"Tata Elxsi Limited
Q2 FY '26-'27 Earnings Conference Call"
October 13, 2026

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MODERATOR: **MR. SHASHANK GANESH – EY**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '26-'27 Earnings Conference Call of Tata Elxsi Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star 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 E&Y. Thank you and over to you, sir.

Shashank Ganesh: Thank you very much, Sagar. 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 risk that could cause significant result, performance or achievements that differ from what is expressed or implied by such statements.

To take us through the results and answer your questions today, we have the senior management of Tata Elxsi represented by Mr. Manoj Raghavan, Managing Director and CEO; Mr. Nitin Pai, Chief Marketing and Chief Strategy Officer; Mr. Nalin Rana, 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. Good evening, everybody, and thank you for joining us today. I hope you and your families and your teams are doing well. We appreciate your continued interest in Tata Elxsi. And I'm pleased to connect with you to discuss the performance for the second quarter of FY27.

During the quarter, we remain focused on deepening customer relationships, strengthening execution, advancing our strategic initiatives and investing in capabilities that position us for long-term growth.

I'll now take you through the key highlights of the quarter. In the second quarter of financial year '27, we reported an operating revenue of INR 1055.7 crores, growing 2.3% in constant currency. We reported an EBITDA of INR 231.4 crores, growing 7.1% quarter-on-quarter and 19.7% year-on-year. Our EBITDA margin for the quarter was 21.9%, a 70 basis point improvement over the previous quarter.

The transportation vertical reported a quarter-on-quarter growth of 2% in constant currency terms, aided by new deal wins. A notable win is a strategic multi-year deal from a leading

automotive OEM for a next generation, cloud-based telematics and connected vehicle ecosystem.

In the aerospace segment, we continued to see business traction, albeit on a small base. I'm pleased to share with you the strategic collaboration with Sarla Aviation to support the development of Shunya, a pioneering step towards India's first indigenous electric vertical takeoff and landing, eVTOL, aircraft.

We also won a strategic engagement from a global aerospace supplier for development of a test rig and validation of commercial aircraft systems. Our media and communication vertical registered a quarter-on-quarter growth of 3.4% in constant currency. This growth was driven by sustained ramp-ups across key engagements and AI-led deal wins.

During the quarter, Tata Elxsi secured a strategic AI engagement with a global technology leader to develop a GenAI-powered virtual assistant focused on multilingual intelligence and delivering digital experiences at global scale, further strengthening our position in the rapidly evolving GenAI ecospace.

Our healthcare and life sciences vertical too recorded a healthy growth of 3.5% quarter-on-quarter in constant currency terms. One of the notable deals in the quarter was a win from a global renal care leader to develop its next-generation home dialysis systems, spanning end-to-end product engineering from user experience and mechanical design to embedded systems and regulatory compliance.

During the quarter, Tata Elxsi implemented a wage increase across its workforce as a part of its continued commitment to retaining, rewarding and nurturing top talent, recognizing that its people remain the foundation of company's long-term growth and innovation. Our continued focus on delivery excellence enabled us to expand EBITDA margin by 70 basis points sequentially despite the impact of the annual wage revision.

Overall, during the quarter, we delivered strong operational execution and resilient growth across customers and in all industry verticals. In terms of regions, US and India did very well for us, while Europe was soft with the predominance of automotive revenues from that region. While the global business environment continues to evolve, we see sustained opportunities emerging from our clients' priorities around innovation, digital engineering, AI adoption and product modernization.

Having said that, Q3 is typically a short quarter with fewer working days. While we await customer-specific direction on possible furloughs, we remain focused on sustaining growth in the second half while continuing to invest in our differentiated AI-first offerings and driving operational excellence.

With that, let me conclude my remark. Thank you for your continued support and confidence in Tata Elxsi. We'll now be happy to take your questions.

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. A couple of questions. Firstly, good to see broad-based growth this time. Just wanted to understand how sustainable is this growth momentum over the next couple of quarters, right? What I'm trying to understand is was it helped by certain large deal ramp-ups which won't repeat going forward, or is this momentum more broad-based and hence the possibility of momentum continuing is higher this time around?

And the second question was on the margins. Again, good to see margin expansion despite wage hikes. How are you thinking about margins in the second half from a headwind and tailwind perspective? Also, you had a lot of one-offs last time. How much of that has reversed this quarter and how much of that is yet to reverse in the next two quarters? Thank you.

Manoj Raghavan: Okay. Thanks, Bhavik. If I take that question from a growth perspective, if you look at transportation or automotive vertical, I think we're fairly confident of growth in the US geography as well as the India geography that has grown smartly for us. Japan has been flattish, but we are hoping that that will continue to grow.

Europe continues to be soft. There are large deals and opportunities, but again with deal closures it's a wait and watch. The situation I don't think has changed very much from the last quarter, especially from a Europe perspective. But however I think in other geographies we are pretty confident of continuing on the growth path. From an H2 perspective, we are still positive and we hope we'll be able to continue that momentum.

From a media and communication vertical, I think over the last two quarters we have shown consistent growth. As you rightly said, some of that is due to deal ramp-ups for the deals that we have already closed. Having said that, again, even in the media and communication vertical, we are seeing some sizable opportunities that are there and we hope we will be able to continue the growth momentum in H2.

From a healthcare and life sciences perspective, I think we bottomed out last quarter and finally we are able to show growth. Again, we see a good visibility of deal pipelines and so on. I'm hoping that even in the healthcare business H2 will be better than H1. Overall, I would say yes, the only worry still seems to be the slowness in Europe from the automotive perspective, but other than that, I hope that in all other businesses H2 will be better than H1 for us. On the margins, Nalin, if you could take that question?

Nalin Rana: Sure. Thank you, Manoj. On the margins, just to give you a quick sense of where the growth came from, about 60 bps to 70 bps was the cross-currency benefits that we had in the quarter. The balance, 10 bps to 20 bps is basically operational leverage that has played out, as well as a lot of the one-timers which were there, most of them have gone away.

This was in large part offset by the wage hikes that we undertook. The operational leverage and the one-timers going away was sufficient to sort of mitigate the wage hike. From a margin trajectory perspective, what we expect is we expect operational leverage to continue playing out

through rest of the year. While obviously there will be associated costs increase with revenue increases, we do see a slightly upward margin trajectory that should be playing out in rest of the year.

Bhavik Mehta: Okay, got it. Thank you.

Nitin Pai: Thanks, Bhavik.

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

Rishi Mody: Yes. So just first, I just wanted to harp a bit on the employee cost, right? So, you mentioned that all the one-time benefits, that one-time expenses which were going to go away you are going to use for wage hikes. Now this is a structural wage hike which will continue going forward. It's not a one-time bonus, is my understanding. So, what I want to understand is that going forward is there scope for employee utilization going up? Is there a mindset of also seeing how we can control the employee wage hikes? Because our employee count has been reducing, while employee cost as a percentage of revenue has been largely higher and now stabilized. So the salary per employee has grown ahead of the revenue, which means that our profit percentage or margin per deal has come down today. Is this naturally going to increase as we are taking longer tenure? I am just trying to understand, is there scope for utilization and employee salary coming down as a percentage of revenue?

Manoj Raghavan: Yes, so I think there are two points here, right? One is we still have some more levers from the utilization perspective to go up further. So that will definitely help us. Second is, yes, your point is correct. Over the next half year, we have to focus on our pyramid management. And that is something that we are going to focus on - to see how we can manage the pyramid actively by moving some of the engagements that we have started, kick-started where we need needed to bring in very senior resources and technical experts and so on. Over a period of time, we need to manage with more junior staff and so on.

There is a plan in actively seeing how we can look at our pyramid and correct some of the pyramid-related changes that has happened over the last I would say, four to six quarters. And to that extent, we have a bench that we have been training at the lower levels. So that is something that we have to work on actively over the next half year to see how much we can benefit from that. That's something that we will be actively tracking.

Rishi Mody: Okay. And if I have to just understand where we are in the, say, the market hiring cycle for the talent that we require, we have seen the post-COVID boom in salaries for IT sector. Then there's been a lull period over the last couple of years. And now, but for us, it's not come through that lull period.

So I am just trying to understand where we are for our talent. Are we at the fag end of the cycle where demand for our talent is reducing or is it still going strong and hence we will have to compete on salaries?

Secondly, when you brought in senior leaders to acquire new business, is there a potential to increase the variabilization for such talent linked to business or are we looking in that direction so that the operating deleverage in the business ramp-up phase hits our P&L lesser going forward?

Manoj Raghavan: That is already in play Rishi. In the organization, right from the middle management to the senior management, a sizable percentage of the salary is variable and based on performance. So that we have already implemented.

Nalin Rana: Rishi, just one additional point to give context, right? I think we are currently seeing a period where the salary hike has taken place now. And if you recall, in the last financial year, the salary hike was not in the similar period. It was a bit more back-ended, which is why also you are seeing probably this trend in the last two, three quarters of salary per employee. For the next, like for the rest of the year, we are done with the salary hikes So the idea is that the operational leverage should play out through the rest of the year as we sort of, and there shouldn't be any material movement in employee cost, except for where we are investing selectively, etc.

Manoj Raghavan: Yes, and back to your first question regarding talent, I think we need to differentiate from the larger IT industry. I think the talent that we have and the areas that we are focusing on, there is a huge demand with the GCCs continuing to set up shops and ramping up resources. Especially in the ER&D space, we need to work hard to retain our talent. Let me put it that way.

Rishi Mody: Okay, got it. And finally, just one request if you could start mentioning this, the utilization rate in the PPT? And if you could just provide me the utilization rate for this quarter?

Nalin Rana: Utilization is about 78%. So we have sort of moved up from the last quarter. There's still possibly some room to grow. In parallel, we are also calibrating junior hiring. But we still see some room to for this to improve.

Rishi Mody: Okay, got it. Thank you. That's it from my end.

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

Sulabh Govila: Yes, hi. Thanks for the opportunity and congrats on a good quarter. My first question is actually on the quarter itself. So just wanted to understand versus the start of the quarter, where we ended up in the quarter, did everything pan out as per the plan, or were you positively surprised?

Manoj Raghavan: No, I think given the deals that we were tracking and so on, we were pretty confident of our MCV numbers, right, media and communication numbers. And in healthcare also we were very confident because of the deals that we had closed. It was only automotive, because of the situation in Europe and so on, where we were not fully confident of this growth. But I think some of the deals that we closed in in the US and India geography actually helped us to show the growth. So yes, I think automotive, in some sense, I wouldn't say it was not unexpected, but I think we were pretty happy with what we delivered at the end of the quarter.

Sulabh Govila: Okay, understood. And secondly, within the auto vertical, just wanted to understand that the deal that we have announced this quarter, has that ramped up already in this quarter? And also, what was the growth in the aerospace part that you saw in this quarter?

Manoj Raghavan: No, the deal has not, it's just started. It's not fully ramped up yet. I think the aerospace business, the volumes are still small, and I think it showed a smart growth, but I think it's too early to report it because it'll be misleading if I say we grew x percentage, because the growth is over a very small base, right? So, I think we will disclose this at an appropriate time.

Sulabh Govila: Understood, understood. And lastly, when you think about the future, let's say the next one to two quarters, the growth is typically always driven by what you've already won as a deal and what you will win in the coming days. So, where we stand today, what deals we already have in the bag, do you think that those deals are sufficient for us to continue on the growth momentum, or will we need support from the newer deals to be won during the quarter?

Manoj Raghavan: Typically, in our business, you need both. You need existing customer wins and ramp-ups to happen. You also need some percentage of it to come from new deals, right? It's a combination of both that really delivers for us. So not just based on the deals that we have closed because the deal ramp-up takes time. It is not an IT deal where you can put so many resources. It's a very, very specific talent that we need to onboard, so, it takes that time.

Usually the deal ramp-up takes a couple of quarters, three quarters or so, to reach the full level. At the same time, you should also understand that because still a good portion of our revenues come from project-based business, there are also ramp-downs of projects that are ending, closures and so at any point in time. So, we always need to plan for that replacement projects and so on. Which is why we also need new projects to come in.

Sulabh Govila: Understood, understood. So lastly, maybe on that point, when there is a typical leakage in the business, given there is this nature of the business, I'm trying to understand the rate of this leakage today versus the last one year or so. Do you think that leakage rate is stable, or it is improving, or it's coming down? Just trying to understand where we are.

Nitin Pai: Yes, so maybe I can comment on this, Sulabh. I think in general; I think we have seen an improvement on that position from a year back. This is backed by two facts. I think you have seen large deals that have built the revenue base across both automotive as well as media and communications. So, they typically are multi-year deals. They stay protected. So, in that sense, you have better foundations. In many ways, that itself provides that year-on-year, quarter-on-quarter improvement on the foundation.

And part two is, I think you have to remember that over the last five, six quarters, we have leaked quite heavily on the supplier side of the automotive business, because they were the first and the most badly hit. And you have seen that swing of revenues from suppliers to automotive OEMs. So once that base gets protected, the leakage coming from the rest of the portfolio becomes smaller and smaller. I'm just illustrating the fact that the bucket if it was leaking heavily because of the way the water there came from the supplier base, that itself is reduced.

Sulabh Govila: Understood. That's very clear. Thanks a lot for taking my question.

Nitin Pai: Sure.

Moderator: Thank you. Your next question comes from the line of Shivam with DT. Please go ahead.

Shivam: Yes, thanks for taking my question. I think last quarter we did comment that AI expenditure was stepping into the ER&D budget cycles. Given the backdrop of the quarter and the confidence we are showing now, do you want to update that comment and maybe give a little bit of a color on how that dynamic is playing out?

Nitin Pai: Yes, Shivam, this is Nitin here again. I think that continues because I think enterprises are committing AI budgets meant for enterprise transformation, not necessarily only for R&D, right? And to that extent, that does take away from what could otherwise be discretionary budgets. So I don't think there is a big change in that signature to say enterprises are no longer earmarking budgets for AI, for AI transformation and so on. They continue to.

But I think there is to some extent, I think there's a little more pragmatism that is starting to flow into what the enterprises are earmarking as funds. I think experiences of burning out tokens too fast with no value returning and so on, I think has started to make enterprises wiser. So, on one hand, it does continue, it does have an impact, but I think it is starting to become a little more thoughtful and a little more ROI-based. So, we believe that there's a slight qualitative improvement coming forward.

Shivam: That's helpful. Maybe just a small follow-up there, Nitin. The little bit of a movement or prudence that enterprises are showing around demanding ROI from their spends, at the end of the day, who do you think is will ultimately be responsible for kind of helping them determine or outline the ROI that actually AI can deliver for them?

I'm just asking because you have different stakeholders in that equation. You've got the enterprise internal IT teams, internal engineering teams. You have the whole LLM stack vendors and then you have also service providers. When we hear each of them, everybody is passing it around that, yes, the ROI needs to be figured out. But if you have to take a stab, who's in the driver's seat to help enterprises get this equation?

Nitin Pai: I think the answer lies in the heads of the functions, right ultimately. Because if I think about it, where are the largest costs, especially if you look at our business, we work with companies that build products and sell them in the market, right? Products or services. So, if I look at car companies, where is your largest cost? It is not in people. It is not in R&D. It is in your supply chain and manufacturing. So, to that extent, I think the ROI is linked to where are your costs the greatest and where is your volatility the greatest. If you ask me, in automotive business, it's the highest in supply chain. Because you have material costs that are moving, you have tariffs that are coming in, you have questions on the country of origin and where is this coming from. So, they have to sort that part out.

In my mind, I would actually double click on my business, what matters most, what contributes to costs and my margins most and how do I make an impact there. Everything else becomes secondary. And we're hoping more and more people start to look at it that way and spend more on R&D. So, I have a vested interest in promoting this view too. But Nalin, if you have any other point to add?

Nalin Rana: So, in our projects where we are involved, we would be involved discussing with the customers on the project cost, etc, and if there is AI required, we would build it into our costs for those projects. But obviously, customers are operating on a much larger AI landscape right. Most of that will be outside our purview. That will be their own internal dynamics.

Shivam: Got it. And just one last kind of data kind of a question. So, when you mention the 78% kind of utilization number, historically, could you contextualize it against pre-COVID, what utilization peaks used to be and where does this 78 number square off on that band? If you can give any color. I just want to know where this number is.

Manoj Raghavan: I think we peaked at around 81%, 82% utilization.

Nitin Pai: Higher than that, yes.

Manoj Raghavan: Yes. So, I think we still have some headroom from that point of view.

Shivam: Got it. Thank you.

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 first question is on the transportation vertical. Obviously, we have seen some healthy growth there. So, if you can now provide some more color in terms of the sub-verticals, which sub-vertical within transportation has been driving growth? And also, if you can give some more color in terms of the demand environment, especially on the transportation side. What kind of change in demand you are seeing, especially in the last one or two months, in the US auto, European auto? Is there any kind of a change in terms of stance of the OEMs and the Tier 1s? And also you mentioned about the drag that we are seeing from European OEM. If we can just quantify x of that, what could be the growth in the transportation vertical, it would be helpful for us to understand what is the extent of drag there?

Manoj Raghavan: Yes, the growth in the transportation industry clearly has come in from the auto OEMs very clearly. And of course, as we also discussed, adjacencies including aerospace and defense have also helped, but at a smaller base. And this growth has come in primarily for us from the US geography as well as the India geography. The rest of Asia geography has been pretty flat, I would say. And even in Europe, we have seen a little flattish tendency. Our outlook, as I explained earlier in the call, we are pretty confident to continue the growth in US and in Asia piece, right? We would definitely continue to see sort of sustained growth there because we've won some large deals and ramp-ups are happening and we're hopeful that the adjacency piece will also pick up.

Whereas from a Europe geography perspective, there are large deals that have been in play for the last few quarters. Unfortunately, because of the situation with the OEMs there, especially the big OEMs, we are seeing a delay in decision-making. We are there in the final shortlist in many of the deals there. But however, these deals have not been signed, and it is still a wait and watch in terms of when those decisions will be taken and so on. It's very difficult to give a timeline or at this point in time, but we are closely working with these OEMs, working with these customers, and hoping to see that to take some of these to a closure. It could happen in this quarter. It could happen in the next quarter. But yes, that's the color that I can give you at this point in time.

Amit Chandra: Okay. And sir, the aerospace and the large deals that we have signed in defense and aerospace, typically for such a deal, how many quarters or how many months it takes for it to reach to scale that we wanted to? Is it a deal that will take time for you to scale it up, or we can scale it up in one or two quarters?

Manoj Raghavan: No, it will take at least two to three quarters is what I would say. It's not an immediate ramp-up. These are pretty complex deals and so you need to ramp up the right teams. The initial stages of these programs are very crucial. We need to get it right. And then, once we deliver those initial milestones and so on is when we will be able to, ramp up and move forward. So yes, I would say, we're still very early in the deal cycles, in the execution cycles of these deals.

Amit Chandra: Okay. And most of these large deals that we have signed are mostly outcome-based or fixed price kind of a contract? Could you give some color in terms of how the margins can scale up? And overall, in terms of the company margins, obviously the wage hike is behind and we're seeing all three segments now getting back on track and the overall growth getting back on track. So, in terms of the margins, where are we heading? In terms of the historical margins we were operating much higher, so what's the steady state EBITDA margin we can expect?

Nitin Pai: I'll take the first part of the question. And maybe I'll lean on Nalin to take the margin part. If you look at the deals that we're signing on, the deals that we have announced and we have won, you will note that these are oriented towards doing the new, these are innovations, these are product engineering and so on.

So, to that extent, they are not consolidation deals that get back-ended in terms of margin improvements, and you will build and improve margins over time typically IT deals do. These are, in that sense, reasonably flat. So, I would not expect that there is margin improvement that is going to follow simply because you won deals now and you will continue to improve margins over time. If at all there is margin improvement, that may come more from what Manoj talked off, which is how do we rebalance the pyramid and do it carefully in a calibrated manner. And that will happen across the organization, not so much for only the deals that we have won. That would be my commentary on at least the new deals.

Manoj Raghavan: Yes, I think from a margin perspective, I think as we said, there are steps that we need to do in, of course, operational leverage that Nalin talked about, improving the utilization further as well

as correcting the pyramid over a period of time, right? We have to do it very carefully and this can't be done at one shot.

So this is a work in progress, but yes, we will have to progressively move towards, over the next, I would say, 2 to 3 quarters, we will see that gradual improvement in our margins, right? We don't want to give a number at this point in time, but yes, we are working on it to see how where we can reach at the end of the financial year.

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

Manoj Raghavan: Thank you.

Moderator: Thank you. Your next question comes from the line of Gaurav Ashok Bhanshali with Augmont Enterprises. Please go ahead.

Gaurav Ashok Bhanshali: Yes, sir. I just wanted to ask, are we doing any guidance revisions? As compared to H1 last year, we've already grown around 15%, So, do we have any guidance revision for the rest of the year, FY27?

Nitin Pai: Yes, so maybe I'll just answer that right away, Gaurav. As a policy, and in general, we don't provide guidance at all. So therefore there is no guidance, so therefore there is no revision to guidance.

Gaurav Ashok Bhanshali: Okay, sir. And the next question was, can we see EBITDA margin improvement in H2? Because in H1, both the quarters, you've said we've taken hit for one-time costs. In this quarter, it was employee salaries. So what could be the margin profile towards the end of the FY?

Nalin Rana: Yes. Hi, Gaurav. So from a margin perspective, right, so in Q2, just to clarify, there was no sort of one-time cost. It was more a bridge that I was providing versus Q1 movement bridge. Going forward for Q3 and Q4, what we are basically saying is that as sort of our revenues continue to improve, there'll be operational leverage at play, right, with the wage hikes already having been done. And that is what we are targeting. We are targeting to keep our costs under control and let the operational leverage play out, as well as make some other interventions which Manoj just spoke about.

Gaurav Ashok Bhanshali: Okay, sir. Thank you so much. That helps. Good luck.

Manoj Raghavan: Thank you.

Nalin Rana: Thanks, Gaurav.

Moderator: Thank you. Your next question comes from the line of Sankaranarayanan S with ithought PMS. Please go ahead. Sankaranarayanan S, your line is unmuted. Please proceed with your question.

Sankaranarayanan S: Yes, thanks for the opportunity. Sir, I have a few questions on our new growth vectors that we have talked a couple of quarters ago. We have stated that aerospace and defense, battery energy storage systems, and off-highway and few manufacturing verticals that we are keenly focusing

on. Can you talk about the opportunity across these three sub-segments and can you provide some color on it, like how these three verticals will scale over the period of next 3 to 5 years?

Nitin Pai: Hi Sankar, this is Nitin here. Maybe I'll take that. If you look at aerospace and defense and off-road, you will see that growth is baked into the automotive growth that we're showing. While it is dominated by the revenues and the growth from the automotive business, pure play passenger cars and commercial vehicles, we are starting to see traction and you'll see that reflected in the deals that we announced, too. The kind of MOUs that we have signed, the kind of deals that we announced, you will see that reflecting and that always has a bearing on the future. Because like Manoj said, some of these deals take time to deliver revenues and scale revenues on. I think the good part is that we're seeing that traction and we're seeing that momentum.

As far as other areas like smart manufacturing, BESS etc is concerned, you will see that actually in many ways, and we have said this even before, that we typically provide for almost like a skunk works. We experiment with a set of customers we make sure that we're cutting our teeth. We understand what is needed to create differentiation there, what creates margin there, because we don't want to do low-margin business. All that is reflected in the others part of our SDS.

And if you actually look, you will see that while quarter on quarter may be volatile because it's a very small number. On a year-on-year basis, you'll see, I think, about a 75% growth in that piece. On one hand, it's just about 2%. But if you look at it on a year-on-year basis, you'll find that it's grown 60%, 70%, right?

That should give you a directional view that, yes, we are continuing to build that muscle. We're continuing to experiment deeply, continuing to engage with more customers. But it is still early days and that is why we are very clear that we're not calling them out as yet.

Sankaranarayanan S: Yes. So my second question is on our group customers, especially Tata Motors and JLR. So specifically from these two customers, what kind of opportunity are we seeing in terms of their spending on SDV? And I think there are a lot of news going around these companies regarding the challenges that they're facing and also the pipeline that they are going to see in EVs. So especially from this context, what kind of opportunity is currently visible for Elxsi over the next two to three years?

Manoj Raghavan: Yes, I think both are important customers for us. And we know JLR is going through its own challenges in terms of their own business performance and layoffs and so on. So we are watching that pretty closely and we will get to know about it, maybe across H2. Having said that, it's an important customer and we are closely engaged with the R&D teams and the engineering teams at JLR and in most of the new programs and new car releases, there is an element of Tata Elxsi in each of the cars that they're launching. I think similarly is the case with Tata Motors, especially on the electrification journey that they have both from a design perspective, the cockpits and infotainment and all of those designs that you see, also on the connected car perspective and a big piece on the electronics and the engineering in Tata Motors.

So these are definitely important customers for us. And as they launch new programs, launch new vehicles, launch new variants, these are all opportunities where we can get engaged and some part of that R&D or some part of the development is actually done by Tata Elxsi.

We continue to closely monitor the situation at JLR and continue to be engaged with Tata Motors at a very senior level from their new programs, new vehicle programs and R&D spend. And I think it's been a pretty good relationship with both companies.

Sankaranarayanan S: And in our automotive vertical, so what is the concentration of revenue that we are currently receiving from these two clients?

Manoj Raghavan: We don't really disclose that information. But let me tell you that I would say a lot of the growth that we are seeing in the automotive business is sort of minus the group customers. So a lot of the growth has come in from outside the group customers, especially in in US and in India and Asia.

Sankaranarayanan S: Got it, sir. Thank you, sir. Best of luck for the upcoming quarters.

Manoj Raghavan: Sure. Thank you.

Moderator: Thank you. Our next question comes from the line of Ankur Pant with IIFL. Please go ahead.

Ankur Pant: Hi. Thank you for taking my question. My first question is on the healthcare vertical. Now because this vertical is quite concentrated, we have seen in the past that it has turned unfavorable all of a sudden in multiple quarters. And so the health of all clients in this vertical becomes extremely important. So with respect to that, how confident are you that all clients now are healthy, and we would not see an impact like we have seen in the past in the healthcare vertical? That would be my first question.

And my second question would be on the sustaining growth comment. Now how do we see growth from here because there will be furloughs as well in 3Q? And when you say 2H better than 1H, is that on a Y-o-Y basis? Is that the CQGR that you're taking for 1H? And yes, with the furlough there, how do you see the trajectory going? Those are my two questions.

Nitin Pai: So Ankur, maybe I'll answer the first one with respect to HLS. We did recognize the risk and the issue that we see with client concentration because I think we have said that, look, this is a small business, we built it around very high-quality customers among some of the best and the leading med-tech companies in the world and it was very US-centric in terms of revenues.

The last five, six quarters have been largely a journey about how do we add more customers and we have talked of this, too. Considering the deals we have publicly disclosed, too, which is very smart addition of customers both in terms of number of customers as well as regions, I'm just quoting names because they are again in the public domain, while everything was US in the past, you will find a Bayer that we announced from Germany. You will find a Terumo that we announced from Japan. So you are seeing diversification both in terms of geos as well as in terms

of the customer base. And I think that is the confidence that we carry beyond anything else. That would be the simplest answer that I would provide for HLS as a business.

Manoj Raghavan: And Ankur, I think I discussed this topic on growth very early in the first or the second question where we talked about growth business by business. How we see automotive growth being sustained by growth in both the US and Asia -- India and Asia geographies. Yes, Europe being a little bit uncertain at this point in time, still uncertain at this point in time, we're still waiting and watching. But the other businesses, media and communication and the healthcare businesses, we based on the deals that we have signed and so on, we are pretty confident that H2 is going to be better than H1. So that is how we see. Two of our businesses will continue to grow. And the transportation business is dependent on how Europe turns and how we are able to sustain the growth in both US and India.

Ankur Pant: Thanks. Just a clarification, 2H better than 1H on a Y-o-Y basis?

Nalin Rana: We're referring to this financial year only. We expect 2H to be better than 1H, it would imply that our revenues would be higher even on a Y-o-Y basis in H2. Margins, of course, as you're aware, right, the H2FY26 margins were at a certain level and now we are coming off a certain base, and we are talking about a gradual calibrated improvement. So yes.

Ankur Pant: Yes, thank you. And just one last bookkeeping question, if you can disclose. In the automotive vertical, can you disclose how much of the revenue comes from Europe versus North America and APAC? That would be all. Thank you.

Nitin Pai: Yes, so Ankur, we don't talk of that, as that's not a factoid that is in the public domain. But you'll see a correlation to Europe, so you can derive it from.

Nalin Rana: I think the takeaway, Ankur, from our perspective would be what was being highlighted, right, that a lot of growth is coming from US and India over recent parts, while Europe by itself is obviously muted over the last few quarters. So as the quarters keep progressing, right, the proportion of other geographies are increasing. And we expect that trend to sort of continue. So the relative importance keeps decreasing with each quarter. It, of course, continues being a very important part though.

Ankur Pant: Sure. Thank you so much. All the best.

Nitin Pai: Thanks, Ankur.

Moderator: Thank you. Your next question comes from the line of Mayank Kumar with Prasoon Exponentials. Please go ahead.

Mayank Kumar: Thank you for the opportunity. I just wanted to know what is the margin difference between the fixed price contract and time and material contract? And do we have any internal target for the split?

Nitin Pai: Yes, So you're referring to margins and not proportion of fixed bid versus time and material. Is that correct, Mayank?

Mayank Kumar: Yes.

Nitin Pai: So I can take that. In general, we don't look at it that way. The idea is not to make fixed bid better than time and material or time and material worse than fixed bid. I think we always look at it from two lenses. One is what is the overall impact on the business and that account, and how does that particular project add value to the customer?

So if certain projects mean that we'll have to do it at lower margins even in a fixed bid, so be it, because that is what creates value and stickiness. While there would be certain areas where time and material is a model to deliver, the skills that are being utilized are very high end. In which case, there'll be a premium attached to the skills that we are delivering and nothing to do with the engagement model. So I just want to make that point that, look, don't associate margins only with the model. Sometimes it's about what are you doing and who are you doing it for.

Mayank Kumar: Okay. And sir, can we also look at the onsite mix as a lever for margin, or that might not necessarily play out?

Nitin Pai: Yes, if you notice, I think we already are at industry-leading onsite-offshore ratios. Of course, there is always room to move that ratio further, but in our minds, I think we are at a reasonably good band. In terms of revenues, it's roughly about 25:75 that we have been running with for many quarters now, and I think that's a good place to be in.

Mayank Kumar: Okay, sir. Got it. Thank you very much, and all the best.

Nitin Pai: Thank you.

Moderator: Thank you. Your next question comes from the line of Rohan Nagpal with Helios Capital. Please go ahead.

Rohan Nagpal: Hi. Thanks for taking my question. Just want to double-click on the demand environment in Europe that you've been describing. So you said it was the same as last quarter in terms of the in terms of decision-making and things remaining slow. Has there been any change on the deals that have already been signed? Are there any ramp-downs or are those also continuing to ramp up slowly as mentioned last quarter?

Manoj Raghavan: No, we have not had any ramp-downs there. It's more of, it's more of a slow ramp-up or status quo. But at the same time, Yes, there's also been some of the projects that have come to a close and so on. So those deals, runoffs have also happened. So that's why we are still cautious about Europe.

Rohan Nagpal: Okay, understood. And I think there was a recent announcement, there was news doing the rounds that there might be some limits imposed on the import of Chinese vehicles into Europe and sale of those. Do you think any development on that front will translate sort of quickly into spending by European OEMs, or that will just take its own due course, and this is not really going to change trajectory in the near term?

Manoj Raghavan: Definitely, I don't think it'll change any trajectory in the near term, because the real issues that many of those OEMs are there are systemic issues. Including the cost base and so on, right, that they have to address. The entire electrification, they need to address. So a number of things they need to address. So the Chinese car companies coming into Europe is one of the many issues that they have to address. So I don't think it'll immediately change anything for us in the near term.

Rohan Nagpal: Understood. Okay, that's it from my end. Thank you so much.

Nitin Pai: Thank you so much, Rohan.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. As there are no further questions, I now hand the conference over to the management for closing comments.

Manoj Raghavan: Thank you, everybody, and this was, I would say, a satisfying quarter with revenue growth across all the verticals. We hope to continue this trajectory and look forward to talking to you again next quarter. Thank you. Have a good day.

Moderator: Thank you. Ladies and gentlemen, 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.