"Tata Technologies Limited
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Moderator: Ladies and gentlemen, good day, and welcome to Tata Technologies 1Q FY'26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touch-tone phone.

I now hand the conference over to Mr. Vijay Lohia, Head of Investor Relations at Tata Technologies. Thank you, and over to you, sir.

Vijay Lohia: Thank you, Rayo. Hello, everyone, and welcome to Tata Technologies' Quarter 1 Fiscal 26 Results Call. Joining me today are Mr. Warren Harris, CEO and MD of Tata Technologies; Ms. Sukanya Sadasivan, COO; and Ms. Savitha Balachandran, our CFO. Our management team will start with an overview of the company's performance, followed by a Q&A session.

As a reminder, we do not provide specific revenue or earnings guidance, and any statements made today regarding our future outlook should be reviewed in light of the risks that the company faces. These risks are outlined in the second slide of the quarterly fact sheet available on our website. Our press release and earnings presentation have been submitted to the stock exchanges and are also available on our website, www.tatatechnologies.com. We hope you've had a chance to review them. Let me now turn over the call to Warren.

Warren Harris: Thank you, Vijay, and a warm welcome to everyone joining today.

Let me begin by addressing our Q1 FY26 performance, followed by our view on the business outlook, key strategic highlights, and recent customer engagements. Savitha will then take you through the detailed financials.

Before I proceed, I want to express our deepest condolences in light of the tragic crash of Air India Flight AI 171 last month. This devastating event has touched all of us deeply. Air India is not only an important customer but also a trusted partner. We stand firmly with them and the broader aviation community during this difficult time.

Our Q1 performance came in below expectations, shaped by several external factors that introduced **unexpected complexities** into the business environment. Revenue declined **3.2% sequentially**, and EBITDA margin contracted by **210 basis points,** primarily due to operating deleverage. However, we believe the factors that informed the softness in Q1—such as delayed deal ramp-ups and macro-driven investment pauses—are **short-term in nature and largely isolated to the first three months of this fiscal year.**

Our **Services business**, which represents **77%** of total revenue, declined -5.9% QoQ in INR terms, impacted by delays in ramp-ups of large deals and elongated decision-making cycles. This was particularly pronounced among customers exposed to the North American market, who paused or recalibrated product investments in light of the newly imposed U.S. tariffs and broader geopolitical uncertainty.

That said, we also saw strong performance in certain segments. Our **Technology Solutions** business grew **7.3% QoQ**, driven by a recovery in the education vertical as previously delayed projects came online. Our **Aerospace segment** delivered a standout **13% sequential revenue increase**, fueled by steady demand and consistent execution across MRO, PLM, Manufacturing Engineering, and Digital Transformation engagements.

The quarter also saw a **healthy uptick in deal activity towards the end**, including the closure of **six large deals**—four exceeding $10 million and two in the $5–10 million range. While the quarter started slowly, sentiment improved as clients began reaffirming their long-term commitment to innovation and transformation.

Looking ahead, we are **optimistic about a sequential recovery in Q2** and a **stronger second half of FY26**. Our deal pipeline today is **stronger than it was at the same time last year,** and the **early build-up of our order book** gives us increased visibility and confidence in improved conversion rates.

Importantly, our two **anchor customers—Tata Motors and JLR—recently reaffirmed their commitment to new product investment** during their interactions with the investor community. Their continued focus on innovation, electrification, and digital product development **positions us to intersect with a strengthening demand environment, creating meaningful opportunities for deeper engagement and accelerated value delivery.**

Additionally, recent **progress in global trade negotiations** and **bilateral agreements** signals that macroeconomic headwinds may be transitory. We're encouraged by more stable client engagement and the improved quality of demand across our core industries.

Our performance in Aerospace underscores **the resilience of our diversified portfolio**, allowing us to navigate short-term volatility while capturing long-cycle transformation opportunities in critical sectors.

Let me now touch upon a few important engagements and milestones from the quarter:

• We're partnering with an Asian airline on a transformative project to design and deploy an integrated aircraft docking system—spanning concept design, simulation, manufacturing, and installation. This initiative is critical for improving turnaround times and maintenance efficiency.

• We have been selected by a leading European luxury OEM to support body engineering, powertrain systems, digital product development, and sustainability. We've also been nominated as their preferred strategic partner for the North Asia region — a significant expansion of our geographic footprint.

• We have been engaged by a global commercial truck OEM as a preferred engineering partner in a multi-year program to consolidate services and unlock cross-brand synergies, with a dedicated Offshore Development Center focused on mechanical, electrical, and embedded systems.

• **Volvo Cars** has recognized Tata Technologies as a **Top 10 strategic supplier**, reinforcing our standing as a trusted engineering partner in their software-defined and sustainable mobility journey.

We also forged new alliances with **National Instruments** and **Emerson** to co-develop next-gen validation, automation, and digital twin solutions—critical enablers in the AI-driven industrial transformation.

Turning to BMW, our joint venture continues to serve as a performance benchmark. The program is ahead of schedule, and we expect to surpass the four-digit headcount mark well before year-end. Our share of profit from the JV grew **35% sequentially**, underlining the demand for premium engineering services. Notably, we recorded a net benefit of Rs.13 crores from the JV in Q1. This accounted for 5.6% of our pre-tax profits.

On the **EV adoption question**, we believe current moderation is a **temporary pause**, not a structural reset. Innovations like **CATL's next-gen battery**—offering 520 km range with five-minute charging—highlight the acceleration of EV viability. Our experience in EV design and development ensures we remain a strategic enabler in this shift.

In Closing, while Q1 reflected near-term external challenges, the long-term trajectory remains strong. With a diversified portfolio, anchor relationships with Tata Motors and JLR, and a sharp focus on engineering a software-defined, intelligent industry, Tata Technologies is well positioned to deliver sustainable value and help our clients engineer a better world.

With that, I'll now invite Savitha to take you through the detailed financials.

Savitha Balachandran: Thank you, Warren. Good morning, good evening, and a warm welcome to everyone joining us from across time zones. We appreciate you taking the time to be with us here today.

Building on the strategic and business overview that Warren just shared, I'll now share with you our financial performance for the first quarter of fiscal '26, highlighting the key metrics, trends and developments that shape the quarter.

Revenue from operations stood at INR 1,244 crores, marking a sequential decline of 3.2%. On a constant currency basis, total revenues were down 4.6% during the quarter, reflecting the movement of the U.S. dollar during the period.

Revenue from our Services segment, which accounted for 77% of the total revenue for the quarter, came in at INR 964 crores, down 7.6% quarter-on-quarter in constant currency terms and 5.9% decline in Indian rupee. As Warren mentioned earlier, while we see our deal pipeline reflect continued client interest and engagement, the quarter saw a slower-than-expected ramp-up in certain large engagements and conversion delays in key deals. This led to a shortfall in services revenue relative to our initial expectations.

Notably, recent weeks have outlined some green shoots in sentiments, with customers beginning to look beyond short-term policy concerns and reasserting their focus on long-term product road maps. This emerging shift was reflected towards the latter half of the quarter, where we closed six significant deals, highlighting strengthened customer engagement.

The Technology Solutions segment, representing the balance 23% of our revenues, saw a sequential increase of 7.3% this quarter, driven by a rebound in our education vertical and partly offset by seasonally soft performance in the products portfolio. Looking ahead, we expect momentum to improve in the second half, driven by a seasonal uplift in Products and progress on infrastructure business across select Education projects.

Our EBITDA margin for the quarter came in at 16.1%. The challenging macro conditions and policy-related pressure on sentiments during the quarter weighed on revenue expectations, resulting in margin compression.

Let me walk you through the key factors that influenced the margin movement during the quarter.

• The **employee benefit expenses**, which remained flat quarter-on-quarter in absolute terms, rose by 170 basis points as a percentage of total revenue as we built the right skill mix within our resource pool in anticipation of a rebound in the following quarters.

This was partially offset through:

• Outsourcing and consultancy expenses, which declined by 13% sequentially, reflecting a deliberate alignment of our subcontracting activity to revenue during the period. As a share of total revenue, these costs declined by 80 basis points sequentially, underscoring improved operational efficiency.

• Also, **other operating expenses** fell 9% quarter-on-quarter with their share of revenues, down 60 basis points, reflecting continued discipline in discretionary spending.

Meanwhile, our collaboration with BMW in India continues to outperform expectations. In Q1, our share of profit from the joint venture increased 35% sequentially to INR 4.8 crores. And as we've outlined in our previous communications, the other income includes a deferred income of INR 8.3 crores, reflecting the fair value gain on the options relating to our investment in the company. The combined net benefit stood at INR 13 crores accounting for 5.6% of our pretax profits. We expect the current momentum to remain strong, driven by sustained demand for premium engineering solutions across key verticals.

As Warren highlighted earlier, the engagement is tracking ahead of plan, and we're now on course to exceed the four-digit headcount threshold well before our original year-end expectations, underscoring both scale and velocity of execution.

Other income saw an 11.4% sequential growth in the quarter to INR 64 crores, mainly driven by unrealized foreign currency gains of about INR 25 crores. We also had a net treasury income of INR 24 crores during the quarter.

As a result, the profit before tax declined 10% sequentially to INR 233 crores. On a year-on-year basis, PBT was up 6% and our effective tax rate during the quarter came in flat at 26.8%.

As a result, profit after tax was down 9.8% quarter-on-quarter to INR 170 crores while on a year-on-year basis, it was up 5.1%.

Preserving financial strength and ample liquidity remains central to our strategy. As of the end of the quarter, we continued to operate debt-free with net cash of $159 million, which was down from $175 million in the previous quarter, primarily reflecting the dividend of $55 million that we paid out towards the end of June.

Our collection processes continue to remain resilient and well governed with the total DSO at **87 days** at the end of the quarter, reflecting a marginal increase from the **81 days** of March. Importantly, the underlying collection efficiency continues to hold firm, reinforcing the strength of our credit and receivables management.

On the cash flow front, Q1 saw notable improvement in both working capital as well as the cash conversion metrics. Free cash flow for the quarter stood at INR 190 crores, supported by a net working capital release of INR 121 crores. We remain focused on sustaining strong collection efficiency as well as conversion discipline going forward.

Moving on to operational metrics:

Total headcount at the end of the quarter stood at 12,407, reflecting a net reduction of approximately 237 associates or 2% compared to the previous quarter. The reduction was not fully backfilled during the quarter, in line with our calibrated hiring approach. That said, we continue to invest in strategic talent acquisition across high priority areas, including digital engineering, embedded systems and AI-led transformation to support differentiated delivery and our long-term growth ambition. This focused hiring underscores our commitment to building a future-ready workforce while ensuring optimal resource alignment with evolving business needs.

Our trailing 12-month attrition rate ticked up modestly this quarter, rising to 13.8% from 13.2% of the prior period, in line with industry trends. While attrition levels remain within manageable bonds, we continue to prioritize talent retention and capability building through structured development initiatives.

Investment in skill enhancement and upskilling has been stepped up, especially in strategic domains, such as SDV, AI and cybersecurity. These efforts are designed to deepen technical bench strength, enhance employee engagement and future proof our talent pools in alignment with evolving customer needs.

In conclusion, while Q1 reflected pockets of softness in top line performance, our operational execution remains disciplined and aligned with long-term strategy. We continued to invest in priority areas, maintained financial strength and drove efficiency across the value chain while navigating a dynamic demand environment. Our customer conversations remain constructive, and we see encouraging signs in key growth areas. As we advance through the year, our focus remains on strengthening customer relationships and executing with agility and delivering value to our stakeholders. Thank you.

With that, let's open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Ruchi Mukhija from ICICI Securities. Please go ahead.

Ruchi Mukhija: Thank you for the opportunity. One of my first question is regarding the growth. We expect a sequential growth recovery in Q2. Is this on back of the 6 strategic deals that we have won, or do we see an uptick in business beyond these 6 deals as well?

Warren Harris: Well, thanks for the question, Ruchi. We entered the fiscal year with a fair amount of momentum. There were deals that were closed in Q4 and certainly towards the end of the first quarter, we've added the 6 deals that we've just announced. So, it's really the order book that we're taking into Q2 and also the improved sentiment.

I think the tariff concerns and the macroeconomic concerns that informed the softness at the beginning of the fiscal – they haven't fully dissipated, but we are seeing increased confidence that common sense will prevail, and the trade negotiations will provide an environment that will provide the sort of basis and confidence around which decisions can be made. So, our confidence in improvement in Q2 and the second half of the year is informed by the order book and also the engagement and sentiment that we're picking up from customers.

Ruchi Mukhija: Got it. Secondly, in our non-auto segment, the revenue declined almost at the same pace as in the auto segment on a sequential basis. Can you break up for us which segments are drag here? We understood aerospace is doing well. So, which are other sub-segments where we see a challenge.

Warren Harris: Well, we saw aerospace pick up and demand continues to grow in aerospace. So, we're very bullish about the ongoing momentum that we've established there. We've seen a little bit of softness in industrial heavy machinery, but that's on account of one project that was short closed in the fourth quarter. We're not seeing the type of softness that's informing the slowdown that we've grappled within in automotive over the last 12 months.

Ruchi Mukhija: Thank you and all the best.

Moderator: Thank you. Next question is from Manik Taneja: from Axis Capital. Please go ahead.

Manik Taneja: Hi, thank you for the opportunity. I had a couple of questions. The first question was with regard to the expectation that we should start to see a recovery from Q2 onwards. Could you talk about how you see the demand within your anchor customers and outside of that? And if the sequential rebound essentially is largely led by anchors or the external customers? That's question one.

The second question was with regards to our on-site offshore revenue mix. It appears that metric also got impacted with the pressure that we saw in terms of revenue, if that's the only reason for the change in terms of metrics? Or there is also a change in terms of the type of projects that you're winning, which is impacting this metrics? Those are the two questions.

Warren Harris: Great questions. Certainly, we've been very encouraged by the sustained strong demand from the anchor customers, both Tata Motors and JLR. And as I commented in my opening remarks, we see that continuing to be very much a part of the demand environment that we look to intersect with. I think the confidence, however, in Q2 and the second half of the year, is much more informed by the overall sentiment in the automotive market.

One of the things that we continue to be reminded of is that the automotive industry is a product-led industry. And I think that the uncertainty that has defined the space over the last 12 months as the election cycles have played out in North America and as the EV incentives in Europe have runoff, there's been a lot of latent product investment decisions that have been building up. And I think that, that the sort of anticipation that we had at the beginning of the fiscal, that latent investment demand would convert into new products was somewhat undermined or compromised by the tariff announcement. But we've seen that largely play out in the first 3 months and a lot of the decisions that we were anticipating are now starting to get made. And so, our confidence in Q2 and the rest of the year is really about broad market sentiment and not just about specifically what's going on at JLR and TML

Manik Taneja: Sure. That's make sense. I think the question was with regards to our on-site, offshore revenue mix then.

Warren Harris: The onshore offshore, the change in mix is largely driven by what's happening in aerospace. Aerospace is for us an area of growth. It's been driven largely by what's going on in Airbus, but the reputation that we're building in Airbus and the associated opportunity that we're getting within their supply chain, particularly in and around the propulsion players, is giving us an opportunity that is beginning at first onshore. And then we are leveraging the relationships and the credibility that we're building to drive business offshore. So, it's part of the sort of life cycle of engagement that we're seeing with a number of our aerospace customers.

Manik Taneja: Sure. Thank you, and all the best for the future.

Warren Harris: Thank you.

Moderator: Thank you. Next question is from Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Hello? Good evening, sir. Thank you so much for taking my question. Hope I am audible.

Warren Harris: Yes, you're very clear. Very clear.

Darshil Jhaveri: Yes, yes. Sir, I just wanted to know like we've referred that our order book looks good, if you could quantify what's our current order book, that would be really helpful, sir.

Warren Harris: Well, we don't -- we haven't provided specific details in terms of order book. But as I said in my opening remarks, the order book at the end of the first quarter is better than the order book this time last year. So again, our confidence in the rest of the year is driven in part by those base points.

Darshil Jhaveri: Okay. Fair enough, sir. So, if you could just maybe help with what kind of percentage growth is there in the order book that could just indicate like what kind of win that we had better sir if that's possible?

Warren Harris: We've seen a material improvement, but we don't quantify the improvement in order book in specific terms or in percentage terms.

Darshil Jhaveri: Fair enough, sir. I also just wanted to know any kind of new areas from other than our existing areas are we targeting to grow at or looking for it, sir?

Warren Harris: Yes. I think there's a number of areas that is informing not just the order book, but also the pipeline. I've referenced aerospace. Typically, our business in the past has been in the aero structures in the MRO space. We are now extending that into propulsion systems. And that's enabling us to build relationships, again, outside of the work that we've done in the last 3 years with Airbus.

In both Automotive, Aerospace and Industrial heavy machinery, there's a lot of work that we are undertaking in and around smart manufacturing. And that relates one to the deployment of digital solutions, particularly PLM, ERP and MES solutions and the integration of the technology stack that informs and deploys the ability to be able to fully integrate the digital definition of the product with the manufacturing process and the way in which products are built.

We're also seeing a lot of upticks in and around the deployment of AI solutions in manufacturing. In the fourth quarter, we announced a very large deal with a Tier 1 North American automotive company, where we are deploying our proprietary AI framework at CHROMOSOME.AI into that organization across 100 plants.

We are deploying sensors, collecting data and using that platform to enable the organization to accelerate manufacturing throughput and an increase manufacturing uptime of assets, legacy assets within those plants.

So, we're seeing a lot of opportunities in and around that space. And that's a reputation that we believe that we will be able to capitalize, not just in the short term but in the medium to long term.

Darshil Jhaveri: Okay. That helps me a lot. I will join back the queue for further questions. Thank you so much, sir.

Warren Harris: Thank you.

Moderator: Thank you. Next question is from Sudheer from Kotak Mahindra Asset Management. Please go ahead.

Sudheer: Yes. Hi, Warren. Thanks for the opportunity. A couple of questions. Firstly, for the last few quarters, at least, we have been quite optimistic about the demand recovery. And when the revenue growth number comes in, that doesn't seem to be happening. So where exactly is the slip between the lip and the cup? Is it primarily because of the macro across all these quarters, or because of the high client concentration? Or is there anything to worry about the execution on ground?

Warren Harris: Yes, I think it's a good question, Sudheer. But if you look at the situation at the end of the last fiscal year, we were very optimistic about a strong start to FY '26. And we had positioned capacity and capability to discharge that opportunity. Unfortunately, on April 2, the announcement was made about tariffs.

And I think the uncertainty that it generated prompted a number of our customers. And a number of the projects that they were looking to launch to be paused and delayed. And so, whilst we entered the quarter with confidence and with high expectations, we've had to recalibrate the expectations for the 3 months, at the start of the fiscal year, as a result of that macro issue.

We continue to invest in capability as you've seen through the margins, we protected capacity primarily because we expect the situation to be short-term. And we are very confident about Q2 and continue to believe that the second half of the year will be better than the first. So, we see the challenges, the headwinds that we've faced as being tactical, short-term, and we expect to bounce back very soon.

Sudheer: Sure, sir. My second question is, I think in the media interaction you mentioned, probably you will do double-digit growth in FY '26. Now with a very sharp decline in the first quarter itself. So how do we think about the full year's outlook in terms of revenue growth? That would be from me. Thank you so much.

Warren Harris: Yes, I think we certainly have had our expectations somewhat challenged by the events of the first 3 months. But double-digit will continue to be on North Star. We'll see how we do in the second quarter. And I think we'll have a much more informed perspective as we move into September and October.

So as of right now, we will continue to push the organization as hard as we can to achieve the type of growth that we had planned for at the beginning of the year. But I think the next 3 months will really determine whether or not that's realistic.

Moderator: Next question is from Kunal from Bank of America. Please go ahead.

Kunal: A couple of questions from my side. The first one is on margins. As you think about the 200-basis points EBIT margin decline in the quarter, I just wanted to understand how much of it of this could be lost to operating leverage versus the on-site bump-up that you've seen? And is it fair enough for us to assume that what's been lost to operating leverage should be sort of recouped in the next 2 or 3 quarters?

Savitha Balachandran: Yes. Thanks for the question, Kunal. I would say that at this point in time; we would attribute a large proportion of the drop in margin through the operating leverage given that we've not really affected any kind of a structural shift as far as overall capacities are concerned. We did obviously have a shift as far as onshore related revenues are concerned.

But from a capacity perspective, it didn't really change much between on-site and offshore capacities. Therefore, at this point in time, I think it's fair to assume that most of it is really more of an operating leverage effect.

Kunal: I understand. And the second question is Warren, your comment around aerospace and the great progress you're making with Airbus as an account. So just to better understand that -- is this progress more in terms of the newer kind of work opportunities that are opening up within Airbus for the company? Or is this more to do with the fact that as you're working with one of the key companies here, you're starting to get to work with other companies in the ecosystem, let's say the airline itself?

Warren Harris: I think the demand and the confidence that we have in aerospace is largely driven by the growing confidence that Airbus have in our execution and capabilities. I think we've been through a learning curve over the last 3 years. We've invested in infrastructure. We've built a nexus in Toulouse and Hamburg, and we've delivered services to Airbus in the Aerostructures area.

We've deployed digital solutions that have been focused upon accelerating manufacturing throughput. We've engaged in delivering robotic solutions as far as the assembly process is concerned. And I think the big confidence and the capabilities that we've deployed have afforded us more and more opportunities in new domains inside of Airbus.

Airbus have also been struggling as Boeing has in terms of building enough aircraft. The demand continues to grow. And they are not just challenged in terms of their own capabilities, but they are challenged in terms of the capabilities of their supply chain.

So, we've been leveraging the endorsement of Airbus and the recommendations that they've been providing to their suppliers to initiate opportunities with their key suppliers and these are large organizations. These are the engine manufacturers and the aircraft seat manufacturers. And so, our confidence and the momentum that we're building is largely driven by that.

Obviously, the investment that the Tata Group is continuing to make, is providing tailwinds that we're also intersecting with but I think the major driver of demand and opportunity, order book and pipeline is really the great work that we've done with Airbus over the last 3 years.

Moderator: Next question is from Abhishek Kumar from JM Financial.

Abhishek Kumar: Good to hear you're still being optimistic given the dynamic environment. My question was on the deal pipeline or the environment around deals. Last quarter, we spoke about potentially some of the German OEMs looking at more offshoring. Have you seen any progress on that front? Do you think they are still looking at higher offshoring or given the uncertainty, there has been a pause around large deal decision-making as well?

Warren Harris: Yes, we've certainly seen continued traction from the German OEMs. I think all three of the big OEMs in Germany are now requiring BCC components to their sourcing of engineering services. That's not only providing opportunities for organizations like ourselves, but it's also providing opportunities for organizations like ourselves to partner with their incumbent engineering service providers onshore.

And so, we're seeing a number of deals and a number of partnership opportunities progress over the last 3 months. So that push of Germany into not just India but also places like Eastern Europe and Morocco is continuing at pace.

Abhishek Kumar: Okay. The second question is on OEMs versus Tier 1. One of your peers recently said that the pain is higher in Tier 1. How do you see that? Do you think for us also Tier 1 decline is higher? And if we can get some idea of what would be our share of OEM versus Tier 1 in the auto vertical? Thank you so much.

Warren Harris: Yes, I think that's a great question. And I would certainly endorse the fact that the supply chain is feeling the pain somewhat more acutely than the OEMs. But somewhat counterintuitively, that is providing opportunity. I referenced the work that we're doing with one of the North American Tier 1 automotive suppliers in and around smart manufacturing.

When a supplier looks at the unit economics of their business, one of the levers that they look to apply is optimization of the manufacturing process because that's where the majority of their value outside of ER&D is delivered. And so, we are seeing a significant amount of opportunity in terms of deploying technology and taking legacy assets and interjecting capability that will drive optimization and productivity improvement.

And the reputation that we've established at places like JLR and Tata Motors, places that we can take our customers to gives us real credibility in that particular space. The fact that we really not only understand the technology but understand the domain challenges and can go toe-to-toe with the manufacturing engineers and demonstrate how capabilities like AI can make a difference.

I think that represents not only significant opportunity in the short term, but certainly something that we expect to build upon in the future.

Abhishek Kumar: Sure. I mean, can we get some sense of what our exposure would be to Tier 1?

Warren Harris: I don't have a specific number for you, but that's something that we can get back to you through Vijay and his team. So let me come back to you with those numbers.

Abhishek Kumar: Sure. Thank you and all the best.

Moderator: Thank you. Next question is from Shradha Agrawal from AMSEC. Please go ahead.

Shradha Agrawal: So, in terms of German OEs, we did indicate that they are looking at the higher outsourcing to India or Eastern Europe countries. So how are we looking at demand trends from U.S. auto OEs?

Warren Harris: The demand trends with the North American OEMs have been strongly impacted by the tariff decisions. And not just the tariff decisions, but also the bill that's just gone through Congress that has taken away some of the components of the Inflation Reduction Act that has positioned investments for EVs.

And so, what we've seen with Stellantis with Ford and to a lesser extent, with GM is those organizations revisit their product plan from a propulsion systems perspective and also from a manufacturing perspective. And that's prompted somewhat of a pause in the last 3 months. We are starting to see some clarity come through from those three companies and we expect that clarity to precipitate into product decisions in the next couple of months.

Shradha Agrawal: Right. And in terms of our clients, is there any visibility or any improvement in the outlook that we see from our anchors?

Warren Harris: As I said before, the demand from our anchors has been strong. I think their financial performance has been very strong. And we do not see in the short term any change to that. So, we're very excited about the work that we're doing and the opportunities that we currently have visibility of?

Shradha Agrawal: Sure. Thanks Warren.

Moderator: Thank you. Next question is from Ankur Pant from IIFL. Please go ahead.

Ankur Pant: A couple of questions from my side. First one is, is the recovery that you're speaking of, is that also coming from an improvement in the challenges that the OEMs have been grappling with over the last year? Has the situation there improved or is it more of a latent demand or delayed ramp-ups which are finally starting to come through, which may also make the demand more volatile from here? How do you see that?

Warren Harris: I think it's a bit of both. I think if we look at the last 12 months, you look at the policy positions of the Republicans and the Democrats that we're competing for the White House last year, there were stark differences in the approach to alternative propulsion systems and particularly EV.

So that prompted a delay in decision-making among our customers. And that impact was not only felt in North America, but it was also felt with those OEMs that have a great exposure to the North American market. I think the clarity that we saw in November certainly precipitated in much better engagement that we had with our customers in January, February and March.

That's what informed confidence going into the fiscal year. But that confidence was somewhat undermined by the tariff decisions or the tariff announcement on April 2nd. Now we have seen some of that play out. I think the agreement between the U.K. and the U.S. is hopefully an indicator of what's likely to happen with other countries.

And I think that there is an increasing view that common sense will prevail. And as a result, we are starting to see the decisions that we expected at the beginning of the fiscal year come through. So, I think that there was a delay and a buildup of demand for new product investment that was driven by the sort of geopolitical things that played out last year.

I think the tariffs have compounded that, but we are confident that we're through most of the distraction that represents, and our customers are now starting to make decisions.

Ankur Pant: Thanks. That's helpful. But just prior to the tariff situation, the European OEMs were undergoing significant stress in terms of profitability competition. Has that situation improved or is that pretty much the same?

Warren Harris: I think that the industry is going through the typical cycles from a demand perspective that defines the automotive industry. It's been somewhat compounded by the rapid shift to EVs in China that has been largely taken up by new energy vehicle companies in China. So, our customers in terms of their financial performance will, I think, continue to face some headwinds in the next 12 to 18 months.

But I think one thing that we all have to remember is that the automotive industry is a product-driven industry. And the one thing that is typically protected is the investment in new products. And I think the investment has not been there in the way in which we expected over the last 12 months because of the things that I've cited before. And that, I think, reinforces the priority that most of our customers are having to position in deploying the investments that are long overdue.

Ankur Pant: And secondly, on margins. Now we've seen a sharp decline in margin this quarter. How do we see the margin trajectory from here on? And any decision in wage hikes, when they would be alright?

Savitha Balachandran: So, I think outlined the earlier part of the call today, the impact on the fixed costs that we have run that within customers has largely explains the drop as far as margins are concerned. That being said, from our perspective, I think we continue to maintain that our goal post is to move towards the 20% margin band as we scale up our operations.

That being said, we will continue to, of course, start looking at optimizing costs, all delivery and efficient levers that we have at our disposal, be it improving offshoring sequentially, looking at rationalization of our people pyramid.

And of course, going ahead, we will also continue to see improvements gradually as we see a lot of productivity improvements come through the use of AI and other tools but these, of course, will, as I said, reflect more gradually over a period of time.

And to the point that Warren made earlier in the call, as we see Q2 play out, we'll be in a much better position to assess what the rest of the year is going to look like while our ambition will continue to try and see how we can at least ensure margin preservation for the year as we exit Q4. I think we'll be in a better position to assess the situation.

Ankur Pant: Thanks, Savitha. Just on some wage hikes, have you made any plans?

Savitha Balachandran: We haven't discussed on the wage hike yet, so that is something that the management will discuss internally and take appropriate discussions with the organization.

Moderator: Next question is from Chandramouli Muthiah from Goldman Sachs.

Chandramouli Muthiah: My first question is just around the sequential recovery we expect through the rest of the year. So does that assume that the current stand-off on tariffs get resolved at some point in the next couple of months. I just want to understand what needs to happen for more visible sequential recovery in the back half.

Warren Harris: I think our confidence in Q2 is really not informed by any expectation in terms of the trade negotiations that are going on between various countries. It's largely informed by the order book and the qualified pipeline that we're taking into the period. I think the trade negotiations will likely inform the environment in which we operate in the second half of the year.

So, there will be an influence clearly that the trade negotiations between Europe and the US specifically will have on the environment. But I think certainly, Q2, our confidence is driven by deals that we've closed and sentiment from our customers is really giving us a level of confidence that they are seeing past the tariff announcements that were made at the beginning of the fiscal year.

And that latent need to invest in products is starting to get prioritized and will give us the deals that will ultimately continue to allow us to drive momentum and growth throughout the subsequent quarters of this fiscal year.

Chandramouli Muthiah: All right. That's helpful. And just related to that, you did mention that you have seen a pickup in the order book at the end of Q1 versus last year at the same time. So just trying to understand, we did have these disruptive announcements on tariff towards the end of March.

So, through the quarter, have you seen things pick up since then? Just trying to understand Q4 this year versus Q4 last year, how the order book looked? Just trying to sort of understand what's happened to the quarter and then help your order book Q1 end of quarter versus Q1 end of quarter last year?

Warren Harris: I think if we look at the quarter in terms of deal signings, April was a month that was very muted in terms of deal signings. The announcement on tariffs was made on the 2nd of April, and that prompted many of our customers to pause and to delay decision- making. I think the review that the customer base undertook in April, played out into the sort of early part of May.

And since then, we've seen decisions being made and the improvement that we've seen in the order book is largely through deals that we've signed in the latter part of the quarter. So, the momentum is built as confidence has built and as our customers have become, from a scenario perspective, somewhat confident that they can work through the uncertainty that is out there.

Chandramouli Muthiah: Got it. That's helpful. My second question is just around the other income run rate. So, we have seen a pickup in income quarter-on-quarter. I think in previous quarters, you have broken that bridge in terms of what fair value investment gains are, what the hedging costs could have been and what the treasury gains have been.

So, INR 57 crores of other income last quarter versus INR 64 crores of other income this quarter. I just want to understand what part of that is sustainable to expect going forward and if there is a bridge that you were able to provide as well?

Savitha Balachandran: Most of the incremental effects that you see quarter-on-quarter sequentially, as I had outlined in my opening comments, reflect actually the unrealized foreign exchange movement on some of the assets that we have on our balance sheet. The treasury income out of the total income is about INR 24 crores, both interest as well as what we've realized through sale of some of our mutual fund investments.

And as we build up cash balances, I would like to believe that some of that would reflect, of course, the yield curve as we see in the world -- across the world, but you should have some part of it that is sustainable. And we also continue to have the INR 8 crores plus effect from the BMW JV investment that we had outlined in the past.

Chandramouli Muthiah: Got it. That's helpful. And just the last question is around Technology Solutions. So, this has been a lumpy business on a quarterly basis in the past. But usually, I think this business picks up towards sort of the end of the year, the second half of the year, first quarter is usually sequentially slow. I just want to understand what the positive lumpiness has been and how you're looking at Technology Solutions growth through FY '26 this quarter and for the full year?

Warren Harris: Technology Solutions is made up of education and products. We have sustained and until the third and fourth quarter last year, over the course of the last kind of 2 years, sustainable improvement in education. And that's a business that we're working hard to ensure that we manage out the lumpiness.

We had some infrastructure challenges in Q4 specifically that -- related to the readiness of the labs that we will deploy our solutions to and that's largely been resolved, and you've seen that in the improved performance of education in the first quarter.

Products, however, is a seasonal business. Most of our customers in that area discharge budgets at the end of the calendar year, particularly in North America, and the large maintenance contracts are typically renewed at the beginning of the new calendar year. And so Q3 and Q4 are the big quarters for the products business. And so, there is some lumpiness and some seasonality that we have to factor into our plans because of that.

Chandramouli Muthiah: Got it. That's helpful. And just lastly, around head count. I just want to understand, as you see sequential improvement to the -- where we are at presently in terms of utilization rates? And when would we potentially trigger a pickup in headcount, if that's the plan for the rest of the year?

Warren Harris: I think we'll continue to monitor the demand environment. I think that there is a capacity that we have that we can look to put to work to satisfy the growth that we are expecting in the second quarter. And then I think we'll recalibrate our headcount plans at the end of August, beginning of September as they pertain to the second half of the year.

Moderator: The next question is from Rajiv Berlia from Citi.

Rajiv Berlia: Just one clarification. You mentioned that 1Q got impacted due to delayed ramp-up and elongated decision making. Did you see any deal cancellation in 1Q and also, how did the pricing play out in 1Q? Did you see any pressure in terms of pricing?

Warren Harris: We've not seen any significant deals getting cancelled. There was a deal in the IHM space in the fourth quarter that got short closed. That was a project that we were engaged with and because of macroeconomic uncertainty, the customer decided not to progress with that particular project. But that's the only project that we've seen being closed.

Most of the issues associated with the softness in Q1 were related to delays of decision-making and not cancellation of programs. And that's one of the reasons that we, again, are confident about the rest of the year because that need is still very much there.

On pricing, the current environment is prompting most of our customers to challenge us on pricing. But I think so far, we've resisted that challenge quite well and that's something that we'll continue to work hard to do.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference over to Mr. Vijay Lohia for closing comments.

Vijay Lohia: Thank you all for joining us on today's call. We hope we've addressed most of your questions. If you have any other queries, please feel free to reach out to our Investor Relations team, and we'll be happy to assist you. Wishing you all the best and goodbye from all of us here. Thank you.

Moderator: Thank you very much. On behalf of Tata Technologies, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.