October 20, 2023

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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,

Sub.: Transcripts of the earnings conference call for the quarter and half-year ended September 30, 2023

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed the transcript of the earnings conference call for the quarter and half-year ended September 30, 2023, held on October 17, 2023.

The audio recording and transcript of the earnings conference call can be accessed on the Company's website at: https://www.tataelxsi.com/investors.

This is for your information and records.

Thanking you,

Yours faithfully,
For Tata Elxsi Limited

CAUVERI SRIRAM
Digitally signed by CAUVERI SRIRAM
Date: 2023.10.20 16:48:13 +05'30'

Cauveri Sriram
Company Secretary & Compliance Officer

Encl: As above

engineering creativity

"Tata Elxsi Limited

Q2 FY '24 Earnings Conference Call"

October 17, 2023

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

Moderator: Ladies and gentlemen, good day, and welcome to the Tata Elxsi Limited Q2 FY '24 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 this conference, 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, Tom. Good evening to all the participants on the 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 business risk that could cause further results 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 management of Tata Elxsi, represented by Mr. Manoj Raghavan, Managing Director and CEO; Mr. Nitin Pai, Chief Marketing and Chief Strategy Officer; Mr. Gaurav Bajaj, Chief Financial Officer; and Ms. Cauveri Sriram, Company Secretary. We will start the call with a brief overview of the past quarter by Mr. Raghavan followed by a Q&A session. We would appreciate your cooperation in restricting yourselves to two questions to allow participants an opportunity to interact. If you have any further questions, you may join the queue, and we'll be happy to respond to them if time permits.

Having said that, I will hand the call over to Mr. Manoj Raghavan. Over to you, Manoj.

Manoj Raghavan: Thank you, Shashank. Good evening, everyone, and thank you for joining us for the second quarter earnings call. Today, I'm happy to report that our revenue from operations in the second quarter stood at INR 881.7 crores, which corresponds to growth of 3.5% quarter-on-quarter and 10.1% year-on-year in constant currency terms. Our EBITDA margin for the quarter was just shy of 30% at 29.9%.

Our Transportation business unit grew at 6.9% quarter-on-quarter in constant currency terms. During the last quarter, we won a landmark, multiyear large deal in the SDV space, which places us as a strategic development partner for one of the global automotive OEMs.

In the Media and Communication business, we continue to see challenges in both the key geographies of U.S. and Europe. And in such a challenging environment, our performance has been quite satisfactory. Our revenue from the business has declined marginally by 0.4% quarter-on-quarter in constant currency terms. We continue to engage with our key customers in helping them drive efficiencies in current operations and also help them create new revenue streams for their businesses.

Our Healthcare and Life Sciences business performed well, registering a 3.2% quarter-on-quarter growth on a constant currency basis. During the quarter, we won a multiyear innovation and reengineering project of a critical care device platform for emerging markets.

I'm happy to share that in the last quarter, our industrial design unit crossed revenue of INR100 crores for the first time. The Industrial Design & Visualization business grew 4% Q-o-Q in constant currency terms.

From an HR perspective, talking about our net additions, we continue to invest in building a talent pipeline with a net add of 585 Elxsians in the quarter. So, we continue to invest in onboarding key resources. Also, our employee engagement and talent retention strategies have contributed to attrition further going down to 13.7%.

So, as we move into the third quarter, we carry the confidence of a healthy pipeline and some great conversations going on with our key customers. And I'll now hand over the floor to Shashank for the Q&A session. Over to you, Shashank.

Moderator: Thank you very much, sir. We have the first question from the line of Vimal Jamnadas Gohil from Alchemy Capital Management Private Limited.

Vimal Gohil: Thank you for the opportunity. Congratulations on a very strong comeback, especially in the automotive vertical. I'm also pleasantly surprised by the growth rates reported in health care. On the comms side, particularly, there have been some initial signs of revival in the semiconductor space globally. Semiconductor sales have picked up. Does that have any sort of positive impact on our comms vertical as a whole? Do we have some exposure there if you can just give us some sense? And I have one more follow-up after that.

Manoj Raghavan: We have a very small exposure to the semiconductor side of the comms vertical. A lot of our communications business is driven through either operators or telecommunication providers or the folks who make devices that go into the telecom market. So, these are the main focus areas for us. Yes, usually, there is a lag between semiconductor sales and general market pickup. So, I'm really hoping that what you say is true and maybe in a couple of quarters from now, we will really see the impact of that.

As of now, I think we don't see a great uptick, but we are having all those conversations with some of our key customers, a lot of deals that we are pursuing - we can't predict the closure. So that is why we're not able to give you a very firm update that, look, next quarter, things will really look up.

Vimal Gohil: Yes. So, sir, I just wanted some sense on the strong deals that we've had in auto. What would be the size over there? Any sense that we can get? And lastly, a question for Gaurav, could you give us the margin walk for the quarter? What was the impact of wage hike or what were the other tailwinds that we had during the quarter?

Manoj Raghavan: Sure. This was a pretty significant win for us. It's a new customer that we have been pursuing for, I think, 18 to 24 months. It's been a long pursuit, and we’re very happy to inform that we have been able to close the deal in our favor. And it’s a multiyear deal and a multimillion-dollar deal, a large deal in our perspective, which will definitely add to our automotive revenues in the subsequent quarters.

And more importantly, it's in a software-defined vehicle area, which is where we have also been investing significantly. So, it's a validation of all the activities that we are doing in that area. And this will also be a landmark deal for us to really take it to other customers in the auto OEM space.

Gaurav Bajaj: Vimal, this is Gaurav. I'm happy to share that our operating profit for the quarter increased by 4.8% on an EBITDA level and on a profit before tax level of 6.3% and on a year-to-year basis, it is 16.3% and 20.4%. I think we're able to drive overall optimization in terms of the cost and efficiency through various lever during the quarter. And this is in spite of the wage increase - Last quarter, we did only till the lower and the middle level. This quarter, we completed our wage hike cycle for the year, where we covered all the senior management and the executives of the company.

So, salary increase for the remaining management people for the quarter has a cost impact of 160 bps. If you also recall, last quarter, there was a partial cost towards the RSU, which was launched by the company last quarter. This quarter, we have a full quarter impact of about 50 bps compared to the last quarter. So, salary increase plus the ESOP has an impact of 210 basis points. The net adds that we have done in this quarter, including the tailwinds of the net add done in the last quarter, was largely offset by the utilization increase in the scale of the volume revenue growth plus the pyramid optimization.

So there, it can kind of optimize and offset against each other. So, 210 basis points from the salary increases plus the ESOP impact was largely offset by the other improvisations in the lever that we disposed of in this quarter, which includes the other expenses. So, we continue to optimize, rationalize our other expenses, be it travel cost, visa costs, sales promotions.

And we also significantly reduced our third-party contractors, because we now have good strength in our bench, which we have put to the billable projects. At one point at the last year, it was a bit of worry, because the attrition was high. Now attrition is also well under control. So that give us a lever in terms of rotating people third-party contractors with our own people.

So, including a reduction in the third-party and other discretionary expense optimization, we have a saving of around 120 bps. And also, there is a large cost increase in the last quarter towards various hardware tools, because there were certain deals, which we kicked off in the last quarter -at the end of the last quarter- where we need to significantly invest as part of the lab setups, other cost towards the tool, hardware and software.

Those get more or less normalized in this quarter, which gave us another 120 bps. So, this 240 bps of improvisation against 210 cost inflation kind of give you 30 basis points of improvement over the last quarter. And then - that is at the EBITDA level.

And then if you come to the EBIT level, there is an increase in the depreciation, because we added to our facility capacity that we are having since we are adding people, we are growing. So, we added a couple of facilities as required by the company to accommodate increase in the headcount since all the people have also started to come back to office. So, at EBIT level that almost knocks off all the pluses and minuses and we continue to operate at the same 27.1% of EBIT, what we operated in the last quarter.

So, with the revenue growth, that gave you almost 3.7% kind of quarter-on-quarter growth. This quarter, on other income, we have a significant gain due to exchange gain, which came positive. Our hedging strategy worked well in terms of protecting us not only from the downside, but also provided some kind of exchange gain. Also interest yield on our investment also helped us in terms of increasing our other income.

So overall, with the other income better from the last quarter at the profit before tax level, we're able to increase our profitability by 6.3% on a quarter-to-quarter basis and on a year-to-year basis by 20.4%. So, in spite of all the cost intake, including the wage hikes, including the RSU impact, we have other levers at our disposal, which help us to maintain our profitability and improve in terms of the absolute terms.

Moderator: Thank you. The next question is from the line of Ruchi Burde Mukhija from Elara Capital. Please go ahead.

Ruchi Mukhija: I have a couple of questions. Our industrial design revenue has crossed INR100 crores milestone, but how does this change your market position and does this open new scale opportunity for you?

Manoj Raghavan: Your line was not clear. So, the question was about industrial design, crossing INR100 crores. And if this is going to help us grow our revenues and what is the question?

Ruchi Mukhija: Yes, I'll repeat the question. Hope my voice is a bit better. So, with this INR100 crores milestone, how does our market positioning change? And does this help us being eligible for new scale opportunities?

Manoj Raghavan: Sure. Okay. So, I would say just about 3 or 4 years ago, the Industrial Design business was a very small business. Our run rate would have been INR30 crores, INR40 crores per quarter. And so today, I think we have invested significantly in the Industrial Design business. And happy to say that, look, that business has really scaled up. So hopefully, on a yearly basis, if you take it, we will soon reach about INR500 crores of revenues annually. So that's the first target that we have.

More importantly, design is such a critical differentiator for us from a margin lever perspective, from a positioning perspective and any large deal that we usually bid for, there is a significant component of design, and that capability definitely helps us position the company very differently as compared to competition.

So, I'm very happy that stand-alone that business is scaling. More important, the combination of design and EPD business is what will help us scale rapidly moving forward. And that is the focus of the company.

Ruchi Mukhija: Understood. In media vertical, you have mentioned that you are working in collaboration with clients to develop new offerings and partnerships. Could you please elaborate on this? What we mean by new offerings and partnership?

Nitin Pai: Yes. Ruchi, this is Nitin here. Maybe I'll take that question. Some of the partnerships are explicit. So, you'll find that we announced two significant partnerships just leading into IBC, which is the global broadcasting trade show. We announced a partnership with INVIDI, which is the world leader in targeted advertising. What they do is essentially provide technology for targeting very specific subscribers, especially in the video, OTT as well as digital video ecosystem to deliver ads.

So, the idea here is really that we are seeing the shift in OTT from subscriber-driven to advertising driven. And we believe that this will be the new revenue opportunity and the monetization opportunity for both broadcasters, who are running D2C businesses as well as operators, who are running an aggregation service for video.

So, what we're looking at essentially is saying, look, there are two tracks that you can work with operators and broadcasters for. One is efficiency driven, which is to look at what are you spending money on now, how much of that is engineering driven, how do we help you through a combination of talent, capability products and offshoring, help you get to be even more efficient.

I think the second strategy that we're deploying is growth and customer experience. The customer experience part will be driven by design and the growth part or revenue part for customers will be driven by how you monetize the services better - can you look at ad deliveries, can you look at things like FAST, which is the free ad-supported television?

So essentially, those are the partnerships that we're crafting especially in the Media and Communications vertical. Of course, what we have not declared to the market is the partnerships that we're crafting, especially with semiconductor vendors as well as hyperscalers that fuels some of the digital engineering that we're doing for SDV, for connected medical devices and so on.

Ruchi Mukhija: Understood. So, will there be a growth mover, let's say in 12 months or shorter time or you see this scaling up very gradually and will take its own time?

Nitin Pai: Yes. So Ruchi, the partnerships are not meant to deliver immediate deals. I think they are a fundamental positioning tool. Because what you're trying to do is trying to make sure that you're relevant in the context that is changing for our customers. So, what's happening in the telecom industry is fundamentally you're being challenged for revenue, you're being challenged for growth.

And therefore, you either had to focus on efficiency or on new revenue streams. And I think we are doing both in different measures. On the revenue streams, we are partnering. On the efficiency, I think we are the best in the business.

Ruchi Mukhija: Understood. Now coming to the large deal in the auto segment. As my understanding, in your view, incremental work was the way to go and scale the customer. But this deal sounds like an exception to this trend. So, do you see these kinds of deals being more in the market compared to past trend? Or this was a one-off unique situation where you could break through with a large deal in a new client?

Manoj Raghavan: I think there's no one answer there. We do a mix of both types of deals. There are such large deals that sometimes when we go for a new customer, there is a pursuit that goes on and we close such deals. We also have deals wherein there are consolidation opportunities where it's more about how you can bring value proportions to customers based on the capabilities that you have, right, especially from an offshoring perspective.

And how can you take a larger pie of the current outsourcing from the customer. So, you have both type of deals that are available. And the good part is, yes, there is a portfolio of such deals that we are going after. And then as I said, this deal took a long time. So, some of these large deals are not closing like earlier where it used to get closed in 6 months or 8 months.

Sometimes it takes 12 months to 18 months also for closure. But yes, but we have to be patient and to be focused on our objectives and especially when it is critical for us and an important customer to have, I think we have a very good track record in such deals.

Nitin Pai: So Ruchi, maybe I'll just add to what Manoj said. I just want to call out an important difference. You can think of in the IT context, renewal deals, where the contract given out to one vendor and when the contract period is getting over, you call out for a whole set of new vendors and look at who can do better.

But typically, who can do better is in terms of cost. The kind of entries that we are talking of are strategic entries where we are not replacing somebody else. We're getting all new because the customer is moving to an all new.

So, in that sense, there is a critical difference between the kind of entries we talk of vis-a-vis a classical IT situation of a renewal deal where you may come in cold and win simply because you're delivering the best cost on the table. And I just wanted to leave that with you.

Ruchi Mukhija: Got it. That's helpful. The last one, we just heard your...

Moderator: May we request you to please rejoin the queue for follow-up questions. We have the next question from the line of CA Garvit Goyal from Nvest Analytics Advisory LLP.

Garvit Goyal: Congratulations on a good set of numbers. I have two questions. One on the media side, you mentioned we are closely engaged with key customers. So, can you give some color like for how many quarters this slowdown is likely to continue, based on whatever communication we do have with those customers?

Manoj Raghavan: It's very difficult to tell you how many quarters and so on. But I would say, there are fairly positive signs in some of our customer discussions. There are deals in the pipeline. And we hope that we'll be able to show some kind of growth over the next half year, I would say. But again, it's very, very early times. And so, I would be a little conservative on the Media and Communication side in H2, but we are closely working with some of our key customers.

There are opportunities that we are going after. And definitely as compared to, say, the beginning of Q2, I would say, beginning of Q3, we are in definitely a better shape as far as deal pipeline and the opportunities that we are chasing. So that gives me a little bit of confidence that look, yes, things could be better for us in the H2 from a Media and Communication perspective.

Garvit Goyal: Understood. And sir, secondly, on the overall business perspective, so considering this lower growth in other two segments. So, is it fair to assume this financial year is likely to end with lower double-digit kind of growth in top line? Or do we expect something good as compared to first half to improve our annual growth?

Manoj Raghavan: So, every attempt will be made to continue the growth and improve on what we've shown in H1, right? So, though we don't give projections and so on, the focus for us as a management team is to see how we can better our H1 performance.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Can I just ask the cost relating to ESOP? Is it already provided for, or is there something more to come?

Gaurav Bajaj: It has already provided for. I mean, the way the accounting happens for the ESOP, basically the cost expected out of the grant option gets amortized over the vesting period. Last quarter since grant was only rolled out in the month of June, it was a partial quarter impact. Since this quarter, we have had a full quarter impact, but that is already part of the financials for the quarter.

Sanjaya Satapathy: Okay. So, this kind of a quarterly expense will continue for next quarters as well?

Gaurav Bajaj: Yes.

Sanjaya Satapathy: Okay. And sir, the other question that I wanted to ask you is now that you have come out of this SEZ and you're full tax paying now, is there any kind of such investment opportunity available to you to kind of plan for tax going forward?

Gaurav Bajaj: No. We continue to explore and evaluate what are the possibilities and opportunities available. But please remember that government is not approving any new exemption for the IT purpose for the SEZ. So, we have to wait and watch if there are any new schemes and the policy of the government comes out. But otherwise, we expect our ETR to continue at the rate what we have delivered in the last two quarters for the rest of the year.

Sanjaya Satapathy: Yes. And sir, last question is considering the new kind of deals that you are signing, and you are also starting to have centres outside of India, will your mix of offshore to on-site change meaningfully from here or it will stay around this level?

Manoj Raghavan: No, I think for Tata Elxsi, we are known for our offshore execution and our entire processes and systems are built around delivering value from best cost countries, and our business model is also not about manpower, augmentation, on-site and so on. Over a period of time, we have really been able to move more work offshore and do a lot more development activities from our centers in best-cost countries. So, I think that will continue. I don't see it moving back in a hurry to the pre-COVID times. There could be minor variations here and there, but our main business model is around our offshore execution. So that will continue.

Sanjaya Satapathy: And your deal pipeline macro areas are looking pretty good because you are one of the few companies that has added employees again in this quarter.

Manoj Raghavan: Yes. So that continues, that shows the confidence that we can't take any shortcuts in our business, right? Because our business is all about people - even if in certain areas, you don't have full confirmed visibility, you need to go ahead and invest based on your business plan and what you have. So, we are sticking to our business plans. We're sticking to what we have laid out at the beginning of the financial year. There will be all these quarterly pluses and minuses from a revenue perspective, but from a resourcing perspective, we continue to go ahead with our original plan, because we're confident that, look, we are on the right path and the investments that we're making in our people will definitely yield us results in multiple ways once the economy picks up and so on.

So that's been our focus. And we are one of the few companies who are already going out and we are talking to colleges and we are rolling out offers for the next year. So, we continue to be focused on all of those activities.

Moderator: We will proceed with the next question, which is from the line of Ajaya Jain from Astute Investments. Please go ahead.

Ajaya Jain: TCS has recently signed a $1 billion deal with Tata Motor JLR. How is it affecting us? Or is it coming into our area of operations?

Manoj Raghavan: No. To the best of my knowledge, it's not in our area of operation. It's primarily on the IT and the manufacturing support side. So, I think it's a great deal, but it doesn't affect us.

Moderator: Thank you. The next question is from the line of Ruchi Burde Mukhija from Elara Capital. Please go ahead.

Ruchi Mukhija: So, we've heard from one of your larger peers about likely possibility of volatility in the coming quarters given the geopolitical situation developing in Israel. Do you see any effect in your early experience of this through a client going slow on conversation, decision-making? Is this something that worries you in the near term?

Manoj Raghavan: We don't have an exposure to Israel or any country there. Of course, we have a small exposure to Dubai and Middle East. Having said that, it is pretty early. So far, we have not heard anything negative from our customers based on this. But if this spreads right, if the situation becomes volatile and if this war spreads, and there is a spike in fuel rates and all of that, associated foreign currency fluctuations, all of that could impact our business in some way.

From an end customer's point of view, it's too early. We've not heard anything so far. But I mean, if this spreads, I'm sure that there will be an impact, and it's hard to quantify that at this point in time.

Moderator: Thank you. The next question is from the line of CA Garvit Goyal from Nvest Analytics Advisory LLP. Please go ahead.

Garvit Goyal: I just want your opinion on healthcare segment, like it shows some sign of recovery in this quarter. So how do you see the segment for upcoming quarters?

Manoj Raghavan: Again, I think some good deal wins and some positive news, especially after a couple of quarters of relatively flat performance, I think we have been able to grow our healthcare business. That is definitely positive. So, all the initiatives around our digital space and connected health and so on, that's really helped us win new customers. Having said that, yes, there are a number of deals that currently we are talking to customers and so on.

And as I said, the medical space divisions, it takes time, especially those large engagements and projects. The decision-making process is pretty long. And that continues. There is definitely a number of deals that are under discussion, but it's very difficult for me to comment at this point in time whether that will all close in the coming quarters. We are pretty hopeful, but I would still be cautious, I would say, next two quarters, and we will see the trajectory. We will see how those deals move forward. And then accordingly, we will act.

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

Bhavik Mehta: Manoj, can you talk about how the decision making by clients has evolved, last time, when we spoke in July versus now? Has there been an improvement or as a status quo, or have you seen some more deterioration given the macro across few verticals?

And secondly, any impact of this strike in the US by UAW, the auto union, on your clients and your projects? Because this has come up only a couple of weeks back, so any impact we could see for your clients in the auto vertical in the US? Thank you.

Manoj Raghavan: Yes. Thanks, Bhavik. So, I think if you look at it segment wise and so on definitely in the automotive business, we see continued traction. We definitely continue to see closures. We continue to see large deals, pipelines. So yes, some of these decisions are taking longer. There is a lot more commercial scrutiny. There's a lot more due diligence that is being done.

But at the same time, customers are taking decisions. It's not as if decisions are getting postponed indefinitely. They are taking decisions. There could be occasional deals where it slips by a quarter or so. But in general, I think deal pipeline, the conversions are happening at a healthy pace in the automotive segment.

In the media and communications space, I don't know whether to call it green shoots or not, but we do see slowly some confidence in our customer discussions and so on. But again, I would want to wait for a quarter or so to really see whether this impacts the growth. I've already answered the healthcare piece in the last question.

So, I would say, overall, especially given all the macroeconomic uncertainties plus the war and all this happening, I think we've done well to be where we are, given all these uncertainties, and we continue to invest in our people.

We continue to invest in providing solutions that is of interest for our customers, right, especially what Nitin talked about in the AdTech space in the Media and Communication vertical and so on. We continue to see, what is relevant for the customers and proactively make those investments so that we are always in the line of sight for our customers. So that's been our focus. And there's enough moving parts that are available for us to continue to be optimistic about H2.

Bhavik Mehta: Okay. Got it. And second question of any impact of the UAW strike in the US, any conversations with clients regarding that, which could have led to some project pauses or deferrals?

Manoj Raghavan: There have been some delays in closure of projects and so on. But I'm not sure if that is because of UAW or because of anything else. No customer has talked specifically about UAW and its impact. But it's an evolving situation. We'll have to wait and watch. This quarter, we will know exactly the impact.

Nitin Pai: Bhavik, this is Nitin here. I would call out a parallel to the semiconductor shortage. So, if I look at semiconductor shortage leading to the delays in supply of vehicles to the market, union strike would have the same impact, which is to delay production and therefore, supply of vehicles. I'm just drawing a parallel that the semiconductor shortage did not stop us.

Bhavik Mehta: Got it. And lastly, any early signs in terms of what are you hearing from clients on furloughs for the December quarter? Are they expected to be higher or lower? Or as of now, it seems like it would be similar to last year?

Manoj Raghavan: It could be similar to last year. There could be some impact on Media and Communication vertical. But otherwise, nothing unusual that we will have an extended furlough and so on. We've not heard anything of that sort from our customers. So, fingers crossed because we know it is a short quarter. It's also a difficult quarter, especially from furloughs and a number of working days and so on. But we have done our internal planning. So hopefully, we'll be able to mitigate that exposure that we have.

Bhavik Mehta: Thank you and congratulation on a good execution.

Manoj Raghavan: Thank you.

Moderator: Thank you. We have the next question from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

Nilesh Jethani: Yes, hi. Thanks for the opportunity. Sir, my question was on the strike itself. Just wanted to understand, is it client specific in Europe where a couple of clients or a couple of players, who are facing this, and we were not present there, is that a scenario? Or in general, you don't see impact of strike on our business, which is more of ER&D media?

Manoj Raghavan: The strike is in the US, not Europe.

Nitin Pai: And I think like you said, because we are leading, which is the fact that, what we're doing is helping design vehicles for one years, two years, three years, four years, five years down. So, to that extent, sales and production, unless it has a direct impact on long-term, it does not have a big relevance; if it goes on for long and therefore starts to affect revenue significantly and therefore starts to look at discretionary spend and so on, we believe at this time, it is not relevant.

Nilesh Jethani: Okay. Got it. And second question was on deal wins to revenue conversion. So, a lot of peers, of course, not in the ER&D side, but mainstream IT services have commented that deal wins may have a laggard or a lag impact on the revenue going forward. So given our strong deal wins, I see many of read-throughs in the presentation for automotive segment, are we of the same camp where we believe revenue recognition would be delayed? Or do you believe normal course of business action?

Manoj Raghavan: A chunk of this quarter's growth has happened from the deal closures that we have closed in last quarter and the previous quarter. To that extent, each deal is different, and I don't think that we will have a trajectory like what you've seen with IT companies. It will be a normal trajectory. And typically, what happens is, while you win deals and you close and you move forward, certain projects that come to a close. So, are you really covering up for all those revenues that go away, because you have completed certain projects? So that is a critical point of planning that we do internally to ensure that even while projects/deals come to a conclusion, there are enough items in the funnel and enough deal closures that can really take up that the engineering resources that were occupied in those deals who can be moved to these new deals, and that's how we operate.

Nilesh Jethani: Got it. And then last question from the margin perspective. Just wanted to understand the little softness in the media space, etcetera. Do we expect margins to remain in the similar trajectory? I'm not asking for an exact number, but color on the same or the other businesses have capability to drive margins from here on also?

Manoj Raghavan: Margins, if you have seen, right, as compared to last quarter, in spite of all the employee costs due to salary hikes and ESOP costs, number of costs that have come in, we have been able to mitigate all of that, right, in spite of Media and Communication being pretty flat. So, we've modelled our business around that. And so, we are pretty comfortable where we are.

Nilesh Jethani: So, during COVID times, we saw margins in the range of 30% odd. So, 27%, 26.5% is the new normal now, that is the understanding?

Manoj Raghavan: Yes. During COVID, it was a different situation as all of us know. A lot of costs were not there, including travel and business expenses and even facility costs and so on. So that was unusual. We are doing pretty well where we are today. And we have taken into account all the salary expenses and all of that. And as we grow our revenues and as we look at the utilization levers, we have enough levers still available for us to mitigate any impacts that come up.

Gaurav Bajaj: We are reasonably placed, Nilesh, in terms of the margin profile. We can continue to make the right investment that is required for the people, technologies and developing new offerings. At the same time, there is a lever in hand in terms of the pyramid rationalization, utilization expansions and all.

And the last two quarters has been a testimony to that in spite of all the salary increases, as Manoj alluded, and all other costs, we're able to still mitigate and maintain our margin profile. That's the beauty of our operating model and connecting back to the verticals, some quarters, some verticals will fire. That's how we have de-risked and diversified our portfolio in terms of having enough immunity in terms of all such kinds of ups and downs.

Nilesh Jethani: Okay. That's really commendable and thank you so much for replying for each question.

Gaurav Bajaj: Thank you.

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

Salil Desai: Hi, good evening. My question was on the client concentration mainly. We are at almost 44% in the top five, how would you see this shaping up going forward maybe in the next two years, three years? Is there any conscious attempt to either increase it or to reduce it?

Manoj Raghavan: No. So, our focus would be to definitely look at growing the top 10 and the top 20 customers, right? So, we are not necessarily only focus on the top 5 customers. Top five customers are important, because they bring us volume, scale and we have a far stronger management connect with those customers. So, we'll continue that, because a lot of the growth of the organization comes from these top 5 and top 10 customers.

So, moving forward, two years to three years down the line, it's very difficult at this point in time to say that, look, we have to maintain this and so on. But as we grow, definitely, the top five and top 10 percentages will come down relatively. That will be the focus for us.

Salil Desai: But no deliberate attempts to work on this?

Manoj Raghavan: No deliberate attempts.

Salil Desai: Great. Thank you very much.

Moderator: Thank you. We have the next question from the line of Akshay Ramnani from Axis Capital. Please go ahead.

Akshay Ramnani: So, this was about scale of customers in the auto vertical. We've seen tremendous success with JLR. If you were to take a look at your clients from a scale perspective, how many strategic customers would you think you have in your current portfolio for OEMs or Tier 1 suppliers to get to the similar scale or higher what JLR is currently at?

And what would be the service areas be like for them to drive scale in those accounts? So, is it going to be more from SDV side, connected side or electrification side? So, if you can help us understand that arithmetic there.

Manoj Raghavan: If I understand your question right, you're asking, how will we scale?

Nitin Pai: So maybe I'll take that, and maybe Manoj, you can add on top. If you look at the portfolio of customers that we have in auto, we have enough customers, who represent the scale and size of JLR, because how you have to think about JLR is, here is a customer, here is an OEM. This is the kind of work that they do. This is the kind of technology that they deploy to the market. And in terms of market share and size, this is where we are.

So do we have customers, who are bigger than them, who represent much more scale, definitely, yes. Do you have an intent to grow some of them and hopefully all of them to sizes equal to JLR and more, yes. And that's the path we are on. So, I can be very frank about that. There is a whole set of customers, who have the same capability to scale as JLR can. But of course, it takes time. You need to build that strategic relationships and intent.

In terms of service areas, the way I see it, SDV is an overarching concept. But ultimately, if you break it down within, you will still have connected, you still have autonomous, you still have electric, because these are foundation pillars for what SDV will be built on. SDV will then further add an architectural layer, hardware aggregation layer and off-car data layer. So, in our view, everything that we do is absolutely aligned to where the industry is going.

Akshay Ramnani: Got that. And Nitin, maybe if you can also add some flavor of timeline. So, for your customers - what is the time horizon to complete all of the SDV programs, the autonomous program, the reimagining of architecture inside the car? What are the customers' average duration timelines for completion of such projects in their models?

Nitin Pai: Yes. So, Akshay, that's the interesting part, right? I think we are set for a fairly long-term transformation path for automotive. There is no one right answer, first of all. Everybody will experiment. And part two, there is no one right answer that will last forever. So, there's no one architecture that will be valid, let's say, five years down.

So that is why you will find generations of architectures that will come up, each of them being fuelled by what is the state of technology at that time, what is the state of compute and hardware at that time and what is the state of connectivity and what you can offload to the cloud, what we can do at the edge.

So, in my belief, we are in for a cycle where there are going to be three pivots, four pivots of the architectures for cars as you talk of SDV. So, there is no one single ideal architecture and the question only is about how fast do you get there? And that is what makes automotive so interesting.

Akshay Ramnani: Why I ask this is because auto industry is used to reusing and recycling the platforms they build, so that was the intention of that question, but I get your point.

Nitin Pai: Right and I think, I'll add one more item to that, just to clarify. The other big difference that's happening with SDV is the fact that the car is connected means that you don't want to reuse to the extent that, okay, I've done this now. I don't need to do anymore. I think the whole point of SDV is, now that you have software, everything is software controlled, how do you drive innovation week by week? So automotive customers are now going to think like an Apple and Google, which is what features do I deliver this week, what features do I deliver next week.

Akshay Ramnani: That's very helpful. And the next question is for Gaurav. So, Gaurav, other expenses declined sharply this quarter and you explained it very well at the start of the call. But the question is more that this line item has been declining for three straight quarters and continues to be very volatile. So, from a sustainable basis, how should one think about this particular item?

Gaurav Bajaj: So, this has been declining. I think it has been a conscious effort from the company perspective in terms of optimizing some of the costs. There was a sharp increase immediately after the COVID related closures was open and all those things. But I think we have made all the effort in terms of variabilizing all the cost in tune to the scale of the business and wherever possible, optimize those costs.

This also includes the third-party contractor cost, which was heightened during the time of the COVID, and entire supply chain disruption was happening. So now with the bench strength that has been built by the company over the last few quarters with the trained people available, we are gradually declining our dependence on the contractor and rotating with our own people, which helps in terms of managing our people cost also and reducing some of the other costs, other expenses as well.

And also, I think this quarter, we have some collections and provision for doubtful debt reversals, which is a small amount, but I think, we would be able to sustain as a percentage to the other expenses as a percentage of revenue for the coming quarter. I think especially with the growth and the scale that we see in the coming quarters. So, I think we believe it is quite comfortable, and we are confident that we'll be able to deliver it at this level.

Akshay Ramnani: Got it. Can you please quantify that provision reversal, if possible?

Gaurav Bajaj: It's a small amount, but yes, it adds up. It's maybe 0.2%, 0.3%.

Akshay Ramnani: Got that. Thank you and best of luck.

Gaurav Bajaj: Thank you.

Moderator: We have the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Yes. Good evening. Thanks for taking my question. I have a question for Nitin. Nitin, you referred to the two tracks earlier in the Media and Communication vertical. So just wanted a sense on between the efficiency driven track that you referred to versus the second track of customer experience and monetization, do you see any change in either of those segments, say, from how the pipe was looking at the beginning of the quarter versus now?

Nitin Pai: I think it will be a little too early to say, Apurva. In the sense that if you look at it, on one hand, there is a big play of digital and AI in both tracks, because you can drive efficiencies through use of AI and digital. Also, all the new revenue streams that you're talking about are also predominantly technology and AI driven. I think the point that Manoj made, I think I'll use the same words. I think we are seeing green shoots of a lot more conversations and a lot more relevant conversations that promise to be deals. Now I think it will be still too early to say whether this will have an impact in Q3 or we have to wait a little longer.

Apurva Prasad: All right. Got that. And just finally, the headcount addition, Manoj, how should we expect that for the next two quarters and run rate as this quarter?

Manoj Raghavan: We're not stopping our hiring engine. So that continues to go along. So that will be, of course, plus, or minus, but we will continue to add people.

Moderator: Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.

Tushar Bohra: Thanks for the opportunity and congratulations to the management for an excellent set of numbers. Sir, in terms of the diversity, in terms of domains, can you highlight work being done in, say, space side in offshore and aerospace and things like that, which are still not yet categorized separately, but management is highlighting that at some point, we will do so.

Nitin Pai: Yes. Maybe I can take that, Tushar. I think if you look at it, our hands are full at this time with automotive. So, if you look at four years back, even before COVID hit us, we were starting to see certain signs of stress in the automotive sector, because everybody was pouring money into areas and things that they should not logically be doing, including shared mobility and so on. So, we believed that there was going to be stress and we needed to de-risk. And the de-risking at that time was taken very clearly with the view of rail and off-road vehicles being the more stable, mature, if not as large, industries to go into. I think we have done very well in ramping up there. But the problem that we have now is that the demand in automotive is so much that it is consuming everything that we can add. So, to that extent, we are actually starving some of the areas we already are in, just to be able to fuel the growth that we need in automotive.

Aerospace, I think we bring all the right capabilities, because if you look at ingredients of what is needed in terms of software, in terms of machine critical capabilities, in terms of failsafe systems, we bring everything that is right. If you look at the kind of work that we've done for ISRO or HAL and so on, you will actually find a demonstrator. But is it worth getting our feet and jumping in deep into the aerospace pool, we are not so sure as yet. So right now, I think it will be a little bit of a dipstick model in aero, because we need to be very clear that we'll not only be able to get in, we'll be able to scale and differentiate. I think we are always very careful about qualifying those two parts. So, I think it will be a little bit of a skunkworks for a while.

Tushar Bohra: Second, sir, in terms of the disruptive components or I will say that technologies, which have the ability to accelerate like using meta, for example, virtual and augmented reality or the generative AI piece of it, if you can highlight anything meaningful qualitatively or quantitatively in terms of number of conversations or nature of conversations? Or how are you able to come up with some differentiated assignments, something that gives a view as to the next two, three years, how things could be for the company?

Nitin Pai: Yes, I just don't want to generate auto text on the subject. I think I'll simply put it this way. As Tata Elxsi, I think we're very, very focused on identifying trends that we believe will pick up. If not one year, maybe two years, three years, four years. So, we look at it in horizons. And in that sense, AR and VR is something that we've been doing from 2016. And you'll find press releases as old as that in terms of a tie-up with Unity to transform what will happen with verticals in AR/VR outside of gaming. Because we said, look, we don't want to go into the mainstream piece. We want to look at what we'll do for everything else. If you take AI, you will find that we announced our own autonomous car technologies right from 2014. We won large programs in 2017.

So, the point I'm trying to make is that you can take any technology line, AR, VR, metaverse, you can take cybersecurity, you can take AI. AI is now taking the form of GenAI. You'll find that our investments actually date back to at the least three years, most likely, more like five, six, seven years. GenAI, I think it's just the latest piece on the bandwagon.

I think the interesting part about GenAI is that it's all-pervasive, because it seems to have an impact on almost everything that is being done, especially if it's related to text image and voice, primary impact on customer experience and marketing, but then further into operations and product development. So, we have POCs going on. We have pilots going on. We have conversations going on.

Manoj Raghavan: We have projects also going on.

Nitin Pai: But to start projecting that as the future, I think I would hesitate.

Moderator: Thank you. We will now take the last question from the line of Santosh Kesari from Kesari Finance.

Santosh Kesari: Sir, I just had one question, and that was whether Tata Technologies is coming up with an IPO.

Manoj Raghavan: Yes, they are.

Santosh Kesari: So, basically I wanted to understand what's the difference between the line of business you're in and the Tata technologies?

Manoj Raghavan: Your question is about how Tata Technologies is different from Tata Elxsi?

Santosh Kesari: Yes. I mean that.

Manoj Raghavan: Tata Technologies has always been there for many years. It's just that they are showing their IPO hopefully in this quarter. I think Tata Elxsi is very clearly a design-led embedded engineering organization, focusing on product designs. Tata Technologies does a lot of work, including mechanical, PLM, ERP and so on and so forth.

So yes, there are some complementary skills within both the companies. We have common customers and also occasions where we bid together on some projects. So, to that extent, I think they are a great company. However, their areas of operations are very different from what Tata Elxsi does.

Santosh Kesari: So, I can say that you are in high-tech engineering and they are into exclusively automotive customers, into ERP and production and factory-led engineering.

Manoj Raghavan: Yes, PLM and so on and so forth. Yes.

Santosh Kesari: Okay. Thank you so much, that was my only question.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Manoj Raghavan: Thank you, everybody. Q2 has been, I think, an incredible performance given all the macroeconomic uncertainties and the challenges that we've had. And definitely, I would like to thank all the Tata Elxsians, who have contributed to bring this growth. As a management team, we are focused and to see that we continue this performance and the growth trajectory. So, our laser sharp focus will be on to see how we can grow H2 over H1. We are confident on the strategies that we have and we're confident on the direction that the company is moving. So, with that, I would like to conclude here and would look forward to interacting with you again at the end of Q3 results.

Nitin Pai: And we'll, of course, wish everybody a very, very happy Navratri.

Manoj Raghavan: Yes, I wish everybody a happy Navratri, Dasara and enjoy all the holiday season. Thank you so much.

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

[Audio recording of Q2 Earnings Conference Call]

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