



“Tata Elxsi Limited
Q3 FY '25-'26 Earnings Conference Call”
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MODERATOR: MR. SHASHANK GANESH – ERNST & YOUNG

Moderator: Ladies and gentlemen, good day, and welcome to the Tata Elxsi Limited Q3 FY '25-'26 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 and 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 E&Y. Thank you, and over to you, sir.

Shashank Ganesh: Thank you, Dorwin. 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 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 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. Sneha V., Company Secretary.

We will start the call with a brief overview of the past quarter by Mr. Raghavan, followed by a Q&A session. We would appreciate your cooperation in restricting yourself to two 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. A very good evening to all of you joining today for the Q3 '26 investor call. At the outset, let me wish you all a healthy, happy and prosperous new year 2026. I'm happy to share with you that in the third quarter of FY '26, Tata Elxsi delivered a healthy performance, growing 3.2% on a constant currency basis over the previous quarter. This was largely volume-led, resulting in better utilization and operating margins.

Our transportation business, which now accounts to more than 55% of our overall revenue, grew 7.7% quarter-on-quarter. This growth was led by accelerated ramp-ups in SDV-led OEM deals won earlier in the year, and also normalization of work streams and programs with a strategic OEM client that was impacted in the previous quarter.

Our Media and Communication business registered a marginal decline of 0.3% quarter-on-quarter. This was largely due to some seasonal furloughs in the last 1 to 2 weeks of December and delays in some deal awards and paperwork. We have continued ramp-up and a strong foundation with the large deals we won in the year for this business, tractions with our renewed offerings and a healthy deal pipeline.

Our Healthcare and Life Sciences business has bottomed out in the quarter with the runoff from the end of some large regulatory programs. Our investments in future-powered, GenAI-powered regulatory workflows is seeing market success with multiyear deal wins during the quarter. We've also seen strong new customer additions throughout the quarter and year, and we're confident of bringing back growth in this business starting Q4 FY '26.

During this quarter, we performed well in key geographies of the U.S. and Europe with broad-based growth across key accounts and verticals, while India did see impact largely from the business from automotive suppliers. Our EBITDA margin improved by 220 basis points to 23.3% in the quarter, backed by operational excellence and improved utilization in line with business growth. Our PBT improved 200 basis points to 24.2%. This excludes a one-time exceptional item due to the new labour code.

Overall, I'm pleased with the performance and resilience in revenue, margins and customer additions throughout the quarter. We are entering the last quarter of the financial year with a commitment for growth and confidence in our design-led and AI-enabled engineering capabilities.

Thank you, and over to you, Shashank, for the questions.

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

Bhavik Mehta: Thank you. A couple of questions. Firstly, on the auto vertical. Obviously, the growth was very strong this time mainly because of ramp-up of the previous won deals. But how should we think about the momentum sustaining going forward, based on the pipeline you see currently and the conversation that we are having with the OEM clients?

Manoj Raghavan: So Bhavik, yes, thanks. I think we've been working really hard on building the momentum in automotive industry. So the good part is a lot of things came together this quarter, and we were able to show the strong growth. It's not just automotive customers or automotive OEMs, we have been able to leverage on the large deals that we have won and really accelerate some of the deployments.

At the same time, we've also really opened up some off-road and adjacency businesses for us. That has also helped us in the quarter. So I think we definitely expect steady growth moving forward. We're really looking to see accelerated momentum in the next financial year for the transportation business for us. I think we are working hard, and we're pretty confident that we will be able to have a sustainable growth for us in the coming financial year.

Bhavik Mehta: Okay. Got it. That's helpful. Secondly, just on the margins. Gaurav, can you just highlight what are the utilization levels we're operating at right now and where this can go with growth momentum sustained in auto as well as if growth comes back in telecom and healthcare? I'm trying to understand where can the margins go back to in the next few quarters?

Gaurav Bajaj: Sure, Bhavik. I think on this quarter, we got a 35 basis point kind of benefit from the exchange. I think our operating leverage has been improving, including the utilization. We

have been saying in the last few quarters that once the revenues start to go and demand comes back, the utilization will start to improve because we have the installed capacity, which we don't need to augment further. So that is coming into the play and helping us in our bottom line.

We get almost 200 basis point uplift from the operating leverage, including from utilization point. Other expenses also continues to be cautious, with our cost-discipline behaviour that we are driving within the organization leading to another 80-85 basis points kind of margin upliftment.

If you add all the positives, it comes to almost 310 basis points. From that, we have done a wage hike for our junior domain staff during the quarter, which has a compensating impact of 110 basis points, which makes almost 200 to 210 basis points of a positive movement in the bottom line.

Having said that, I think we continue to drive the operating model in terms of how we used to do it in the past. We believe there is still scope and runway to improve our utilization further as we see the demand coming back in the subsequent quarter.

I cannot commit in the short to midterm, but we are very positive that we can go back to the margins that we used to operate at maybe by the exit of the next year. But I think everything seems to be positive. We are confident that we will be able to move back to that trajectory where Tata Elxsi used to operate.

Bhavik Mehta: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Debashish Mazumdar from Svan Investments. Please go ahead.

Debashish Mazumdar: Good evening to the management team and very good quarter, congrats on that. So I have a question on the transportation vertical. The 7.3% kind of growth that we are seeing quarter-on-quarter, can we get a qualitative breakup that how much is because of the anchor customer coming back and how much is because of the growth in the other customers? And what kind of growth you are seeing from the ramp-up of the incentive on deals?

Manoj Raghavan: Yes. So there are multiple factors, as I discussed in the earlier question. Of course, it is the ramp-up with large deals that we have won. Of course, as we reported in the last quarter, one of our customers had an issue. And in this quarter, we had some accelerated ramp-up of the deals that really were put off from the previous quarter. That actually has helped us. And apart from that, we have growth from our adjacency business. So I would say all 3 of that put together has really helped us to show this good growth for the automotive sector.

That's the confidence that we have look moving forward and moving to the next financial year; we believe we are on the right trajectory, and we should be able to leverage the capabilities that we have built, the teams that we have built, the sort of investments we have made in our platforms and products. I think all of this gives us the confidence that automotive should really help us accelerate our growth rate for the next financial year.

- Debashish Mazumdar:** If I just connect your transportation growth and Europe growth and top 5 customer growth, it seems to be a large part of the delta in this quarter-on-quarter 7.3% growth is driven by the anchor customer. Is my understanding correct? Or it is equally distributed between the 3 segments that you have just explained?
- Manoj Raghavan:** If you look at the top 5 or the top 10 accounts and so on, what we've also been saying is that we have seen a lot more automotive customers come into that band, especially because of some of the large deals that we have won and how we have been accelerating. So yes, I think it's a combination of multiple of these large wins that are really accelerating our top 5 and top 10 customer base.
- Debashish Mazumdar:** Okay. And Y-o-Y, the transportation vertical is still not back to the previous levels. So is the anchor customer is back to the earlier trajectory or it is still like 1 or 2 quarters away?
- Manoj Raghavan:** No, we're still not up to the previous run rate. So still, as you rightly said, we have maybe a quarter or so more catch-up to happen, quarter or 2. So I think that is also something that we are working on and seeing how we can accelerate that.
- Debashish Mazumdar:** Sure, sure. One last question, if I may. If you see the geographical performance between Europe and rest of the world, it seems to be the 2 new OEMs that you have - one is out of Europe and one is out of Japan. The Europe customer has kind of fired up; the Japan customer has still not fired up. Is my understanding correct? And if that is the case, can you give me some trajectories of these 2 new OEMs that you have won recently?
- Manoj Raghavan:** So you're right. I think the European customers, we have been able to ramp up. The Japan customers actually, we have ramped up the previous quarter, it's not as of that customer has not ramped up. We've already ramped up. And I think we are at a phase of consolidation, and eventually moving forward, there will be additional activities that we'll get involved in. So we can't look at it from a 1 quarter perspective.
- Debashish Mazumdar:** Sure, sure, understood. Thank you very much for answering my question.
- Moderator:** Thank you. The next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management Private Limited. Please go ahead.
- Vimal Gohil:** Yes, thank you for the opportunity. And team, great comeback, especially in automotive vertical. I just wanted to get a sense, sir, you mentioned a lot of factors that have contributed to this revival. What's the sense on macros? Are we seeing receiving headwinds? Or has the performance been up to the mark despite the headwinds still being what they were in the past year that we've seen?
- Manoj Raghavan:** Yes. So I think at a very, very high level, macro level, headwinds are still there, from an industry perspective. But to the good partners our value proposition stands out very strongly. Especially for the customers in Europe and U.S. and Japan to really look at Tata Elxsi providing the sort of best value from best cost country location and proven offshoring capabilities and our ability to execute large complex programs and so on.

So I think all of that is really helping us navigate . Times are still tough out there in these markets. But I think that gives us the confidence and our customers are confident that this is the right step to take.

Vimal Gohil:

Understood. And Manoj, on health care and media and comms, how should we look at these 2 verticals going forward? Your commentary suggests that growth might be on its way starting Q4/Q1. Should we look at a similar trajectory, what transportation has delivered? Or will it still take some time?

Manoj Raghavan:

No. So we are working really hard on it. So 50% of our business is in a decently good shape, right? And the remaining 50% is something we are hoping that will come in good shape in a quarter or 2. Definitely, the Media and Communication business - some of the large deals have actually ramped up. We are in the process of bidding for a couple more large deals and outcomes will come out pretty soon in this quarter. So I'm pretty confident that in Q4, we should see some positive signs in our media business. And it's been a long, long journey. The teams have put in a lot of hard work. There is some light at the end of tunnel, I would say. And hopefully, Q4, we'll be able to show some good performance in the Media and Communications space as well.

Healthcare, again, healthcare is something that we're really, really working hard. And I think we have bottomed out in this business in Q3. And hopefully, the turnaround will again happen from Q4 onwards. Definitely, from a next financial year perspective, we are definitely focusing on both of these business also to accelerate. So that's what we are working on.

And I think we have a good, clear line of sight of where both of these businesses are heading to. And I think I'm pretty optimistic in the midterm that we will be able to turn around both of these businesses.

Vimal Gohil:

Great to hear that, Manoj. Just one question on hiring. So in this particular quarter, Gaurav, if you can just quantify or maybe give a qualitative comment on how much of margin improvement has happened because of the headcount rationalization that we've seen?

And given the fact that we are now seeing growth ramping up, do we see hiring coming back into positive trajectory? And will that offset some of the gains that we've seen in terms of margin gains?

Gaurav Bajaj:

Yes. So Vimal, I think I answered that in the previous question asked by Bhavik. I think this quarter, we have an operating leverage of about 200 basis points into our bottom line. And we still have a little bit more scope to improve our utilization from here on. And I think the future model itself should not have revenue tacked to the headcount. That would not be the proportionate or the linear way of looking the revenue to headcount ratio. I think that model is undergoing a change. And we are very cautious, and we are looking in terms of the productivity of whole, including the AI kind of productivity into our business model.

So I think that we'll continue to work on those models and see when the headcount will increase. I think we will approach where we need the people, the specific skill set are required niche, expertise are required. We will do very calibrated hiring from here onwards.

And depending on the demand, we will see how many people have to be brought in. But I think going forward, our methodology would be to calibrate the demand and the supply, and then what would be the most optimal model to continue to deliver towards 80% utilization.

Manoj Raghavan: Yes. So just to add there, I think we still have leverage from improving our utilization. So I think it's a quarter or 2 away before we'll start thinking of hiring and so on, and we would do it in low numbers, especially to meet certain specific customer requirements and so on. But large hiring, I think is still either a quarter or a couple of quarters away. And we will want to leverage on improving our utilization in the short term, right? So that's where our focus is.

Vimal Gohil: Perfect. Gentlemen, congratulations once again and best wishes for the quarter start. Thank you.

Manoj Raghavan: Thank you.

Moderator: Thank you. Our next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Yes sir, thanks for the opportunity. So my question is on the transportation vertical. Obviously, we have seen very healthy recovery. But in this recovery, have all the deals that we have won fully ramped up? Or we can see some there more ramp-up in the coming quarters?

And also in terms of the top OEMs in the Europe and the U.S. region, how are you seeing the spending patterns in terms of recovery, in terms of their discretionary spends and in terms of decision-making? And if you can provide some colour on that, how this has changed from maybe a quarter back?

Manoj Raghavan: Yes. I think some of the large deals that we've been talking of, I think we have had significant ramp-ups happening towards maybe the later part of Q2 and of course in Q3. So those ramp-ups - we have reached a steady state. Of course, there is still opportunity to grow further, again, depending on some new opportunities that we're talking to customers and so on.

But I think we have managed to really match the customer expectation in terms of ramp-ups to meet their specific needs and so on. So having said that, as I said, there are a few adjacency businesses, off-road businesses and so on that we have entered recently. And that is an opportunity once again to scale and so on in the coming quarters. So yes, it's a work in progress in some sense. But I think a good part of the ramp-ups have been baked in during the last quarter.

Amit Chandra: In terms of the OEM commentaries and the spends in these specific areas, and in terms of the decision-making how are you seeing in this quarter versus what it has been 6 months back?

Manoj Raghavan: Yes. See, decision-making times are still a little bit slow. Of course, customers are making decisions but they are making very careful calculated additions. So to that extent, I think it all depends on the value proportion and what you've stand for; what sort of problems at the customer end are you going to address based on your business model. So that's the key. And that's something that we have been sharpening over a few quarters. And I think we have a very,

very good value proposition for our customers. Yes, decision-making will still take some time, but customers are definitely willing to spend based on the value proportion that we are putting on the table.

Amit Chandra: Okay. And sir, in terms of the operating leverage, obviously, we have seen some good operating leverage coming out in this quarter. Till what level of growth we have funded in terms of capacity, where we don't need to add more, if you can give some colour on that? So what is the kind of margin expansion we can expect?

Manoj Raghavan: I think we have addressed that question in the previous question as well. So we are operating at around 75% today. And we can go all the way up to 85%, right? So we are targeting to look at least moving around to 80%, before we start adding capacity and so on. So I think we do have operating leverage from a bench perspective.

Gaurav Bajaj: It is not that we are not hiring at the moment. We are hiring, but I think we are hiring selectively where we have those positions required to be fulfilled. But as we mentioned, the large-scale hiring probably can be seen after maybe a couple of quarters from now.

Amit Chandra: Okay sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Ankur Pant from IIFL. Please go ahead.

Ankur Pant: Yes, thank you for taking my questions. Congratulations on a good set of results. My first question is on the transportation vertical. So would you put down this performance mostly to an anticipated ramp-up that we were expecting from 1H itself? Or would you also attribute it to some extent to an improvement in the demand environment? Do you see that? And in a similar vein, now having registered a strong growth in 3Q, it sets up a high base as we head into 4Q. So would we be able to see growth on this number? How do you look at it?

Manoj Raghavan: I didn't get the first question clearly. But okay, from a second question, perspective, yes, of course. I think based on the order book that we see and based on the sort of funnel that we're looking at, I'm pretty confident that we will be able to grow over the number that we have delivered. So that's, of course, what the teams are focusing on. What was the first question about? Was it demand environment?

Ankur Pant: Yes. My question was that the growth was primarily driven by the ramp-up that you were already anticipating? Or did you also see an easing in the demand environment to some extent?

Manoj Raghavan: It's both - I think of course, we were able to successfully ramp up some of the deals that we have closed, and as you know, we had an issue in one of our customers, and there was a lot of pent-up demand which was really pulled in during the last quarter, And that also helped us to really accelerate in the quarter. And regarding new demand and so on, yes, of course, there are deals that we have won, and we've talked about, especially in the adjacency space that they're looking at. So those are all new deals that will add revenue streams again in the subsequent quarters.

- Ankur Pant:** And my other question is on utilization. Now it's an important margin lever going forward. But given that we work in three different verticals with - I mean, there's not a lot of fungibility between employees, you ideally would need even the Media and Communication growth to pick up before you can actually move utilization to north of 80%. So is it possible to move it upwards to 80%, 85% without a proper recovery in the Media and Communication vertical?
- Manoj Raghavan:** That's what we talked about, right? We are hoping that both Media and Communication and Healthcare, which contributes to 45%, 50% of our revenue, is something that we are very confident should be able to recover. And we have been working on that over the past few quarters, I would say, in terms of new customer outreaches and some large opportunities that we have placed our bets. And we strongly believe that some of that will turn around in this quarter, in Q4. And that will also help us improve our utilization. So it's not necessarily only automotive business. It is both Media and Communication and Healthcare, which is going to help us achieve a better utilization. So definitely agreed there.
- Ankur Pant:** And my final question is in 1Q, you had aspirations of double-digit growth in both transportation and Healthcare vertical heading into FY '27. Does that remain intact and for the overall organization?
- Manoj Raghavan:** Yes. So that is the aspiration from our next financial year perspective, if I understood your question right. So that is what our internal planning says and that's what we are aiming for. And we believe that if we can get a strong momentum in Q4, right, and leading into quarter 1 of next year, I think we should be able to achieve those objectives.
- Ankur Pant:** Thank you. Perfect. All the best.
- Moderator:** Our next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.
- Abhishek Shindadkar:** Yes, thanks for the opportunity. And congratulations on a great quarter. The first question is on the Media business. If I heard correctly, did you mention that part of 50% of the business has recovered and you're hoping for the recovery in the balance? Is that comment related to one of the larger accounts? And if yes, any status in terms of bottoming out of challenges in that account. That's first. And the second to Gaurav, sir, you mentioned the wage hike impact for juniors in this quarter. Can you also quantify the impact that could come in the fourth quarter for the wage hikes for the remaining? Thank you for taking my question.
- Manoj Raghavan:** Yes. So if I understood your question correctly, you're talking of the Media and Communication business and you're talking of the challenges in the top account, right? I don't think we have any challenges there in that account. In fact, that has been growing pretty well. So the confidence is from a number of other customer outreaches or a number of other bids that we are placing. We strongly believe that a few of them will come to a closure in this quarter, and that will sort of start the sort of recovery for our Media and Communication business. Healthcare business as well, we have a similar sort of a situation. And we definitely want to get both of these businesses also on a growth path as we enter the next financial year. So that's what we're focusing on.

- Gaurav Bajaj:** Yes. Abhishek, on your second question, hike for our junior to mid staff, which covers almost two-thirds of the organization, will happen in Q4. So you can expect the impact for that would be lower compared to what we have in Q3, maybe probably 60-70% of that.
- Abhishek Shindadkar:** That is helpful. And just a follow-up on the answer. Sir, if we look at the increase in the revenue by contract mix side and also see the recovery in utilization and the recovery in the top account, is it fair to assume that in many large accounts of each of the three verticals, our mix is primarily towards time and material?
- Manoj Raghavan:** No, it's a combination. It's not that all the large accounts are time and material. A lot of them are fixed bid and outcome-based projects as well. So it's a combination.
- Abhishek Shindadkar:** Perfect. Thank you for taking my question and best wishes for the rest of the year.
- Moderator:** Thank you. Our next question is from the line of Karan Uppal from PhillipCapital India. Please go ahead.
- Karan Uppal:** Yes, thanks for the opportunity. Just a few questions on the transportation vertical. Sir, you mentioned about normalization of spends going ahead. Just wanted to pick your brain around the areas which you are seeing good traction in, be it hybrids, EVs, ADAS, connected, if you can share some thoughts there? And in the pipeline, are you seeing large programs on the SDV front?
- Manoj Raghavan:** So a lot of the growth that we've seen is primarily coming from our SDV, the closures that we've had on the SDV side. So of course, as you know, we also have our own SDV suite called AVENIR and that is also bringing in a lot of traction for us. Apart from that, of course, electrification is another large play that we see in both BEVs and hybrid platforms. So new platform development is something definitely we are seeing. AD-ADAS, of course, continues to have traction. So, yes. So these are the top 3 areas that really are pushing our automotive growth. Of course, the connected car platform and the applications around it is also another area that we see a lot of traction going forward.
- Karan Uppal:** Okay. Second thing is for the outlook for this automotive business, is it broad-based across your, let's say, of 10 to 15 accounts? Or is it more concentrated between, let's say, 2 to 5 accounts where you are seeing deal ramp-ups?
- Manoj Raghavan:** I would say it's more on the top 5 to 10 accounts, right? That's what we are seeing a ramp-up. And these are happening across the geographies. It's not limited to any one geography. So that is positive for us because we are derisking from geography dependent situation as well.
- Karan Uppal:** Perfect. Thanks a lot, and all the best.
- Moderator:** Thank you. Our next question is from the line of Sucrit D. Patil from Eyesight Fintrade Private Limited. Please go ahead.
- Sucrit D. Patil:** Okay. My question was with Tata Elxsi focus on design-led technology and recent partnerships in automotive and media, how do you see client conversion evolving? Are they

shifting from cost efficiency to co-innovation module? What should the stakeholders expect as the defining theme from your leadership in this space?

Nitin Pai:

Yes. I think just to clarify, I think the two are not exclusive in the sense that they tend to run together. I think in both industries, there has been extremely strong pressure on bottom line, especially because the top line are not going too well. Market share is not going to be climbing given the competition, for example, in the auto space for the Chinese and so on. So there's a clear mandate that look, whatever you do, you will have excel in technology, but at the same time, we'll have to deliver on cost.

So I think in that sense, Media and Communication vertical has seen that pressure on the top line for quite some time now and therefore, the cost takeout and the bottom line improvement has been a focus for some time now. I think you're finding this need to find right partners delivering from best cost countries, but delivering outcomes and results rather than just delivering headcount. I believe that is really what will carry us forward.

Sucrit D. Patil:

Okay. My second question is to Mr. Bajaj. On the financial side, speaking beyond margins, how are you thinking about capital allocation in this phase like balancing dividends or investments in automotive innovation centres or any digital partnerships down the line? Do you see scope for a shift in capital deployment over the next 1 to 2 years?

Gaurav Bajaj:

I think we have been discussing internally within the organization management and also along with the Board. Of course, there are certain plants that has been put into the place, and we have been tracking on those plants. At an appropriate time, I think we will let you know in terms of any outcome or change in the capital allocation approach from our side.

Probably, we announced during the quarter 4 year-end during our AGM in terms of what would be the distribution that we do. But there are some strategy internally that has been discussed. So probably, I think we may not be able to disclose at this moment of time. But at the appropriate time, we will get to know what kind of plans and what are we thinking of that.

Sucrit D. Patil:

Fair enough. Thank you for the guidance and I wish the entire team best of luck for the next quarter.

Moderator:

Thank you. Our next question is from the line of Sajal Kapoor from Antifragile Thinking. Please go ahead.

Sajal Kapoor:

Yes, thanks for taking my questions. And can you name a commercially successful idea that initially looked unbillable or irrational, but it became commercially successful thereafter?

Manoj Raghavan:

Sorry, we couldn't get the context of your question?

Sajal Kapoor:

So the context of the question is I just need an example - preferably in Healthcare, but even automotive or otherwise - of a commercially successful IP, idea that you have in the organization today, but initially, that was deemed kind of irrational or unbillable?

Nitin Pai: As an engineering company, we are quite rational. So to that extent, there's very little that we do that is irrational. But having said that, if you look at it, most of the bets that we have taken in products and platforms are future looking because ultimately, we are tracking standards, tracking technology conversion and we are taking bets in advance.

And that is why you tend to have mixed success with products and platforms, not because they are not right, but because many times, we are simply ahead of time. A good example is the investment that we made in NEURON, which is a network automation and orchestration platform. We believe it's ahead of its time simply because that's the most elegant way to reduce cost in network management. And while telcos have been going after cost takeout simply by throwing larger and larger deals for lower and lower cost, we believe the smarter way to go around it is to actually start investing and automating and orchestrating your network with technology and with automation rather than with people. But we also know that ahead of its time. Why? Because telcos are not going to be so keen to throw themselves on another platform. Unfortunately, they have seen enough in life. So that's where I feel most of the time, we are ahead of time rather than irrational.

Sajal Kapoor: That's very helpful and a great response. Thank you for that. And my second and last question is, you know, there is always some sort of a tension between creativity and delivery discipline. So when creativity conflicts with delivery discipline, which one loses and why?

Nitin Pai: So I think this is, in many ways two sides of the coin. The tension between creativity and discipline or engineering, I think it is a good tension to have. And I can tell you this from my own experience as a designer. We obviously used to have this debate when we are young as to which designers are better. Were the ones that came from IDC IIT Bombay better because they had an engineering degree first or was it the folks who came from NID because they were pure creativity? They were not schooled in engineering. Opinion is divided, but I still believe that when you're schooled in engineering, the concept that you come out with are a lot more manufacturable, feasible, productizable. Pure creativity at times is great for the heart but doesn't work for the mind.

Sajal Kapoor: Yes. Engineering, the practicalities and the scale-up and the actual commercial viability is far more important than just having plain on paper kind of creativity, if I understood it correctly?

Nitin Pai: Absolutely, anytime because that's the whole basis of the manufacturing world, but it has to be realizable. Otherwise, it just becomes luxury art.

Sajal Kapoor: Absolutely, it does. Thank you so much for all these responses. Wish you all the very best. Thank you.

Moderator: Thank you. Our next question is from the line of Rishi Modi from RDM Advisory LLP. Please go ahead.

Rishi Modi: On the healthcare front, we had seen a disruption in the past on the regulatory extension being given in Europe, which, if I'm correct, it ends in 2026. So do you expect any sort of a pent-up demand on that regulatory front coming for you in the coming year?

- Manoj Raghavan:** No, I don't think there is as a pent-up demand. In fact, the regulatory piece of our business is over a period of time, really gradually coming down. In fact, what is happening is we are moving the manual regulatory effort to more AI-based digital sort of focus. And I think we have been able to successfully move there. So I don't think there will be a pent-up demand per se, but we are hoping that using AI, Gen AI and so on will really help capture a larger piece of work that otherwise would have to be done manually. So there could be some sort of acceleration based on the digital technologies that we bring in, but it's not due to the runoff in 2026 and so on.
- Rishi Modi:** Okay. Understood. Secondly, I wanted to understand our rationale on the defense business. In the past, you were a bit uncomfortable, I'm talking about 5 years, 6 years back when you said that there's a receivables issue in the industry plus some export issues to the U.S., so what has changed for us in maybe the industry or in our view or in our working, which is now making us commit to the defense aerospace industry?
- Manoj Raghavan:** Globally also, we see aerospace and defense as a great opportunity area primarily because of the spend that the industry is going through, so there are a lot of new technologies that are coming in. There is UAVs and drones and warfare is changing. There is also commercial applications of many of this in air taxis and so on.
- So what we see today is a lot more technologies like electrification coming in, in a big way. So, of course, there are challenges with cycle times for the deals. And if you're doing defense sort of projects, especially in the U.S., you need to be ITAR compliant and so on. So there are still some of the challenges that we need to address.
- But otherwise, I think a fantastic amount of opportunities exist, especially in India, with the sort of both DRDO and labs, and companies like HAL. And, of course, a lot of global companies, right, who have set up their capability centers in India, in Bangalore and so on. So that also opens up a lot of good opportunities for companies like us.
- So I think, yes, I think we are doubling down our focus on the aerospace and defense segment. And we have done some fantastic work in this space. So credibility is there, capability is being built. Now really we need to see how to have some commercial success. So that's something that we're working on.
- Rishi Modi:** And Manoj, do you think this will be a ROCE accretive like will the margins compensate for the receivables cycle in the future?
- Manoj Raghavan:** It's still early days. I think if we look at the overseas market, I don't see any concerns on either profitability or payments and receivables. But yes, if you really only focus on the defense segment in India, then yes, we do have some tweaks in our business model that we need to take care of. Otherwise, I think it's a great business. And especially with the type of opportunities that we see in India, it's a great opportunity to build capabilities and then really explore the same globally. So I think it's a great opportunity for us.
- Rishi Modi:** That's great to hear. Finally, just a quick one on the non-PV transportation, which is the off-highway construction equipment railway that we had entered into. We'd guided for 20% of our

transportation revenue coming from this segment, I think we had guided for 3 years back then, but I think we've overshot. Just wanted to understand where are we in that journey? Are we still tracking that 20% and when can it be achieved?

Manoj Raghavan: Yes, we are still tracking that 20%. So I think today, we are about 7.5-8 % is where we are today. So, I think there's an opportunity in the next couple of years or 3 years to really look at 20%. The difference this time is that we really had some good logos that we've opened up and good opportunity in this space. And the spend in this industry is also growing. So, I think that's positive for us.

Rishi Mody: So we are at that point where we have right to win that business, like we've gone through that phase when we've established ourselves. And do you think like this adds up to our revenue in the next couple of years and we get to that 20%, like an extra 5%, 10% of our revenue?

Manoj Raghavan: Yes. That's what we hope for. Of course, it's a smaller market as compared to the automotive market. So to that extent, we need to be a little careful. But I think the opportunity exists.

Rishi Mody: All right, all right. Great. That's good to hear. I'll come back in the queue for a more conceptual question, but if there are others, you all can go ahead.

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

Sulabh Govila: Yes. Thanks for taking my question and congrats on a good set of results. I had a couple of questions. So first is with respect to growth in the near-term, I just want to check my understanding if that is correct. So, what we spoke about from a 4Q perspective, or a near-term perspective is that we are expecting a recovery in both Media and Healthcare verticals versus what we did in the third quarter.

And even in the transportation vertical, while the SDV deals are largely in the steady state, the top account still has to return to the peak run rate. And there are other deals in adjacencies, which are ramping up. So, shouldn't 4Q be similar to better than 3Q from a growth perspective? I mean I'm just trying to understand, is there anything we should keep in mind which can change that trajectory as we enter into 4Q?

Manoj Raghavan: No, we don't want to give any indicator at this point in time, we don't do that. But you have rightly paraphrased all what we talked about. So I think your analysis is perfect.

Sulabh Govila: Sure, sure. Thank you. And the second question is on the utilization bit. So in the past, we've always talked about reaching a peak utilization rate of 80% odd, while today, it may be the first time we ever spoke about potentially reaching 85% levels. So just trying to understand, is there anything which has changed structurally for you in the delivery organization from a workflow automation perspective, which is changing this thought process on the utilization levels?

Nitin Pai: Sulabh, this is Nitin here. I think historically, we have hit 85%, 86% at the peak of our growth. It's just that at that time; we did not have all the benefits that come from what you have now as

tools and technologies. So technically, at that time, we felt a little constrained that, look, 85%, 86% kind of stretches a little too much and we don't have enough room to maneuver.

I think given the context that we are in today and the kind of work that we're doing and the kind of investments we're making with the AI and Gen AI that stretch is not as tight as it was before. So 85% seems comfortable.

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

Nitin Pai: Thank you.

Moderator: Thank you. Our next question is from the line of Rohit Jain from Tara Capital Partners. Please go ahead.

Rohit Jain: Yes. So, my question is on the anchor client. Now last to last quarter there was an issue, and then last quarter, it sort of came back. But given the issues ongoing there and the kind of debt situation that's developing, for the next year on a whole, do you expect the anchor client to grow from this year's level? Or do you expect it to be stable? How should we think about the trajectory on the anchor client side?

Manoj Raghavan: Yes. I think there are too many changes that are happening in the marketplace also. But if you ask me, our focus is to definitely ensure that all customers, including our anchor customer, at least the top 15, top 20 customers, right, we are on a steady growth path. So that's definitely the focus. We don't have any indication at this point in time saying that we will have some difficulties or we'll have some surprises. So, we are hoping that we will be able to grow, you know, our top 5, top 10, top 20 customers. So we'll be optimistic there.

Rohit Jain: And just last question on that anchor client again. Are you sort of gaining share of the work being done there? Or is the share stable and the growth depends on the increase in tech spends by the anchor client?

Manoj Raghavan: So if you look at it over the last 5 years or even a little more, you know, our share in the overall spend of this customer has only increased. So I think, again, it all comes down to the value proportion, right, especially in a tough market situation. The value proportion that we bring in is very, very strong. So I don't think we have an issue on that front.

Rohit Jain: Okay. Thank you. Thanks a lot.

Moderator: Thank you. Our next question comes from the line of Jalaj from Svan. Please go ahead.

Jalaj: Yes. Congrats on a good set of numbers. Sir, first question was with regards to this onetime adjustment for the labour law changes. So are we done for all the prior period adjustments or there is something which comes in the next quarter also? And second part to it was what would be the incremental impact of this as a going concern, in people cost or on the margins should we expect anything?

Gaurav Bajaj: Hi Jalaj, this is Gaurav. Let me answer your question. I think we have made a provision in line with our accounting norms and also assessed by our auditors for the new acts on the new

labour code that got enacted during the quarter. We believe that onetime catch-up is already being done in this quarter. And hence, we have also called this out as an exceptional item because this is something not going to be a usual line item in our financials going forward.

However, given the change in the labour code and the definition of the wages, on the going-forward basis, we expect this impact to not be more than 15, 20 basis points, but probably that will also get compensated with the other levers and the utilization factors that we still see there is a scope for the improvement over there.

So at large, we don't think there should be any impact for the new labour code going forward in the subsequent quarter. However, we continue to monitor. We continue to track in terms of more clarifications that probably would come around in this quarter or maybe the next quarter because the rules got republished, but those rules are still not notified and still not enacted.

So once we have the little bit better clarity, rules get notified, then we have to assess if there are certain more changes or adjustment to be required. But we believe that the larger part of it is already baked into the numbers. And as such, we don't see anything potential or significant coming in the coming quarter.

Jalaj:

Got it. That explains it. And my second question was with regards to the business side. So I wanted to understand on the transportation side. So we understand that the top client has come back and has come back strongly, and there were a few projects which were stalled. So if you could give us some flavour as to what proportion of these stalled projects have, they ramped up to the maximum or there is more to come from that? Just trying to understand on the sustainability of the growth.

Manoj Raghavan:

Yes. So I think as we explained earlier, there definitely has been some catch-up in terms of pent-up demand that we have fulfilled in this quarter. A part of it will definitely continue as we speak into the subsequent quarters as well. But again, the focus is for us to really look at the larger basket of customers, our top five, top 10 customers and see how we can ensure growth across these customers as well. So I think that's where we are, over a period of time, constantly trying to diversify our concentration risk, if you may, in some sense.

We are trying to diversify our geography risk, if you may, in some sense. And I think each of those strategies are working out for us. And especially when times are tough in, say, some geographies like U.S. or Europe, our focus on Japan and India has really helped us. So I think at this point in time, if you look at it, a basket of customers and the various geographies that we operate in.

And I think we are in a decent situation, good situation to be in, I would say. And we need not be overly dependent on a particular geography or a particular set of customers. So to that extent, I think we are de-risking and diversifying our overall portfolio, which in the midterm to long term, I think will really help us.

Jalaj:

Fair enough. Just a quick one on that. So the newer projects, what we alluded to, the newer ramp-ups in the newer clients, are the margins for these projects comparable to the peak margins we used to do historically or they are slightly at a lower price or a lower margins

because of whatever has happened in the transportation vertical as such because of the tariffs and otherwise pressures? How should we understand that?

Manoj Raghavan:

It's a basket of accounts, so there is no one answer there. Depending on criticality of a particular customer or the skills or capabilities that we need to bring in, we look at the margins accordingly, there's no set rule that, look, this is the only margin that we would operate on. At end of the day, it's our responsibility to really uplift the overall margins in the business. And that's what we are focused on. How we do it, we take a portfolio approach or how we do it is entirely dependent on what we see in the marketplace, what skills do we need to bring in, and then what value are we creating to those customers. Based on that, we would really price in the deal, and the margin movement will be according to that.

Jalaj:

Understood. And then, sir, you alluded to that one of the reasons of the growth coming in transportation was the comparatively better macro or the comparatively better demand situation or discussions from the clients.

So how should we understand that over the past two, three quarters, has there been any improvement in demand scenario or discussions at least have the clients started to think about or talk about signing new deals or discussion? Because I understand newer launches or a complete portfolio was postponed by a few quarters to a few years for a lot of clients or OEMs?

Manoj Raghavan:

No, I think from an automotive perspective, we've already indicated that, yes, there are discussions happening. There are new deals, new discussions, new customer additions and all of that is happening, right? We are hoping that both in both Media and Communication as well as Healthcare, we will be able to turn around that business.

And our focus is to really get back all the three businesses of ours to a growth situation, which will give us a lot of leverage from an investment perspective, from a growth perspective, from a utilization perspective, from a return to higher profitability perspective. So a number of things that we are really focused on. And I think in the next 2 quarters, you will see a trajectory or a trend, right, that will give you an indication in terms of where this is moving.

Jalaj:

Got it. Thanks for the answer and best of luck.

Moderator:

Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Manoj Raghavan:

Thank you to all the investors who dialled in today evening. We really look forward to having a more detailed conversation towards the end of the next quarter. We are really confident that, look, we have done a number of things right. We have done a number of investments right.

Now how do we leverage that and how do we move that into revenue growth and profitability growth, that is what the team is really focused on. Thank you so much and look forward to interacting with you again in the next Investor Call.



Tata Elxsi Limited
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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.