



Tata Elxsi Limited

Q1 FY 2025-26 Earnings Conference Call

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TATA ELXSI

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MODERATOR: **MR. SHASHANK GANESH – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to the Tata Elxsi Q1 FY 2025-'26 Earnings Conference Call hosted by Tata Elxsi Limited. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during this conference, please signal the operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shashank Ganesh from EY. Thank you, and over to you, Mr. Ganesh.

Shashank Ganesh: Thank you very much. Good evening to all the participants on the call. Good morning if you're joining us 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 you 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 if 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, and thanks for joining us today for our Q1 FY '26 earnings call. I hope that you and everyone in your family is safe and healthy.

For the first quarter of FY '26, we reported an operating revenue of INR892.1 crores. EBITDA margin stood at 20.9% and PBT margin was reported at 21.1%. This quarter was challenging across key regions with geopolitical uncertainty and industry and customer-specific issues impacting R&D spend and deal closures across geographies. Our transportation business that represents over 50% of our overall revenues did well to exit flat in constant currency terms.

Automotive industry is still in the state of flux with the China business and tariff-related uncertainties, casting a cloud on R&D strategy and spend, while the Tier 1 supplier business continues to be challenged. We had announced large deals in the previous quarter in SDV vehicle engineering for Mercedes-Benz, an European OEM and Suzuki. These are now ramping up, and we have the necessary capacity and capability to service them and grow over the next few quarters.

Our largest customer is stabilizing in their outlook and revenues, and we expect to stay steady for the rest of the year. We are in discussions for some large strategic deals with OEMs, including some new logos in Japan, U.S. and Europe. I'm pleased to report our continued progress in the adjacency strategy, with two strategic deal wins from the off-highway segment in AD-ADAS and connected vehicles. We're confident of the continued recovery and growth of our transportation business through the rest of the year, backed by deals that we have won, a healthy pipeline of large deals and a new customer logo.

Media and Communication business reported a decline of 5.5% QoQ in constant currency. The large consolidation deals we announced at the end of Q4 FY '25 will contribute to revenue growth in the upcoming quarters. The transition investments that are part of such consolidation deals has largely contributed to this dip in this quarter. While the overall business environment in this industry continues to be subdued, we have been working on shaping some large deals, both for consolidation and existing clients and some strategic AI and automation led large deals with new logos. I'm also pleased to announce a strategic multimillion dollar design digital deal with the U.S. tech giant for next-generation AI and product feature development. We expect to bring back growth in this vertical in Q2 on the back of the deal ramp-ups and healthy deal pipeline.

Our Healthcare & Life Sciences segment declined 6.7% quarter-on-quarter in constant currency primarily affected by tariff- related impact on medical devices with two key customers in the U.S., which is the primary market for this vertical. This has impacted R&D and discretionary spend in the short term, and we expect recovery in the service line in the second half of FY '26. We are expanding our customer base acrossgeos, and I'm pleased to report two key wins, including all pharma and biotech leader from Europe and a Medtech leader from Japan.

On the talent front, we'll continue to add to our talent base with over 400 fresh engineers planned in this quarter. We expect a steady improvement in bottom-line and margin even as our two largest businesses, transportation and media and communications, return to growth in Q2 FY '26 and beyond, and utilization improves on the back of ready capacity and capability we have invested in over the past few quarters.

Before I conclude, I'd like to announce the launch of our new reimagined website, which went live earlier this week. I encourage all of you to visit our new website that positions Tata Elxsi at the forefront of an AI-first design-led proposition for brands and businesses to deliver reimagined products and experiences, improve the efficiencies and time to market.

Thank you. And with this, I hand it over back for a Q&A session.

Moderator:

Thank you very much. Our first question comes from the line of Bhavik Mehta from JPMorgan. Please go ahead.

Bhavik Mehta:

Thank you. A couple of questions. Firstly, on the auto vertical, can you comment in terms of how the demand pattern has changed over the last three months, both in terms of deal closures

as well as deal ramp-ups? Are the clients still in wait and watch mode given the tariff situation or are we seeing them restart their spend going forward?

And the second question is on healthcare. Can you give more color on the two client specific issues? Is this cancellation of projects? Or was something ramped down, which should come back in the second half?

Manoj Raghavan:

Thanks, Bhavik, on the auto sector, we see deals coming through in Europe and the APAC region. And some of the deals that we have won in the previous quarters, the ramp ups were a little bit slow. That ramp up has started accelerating. So, in the last quarter, we did see good ramp ups of the deals that we had closed in the previous quarters, and we expect that trend to continue in the upcoming quarters as well.

So, our US market is still a little bit slow. But other markets, we see a much better visibility, deal closures as well as ramp ups happening. Regarding Healthcare, these are primarily US customers, 2 large customers of ours, wherein some of the new projects that we are expecting to ramp up in the quarter, that was put on pause primarily because of lack of clarity, given all the uncertainties in their own business and so on. However, we expect that to get started in the coming quarters.

So, we are expecting that some of this will get started immediately in Q2 itself. However, we also have a set of other new logos that we have opened in the Healthcare space. These are still small businesses for us, but we expect a continued growth of that, and we expect in H2, we will be able to ramp up a much bigger business with some of the new logos that we've opened.

Moderator:

Our next question comes from the line of Manik Taneja from Axis Capital.

Manik Taneja:

Manoj, I basically had 2 questions. The first question was with regards to the business outlook within the top single customer, which has continued to do very well and given some of the annual report disclosure that appears, you expect further growth in this account in FY '26. So, if you could clarify on that front?

And then second question was with regards to the way our margins have shaped up through the course of recent quarters. While I do understand there is some element of limited revenue growth at play, how should we be thinking about spare capacity in the context of the fact that over the course of four of the last five quarters, your cut headcount and still your margins have been down. Do you now really think our margins can claw back to what we used to report in FY '23 or '24, or we might probably to adjust to a new normal in terms of margins?

Manoj Raghavan:

Sure, thanks Manik. The situation at JLR is a little fluid, right, given their own sales and other related issues that they have. However, from our perspective, I believe that, look, we will be able to maintain at the current level. We may not have aggressive growth there. But I think we have enough visibility to maintain our business and also have some incremental growth there.

Coming to the margins, of course, as you rightly said, a lot of the margin situation is because of the drop in the revenues. And definitely, as the revenues pick up, we are confident of getting back to the margin profile. We foresee that over the next 3 quarters, we will gradually be able to pull back the margins.

It's not going to happen all of a sudden. But all efforts are on to really look at all the levers that are available to us and to focus on margin improvements in the coming quarters. So yes, I think if you look at it, because of the Q1 current situation, maybe from a financial year perspective, we could end up with a margin which is lower than what we have performed in the last financial year. But I think we should be able to pull up the margin gradually over the next 3 quarters.

Manik Taneja: Manoj, my question was more for the medium term. You used to operate at about 29%, 30% EBITDA margins. Do you think that's the margin we should probably think about as the business improves not just in this year but beyond this year?

Manoj Raghavan: Yes, yes, that is exactly what we are aiming for. We definitely need to get back to those margin profiles. In the medium term, definitely, that's what our focus is.

Manik Taneja: Sure. And how should we be thinking about wage hikes for us, given typically you used to give wage hikes in Q2 for the junior folks? Any comments that you could share with regards to what you think about for this year?

Manoj Raghavan: Yes. So most probably, those hikes will happen from Q3 onwards, October timeframe.

Manik Taneja: Okay. But as of now, you're still planning for wage hikes?

Manoj Raghavan: Yes, yes.

Moderator: Our next question comes from the line of Muzzafar Shaikh, an Individual Investor.

Muzzafar Shaikh: I would like to ask about the government PLI scheme and factory, which is coming up in Gujarat. So where are we on that? And do we see it coming in the coming quarters?

Manoj Raghavan: Sorry, the semiconductor factory in Gujarat in Dholera is actually Tata Electronics, right? Tata Elxsi has nothing to do with that factory. Tata Electronics is a customer of ours, and we continue to support them in some of the projects that we're doing, but we are not really involved in the factory.

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

Debashish Mazumdar: One follow-up question, which Manik was earlier asking about margin. So, if I understand correctly, one of the reasons Tata Elxsi used to report a very strong set of margins because they are focused on offshore centric deals, but over the last 2 to 3 quarters, what we have seen is a consistent fall in margins. So, is it like we have shifted our focus more into on-site focused deals

also, where margins are initially low and will be able to catch up later, or it is like a normal process of business which is impacting our margins?

Manoj Raghavan: No. So, our offshore-centric business continues, Debashish. There is no change in that. A majority of our business – more than 76% - continues to be offshore. So, there is no change. However, I think the margin is more to do with the top line degrowth that we are seeing. Once we get back to our growth, our margin profile will come back.

Of course, also the type of deals that are there, the consolidation deals, the large deals that we have signed up, a lot of it also puts a little bit of pressure on our margins. And that is something that we are working on to see how we can improve using operational efficiency.

Debashish Mazumdar: Okay. And of the last to last quarter, the deals that you have won, which is Asia specific. So, when those deals ramp up happening, we are seeing some margin pressure. So, is it like those deals are contours of those deals are such a way that it's a kind of lower-margin business for us?

Manoj Raghavan: It's not lower margin business, but in some cases, we need to take over and manage the transition in some of those cases. We may not get revenues in the initial period. However, the revenues will start ramping up once the steady state happens and so on. So, we have some of those deals work affecting us at this point in time. But however, as the deals ramp up and so on, and then we take overall control of it, the margins will definitely come back.

Debashish Mazumdar: Sure, sure. Understood. But you are confident of kind of operating at 29%, 30% kind of EBITDA margin in medium term?

Manoj Raghavan: In the medium term, yes.

Debashish Mazumdar: Okay. And one last question from my side. You normally provide a good color around Tier 1 OEMs and Tier 1s in transportation, and also of market and passenger vehicle. So, if you can give some idea around the different segments, how different segments are doing for us and as an industry overall?

Manoj Raghavan: Yes. As I said, automotive industry, I mean, if you look at our transportation business, in actual currencies, there's a strong growth. But in constant currencies, we have ended flat. I think that's a fantastic performance. Almost 72% to 75% of our revenues now come from OEM, which is the passenger car makers. The Tier 1s have sort of reduced which is in line with what we see in the industry, moving forward.

From an adjacency perspective, we continue to see deals closures happening. I think we have announced some of the deals also, both in off-road segment and commercial vehicle segment. Our investments in aerospace and defense, we continue to build teams. We've still not announced any large deals there, but I think those are all in works. And hopefully, in the subsequent quarters, we should be able to announce some large deal wins there as well.

- Moderator:** Thank you. The next question comes from the line of Manik Taneja from Axis Capital. Please go ahead.
- Manik Taneja:** Hi, Manoj, while you partially alluded to the investments in defense and aerospace, could you help us understand the likely investments that we will make in terms of expanding our GTM in these segments? And will that probably create more headwinds in the near term from a margin standpoint? Or these are limited investments and there you can manage other operating levers?
- Manoj Raghavan:** So, we have already ramped up almost 150 people team in this space. We have invested in building capabilities. We have, for example, we have built our own capabilities in drones. We have built capabilities in eVTOLs. If you actually come to our campus, you can see some of these actually flying. We have shown demos to global players. We have been working with HAL, NAL and some of the defense labs in Bangalore. There is a lot of interesting work actually happening. I wish we had a situation to really convert some of this into deals and bring in revenues. I think we're almost there, we should be able to hopefully announce some deals, some very, very good discussions happening with potential customers, both the large players in U.S. as well as defense labs and DRDO and ISRO in India.
- By the nature of the business, these are all long lead time businesses, but the capability that we have built is fantastic. And why I'm saying that is because of the real interest that some of the folks that we have shown technologies, what we see from them, the interest that we see from them. So yes, I think we're not expanding the investment further. We really would want to close some deals into a revenue situation before we start investing again.
- Manik Taneja:** Okay. And any medium-term revenue targets that you would want to share with regards to these incubated towards segments?
- Manoj Raghavan:** I wouldn't want to put a number there. But I would say at least we would like to make a start this quarter, right? And what we're looking at is anywhere between INR50 crores of revenues this year, right, to get started. But in the subsequent a couple of years or 3 years from now, hopefully, we will be able to ramp up significant business, in this domain.
- Manik Taneja:** Sure. Thank you and all the best.
- Manoj Raghavan:** Thank you.
- Moderator:** Thank you. Our next question comes from the line of Moez Chandani from Ambit Capital. Please go ahead.
- Moez Chandani:** Good evening and thank you for taking my question. My question was on the media and communications segment. So there, you said that the industry has been subdued for several quarters now. But anything incremental that you've seen in Q1 versus what you were seeing a couple of quarters back?

And what needs to change for this segment to really revive in terms of growth? I know that you're expecting growth to come back in Q2. But really, where do you see the industry going in the medium-term? And you see a material acceleration in terms of growth there?

Manoj Raghavan:

Yes. I think this industry globally has been very subdued. And it's not only for us. If you look at most players in the media and telecom market are reporting very, very muted numbers. There are successes in the industry as well, right? If you look at it, a lot of M&A is happening.

During COVID, this industry grew very rapidly. But after COVID, all of a sudden, you see that most operators, whether it's media services operators or telecom operators globally have not been able to add net new subscribers. Subscriber numbers are actually coming down, the ARPUs are coming down. So, there's a little bit of an issue structurally in this industry.

A lot of the deals that we see at this point in time are about efficiency-driven deals and 'How can we do more with less' consolidation deals. And of course, we are starting to see AI and Gen AI led deal as well in this particular industry segment. We see M&A is happening. We see even large companies, whether it's Warner Brothers Disney or NBCU, taking decisions of hiving out the digital pieces as a separate company and the legacy pieces as a different company.

So, there are a lot of things happening in this particular industry. From a telecom perspective, again, 5G investments have really not brought in new revenue streams for operators. We're now getting into the 6G era. So again, we see a lot of focus on using of open source, bring down the cost, automation, how to improve operational efficiencies. So, these are all the themes that are playing out. And we are trying to capitalize on some of these. For example, we have built our own product called NEURON, right, which really helps in the automation piece. How can we help customers automate their deployment, their operations using automation frameworks using Gen AI and so on, so that without adding manpower, they can still continue to deliver better operational efficiencies for their customers.

So, there are various things that are playing in this particular industry. Of course, we operate from a services perspective. At the same time, we also have certain products that we licensed to customers, that sort of acts like a differentiator as compared to a lot of our competition. So, they're trying different things to really open up the market and also to grab wallet share and so on. Efforts are on. But the market currently, I think, is in a very, very difficult situation.

Having said that, I think we have reached the bottom from Tata Elxsi's perspective. And some of this has also been because of the large deals that we have won and the transition period and transition costs. And all of that is now behind us. So hopefully, from the coming quarter, we should be able to report better results in this particular vertical.

Having said that, it's not an easy market at all. And most of the deals, large deals especially, are around efficiency themes here. Hope I answered your question?

Moez Chandani: Yes, thank you for that. My next question was on your system integration and support segment. I've seen a very sharp decline on a quarter-on-quarter basis at nearly down 30%. So how should we think about that? Do we expect that this is going to continue to decline going forward?

Manoj Raghavan: No. So, I think that is all because of one deal that we won in the last quarter, which was a one-time deal, a large deal, I think almost INR13 crores, INR14 crores worth of deal. That's a small business for us, right? So, in percentage terms, you might say, there's a big drop. But actually, it's not that bigger drop. Okay. So don't go by the percentage.

What happened was last quarter, there was a large deal that is the Bharat Pavilion in Japan, in Osaka, where we delivered fantastic work last quarter. There were other similar, experience-design deals that we were bidding for in this quarter. However, closures did not happen on time. And that's the reason why there is a sharp dip in that business, if you look at it from a percentage term perspective.

However that is the nature of the business. You could get INR10 crores, INR15 crores, INR20 crores deals with a turnaround time of 3 months or 4 months. And then we really need to find replacement deals and so on. That's the nature of the business there. So, if you look at it, SI business will usually be around INR25 crores, INR30 crores a quarter for us.

Moez Chandani: All right, got it. Thank you for answering my questions.

Manoj Raghavan: Thank you.

Moderator: Thank you. We have our next question from the line of Bhavik Mehta from JP Morgan. Please go ahead.

Bhavik Mehta: Thank you for the follow up. Just one question on the Media and Telecom segment. Can you explain how does the large-scale transition cost impact the revenue? I understand there are upfront costs because of knowledge transfer, which might impact the margin. But how does it impact their revenues? Just curious about that?

Manoj Raghavan: Yes. So, I think, Bhavik, if you look at it, it's a large deal that we have won, right? So, what happens is that deal comes at certain commercial terms, which is lower than the rates at which we have been working in the previous quarters. Now, if you look at it, when we get into that deal, so for example, this was the first quarter of that deal.

So, our entire portfolio of business in that particular customer, the rates have been reset to a lower per unit rate because of the commercial construct of that deal. So, if you look at it, volumes have not gone down, but because of the rate negotiation that has happened on the overall portfolio, the business has come down. There is a commitment, it's a 3-year commitment. So, we will be able to make up this over the next 3 years.

Bhavik Mehta: So, is this reset already happened in 1Q? Or should we see this being a headwind to some extent going forward?

- Manoj Raghavan:** It has already happened in 1Q, the first quarter.
- Bhavik Mehta:** Okay. Got. Thank you.
- Moderator:** Our next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management. Please go ahead.
- Vimal Gohil:** Yes, thank you for the opportunity. Manoj, my question was on autos, given the fact that the entire sector is in a bit of a flux because of tariffs. And we've done good job of keeping our heads above water. But I want to understand the ramp-up of newer deals. And as to why will the ramp-up not get impacted because of the situation we are in?
- What leads to your confidence on the ramp-up of the large deals that you've won? And why will the existing deals not ramp up? If the current ones that you've won in the previous few quarters are doing well, shouldn't the new deals do as well?
- Manoj Raghavan:** What is the confidence you asked, right? The confidence is because between the customer and us, we had to achieve certain ramp ups in Q1. And we have certain ramp up to happen in Q2 and beyond, right? So, I'm happy to tell you that the Q1 ramp up has happened as per expectation, right? So, we don't see any pullback. We don't see any slowdown that is happening from that ramp up perspective. Of course, given that the markets are not in a very favorable position and so on, the ramp ups have still happened.
- And the sort of engagement that we have having with customers, the sort of reviews that we are having on a regular basis, gives us the confidence that this ramp-up, whatever deal that we have planned, is going as per original plan. We are not changing any of those deal terms.
- And that is a commitment in Q2 as well that this is a ramp up that we will have, and we are progressing as per that schedule. There is no pullback. There's no budget cuts. The projects are coming in, engagements are happening with the customers. So, all of that is happening as per plan. So that's why we are pretty confident that those deals are going ahead as per plan.
- Vimal Gohil:** So, Manoj, again, it's encouraging to hear the new deal ramping up well. My follow-up then would be on the OEM business, which has done very well versus Tier 1s sort of struggling. So why aren't our existing Tier 1 contracts showing the kind of growth that the newer deals are showing?
- Manoj Raghavan:** The Tier 1 business globally is very, very stressed. That is because the Tier 1s are also not winning large deals, right? Many of them are losing deals because OEMs are taking over that role. OEMs are becoming more like Tier 1, like OEMs are really wanting to own software. So, we see that happening across the globe that in the automotive industry, OEMs are taking that ownership. And even if there are Tier 1 opportunities, most of the Tier 1s have their own GCCs here. Whatever we've seen of the Tier 1s is a lot of the work is being done out of the GCCs. So, to that extent, our business from Tier 1s, we continue to see that decline. And whatever little business that we are seeing is from the GCCs and our engagement with GCCs.

- Vimal Gohil:** And Manoj, what about OEMs? How will the existing business from OEMs pick up from Q2, Q3, when do you expect that to pick up, notwithstanding the newer deals?
- Manoj Raghavan:** We're already seeing more than 72% of our revenues today is coming from OEMs. I think maybe a couple of quarters ago, it was at 60%. So, we are seeing the gradual move that more and more of our business is coming from OEMs. Of course, the large deals we have on that is also helping. But across the globe, we continue to see deal momentum in OEMs. A lot of the deals whether it's in Japan or in APAC region and India, we see a lot of OEM movement there. Europe also, a lot of the new deals that we are seeing are from OEMs. So that is also improving. U.S. is a little bit slow. Some of the OEM customers that we are engaged with in that geography, we have seen some amount of disruption. But we are not getting a clear idea as to when we will be able to restart some of those discussions with the U.S. OEMs. But minus U.S. OEMs, I think we're seeing a good recovery happening across the market.
- Vimal Gohil:** Fair enough Manoj. Wishing you all the very best for the rest of the year.
- Moderator:** Thank you. Our next question is from the line of Karan Uppal from Phillip Capital (India). Please go ahead.
- Karan Uppal:** Yes. Thanks for the opportunity. So the ramp up which you are seeing in the auto business, could you clarify which areas you are seeing the demand? Is it EVs? Is it hybrid? Is that SDV poly engineering? Which are the areas in which you are seeing the demand?
- Manoj Raghavan:** We continue to see demand in AD-ADAS, in SDV as well as electrification. And some of our older relationships we have, we still continue to see work on body chassis infotainment cockpit areas as well.
- Karan Uppal:** Okay. Also, just wanted to check all the Mercedes deal which you have announced, if you can provide the ballpark range, what was the deal size? And what is the scope of work given to Tata Elxsi? Is it around OS, middleware, cloud verification validation all these areas? If you can clarify that? And how is the pipeline for SDV-related work?
- Manoj Raghavan:** Yes. So, I think we have whatever information on Mercedes, we have already issued a press release. So, we are not going to provide any further color other than what is already provided. But a lot of the business actually comes from the SDV area plus a little bit of powertrain as well out there.
- Karan Uppal:** And how are you seeing pipeline for SDV related deals, Manoj?
- Manoj Raghavan:** A lot of the OEM deals that we are signing up and a lot of the conversations are around SDV.
- Karan Uppal:** Okay. And the last question from my head is on FY '26 growth. So, in terms of vertical mix, how do you see each of these verticals performing? You have mentioned some ramp-up visibilities there in auto segment. And in media also, you are a bit positive. So, from a full year perspective, how do you look at the vertical risk?

Manoj Raghavan: I think of course, for the financial year, I think our growth will be led by the transportation business. That would continue because on the back of the deals that we have signed and also on the traction that we see in the market, the growth for the company will be led definitely by the transportation business.

Media and communication business will recover and that's the plan that we are working on. So, we will see the growth from Q2 itself. Healthcare, I would be a little careful there. There's tariff-related issues and so on and the fact that it's a smaller business for us and we don't have a large list of customers. It's a select set of good customers that we have. So that will be a little volatile for us. We hope in H2, we will start seeing the growth in that particular business. We have done a lot of investments there, including from a leadership perspective, from a sales perspective. We have done a lot of investments and we are hoping that from H2 onwards we will see an uptick in business there. And this business is also a little bit of a long lead cycle business. So, we are working on some good opportunities and so on, but closure takes time in the healthcare business. So, yes, so that's how the three businesses would plan out.

Karan Uppal: Okay. Great. Thanks, and all the best.

Moderator: Thank you. The next question comes from line of Arvind Jadhav, an Individual Investor. Please go ahead.

Arvind Jadhav: Thank you for the opportunity. Sir I am looking on the headcount reduction in the quarter-on-quarter and year-on-year, also the attrition rate is also increasing like in quarter-on-quarter and year-on-year. It looks like the business environment is quite challenging right now. So, is there any strategy to bring back the past glory in the performance going forward?

Manoj Raghavan: No, of course, that's what we have been discussing all along. I mean, the business environment is definitely tough. We've discussed about how the three verticals. So, we also talked about how the growth will be led by the transportation vertical that we have and that's what we have been working. The media and communication also will come back to growth. Healthcare will take some more time. So, we are hopeful that whatever steps that we are taking, we will be able to grow our business. Yes, the head count has come down because we have not been aggressively hiring. We still have a decent bench that is available. And as the business grows, we'll be able to utilize the bench at the same time, improving our margin as well. So, we're very conscious about the situation, Arvind. And hopefully, you'll see the performance come back in the coming quarters.

Arvind Jadhav: Okay. And any new strategy entering in the geography or any new verticals or any inorganic growth opportunity there?

Manoj Raghavan: We still would focus on the main geographies, right, which is U.S., Europe, Japan and India. Of course, we have entered into Middle East, Africa and Latin America and Southeast Asia. So, these are new geographies that we have some business today, not a major business, I would say. But hopefully, we'll be able to ramp up our business there.

On M&A, yes, at any point of time, we have certain pursuits. But again, it will only be whatever we look would be a tuck-in sort of an acquisition, right? So yes, and regarding new verticals, we are looking at adjacencies for each of our 3 main verticals. We are currently focused on the aerospace and defense as a new vertical, and we are investing. I think I talked about it in one of the previous questions. So that is what we will be focusing on in this financial year.

Arvind Jadhav: Are you optimistic on margin in the aerospace and defense sector?

Manoj Raghavan: Sorry, what is the question?

Arvind Jadhav: Regarding margin in the aerospace and the defense business? Are you optimistic on that?

Manoj Raghavan: Yes. We are taking a very differentiated position and a very different approach as compared to some of the traditional companies that operate in aerospace and defense, right? So, we believe we have an opportunity to win deals at decent margins there.

Arvind Jadhav: Yes. Sir, any guidance regarding FY '26 revenue and net profit. Any some idea?

Manoj Raghavan: No, we don't give guidance as a revenue or profitability.

Arvind Jadhav: Okay. And the last question from my side, sir. Is there any plan for the stock split or any bonus issue, for regarding the shareholders?

Manoj Raghavan: The question was addressed in our AGM by our Chairman. A lot of our shareholders have asked about it and we will be considering that in the Board, and we'll get back at appropriate time to the shareholders.

Arvind Jadhav: Okay. Thank you, sir. That's it from my side.

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

Sulabh Govila: Yes hi. Thanks for taking my question. My first question is with respect to the media vertical. So just wanted to understand this large deal that we had one last quarter. So, by when do we expect this to fully ramp-up? Can you provide any color around that?

Manoj Raghavan: Full ramp-up should happen by H2 of this financial year.

Sulabh Govila: Okay. So, you mean by the fourth quarter?

Manoj Raghavan: Yes. Between third quarter and fourth quarter, yes.

Sulabh Govila: Okay. Understood. And with respect to the mobility vertical, while you highlighted that there are certain deals which continue to ramp-up and there are more ramp-ups which are coming from 2Q onwards. Are there any potential areas of leakages that you still expect in the coming quarter, given that we mentioned that Tier 1 is continuing to be weak. And in JLR, we expect momentum to be maintained in the sense we don't expect an aggressive growth out there? And U.S. OEMs

may also be weak. So, if I add all of that, so it's probably 3/4 of the portfolio. So just trying to understand if there is any area of potential leakage or weakness, which is there in the quarter?

Manoj Raghavan: Tier 1 portfolio would continue to be under stress, and that is purely because of the business issues that the Tier 1s are having. Our revenues from Tier 1s have come down. I think we have reached a stage where I don't really foresee too much of a drop in that portfolio. But the fact is that their businesses are challenged. So there could be a little bit more of degrowth in the Tier 1s. But it should not impact us so much because the growth that we are seeing from the OEM side will be much larger and faster as compared to the degrowth. So, we should be able to show positive growth is our expectation.

Sulabh Govila: Understood. And then just the last question on margins. If you could provide the margin walk for the quarter, given that the cost increase this quarter is quite sharp. So just trying to understand what's the sort of investment that has gone in this particular deal on the media side?

Manoj Raghavan: Sure. I will ask Gaurav to take you through that.

Gaurav Bajaj: Hey. Hi, Sulabh. Sulabh, if you see our overall total cost, that has not gone up significantly. I think it is almost flattish or slightly up from the last quarter just by INR4, INR5 odd crores. But that cost increase is mainly on account of currency impact on the on-site people salary cost and some of the VISAs that has been applied during the quarter. However, the margin was the major flow-through and dip in the margin is because of the revenue sequential decline. Otherwise, on the operating side, the cost doesn't have any significant change.

Sulabh Govila: Okay. Understood. Thank you.

Moderator: Thank you. The next question is from the line of Rohan Nagpal from Helios Capital India. Please go ahead.

Rohan Nagpal: Yes. So, just continuing on the ramp-up within the OEM business. So, if I look at the impulse to spend and invest more in R&D and the electrification in SUV programs, etc, that has been constant for the last 2 or 3 quarters or maybe longer, actually. And if I look at the macroeconomic environment, it seems to be stable, if not deteriorated. I mean, TCS called out continued

uncertainty and (inaudible) called out a demand contraction. So that is in contrast with what you are seeing in that, you are fairly confident of growth from the OEM side of the business for you.

So, I'm just trying to understand qualitatively, what is driving the growth? what has happened now that the OEMs are finally ramping up their spending and there is increased momentum in the momentum in the enclosure?

Manoj Raghavan: I'm not talking about all the OEMs certainly deciding to spend and so on. I'm talking of the OEMs where we have engaged and OEMs where we have signed some of the large deals over the last couple of quarters, they are shown inclination to spend. So, I'm confident in the set of portfolio of accounts that Tata Elxsi has handling at this point in time, given that we had better

objectives in Q1, and we don't see any of the customers going back on the deals that they have signed. We are confident that will continue. I'm not talking about the larger overall macro and what is happening to the larger overall spend in the market.

Rohan Nagpal:

Fair enough. I was just asking because you said that there is there is a slowdown, so to speak, in North America, you're not quite sure when that'll come up, but you said Europe and Asia, you see that ramp. So okay, I guess it's within that subset for you.

But if you're looking at the pipeline, are you seeing if opportunities are increasing? Is the pipeline for follow-on work with your existing portfolio? Or are you seeing a slightly broader up in pipeline even for logos that you don't include you? Because I think you called out a new logos, right?

Manoj Raghavan:

Yes. So, it is both, right? Existing customers of us. Also, we see an uptick in business in the subsequent quarters. And the new logos that we've signed on, we are seeing that whatever large deals that we signed on, from an execution perspective, we continue to execute as planned.

Rohan Nagpal:

Okay. But all of this momentum is solely within your existing customers? Is it going to be difficult to expand to other logos within this year?

Manoj Raghavan:

No, I'm not saying that. We do have pursuits from a new logo perspective and new customers, right? So that continues. In fact, as we speak, there are other opportunities and deals that are chasing proposal being made. So, the good part is we are seeing all those discussions happening. Conversations with new customers happening. So that is positive.

That gives me hope that moving forward, in the next 3 quarters, we will be able to grow our business in the transportation industry.

Rohan Nagpal:

Okay. So, I just want to confirm that I'm understanding this correctly. So, it's not just an increase in the momentum of say, deal ramps within your customers, so there is an increase in the momentum or at least velocity of conversations with the broader automotive ecosystem with OEMs in Europe and in Asia. Is that correct?

Manoj Raghavan:

Yes, Europe and Asia. US continues to be slow for us.

Moderator:

Thank you. The next question is from the line of Rajakumar Vaidyanathan from RK Investments. Please go ahead.

Rajakumar Vaidyanathan:

Sir, so your revenue engines are not firing now. So, I just want to know if you have extensively invested in AI and GenAI, and whether you will be able to surpass performance in the past years with the benefit of AI and GenAI?

Gaurav Bajaj:

I guess your question was that once the revenue and all the verticals started to fire, whether we would be able to get back to our historical margin using GenAI and AI. I think we answered that question previously that I think the focus is to steadily grow from here. And once the revenue gets back, I think we are very confident that we will get back to our historical levels of the

margin, but that would be our big term aspirations to get to those levels of margin. But I think from here onwards, you will see there will be a gradual uptick in the margins. So, as we progress, steady revenue starts to build up on a quarter-to-quarter basis.

Rajakumar Vaidyanathan: Okay. Sir, just to labor on the same question. So actually, what I want to know is what is the impact of this AI on your head count? In other words, if you were using one head count earlier, has it brought down the number to 0.9 or 0.8, what is the number that you want to see?

Manoj Raghavan: No, of course, we are using AI and GenAI. We are increasingly talking to customers and so on. But unlike IT or the BPO or some other industries, the impact of AI is not going to be very dramatic as we speak, right? There are a lot of legal issues, customers are talking of open-ended liabilities. There are a number of legal issues to be sorted off before you can see uptick of usage of AI in the engineering today.

So, you cannot assume that because AI and GenAI is now available, you will be able to deploy lesser manpower and so on and so forth. Yes, for certain tasks, it is possible. For a certain type of projects, it is possible. But it is not generic for all projects. So, I'll be very guarded and not to mislead you in saying that, look, GenAI is a panacea for all issues that we're going to have. That's not going to happen.

Rajakumar Vaidyanathan: Okay. Got it. And sir, the next question is I just wonder how big is the gaming segment for you folks? And any outlook there?

Manoj Raghavan: No, we don't operate in the gaming segment. We used to maybe 10 years ago, but we have sort of moved out of the segment.

Rajakumar Vaidyanathan: Okay, sir. And lastly on housekeeping questions. So, I see the tax rate has moved to almost 27% in this quarter. So, is that the guidance for the whole year?

Gaurav Bajaj: 26% odd. I think we have been mentioning during the last few quarters that some of the benefit under the SEZ is coming to closure, and we have been moving from 100% tax bracket to 50%. And hence, the tax will move towards north of 25%, that's what we are seeing now.

Last quarter was lower because there were certain tax order credit income tax difference orders were there. Otherwise, if you see our normalized tax rate for the last few quarters, it is now about 26-odd percentage.

Rajakumar Vaidyanathan: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will take that as our last question for today. I would now like to hand the call over to the management at Tata Elxsi for closing comments.

Manoj Raghavan: Thank you once again for all investors for all the questions that you have. I look forward to seeing you again end of next quarter. And hopefully, we will come up with a much better performance that we anticipate in the coming quarter. Thank you so much and look forward to talking to you again soon. Bye-bye.

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.

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