"Tata Elxsi Limited
Q1 FY '26-27 Earnings Conference Call"
July 14, 2026

MANAGEMENT: **MR. MANOJ RAGHAVAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – TATA ELXSI LIMITED**
MR. NITIN PAI – CHIEF MARKETING AND CHIEF STRATEGY OFFICER – TATA ELXSI LIMITED
MR. NALIN RANA – CHIEF FINANCIAL OFFICER – TATA ELXSI LIMITED
MS. SNEHA V – COMPANY SECRETARY – TATA ELXSI LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY 26-27 Earnings Conference Call of Tata Elxsi Limited, hosted by E&Y. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone 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 very much. 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 this 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 risks that could cause further results, performance or achievements that differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results and answer your questions today, we have the senior management of Tata Elxsi represented by Mr. Manoj Raghavan, Managing Director and CEO, Mr. Nitin Pai, Chief Marketing and Chief Strategy Officer, Mr. Nalin Rana, Chief Financial Officer, and Ms. Neha 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. Very good evening to everybody who's joined us today for the Q1 FY 27 investor call. I hope all of you are fine and doing well. I'm pleased to announce that Tata Elxsi has passed a key milestone of crossing more than INR1,000 crores of quarterly reporting operating revenues by delivering INR1,021.1 crores in the first quarter of FY 27. In constant currency terms, our revenue grew by 6.5% year-on-year and 1.3% quarter-on-quarter.

The growth was led by our major verticals, transportation and media and communication, which grew 6.7% and 11.5% respectively year-on-year in constant currency. We see this performance as a reflection of the strength and relevance of our unique design-led and AI-enabled engineering capabilities, supported by large strategic engagements in our chosen industries. We posted an EBITDA of INR216 crores, which grew at 15.7% year-on-year and an EBITDA margin of 21.2%.

The media and communication business delivered robust growth of 4.7% quarter-on-quarter in natural currencies and 2.9% quarter-on-quarter in constant currencies, which translate to a year-on-year growth of 22.2% in natural currencies and 11.5% in constant currencies. The strong performance was enabled by the ramp-up of key engagements which we announced in the previous quarters and large programs with global operators and broadcasters.

Our transportation business, which contributes more than 55% of the SDS segment revenue, reported a resilient performance in an otherwise challenged macro environment with a growth of 6.7% year-on-year in constant currency and 13.3% year-on-year in natural currency. This was led by large automotive OEM engagements and strategic off-road and aerospace deal wins. We continue to strengthen our pivots towards OEM and today 78% of our automotive revenues is from our OEM customers.

The healthcare business exited near flat with a -0.3% quarter-on-quarter in constant currency, reflecting the muted global healthcare business environment. The anticipated momentum was staggered by delayed deal awards from some of our key customers. We however remain excited about the long-term prospects of this segment.

We continue to invest through scaling our newly launched platforms such as ViTel, and AnaTel, reimagining our offerings with AI, GenAI and taking center stage in medtech and healthcare events, setting ourselves to capture emerging opportunities. In the quarter gone by, we have accelerated our efforts to expand platform-led offerings. Our Neuron platform portfolio has enabled Sky in Europe to transition towards zero-touch network operations with enhanced cybersecurity, delivering upto 30% to 70% efficiencies in various parameters.

Our AI-led material intelligence platform ViTel also inked a strategic deal with a global medtech company. We are executing upon our future-focused strategy and will continue to intensify our investments in specialized talent, rigorous upskilling, AI-powered platforms, tools and infrastructure that strengthens our human plus AI plus domain proposition. These forward-looking investments will enable us to stay at leading edge of technology advancements while accelerating value creation for our customers.

The US region performed well for us across verticals led by new deal wins and deal ramp-ups. Some of these strategic programs demand quick ramp-up at onshore for transition support and initial stabilization. We have incurred additional cost of deploying forward teams as well as specialist third-party contractors to help accelerate transitions and mitigate visa delays for our engineers.

This is partly reflected in our onsite-offshore ratio and bottom-line performance and should ease over the next two to three quarters. We are firmly focused on sustainable growth, deepening our engagements with key customers and positioning ourselves to shape and win strategic long-term deals and add marquee customers. We look forward to carrying the growth momentum to subsequent quarters while remaining steadfast on our operational rigor and business discipline. Thank you and over to Shashank for the Q&A session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Your first question comes from the line of Bhavik Mehta with JP Morgan. Please go ahead.

Bhavik Mehta: Hi, thank you. So, a couple of questions. Firstly, Manoj, if you can give some outlook on your three verticals given, you know, the Middle East conflict still remains in place. So, you know, how are the discussions with clients evolving on spending intentions for the next few quarters?

And if you can, you know, segregate it across the three verticals, how they're different. And secondly is on margins. You did talk about some onshore investments and subcontractors as well. So how should we think about the margin trajectory going forward? I mean, is this like a one-time thing which is in the base now or it will just continue for the next few quarters? So any color on the margin outlook as well for the year?

Manoj Raghavan: Sure. I think, I mean, upfront let me tell you, I think it was a reasonable quarter for us because two of our larger businesses, which is transportation and the media and communication vertical, had a pretty decent performance. I think media and communication vertical had been sort of underperforming for quite some time and I think with some of the deals that we closed in the previous quarters, we've finally been able to ramp up fully.

So, I think as we speak, there are deals that we are chasing, there are some pretty large consolidation deals in the media and telecom space and some of these we are very, very confident we should be able to swing in our favor. So, I think over the next two to three quarters, we strongly believe that we will be able to continue our growth in the media and communication vertical.

From the transportation vertical, yes, I think the Europe situation is a little we have to wait and watch, given the challenges in the German market and so on. We have not been affected as much and the deals that we have closed, we continue to execute. There is some slowdown in the new deals. But having said that, I think for us, the US market, we were able to really grow, not just the automotive revenues but also the adjacency revenues including the off-road and farm and equipment, as well as the aerospace and defense segment.

So overall when we look at it from a transportation business, yes, there is softness in Germany in particular, but we strongly believe that all the other adjacencies and the efforts that we're putting in other markets including Asia, including India, I think we've seen some pretty very good deals that we've closed, over the last, couple of quarters and these ramp-ups are happening as we speak.

So, I strongly believe that for both our media communication and transportation, we should see, growth, over the next two to three quarters. That visibility is coming in as we speak.

Healthcare again, it's a little bit of a moving target. It's a smaller business for us, less than 10% of our revenues come from healthcare, but it's a very, very important business for us because we strongly believe we have built fantastic capabilities including a lot of AI, GenAI related tools that we have built for this particular market.

As you know, in this particular industry, the deal pipelines, the deal closures, would take some time. There's some very good conversations happening. I wish we had a better, story to say and we were really hoping that look, Q1 would be a growth story. Unfortunately, some of the deals that we have, we have been discussing, we've still not been able to close it and complete the paperwork and so on.

So having said that, in the mid-term to long-term, this is an area that we're investing in. We have built fantastic capabilities and we strongly believe that this will eventually, in this financial year, we will see growth in the healthcare and life cycle, life sciences space. So, this is somewhere we're definitely continuing our investments.

On the margin side, I will request Nalin to give you an overview. I think we have had some one-timers that have hit us in the quarter, but definitely we have a plan to grow back and if you look at it over the four quarters, really look at how we can get back to our margin profile. So, I will hand it over to Nalin to answer that question.

Nalin Rana: Thanks, Manoj. So, if we look at our EBIT margin, so our EBIT margin has decreased 330 bps on a sequential basis and increased 80 bps on Y-o-Y basis. So, looking at the change in margin in three buckets, right, to give you some color.

So, the first bucket is cross-currency gains that we have got in the quarter. That's about 40 bps to 50 bps. Then we have in this quarter around 150 bps of one-off costs or short-term costs. And there's a third bucket of 220 bps which is towards investments in people, go-to-market and capabilities. Now taking these, the second and third buckets one by one, right? So, 150 bps. So, 150 bps this quarter, we had to incur some transition costs for some of our large consolidation deals that are taking place. Second one is there was some one-time costs that we also took towards retention of select employees who we believe are sort of critical for the business.

Third one here, there were costs in relation to a particular customer that we had to incur in this particular, in this quarter, which we do not anticipate going forward. And the fourth is upfronting of certain annual costs. So, these are absolutely standard costs, pretty much fixed on an annual basis, but we had to for various reasons upfront some of these costs in this quarter. So, this bucket, the way we should think about it is most of these would go away in the next quarter. Some of these will transition over the next couple of quarters.

Then there's this third bucket of about 220 bps to 230 bps. Now this is on account of few factors. One is investment in onsite sales and delivery. In this quarter we saw, significant ramp-up in some of our US-based deals. So, we had to ramp up our delivery there. Lot of this ramp-up we had to do through subcontractors because of A, the short timelines, B, also visa restrictions that are existing in the industry.

In addition to this, we've applied for visas of our own people who are, who will sort of supplement these contractors or replace them over a period of time, right? Then there were costs again for these deals, there were costs related to ramp-up of these deals. Then we are, as mentioned by Manoj earlier, ramping up our investments in specialized talent, AI tools and infrastructure.

Lastly, we had, very recently a Chapter 11 in one of our customers, which sort of led to higher provisions for the quarter, which you'll be able to see in the financials.

Then the second bucket, the way I would think about it is, these are little stickier, but also should go away over a period of time. So subcontractors, we'll look to make optimize those by moving some workstreams offshore or our own employees replacing the subcontractors over a period of time and finally leave only the critical sort of resources that are there. And similarly, customer-related ramp-up costs, as sort of our deals get ramped up and stabilized, I think these should also stabilize over a period of time.

So, just to recap, the first bucket around 150 bps, they should go away more quickly. Second bucket should improve over a period of time.

Bhavik Mehta: Okay, got it. That's helpful. Thank you.

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

Vimal Jamnadas Gohil: Yes, thank you so much. Sir, just one follow-up on the margin question. In the other expenses line item, which is about INR135-odd crores, are there any forex losses also that are being, that are built in this particular quarter?

Nalin Rana: Yes, so this is what actually I referred to. Other expenses' large increase can be attributed to two items. One is a Chapter 11 at one of our customers where we had to provide for the receivables on a conservative basis. The second one related to upfronting of certain sort of annual costs. So not, I would say not a big forex item, but these were sort of the two main drivers.

Vimal Jamnadas Gohil: Okay. Fair enough, sir. Sir, I missed on, missed out on the auto OEM contribution in this quarter. How much was that?

Manoj Raghavan: 78%.

Vimal Jamnadas Gohil: 78. All right. And sir, lastly, we've been talking about revenues from adjacencies. When can we see some sort of quantification of disclosure as to how much are we getting from these adjacencies?

Manoj Raghavan: I think in this financial year at some point in time, we will definitely be able to disclose. Hopefully, by end of the financial year, we should be in a position to tell you exactly.

Vimal Jamnadas Gohil: All right. Awaiting that, sir. Thank you so much and all the best.

Manoj Raghavan: Thank you.

Moderator: Thank you. Your next question comes from the line of Ravi Menon with Axis Capital. Please go ahead.

Ravi Menon: Thanks for the opportunity and congrats on a really good performance in the media and communication segment. Just wanted to check what's the pipeline like in transportation and are you seeing automakers especially look at new hybrid platforms? What sort of role can you play in that? And in the media and communication segment, one of your top customers, it's undergoing a corporate restructuring. Any changes to your engagement that might come either positively or negatively from that?

Manoj Raghavan: I think coming to the MCV, we are discussing with our customers at this point in time. There is, there is no clarity in terms of is it going to affect our business or not. If you ask me, I would say that it'll only help us. It could be positive because we have not deeply penetrated the NBCU piece. So that is an opportunity for us to really go there. So at this point in time, there's nothing to inform in terms of 'Is it going to affect us or not'. We are keenly watching that space.

From an automotive customer's perspective, we've already discussed. I think globally, yes, both in the US and in APAC, Japan and India, I think we've seen a, we've seen traction. There are a lot of large deals that we are bidding for. Continental Europe is a little bit of a wait and watch, as we speak. Though there are opportunities that we are bidding for and there are large deals that we have placed, given the uncertainty in the market we're not sure on the pace at which some of these decisions will happen. So, I think there's a little bit of a wait and watch there. But otherwise, overall automotive industry, I think, we should see some good growth coming in, minus Europe.

Ravi Menon: Thank you so much, sir. And the overall headcount is down a little bit. So what's the hiring plan, especially for fresh college graduates this year? And how does that compare to the last year's fresh college graduate hiring?

Manoj Raghavan: I think we'll, we are on a wait and watch, right? I think our utilization is just above 75% or so right now. We still have some leeway to go. We have been hiring freshers as we speak, but the numbers have been pretty small. So I think, hiring fresh grads, we will only look at it as our growth momentum picks up.

So, it'll be very, very moderated the way we go ahead and hire, especially with now AI and GenAI also coming in, we wouldn't want and go and hire a huge bunch of freshers. So it's a, as I said, it's a wait and watch. We are hiring freshers, but it's at a very moderated level. I think last quarter we would have added about 100 or 150 engineers from the colleges. So, it's a small number that we add.

Ravi Menon: Thanks. And given the current market, you think it's actually preferable to hire laterals because it's still fairly easy?

Manoj Raghavan: Yes, laterals only very, very specific, where there is a need, right? Most of our focus is utilizing our bench and utilizing our existing team members. And of course, focusing on retaining our key talent.

Ravi Menon: And could you talk a bit about the sales investment that you made?

Manoj Raghavan: So I think both in US as well as in Europe, we have added sales headcount. We've also added advisors to support us in some of the large deal pursuits. Apart from that, we've also spent in terms of events that we participated in to build our brand and also to gain visibility in the larger market space. These are specialized events. We're not going after those large events and so on. For each of our industry verticals, there are specialized events and that's something that we have focused on and spending money.

Ravi Menon: Thank you so much, sir. Best of luck.

Manoj Raghavan: Yes, thank you.

Moderator: Thank you. Your next question comes from the line of Moez Chandani from Ambit Capital.

Moez Chandani: Yes, hi. Good evening and thank you for taking my question. My first question was on your overall growth expectations for FY27. I think you've said last quarter that you probably would be aspiring for a high-single-digit sort of a number. Is that something which is still the aspiration given issues that you've outlined in transportation? Or do you think it would be more, say, closer to the mid-single-digit number for the year?

Manoj Raghavan: No, so our aspiration continues to be the same. We just need our healthcare business also to fire up, and then I'm sure that we will be able to get to that sort of a growth rate that we are aspiring. So I think we're not changing our aspirations.

Moez Chandani: Okay. Understood. And then secondly, just broadly on, I think in a previous question you briefly touched upon AI and that's impacting some of your hiring, but how have your conversations with clients been on the AI implementation? What are your clients saying and is that impacting, say, your volume growth or your T&M projects going forward?

Nitin Pai: So maybe I'll take that question, Moez. This is Nitin here. I think AI, in general, on one hand in product engineering, given the fact that the industries that we operate in are largely mission-critical, especially automotive and healthcare, has been very careful and measured in the first place, especially when it comes to implementing it into the SDLC process, into products that will deploy in the future, so there is a certain amount of care and caution that is being exercised.

But having said that, I think we are driving a very strong path of providing a path of transformation aided by two parts. One is the platform-led offerings that we're building. So what we're saying is it's not so much about AI for itself. Each of these industries require solutions that are tailor-made to their context that provide for coverage of certain aspects of cybersecurity, of FMEA and so on that are very specific to those industries.

So to that extent, I think what we're doing is we're taking a very domain plus AI, if I may, view of each of these industries and we're saying, look, you don't have to transform all at once, but we will provide a platform-led approach that allows you to take your SDLC part by part and still connect it up at the end.

So what we're actually seeing is that kind of a measured, calculated adoption. And I think we're doing very well there. So to that extent, I don't see deflation, I don't see shrinkage, I don't see any of that, we rather see opportunities. But having said that, I think the overriding problem is and point is the spend that is being earmarked for AI unfortunately is also kind of curtailing R&D spend, if I may. So I think that's the larger perspective rather than anything else.

Moez Chandani: Got it. Thank you. That's all my questions.

Moderator: Thank you. Your next question comes from the line of Amit Chandra with HDFC Securities. Please go ahead.

Amit Chandra: Yes, thanks for the opportunity. So my question is on the increased investments that we have been doing. So if you can elaborate a bit more on what are the investments around? So these are mostly like platform investments or you're spending more on R&D or is it more related to client-specific engagements that we have? As you said, we are investing more in subcontracting, investing more in onsite and is it fair to say that the new deals that we are taking, they are like initially low margin deals?

Manoj Raghavan: Yes, so these investments definitely are around building specialized talent pool, that is definitely there. We talked about the AI infrastructure that is needed that we are building. So and also all the tools and the cloud investments that are needed to deliver value to our customers. So it's a combination of all of that which are the investments.

And, of course, in some of the large deals that we have taken, there is also the transition cost. There is some bubbling of costs that happens because these are typically 3 year or 5 year deals wherein in the first quarter of commencement of the deal, there is some amount of bubble cost that, that comes in. So these are all the investments that we are doing and that is sort of affected our margins in this quarter.

Amit Chandra: Okay. And in the transportation vertical, obviously OEM is now 78% of the automotive revenue. So like within the OEM bucket, how are you seeing the top client and the non-top client moving? And also if you're seeing some softness in some of the OEM accounts, especially what is happening in the European region? So if you can provide the commentary on what is happening with the OEMs?

Manoj Raghavan: Yes, so the top, top customer has been pretty steady for us. So that's definitely a positive. And I've already indicated the softness in the OEMs in Germany. I mean, we have, there are large deals that we've already closed. Those ramp-ups are going a little slow there, as a result of which we have not been able to achieve what we expected to achieve in Q1. But I'm hopeful that over the coming quarters, we will be able to ramp up to the expectations. The good part is we've had a good recovery in the US as well as in the APAC region. And all that has actually contributed to the growth in the automotive segment for us.

Amit Chandra: Okay. And lastly on the subcontracting part, if you can quantify the subcontracting cost and what is it as a percentage of revenue in this quarter versus last quarter?

Manoj Raghavan: I'm not sure whether we can give specific details of the subcontracting cost.

Nitin Pai: Amit, maybe this is Nitin here. I can just provide one slice which is if you look at our onsite-offshore ratio, you'll see that the ratio has shifted by about a percent about 90 basis points, 0.9%. So you can kind of and this all happened within one quarter. So you can look at that part and assume that a fair part of that is what we contracted out. And that has an associated impact on margins.

Amit Chandra: Okay, sir. Thank you and all the best.

Nitin Pai: Thank you.

Moderator: Thank you. Your next question comes from the line of Karthik with RK Investments. Please go ahead.

Karthik: Yes, okay. Thank you. I was talking about this whole (inaudible) impact of using AI autonomous tools on the software coding and the fact that it might hit the engineering R&D higher than traditional IT services. So I wanted to understand how Tata Elxsi is protecting their margin if in such impact like this. And the second question is on, on the slide on transitioning to platform-led engineering. So wanted to understand how aggressively you're deploying these platforms like Neuron in terms of addressing this pricing pressure. Anything more on how the clients are using these proprietary platforms?

Nitin Pai: So Karthik, this is Nitin here again. Maybe I'll take those two questions. From the first part, as far as the impact of AI on the SDLC, I think the point I was trying to make is when you're working with B2B customers in the chosen industries that we operate in, which is healthcare, media telecom, as well as automotive and transportation, you tend to have one, very large codebases. Two, these have been built over many, many, many years, so this is not fresh code. Three, these are fairly complex and built by multiple teams. So first you have to understand the scale, size and complexity of the problem. Like they say, a car has a hundred times more code than a Boeing 777-747 does. So that's the complexity we're talking of. part two, while we tend to think of software coding as the biggest part of what work is done, the reality is that product planning, feature planning, architecture, requirements capture, requirements mapping, regulatory alignment to the multiple countries that these products would be deployed in, actually is a bigger part of the problem than actual coding.

Coding is just one part of the whole cycle. And that is where we believe that while AI can come in and you can say that look, software code I can write C++ code 20% faster, 30% faster and so on, but the net impact of that part of saving in the entire lifecycle is not too high. That is part one.

Part two is customers are not as much focused on cost savings as they are on whether it delivers productivity or quality. Because in the ranking of CTQ, cost, time and quality - I think for the industries that we operate, the metric is inverted. It's quality, time and then cost comes last. So to that extent, I think the proposition stays strong, which is Tata Elxsi, leading-edge technology capabilities, deep domain expertise, now backed by AI.

And I think that is the proposition that we're offering, all of course, delivered from India at scale. I think this is the real, if I may, tagline that we're delivering on. And I believe that is still very, very relevant now and going forward.

Your second question was to do with our own platforms. If you think about it, there are two types of investments that we're making. One is in platforms like TETHER and NEURON and so on, which go into the customer products and services because it's transforming their products and services. And I think NEURON, that's why we took a lot of time to craft the, the value that our customer is deriving. So the press release that we made with Sky, I think clearly calls out multiple dimensions on which we're delivering value, whether it's efficiencies, whether it is autonomous operations, whether it is customer experience and so on.

The same is with our connectivity platforms, right? Because these are customer-facing. Investments that we're making in platforms like ViTel, AnaTel or DevStudio are more to do with how do you accelerate the software development lifecycle of the customer. So this is something that end consumers will not see. This is something that provides efficiencies but more focused on quality and time saving for rather than on cost, right?

So that is the view we're taking. Traction is fantastic. Reception is fantastic. Adoption, we believe will be thoughtful and calibrated simply because customers are not going to jump on the first platform they see. I think they're taking a very careful long-term view of what are we doing, who are we working with, how do we make sure that what we are taking on and adopting is supported for the long term. So I think these are decisions that customers take very thoughtfully and carefully and hopefully the proposition that Tata Elxsi provides both as a brand and as a capability stands us well.

Karthik: So if I have to summarize, you're saying the first one, there is not much of a deflatory impact as such because the cost of the R&D stuff is much, much lesser in the whole pipeline. And for the second one, you're saying it's a long-term view, it doesn't have anything to do with the billing rates right now, it's a really a long-term view?

Nitin Pai: Correct. But it definitely is making a positive impact on our win ratios and winnability because it is definitely having a halo effect even as we speak on what we offer to customers and what customers believe we are capable of for their long-term transformation.

Karthik: Okay. Yes. Thank you, Nitin.

Nitin Pai: Thank you so much, Karthik.

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

Sulabh Govila: Yes, thank you for taking my question. So I had two questions, both on the investments that we made in the quarter. So one is on the onsite investments in delivery that you spoke about. So historically we've excelled at an offshore-centric delivery model. So should we see that this investment on the onsite front as a change in the nature of demand versus what we used to do earlier and this is more structural or you would say that this is more tactical and specific to a few projects?

Manoj Raghavan: Yes, I think, you know, as I said, right, some of the large consolidation deals that we've won needed, you know, onsite resources to be available. But over the long term, the business model is to, you know, move a lot of that work offshore. So we're not, we're not moving away from a business model perspective. You know, we would be in that, you know, 75/25, 75 being offshore and 25 being onsite. Today I think it is 74/26 or so, it's just a 1% that we've moved, but we will over the, over the subsequent few quarters as Nalin explained, you know, we will be able to, you know, move a lot of this work back offshore and, you know, we're not changing our business model if that is the question.

Sulabh Govila: Okay, okay. Understood. And secondly, you know, a large part of the costs that you mentioned, they were either transition-related or ramp-up related. So is this specific to a particular vertical or is this broad-based? And the benefit of this investment on revenue, have we already seen that in this quarter or should we see that in the coming quarter?

Manoj Raghavan: We've seen, you know, partially we've seen the uptick in revenue both in our media and communication vertical as well as in the transportation vertical, primarily if you look at it from a US geography perspective. I think our US geography has grown pretty well and I think that is one of the reasons over the subsequent quarters, you will see us, moving back to offshore-based execution.

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

Manoj Raghavan: Thank you.

Moderator: Thank you. Your next question comes from the line of Karan Uppal with PhillipCapital India. Please go ahead.

Karan Uppal: Yes, hi. Thanks for the opportunity. Just a question on the transportation vertical. So last quarter US OEMs have commented pretty strongly in terms of R&D investment either on SDVs or investment in hybrid platforms. So are you seeing any traction on, on these areas from, from the US OEMs? And secondly, do you expect the transport vertical to start growing from Q2 onwards sustainably?

Manoj Raghavan: A lot of the deals that we are discussing and a lot of the deal pipeline is based on SDV, so that continues. As I've explained, you know, earlier, you know, both US and APAC regions, we are seeing good deal pipeline and good conversions as we speak. Europe is a little moderated right now. We would wait and watch in terms of specifically Continental Europe given all the troubles that the OEMs there are facing. But having said that, I think overall both automotive and adjacencies, we see growth happening in, in subsequent quarters.

Karan Uppal: Okay. Got it. Manoj, can you just help us with the broad split of the transport vertical within US, Europe and APAC, if that is something which you can share?

Manoj Raghavan: I think for us still it is Europe heavy. If I'm not mistaken, close to, close to slightly more than 40% of our revenues would come from Europe and about roughly, roughly about 25%, 30% coming from US and remaining from APAC. So Europe is still the number one geography for us from an automotive perspective.

Karan Uppal: Got it. So despite pressures in Europe, you are still expecting the US and APAC to basically offset that and help?

Manoj Raghavan: Yes, Yes.

Karan Uppal: Thanks. And just on margins, so shall we expect 19% EBIT margins as, as the floor from here on we should expect improvement in margins? How should we think about it from a next three quarters perspective?

Nalin Rana: Sure. So Karan, as mentioned, you know, there is one bucket of costs which we would see for which we are, which should go away, you know, in the next one or two quarters, around 150 bps or so. Although this will be partially offset by, or this will be offset by, you know, wage hikes that we have planned. So, you know, we had done a cycle of wage hikes last year in October for juniors and in Jan for seniors.

We are implementing a company-wide revision in Q2 to remain competitive in retaining our talent, right, that we are investing in and that we want to retain who have done projects, valuable projects, etcetera. So next for the next quarter I would say the margins will be sort of a combination of two things, impact of wage hikes coming in, but also impact of some of these one-offs going away.

So it will be sort of a balance of these two things. Post that, you know, once the wage hikes are fully sort of baked in, we should sort of see a ramp-up in margins as we go through the rest of the year as sort of our revenues pick up and wage hike is sort of already built in. So there should be a sequential ramp-up as we move towards Q4.

Karan Uppal: Got it. Thanks a lot and all the best.

Nalin Rana: Thank you.

Moderator: Thank you. Your next question comes from the line of Abhishek Shindadkar with InCred Capital. Please go ahead.

Abhishek Shindadkar: Hi, thanks for the opportunity. My first question is regarding this one-time cost that we had to bear for a customer. Probably I missed the customer vertical, but I presume it is US and transportation. But what I wanted to understand, is this a generic trend that customers are asking, you know, the vendors to onboard subcontractors because we heard a similar trend in one of the other IT companies as well? And, you know, just wanted to understand what could be our reaction in case, you know, there are other customers who come back with some similar demands? That's the first question.

The second question is on the wage hikes from 2Q. Can you just quantify given that we are doing it for a company-wide versus staggered last year? And the third one is for Nitin. Nitin, you mentioned that the AI spend is curtailing ER&D. I mean, that was a comment you made. Can you just elaborate in terms of what are the clients thinking given that, you know, the perception was that ER&D is something, that would given its revenue generating may not be paused immediately? Thank you for taking my question.

Manoj Raghavan: Yes, I think I'll answer the first question in terms of contractors. Customers are not asking us to take on contractors. What is happening in the US with H-1B visas, hard to come and so on, when we win a large deal, for transition and so on, we need to have our own people out there maybe for one quarter or a couple of quarters and then move work offshore and so on.

So, at any given point of time, we have a limited set of visas that are available. So we need to augment the team with contractors so that we do due diligence and we do the transition within the timelines and so on. So that is what this increase in one-time costs are. We have never seen customers asking us specifically to onboard specific consultants or contractors. So that's not something that we have seen.

Nalin Rana: On the wage hikes. So, wage hikes, you know, I would say that at this stage we are still sort of, you know, working through it, right? And there are couple of elements there. So, while we are doing it, it's a company-wide hike for all eligible employees. And given we have a lot of employees who have sort of joined us at different points of time, there's a set of employees who are not eligible for a wage hike as of now. Again, this wage hike is a combination, the hike is a combination of variable and, you know, fixed, etcetera.

Manoj Raghavan: I think we'll get back at the end of Q2, right? We don't want to give you a number at this point in time.

Nitin Pai: And on the last question, Abhishek, on the point about whether AI has an impact on curtailing R&D spend, I meant it in the context of where budgets get allocated. So ultimately R&D, some of it is strategic, some of it is discretionary.

So, when you are spending money and you have to now decide where you want to spend money, I think you see certain companies prioritizing AI because obviously it seems like the flavor of the day, the need of the day, the priority of the day. So, to that extent, it does have a little bit of an impact on how much budget is being allocated to R&D, right? So that is the point that I was trying to make.

Abhishek Shindadkar: So, this is more about right shifting of the budgets rather than deferment or let's say perpetual deferment, right?

Nitin Pai: That's correct.

Abhishek Shindadkar: Got it. Thank you. That was all my questions.

Nitin Pai: Thanks, Abhishek.

Moderator: Thank you. Your next follow-up question comes from Sulabh Govila with Morgan Stanley. Please go ahead.

Sulabh Govila: Yes, hi. Thanks for the opportunity again. So, my question was on the wage hike. You also mentioned when you talked about the investments, you also mentioned that there were certain interventions that you had to do for retention of select employees during the quarter. And now we are also talking about, you know, preponement of wage hikes. I'm just trying to understand - the attrition in the industry right now doesn't appear to be high. So, I'm just trying to understand, you know, what you're seeing differently which is, you know, leading to some of these initiatives at your end.

Manoj Raghavan: Yes, so, our attrition is around 16% today. So it's not about how much your attrition is, it's also about - are you able to ensure that all your key critical talent are taken care of, right? So, I think with the, with the number of GCCs coming into India and aggressive hiring and so on, especially for AI-ready talent that really understands domain and digital technologies, you know, there is still a huge demand.

Though you might say at an overall level in the industry the demand is muted, but for very, very niche specific talent that we carry, I think there is a still a huge demand. So we need to ensure that we take care of that talent and, and whatever we're doing is to ensure that, you know, while our revenue, clock picks up and we are seeing traction in the market, we don't want to be in a situation where we are struggling to service them and, you know, we have to go out and hire, right? So, we really want to retain the key talent that we have.

Sulabh Govila: Understood, sir. Thank you. Thank you for taking my question.

Moderator: Thank you. Your next question comes from Rishi Mody with Mody Advisory. Please go ahead.

Rishi Mody: A couple of quick questions. On the media and communications piece, in the previous quarter you mentioned that the industry growth had not yet picked up. We've done well in this quarter. At least wanted to know whether the broader industry has picked up or it's largely us outperforming. And if it's not the industry pick up, when do you see the industry picking up and how much delta can we capture just from the industry growth?

Manoj Raghavan: I think the media and communication industry in general and the vertical for ours, I think over the last few quarters have been going through, a very turbulent sort of ups and downs, but I think, you know, over the last two quarters, what we've seen is we've seen some large consolidation deals from, some of our customers. And this industry is also going through a lot of M&As, right, as we speak, and there are a lot of strategic decisions that customers are taking and so on.

Now what has helped us is in two such transactions is that we were the incumbent and we were, you know, providing significant engineering outsourcing, we were the prime vendors in a couple of these deals, right, couple of these customers, there were significant M&As that have happened.

And as a result of which, suddenly we had access to a much larger pool of, you know, projects to focus on. And when an M&A happens, of course the customer is trying to see how to optimize and how to move work to vendors that are lot more offshore-centric so that their overall cost can come down. So, I think our value proposition in terms of domain, you know, digital as well as offshore-centric really clicked with some of these, you know, customers which have gone through these M&As and so on. And I think that has helped us really win some deals which means essentially, we have been able to eat into our competition's pie of business by showing superior execution and superior offshoring and offshore capabilities. And that has helped us in this business.

Rishi Mody: Right. So, Manoj, just to get my understanding right, we were already onboarded with the companies which acquired other companies and rather than got acquired by other companies and hence the new target company we were able to replicate the same thing. So, on the larger front, would you say more of our customers have been acquirers in this consolidation phase or now do we see our companies getting acquired and hence we have to get re-evaluated by the acquirer?

Manoj Raghavan: It is both, right? In many cases our customers were the acquirer, but there were one or two cases where our customers have also been acquired. But that also has, so the acquiring company did not have a footprint in India. Okay? So that helped us because they looked at our operations, they looked at how we are delivering and suddenly they realized that Yes, Tata Elxsi is a valuable partner which they want to engage with.

Rishi Mody: Okay. So, we are not being re-evaluated largely any of these acquisition-led re-evaluations that normally happen.

Manoj Raghavan: Yes.

Rishi Mody: That's great news.

Manoj Raghavan: All that has happened, we were able to show a superior value, right, through our offshoring.

Rishi Mody: Got it, got it. One on the recent, all of these immigration changes that keep happening, right? Visa fees keep getting altered, H1B quotas keep getting altered. Do we have provisions in our contracts with our customers that say if there's an unreasonable amount of change, and that you have to bear or like, who absorbs the hit on these externalities, and if you could just give me an understanding how that shapes up?

Manoj Raghavan: No, the, the usual visa fees that go up and so on, right, not just in US but in UK and Germany and many other places, right, that that we have to absorb, right? When I say absorb, of course there is a COLA increase that we negotiate year-on-year and so on. So, in some way, we do get, I mean, in quite a few customers we manage to get some amount of increase and so on.

It is not as if that oh, okay your visa fees have gone up by $2,000, so hey customer, customer will pay exactly that $2,000 to us, right? It's more an overall, it is bundled into our cost of operations and it's bundled into our hourly rate, and that's how we manage it. But, when you talk about H1B like $100,000 and so on, no customer is willing to pay that. So that is something we can't go back to customers.

Rishi Mody: Right. So, then we will have to increase our onshore mix as we go ahead, right? If we get higher growth out of the US market.

Manoj Raghavan: Yes, so that is where, if we don't have the visas, we depend on third-party contractors and so on. We have MOUs and partnerships with a set of companies. We depend on them to really help us in the short term.

Rishi Mody: And these US contracts that we currently have, I'm assuming, the new contracts you could price in a higher onshore mix, but the existing ones I don't think you can alter. Would these be largely long-term contracts, and hence our profitability on these existing contracts reduces versus our estimate when we bid in?

Nitin Pai: No, so just to clarify, existing contracts where you already have onsite people deployed, there is no change in cost. Right? It is only where you are trying to win new contracts or you have winning new projects which then demand new people to be sent for the transition phases. That is the only point where you would have all these questions raised. I'm not very clear what the question is about?

Rishi Mody: I'll just explain it quickly. We assume let's say 80% of our offshore mix, 20% would be onsite for a contract, for example, but because of say these visa issues, you are required to have more onsite employees and the mix turns from 80/20 to 75/25. Does that happen?

Nitin Pai: No, no, Rishi, I think you're getting it wrong. First of all, we operate 90/10. We have the best offshoring metrics anywhere. Our intent is always to keep it there because that is the proposition. So, for a given contract, ratios will not increase. It's not that customers are starting to prefer more onsite. Please understand, this is not a Covid reversal where I'm saying customers are now starting to prefer more onsite. Nobody is. The need for onsite is determined by the kind of deal that you're taking up, the complexity of what you're trying to take on, the transition time that it takes to capture knowledge, whether from the customer itself or from somebody else and the ability to architect and bring it back. Just to be clear.

Rishi Mody: Okay. All right. Finally, just a quick one, utilization rate, if you could just spell it out for this quarter.

Manoj Raghavan: 74.7%. Just getting to 75.

Rishi Mody: Okay. All right. Fine. Yes, that's it from my end. Thank you.

Nitin Pai: Thank you, Rishi.

Moderator: Thank you. Your next question comes from the line of Randhir Kumar Singh with Randhir HUF. Please go ahead.

Randhir Singh: Hello.

Manoj Raghavan: Yes, sir. Please proceed.

Randhir Singh: Thanks for taking my question, sir. In Q2 also, due to wage hikes, there could be an impact on margins and from H2, margins will ramp up properly. Am I understanding correctly, sir?

Nalin Rana: So, Randhir, a small difference to what you're saying. Q2 we'll see a wage hike impact, but that will also be offset to a large extent because of some of the one-time or the higher costs that we saw in this quarter going away. So, there is an offsetting element to a large part of that cost. Now how much gets offset where exactly we land up is a function of what exactly the wage hike numbers end up being, how much sort of costs go away, our own revenue growth. So, it will be a combination of few things.

Randhir Singh: Thank you, sir.

Nalin Rana: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take this as our last question for today. I now hand the conference over to the management for closing comments.

Manoj Raghavan: Yes, dear investors, thank you, thank you for the time. Interesting times, and I think at least from our major markets and major verticals that we have, I'm very happy that we have been able to show growth, a decent growth especially in the media and communication business. If you compare with competition and what we hear commentary from lot of our competition, I think our automotive or transportation business has also done reasonably well.

So, our focus is to really continue growth on both of these large verticals for us. At the same time, focusing on our healthcare business to see, how to get it back to a growth path, right? So that's the focus for us and of course margin improvement, and seeing how we can digest the wage hike at the same time, and also look at seeing how we can remove all the one-timers, and still show a, a profitable quarter in, in Q2, right?

So that's going to be the focus for us in Q2 and subsequent quarters Q3 and Q4. So, I think, Q1 has gone reasonably well for us, even if you look at comparatively Q1 of last financial year, I think we have done pretty well, and I hope that we'll be able to continue this growth path in the subsequent quarters. So, thank you and look forward to talking to you again in, in Q2. Yes, bye-bye.

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