reducing their budgets, they are not clear, they're talking of nontariff barriers, the local governments are talking about putting up barriers for the Chinese OEMs to come into their markets and so on.

And of course, there's also a push towards ICE and hybrid because in some sense, they believe that moving towards the EV is only going to strengthen the China ecosystem because most of the batteries and components, the motors, inverters, everything comes from China, even for the global OEMs, right? So, there's a little bit of competition, there is politics, there is everything intertwined there.

So yes, I think that is a challenge that the Western world is facing and it will be interesting to figure out how they will address it. And unfortunately, for us, our fortunes are also linked to how the OEMs are able to compete effectively with the Chinese car companies and grow their market share. So, it's a challenge. It's an opportunity for us to bring in solutions, bring in capabilities like the SDV platform that we have. We are investing in various other products, battery passport, BMS, and the number of things that we are doing.

And we are hoping that whatever investments which we make will help the Western OEMs effectively compete with the Chinese OEMs and win back market share. So, I think it's very difficult to give a precise commentary of what's going to happen, but these are all the various moving parts that are there in the market today.

Ritesh Poladia: Sir, just to extend on this, even that R&D is all inside the country, don't you think that is a much bigger challenge for a company like us to compete with China?

Manoj Raghavan: When you say, you are talking of the R&D of Chinese companies, right?

Ritesh Poladia: Yes.

Manoj Raghavan: Yes. The only problem with the Chinese companies have is, in general is that Western companies, especially the large major car companies, are wary of using Chinese software. So, they'll will always be a reluctance to rely completely on Chinese vendors. So that is something that companies in India can really tap into and provide those capabilities to the other global car companies.

Ritesh Poladia: Great, that's all from my side. Thank you.

Moderator: Thank you. Next question comes from the line of Vimal Jamnadas Gohil with Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: Thank you, sir, once again. Since you're discussing China, a simple question arises: do we really sense an opportunity here? I mean, given the fact that there's so much happening there, do we really have a chance to tap into some of their software-defined architectures or BMS or whatever?

Manoj Raghavan: No, so we are not ignoring the China market. While our customers, OEMs are competing with the Chinese companies, in some sense, they are also collaborating with them. We have heard of all those announcements in the market, right, where global OEMs are tying up with Chinese OEMs for the China market and so on, right? So, there are various collaborations that are happening.

So, through our customers, we are definitely engaged with both the Chinese OEMs and the Chinese suppliers. And so in some sense, we are aware of what is happening in the market. There is some amount of collaboration that is happening as we speak. So, I will not be able to give more details on it, but we are very much aware.

Whether we can directly enter China market and work for Chinese OEMs, I mean, we are looking into it, but I think it's a very, very difficult proportion at this point in time, because just the speed of the market and the culture, the language; There are a lot of other challenges in the market that we need to address. But we are finding an indirect route by working via our customers.

Vimal Gohil: Understood. And sir, within our transportation vertical, I think a couple of years back or even more, we had spoken about some of the adjacencies; Is there any update over there? Has that taken a bit of a back seat? How should we look at that? I mean rail, maybe aerospace or something like that?

Manoj Raghavan: Yes. So, there are a few adjacencies that we continue to focus on. Primarily, I think one is the commercial vehicle space. That is something that I have also indicated that even from a software-defined vehicle perspective, that is something we are seeing a lot of interest. On the Connected car or the Connected Vehicle perspective, there is a lot of interest in that space. We are also winning deals in that space. So commercial vehicles definitely.

Rail, we have invested heavily, it's sort of plateaued. We grew well, but it's sort of plateaued, and we are trying to figure out how to increase that because the number of rail operators or the OEMs are very limited. It's not as if it's a pretty large market, but we have not given up there. We're really now focusing on three aspects: commercial vehicles, off-road and also the aero, avionics and defence. These are the 3 adjacencies from a transportation business that we are placing our bets on.

Vimal Gohil: Understood. Thank you so much, sir. All the best.

Manoj Raghavan: Thank you.

Moderator: Thank you. Next question comes from the line of Sulabh Govila with Morgan Stanley. Please go ahead.

Sulabh Govila: My first question is with respect to the growth in transportation vertical that we've seen this quarter? So, I just wanted to understand that, if you were to break down this growth that we've seen, let's say, compared to last two quarters, then is this lower growth more a function of the ramp-ups that were expected to happen but did not happen on time? Or on those ramp-ups, they were as per plan, but there were other project deferrals or cancellations that were ongoing?

Manoj Raghavan: So yes, I would say we definitely have taken a hit in the transportation business from our customers in Europe because of the market conditions and some of the projects being deferred. The spend has reduced there. At the same time, we have won certain large deals, and those ramp-ups have happened, but those ramp-ups have not happened to the extent that we would have wanted. And customers are also a little careful in terms of how much they would want to spend.

Plus, there are newer customers that we have announced like Suzuki and so on. Those ramp-ups have happened to the extent that we would want to, right? And those are the three buckets that we have. So, any time, even the next quarter, we will look at it in these three buckets and really push forward on those customers that have money and the willingness to spend, and that's something that we'll really, really focus on.

And the remaining two buckets, especially on the deals that we have already won, there's a slight deferment in terms of full ramp-up. Ramp-ups are happening but not happening to the extent at which we had expected. So we'll definitely push to see to get back to that original ramp-up plan. And those customers where there's still a little bit of a hold in the budgets or pause in the budget, that is where we'll have to wait and monitor and see how it progresses.

Sulabh Govila: Okay. Understood. So just taking this forward. So, if you were to think about this particular quarter, 4Q, given where we are standing today, would you say that based on these multiple moving parts and the three buckets that you mentioned, a decent acceleration from the current levels is going to take some time because there are multiple moving parts here?

Manoj Raghavan: It's very difficult to sit here today and give an exact commentary. But from a management perspective, we definitely want to push all levers to really exit Q4 with a decent run rate. So that's something that we will be focusing as a management team.

Sulabh Govila: Okay. Understood. And then secondly, with respect to both the media and the healthcare vertical, now that they are sort of stabilized, would you expect them to continue to be stable and steady for some quarters before you think that the growth can return in these verticals, where we are today?

Manoj Raghavan: Yes. So, we have seen some green shoots in both these verticals. We've also had some large deals in both the verticals, plus we also have some deals that we are working on as we speak in this quarter and the subsequent quarters. Closures will happen over a period of time.

So we're pretty confident that we can bring back the growth. But you're right, it could take one quarter or maybe a couple of quarters to really get back. But we are seeing those green shoots and we would be laser-sharp-focused to really extract that value as soon as possible. That's something that we will stay focused on.

Sulabh Govila: Okay. Understood. And then the last question is on margins. So, if you look at the past several quarters, we have gone down from EBIT margin levels of 27% to now 23.5%. And there are obviously multiple reasons for that, slower growth being one of them. So just wanted to understand, do you think that these are the new normal levels of margins? Or we can go back to those 27% margins in due course of time. Or the third thing would be that margin uptick will also happen with time, and it’s slow in the near term because of the lack of growth or moderation in growth?

Manoj Raghavan: We are heavily focused on ensuring that we get back to our margin profiles that we had indicated earlier. As Gaurav discussed in the beginning, this quarter, margins are tag lower because of the full impact of the wage hike that we had given. I mean those are things that we can't push beyond a particular time frame. So that's already a committed expense. So, we were working on margin levers. As you rightly pointed out, the biggest lever for us is improving our billability and that stems from growing our top line. And along with growth, the margin performance also will improve. So, we are very cognizant of that, and we're keeping a sharp focus on our overall costs. And that's something that in the short term to medium term, we will be working to improve the margin profile.

Sulabh Govila: Understood, sir. Thanks for taking my question.

Moderator: Thank you. Next question comes from the line of Nitesh, an individual investor.

Nitesh: Yes, thank you. Thanks for the opportunity. So, this is the first time I'm attending the conference call. So, I would like to know where do you see the growth coming, say, the coming quarter and also for the next financial year considering the various challenges what we are facing at the moment?

Manoj Raghavan: So, there are headwinds and challenges that I've discussed in detail. So, in each of the industry verticals, we are really looking at adjacencies and how we can bring in growth. In the medium to long term, definitely, our focus is on the adjacencies in the transportation business, for example, Aero and Defence and the commercial vehicle side is something that we are really pushing to see if that growth can come back.

At the same time, we've also built a suite of products. We talked about SDV, talked about battery passport. In the media and communication vertical also, we talked about a number of products and intellectual properties that we have already invested in. So, while the market has been weak and our billability has been low, we have been using the time to really invest and build products that we can license subsequently and earn returns and so on.

So, I think mid to long term, I think we definitely have levers that we can use to bring back growth. And that's something that we're fairly confident that given all these uncertainties and so on, right, once we have a clearer picture, we will be able to really get back to growth. The fundamentals of the company are still strong.

Tata Elxsi is known for its design, digital capabilities. We still have a very good name with all our customers. Most of our projects are executed in a timely manner, there are green projects. Our customer satisfaction is almost at the rate of 4.75 out of 5. So, we are tracking all of those parameters and all of the parameters are green for us. It's just a question of latching on to the growth engines and delivering that value. I'm fairly confident that we'll be able to get there.

Nitesh: Okay. I just have one more follow-up question. So are you looking for any acquisition considering the cash we have on the books of around INR1,000 crores. And the second is how much are we dependent on JLR? So, from the OEM perspective, are we heavily concentrated on JLR?

Manoj Raghavan: JLR is definitely one of our significant customers, no doubt about it. But there are a number of other OEMs as well that we work with. So, I think over a period of time, we have sort of ensured that our dependence on JLR as an account has actually come down. I'm happy with the level at which we are operating with JLR today. And at the same time, I am happy with the growth in other OEM accounts, so I'm not overly concerned about that.

Regarding M&A and acquisition, yes, we continue to look out and scan for opportunities, especially in adjacencies and new areas that we want to invest in. Typically, we are looking for small-sized companies, we don't believe in big bang acquisition. So, we will be careful and there has to be a rationale why we acquired a company, and it has to result in positive business outlook. So, there are number of filters that we have. In general, we take a lot of time to really analyze and only take those cases where we believe it makes sense for us. So we are very, very selective when it comes to M&A. Let me put it that way.

Moderator: Next question comes from the line of Rishi Maheshwari with Aksa Capital.

Rishi Maheshwari: Sir, just got off a call from TCS who mentions that the current quarter gives them significant hope of quick deal wins, low deal cycles, improvement in discretionary spend. And categorically speaking about how CY '25 is going to be much better than what we've seen in CY '24. Now from your commentary, we're not gathering the same confidence so far. I may have not been able to understand it in the same vein. I understand, 50% is automotive, and that is still reeling under some form of pressure.

But having said that, you've also mentioned in your press release that the Japanese and emerging markets wins gives you enough confidence in the near term. So help us understand and reconcile that thought that this is one year where perhaps we're looking at single-digit growth itself. So what can accelerate this to a double-digit growth for, if not this year, at least the next year? Or what are you looking at? Are you sensing the same forms of market sense that TCS has been speaking of?

Manoj Raghavan: Yes, I've not heard the TCS presentation, so I can't comment on that. But definitely, as you said, 50% of our revenues come from the automotive segment. And the major markets there, which is Europe for us is definitely, we are seeing a slowdown. We will get a better clarity after a quarter or a couple of quarters; at this point in time, it's very difficult.

And that is also the reason why I cannot categorically say that automotive markets will definitely do well, especially Europe. But however, as I said, Japan, India and the rest of the world and U.S. we see a lot more positive indications. And that is something that we believe will drive our growth in the transportation business for the next financial year. Now whether that growth will overcome any sort of slowness that we've seen in Europe is something that we have to wait and watch.

Rishi Maheshwari: Sure. And just at the cost of reiteration, aside of the automobile, you mentioned that whether it's healthcare, whether it's media and communication, in those verticals, you've seen a distinct turnaround versus what we've seen in Q3. Am I right?

Manoj Raghavan: Yes. So you have seen that at least there are green shoots, at least there are deal wins happening, revenues are growing. So those are all positive indications for us.

Rishi Maheshwari: And margins, you alluded to getting back to between 25%, 26% in the near term, barring the one-offs that you had spoken off in the earlier remarks of your call, you would expect now that the wage cycle is behind and to get somewhere in the vicinity of 25% plus. Is that a fair understanding?

Gaurav Bajaj: Yes, I think that is a fair understanding, and that is our plan to get back to those margins. I think Manoj also mentioned during the previous question that the priority for us is to improve our billability and utilization, and that will come from improving our top line. So there are enough margin levels available for us to get back to those band of margins in the short to midterm.

Moderator: Next question comes from the line of Vijay Pandey with Nuvama.

Vijay Pandey: I just wanted to understand about the U.S. market. So after the new government is in place, are you seeing any improvement in the automotive market? And any deals we think that is moving on that will come over the next quarter or coming quarters? Any update if there is a turnaround in the U.S. market.

Manoj Raghavan: Your voice was breaking. So, your question is whether we are seeing any turnaround in the U.S. market, right?

Vijay Pandey: Yes. Yes.

Manoj Raghavan: And with the new government of Trump coming in, what is that impact, right? So, I think for us, the U.S. market is important because all the 3 verticals, which is automotive, the media and communication and the healthcare, has a significant preference in that particular market for us. So both media and communication and healthcare, we also have a sizable customer base and large deals happening in the U.S. geography.

We're continuing to invest in the U.S. geography, in terms of enhancement of the sales team and a number of things that we are doing in the U.S. market to really ramp up our business. Regarding our transportation business, yes, I think there are a number of discussions that are happening with both OEMs and Tier 1 suppliers there.

We have recently announced a strategic partnership with Qualcomm, those are also positive for us that we will together go and collaborate with customers that use Qualcomm chipset for SDV. So these are various discussions that are happening. And I think those are reasons why I'm a little more confident that there will be some recovery in the U.S. market for us.

Moderator: Next question comes from the line of Jalaj with Svan Investment. Please go ahead.

Jalaj: Thanks for the opportunity. Sir, my first question was in this quarter or Q2. The growth has been predominantly driven by customers which are ex of top 10. So could you throw a little light on to that as in geography wise or maybe how do I match this with the growth coming from what sort of clients per specifically?

Manoj Raghavan: Yes, let me answer that before you go on. As I mentioned, a lot of the growth for us this quarter has come in from Asia Pacific region, in Japan and so on. So these are all set of new customers that we have added. And that is why they will not form the part of the top 10 account for us. And a lot of the top 10 accounts are auto companies that are based in Europe as well as U.S., and so this sort of general economic situation there results in the dip in some of those accounts and that's causing that top 10 to drop.

Jalaj: Understood. And my second question was with regards to the other verticals. So maybe first, I'll talk about transportation. So your discussions with clients, are they happening basically specifically to the European clients, has there been a steep cutting the budgets on the ER&D spend or there's a reprioritization of this then, how has the discussion particularly happening there? I'll tell you why I'm asking this is because under pressure, ideally, the company should be spending a lot more on trying to defend their market specifically?

Manoj Raghavan: No, that's a theoretical way of looking at it. That doesn't happen often - For example, if car companies have been investing heavily on the EV side and suddenly they see that, look, Chinese companies are coming into their own home country and selling cars. So that is a little bit of a rethink on their overall strategy**:** Do they invest more on hybrids and ICE and then talk to the government about tariffs and ensuring that the Chinese car companies are not able to sell? So, there are a number of things that are happening in the market. So I would say the speed at which all of this is changing has taken some of the car companies by surprise and that is also resulting in this confusion about budgets and spend and so on. So I think over a period of time, we'll get a little more clarity**.**

Jalaj: Got it. And one last question, maybe, sir, for both media and telecom and healthcare, at least it looks like the rate of degrowth has bottomed out for both the verticals. What sort of discussions are you having in terms of what the deal wins? The pickup to happen in these both verticals, would it take a little longer or should happen quickly?

Manoj Raghavan: We are hoping that in both these verticals, the pickup of business should start from the next quarter onwards, in some cases from Q1. We have won some large deals and those ramp-ups will happen next quarter and the subsequent quarters. And there are a lot of discussions that are happening as we speak. So all of those, depending on closures, will definitely bring in revenues in Q1 and so on.

Jalaj: Fine. Thanks a lot and best of luck.

Moderator: Thank you. Next question comes from the line of Abhishek Agarwal an Individual Investor. Please go ahead.

Abhishek Agarwal: So just wanted to understand in the auto segment. If I take, let's say, U.S. and Europe as one cluster and India and other emerging markets where we've seen good growth as another cluster. Just wanted to get an idea of the differences in these two clusters in terms of competitive intensity, pricing power from the perspective of Tata Elxsi and billability or price sensitivity in general?

Manoj Raghavan: Especially in Japan and so on, we don't see that much of an issue with respect to pricing. Of course, in the Indian market we definitely see pricing will be an issue. But we're managing it through our exposure towards different markets are also based on what sort of price realization we can achieve.

So we don't see too much of a difference between the Western world whether it's Japan or Europe or U.S. Of course, competition intensity is definitely higher in the Western world because the barriers to working are low. There is no language or culture barriers, but if you go to work with a company in Japan, you have a lot of other barriers.

It's not an easy not easy to work with Japanese companies, unless you have a history of working with them and you understand their quality processes, expectations, language, culture and typically Japanese companies, once you start working with them, it's typically a long-term engagement. They never sign a deal for 1 year and so on. It's usually a 5-year sort of a large commitment that is there from one company to other. So that's the advantage of working with companies in Japan. It takes time, but once you win a deal with them, it's usually for the long term.

Abhishek Agarwal: Understood. That's all from my side. Thank you.

Moderator: Thank you. Next question comes from the line of Ajay Jain, an Individual investor. Please go ahead.

Ajay Jain: Thank you very much for taking my question. I have one question. There have been many collaborations with well-known companies in transportation, healthcare and media, including setting up centers of excellence for the last many quarters. Why are we not seeing any monetization of these? Can we see anything on these lines in future?

Manoj Raghavan: You are actually seeing monetization. And that is why, in spite of degrowth in a major market like Europe, we are still able to show growth in the transportation business. That is exactly because of the monetization of all the deals that we have won. So it's wrong for you to say that you're not seeing that. Yes, at the company level, you may not see that because of certain markets not performing the way it was performing. So that's the reason. If we had not done these partnerships or deals, then we would have seen a massive degrowth in our business.

Ajay Jain: Okay. But the growth itself is less than 1% or 2%?

Manoj Raghavan: Yes, Mr. Jain, it's a very difficult market out there in Europe and U.S. We have been able to show growth. This is a very credible performance, I would say.

Ajay Jain: Okay. Thank you.

Moderator: Thank you. Next question comes from the line of Sanjay Chawla with Renaissance Investment Managers. Please go ahead.

Sanjay Chawla: Good evening. Thank you for the opportunity. You talked about Western governments responding or looking to respond to Chinese EV makers through tariffs and nontariff barriers. But specifically, do you see a situation of U.S. and Europe pivoting away from EV by cutting down the subsidies of credit and scaling back EV penetration targets. Because all feels you have done so far is to let China become dominant in autos and start getting the best of the Western automakers?

Manoj Raghavan: Yes. But with Trump coming to power and with Elon Musk by side, I really don't know what decisions they would take and there is definitely pressure from the German automotive industry lobby because Germany as an economy depends heavily on automotive industry. And there is a lot of pain out there with job cuts and factory closures. So definitely, there's a lot of pressure on the government to take certain actions to ensure that the jobs are protected in those local geographies. So we will see some impact.

Sanjay Chawla: So you think the tariff and non-tariff barriers essentially seems to be a way to go as of now?

Manoj Raghavan: It doesn't matter what I think - I'm just saying that's what I'm looking at, what I'm reading and talking to people and so on. I'm not a politician who is deciding, but I'm just saying that is an opportunity. And I don't know whether it will happen or not.

Moderator: Thank you. Next question comes from the line of Shyam Ramakrishnan, an Individual Investor. Please go ahead.

Shyam Ramakrishnan: In the previous con call, it was mentioned that it was difficult to exit it might be difficult to exit FY '25 with a better growth rate than FY '24. So now that Q3 results are out, is there still any possibility that FY '25 could end better? Or is that a really optimistic view?

Manoj Raghavan: No. I think FY '25 will definitely be a soft year. We were hoping that these headwinds that we're seeing in automotive industry, we will still be able to find a way to recover. But with the Q3 performance, I think it will be very difficult for us to pull so much in Q4 to compensate for the flatness that we are seeing, right? So yes, it will be difficult, yes.

Shyam Ramakrishnan: And just one final question. Going forward, I think maybe next 2 years or 3 years, will the tax rate be upwards of 24%, 25%, is that the new normal?

Gaurav Bajaj: Yes, Shyam. I think the tax rate going forward would be upwards of 25%. As you know, there is no new approval happening on the increased rate units of India. So the remaining period for the tax holiday will continue for some time. So you can expect the tax rate to be upwards of 25%.

Shyam Ramakrishnan: Okay. Thank you. That's it from me end. Thank you.

Moderator: Thank you. Next question comes from the line of Kanchi Shah with MC Research. Please go ahead.

Kanchi Shah: So I had a question on automotive. So can you please guide us like how much does the U.S., Europe and Asia contribute to this market?

Manoj Raghavan: You're talking about geography contribution?

Kanchi Shah: In terms of revenue contribution, like how much are these geographies contributing to the automotive market, like since you have said that Europe is still expected to take time to recover. So Asia Pacific is doing great for you, so could you give us the break-up?

Gaurav Bajaj: We don't provide the numbers of the geo by business vertical. We provide typically the revenue mix from the geo at the company level, but we can give you a little bit qualitative answer – In the automotive world, most of the substantial part of the revenue comes from the Europe then followed by the U.S. and the APAC market.

But of late, as Manoj mentioned, and we also mentioned in our Press Release, the automotive market and especially the Western OEMs are under certain pressure. At the same time, we see an uptick happening in the Japanese market and the APAC market. So there is some movement that is happening more towards the APAC and the Japanese market, which gets compensated from the slowdown in the European market. But still the European market is a significant part of the overall revenue mix within the automotive.

Moderator: Thank you. Next question comes from the line of Sanjay Shah with Pranishta. Please go ahead.

Sanjay Shah: Basically, I just wanted to try and understand what is this relationship or the collaboration that you have set up with CSIR National Aerospace, and how big can the opportunity be? If you could just elaborate on that? Is there a possibility for you to partner with many other such enterprises within India or overseas for the UAVs and UAMs?

Manoj Raghavan: Sure, absolutely. So, as I said, we are building our Avionics and Aerospace and Defence vertical. And the tie-up with NAL is one such tie-up that we have, of course, for access to technology as well as access to their infrastructure and labs, right, especially when you look at UAVs and drones, flight control systems and so on. Some of the labs are very, very expensive to set up and so on.

Various companies like NAL, HAL, and others already had those infrastructure that is available. The tie up is definitely to, when we bid for projects, there is a need to have both technology and infrastructure in place. And we are trying to build that through collaboration with some of these organizations.

Sanjay Shah: Do you have a sense on what kind of an opportunity it could be in a few years' time? Let me ask it slightly differently. Just given the headwinds that you're facing and some of the participants have spoken about it, you've spoken about it, with respect to the automobile industry and also your initiatives in some of the other areas - if you could just elaborate on how Tata Elxsi of 3 years later would be as compared to where Tata Elxsi is in terms of its business mix?

Manoj Raghavan: So definitely, we see Aerospace, Avionics and Defence going to be a big opportunity area for us, not just in India, but also overseas. We talked about UAVs, drones, electrical vertical take-off right, eVTOL these are all very, very significant opportunity areas for us 4 years to 5 years down the line, when the technology matures. And so that is something that we are investing today. We have pretty ambitious plans there. I wouldn't want to put any number there. But if you ask me 4 years to 5 years from now, I think that piece of business will be a significant revenue earner for Tata Elxsi.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management of Tata Elxsi for closing comments.

Manoj Raghavan: Thank you, everyone, for attending the Q3 conference. We look forward to really working hard on Q4 numbers and coming back to you with better news in Q4. Thank you so much for your time.

Moderator: Thank you. On behalf of Tata Elxsi, that concludes this conference. Thank you for joining us. 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.