



“TATA Elxsi Limited Q3 FY2016
Results Conference Call”

January 22, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi Q3 FY2016 results Conference Call, hosted by Tata Securities Limited. 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 would now like to hand the conference over to Mr. Subham Sinha. Thank you and over to you Sir!

Subham Sinha: Good afternoon. This is Subham Sinha from Tata Securities Limited. I welcome everyone to the Q3 FY2016 conference call of Tata Elxsi. To discuss the numbers we have here with us, Mr. Madhukar Dev, MD and CEO, Mr. Manoj Raghavan, EVP and Head of Embedded Product Design, Mr. Nitin Pai, SVP and Head of Marketing and Mr. G. Vaidyanathan, the Chief Investor Relations Officer. I now hand over to Mr. Madhukar Dev, over to you Sir.

Madhukar Dev: Thank you. Good afternoon and welcome to the call. Just a summary of the quarter that has gone by, another fairly steady quarter for us, we had growth of about 4% in revenue as compared to the previous quarter and about 24% as compared to the same quarter last year. And if you look at just the service segment of our business the growth was a bit better, it was 5% quarter-on-quarter and 30% over the same quarter last year, and, that has had a favorable impact on our bottom line and we have seen a reasonable growth in the PBT and PAT, it is about 7% or 6% in PBT and just under 5% in PAT. On most fronts, the quarter was as expected on all our initiatives that we have launched over the previous period. There was steady progress and there is nothing untoward, there is nothing spectacular, but another steady quarter with a good set of numbers. That in summary is how we saw the quarter. Would you like a brief highlights from Manoj on our embedded product design?

Manoj Raghavan: Good afternoon, this is Manoj here. The EPD, Embedded Product Design business had a pretty good Q3. The two main businesses within EPD, which is the transportation business and the broadcast business, had shown pretty good growth.

In our broadcast business, a lot of business comes from the operators, while that business has been pretty steady, we have seen that a lot of operators have moved, a lot of traction that we see is coming from the gateway business, which typically for broadcaster would mean we are focusing more on the internet revenues as compared to the Pay-TV revenues that they have. So the is the trend in the market especially in US and Europe and we would foresee that we would continue to get good traction in the gateway side of the business.

The OTT space is another area that we have seen a good traction with a couple of good new customers, so we would foresee that in the next two quarters, also we would build upon our OTT offerings and OTT play. In the transportation business traction from both OEMs and

the tier I's continue especially in areas that we focus in connected infotainment, driver assistance and the autonomous car, so these are areas that we see continued focus from our customers and a good set of opportunities for us. So these are the two main updates that I wanted to provide.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

Niket Shah: Congratulations on a good set of numbers and thanks for the opportunity. I just had a few questions if you can let us know what is the employee count currently and what is the employee addition that we plan to do in the next year and also it will be really helpful if you can give us some sense of the new client addition, new deal events that would have happened in the auto and broadcast business?

Madhukar Dev: The employee headcount at the end of quarter was not very different from the previous quarter, it was about 4600 and going forward apart from fresh batch where we have a plan to induct a fixed number of people over the next six, seven months the laterals will be hired as required, so we do not have a fixed plan that you are going hire x number of more employees. As regards to new customer wins it was as I said earlier it was a quarter where everything was sort of steady, it was nothing spectacular, we had a handful of new customers who came in and obviously the revenue contribution of these new customers are extremely small currently, we have to see how it plays out over the next few quarter so there has not been a tapering in the addition of new customers nor is there a spectacular growth, it is more or less the same as the previous quarter.

Niket Shah: Would it be possible to quantify the growth rates in the auto and the broadcast part of the business for us?

Madhukar Dev: We do not have that working, but it is safe to say that EPD revenues have grown by 6% quarter-on-quarter most of it has come from broadcast and transport.

Niket Shah: Sure and if you can also provide us a little bit of update on the medical part of the business, where we just entered, I would say, this year or last year what is the update on that and how are we seeing the ramp up happening there?

Madhukar Dev: We are again in a state which is not very different from a few months ago except that internally we are a bit clearer on the way forward and we were trying out multiple options till a quarter ago, we now know what works and what does not work, a little more clarity in our strategy today as compared to a quarter ago, but in terms of actual revenues, it is still a very small part of our business, but I think we feel a lot more sure of the way forward then

we did a while ago because we are clearer on the steps needed and how we will build this business.

Niket Shah: Final question on the visibility part of the business from any of clients within auto and broadcast, are you seeing any kind of slowdown in spending or that continues to remain fairly robust, which provides us visibility for the next few quarters?

Madhukar Dev: With the engineering part of the auto industry when we talk to them there seems to be enough and more opportunity, it is the finance and purchase part of the auto companies or the auto tier I's who are saying that there are severe cut backs in budgets and they have to be very careful in spending, but I do not know if that is real or it is just a tactic right now. In terms of pure quantum of work that seems to be available, there seems to be a fairly good outlook as we go forward.

Niket Shah: Great Sir. Best of luck for the rest of the quarter.

Moderator: Thank you. The next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: Thanks for taking my question. Sir two questions, one I wanted to understand when you compete with, competition such as KPIT, Infosys, Wipro what do you think differentiates you from them that is question number one? Secondly Sir I wanted to understand how do you treat competition with Group Company TCS because I understand they also have a large engineering services practice, so are there some areas that you avoid because they are big there or are there areas that they avoid because you are big in them?

Madhukar Dev: I will take the TCS bit of the question first. When we see TCS we just run for cover. We do not compete with them. As regards the other Indian companies that you mentioned each one of us has certain strengths and certain weaknesses. Our obvious strength is that we do not do IT. We are an engineering and design company. The fact that we are a relatively small company is also often an advantage because a lot of engagements are not so large as to be of strategic interest to very large companies, so we use this to attract better manpower essentially and I think eventually we win business against our competitors because of the quality of the manpower that we have.

Sagar Rastogi: Thanks Sir. Just one quick follow up to that, Sir I understand that within engineering service your focus is more on embedded electronics so essentially writing the software that resides on chips inside the cards or the operator's equipment, now would not this kind of expertise be very well aligned to a typical software project in both cases the person has a writing code may be the rigor of execution might be different or the mindset might be a bit different, but essentially it is writing code, it is not?

- Madhukar Dev:** Yes it is writing code, but the approach here is completely different, your writing code which has to have a very small memory footprint, it has to optimize on the number of the CPU cycles that you use because you also need to conserve power and you cannot afford to go wrong, the code cannot crash, so the skills required for writing our kind of code are very different from writing, code for doing accounts.
- Sagar Rastogi:** Right, okay, that is all from my side for now, thank you.
- Moderator:** Thank you. The next question is from the line of H R Gala from Panav Advisors. Please go ahead.
- H R Gala:** Congratulations for really good set of numbers. Sir I just wanted to know which geographies were largely behind this good growth that we had?
- Madhukar Dev:** Before I answer that I would just like to say that you know this particular quarter October, December is a bit peculiar and that in different parts of the world you have different number of holidays, so what I am going to tell you is not necessarily a reflective of a trend, but more of what happened in the quarter. Europe had a higher contribution to our revenue, US was marginally lower than our last quarter as a percentage because Europe was so much higher and the rest of the world remains the same.
- H R Gala:** Sir what is happening in Japan now?
- Madhukar Dev:** Japan, as Manoj had mentioned last time, we are seeing revival of interest in the auto companies, but Japan is inherently a slow moving market, so if you see something happening in the month of January, it does not necessarily mean it will translate into revenues even by May or June, so what we are trying to make sure is we are present there, we want to make sure that enough prospective customers know what we have to offer and that our sales people in Japan understand the Japanese market quite well, so this also made some changes to our presence in Japan, some very seasoned people who are very familiar with the Japanese market are now looking after our marketing and sales there.
- Manoj Raghavan:** Last quarter we took the decision of strengthening our sales presence in Japan and as Madhukar said we have far more seasoned people now but that would not mean that in a quarter we will see a change. I think couple of quarters minimum we would need, but we are on the right path there, we have a lot more customers or prospects visiting us and so on and Japanese they would want to see for themselves before deciding on so, pretty good early indicators, I think we should in a couple of quarters revisit our performance there.
- H R Gala:** Sir apart from the transportation and broadcast are you looking at any other area for the embedded product design, as we move towards more IOT and things like that?

- Manoj Raghavan:** Yes so apart from broadcast and transportation another vertical that we have is communication business, so definitely IOT is an area, which is of interest for us and of course we have medical electronics, which is another area. We have a smaller presence in semiconductor space which we are really evaluating now on the way forward.
- H R Gala:** Okay so this could be the potential upside to our offerings in EPD right?
- Manoj Raghavan:** I mean of course IOT is a new thing that has come in and medical is something, which we have invested again a few years ago, but semiconductor and communication practices have been there for a long time within the company.
- H R Gala:** My last question is for Mr. Dev, Sir you are looking forward to 30% type of revenue growth and I think you are inching towards it quite successfully, so what is your take for next couple of years?
- Madhukar Dev:** We first have to get to 30, Mr. Gala.
- H R Gala:** Yes, we are already at 26, 27 Sir, not very far off.
- Madhukar Dev:** We want to get there and then set ourselves a little higher after that.
- H R Gala:** Great Sir and anything on EBITDA margin?
- Madhukar Dev:** There is a marginal improvement in the EBITDA margin from 24% to 25%. I do not think it will rise very much further beyond this.
- H R Gala:** Okay, no problem Sir. Thank you very much and wish you all the best.
- Moderator:** The next question is from the line of Nishit Shah from Ambika Finance. Please go ahead.
- Nishit Shah:** This is Nishit Shah here. Mr. Madhukar Dev congratulations on a superb set of numbers, what is admirable is that over the last four quarters or more actually you have been consistently delivering good performance. My first question is how confident you are that what you have delivered over the last several quarters you will be able to deliver, what I am saying is you have delivered consistently very good numbers over the last several quarters, do you think you can replicate the same over the next several quarters?
- Madhukar Dev:** Thank you Mr. Shah. If you look at the steady state business, there is really no cause for alarm, but at the same time we are not one of those companies which will not try something out of the ordinary, in the past if you see we have had some successes, some problems with our IPR programs, with what we did with our VCL division, so I tend to think that we will make some attempts hopefully we have learnt a lot from our experience and the attempts

will be more controlled and with more predictable outcome, but we will try to break out of mold where our revenues are directly proportional to the headcount that we have, we need stability for the businesses for sure and that is given by the steady business that we do, but we will try to see if we can break out of the linear model that we have currently, so some of what we do will succeed and some may not, so other than that there is really no, I do not see any kind of alarm.

Nishit Shah:

Sir you are around \$150 million or \$160 million run rate today, as of opportunity and in the past also there was an ambition to be a billion dollar quickly. You think you still have that ambition to be a billion dollar few years down the line and when do you think it can be in next three years, can you achieve a billion dollar?

Madhukar Dev:

What one has learnt from that attempt to get to a billion dollars very quickly is to look at a shorter horizon and when I was answering the previous question was saying that we need to cross the 30% year-on-year growth to set the next milestone for ourselves, so if you will see if we can get to somewhere about 35%, 36% year-on-year growth and sustain that we will get to a billion dollars in a few years time.

Nishit Shah:

Sir what I was saying is that the opportunity in embedded space is huge especially in electronic embedded and you have a lead start, you started working very early on those areas and I actually feel that you have a substantial lead over the competition, so actually achieving 35%, 38% kind of growth is something that I feel company of our stature should be able to do, but opportunity seems to be quite big, so would you elaborate on the kind of opportunity and how we are trying to move the whole company towards that high growth area?

Madhukar Dev:

Let me first say that you mentioned that we got into this area quite a while back, but the nature of the work that we do, well it is still embedded or electronic product design, the techniques used, the tools available, the challenges are completely different from what prevailed 10 years ago and the interesting thing about our business is there is no permanent leader and there is no permanent laggard. It is because of the waves of change that come and it is how we handle the wave, if you look at 10 years ago where was the car electronics opportunities, it was then wipers and keyless locks and hoods and things like that and today the opportunity is in every part of the car everything changes and certainly there is a big opportunity but that does not mean that if we keep doing what we are doing we will automatically scale up. We all the time have to re-tool, retrain our people, re-skill our workforce to be relevant for the opportunities that are coming our way and often the opportunities are very different and require a different approach from what prevailed in the past, while it is exciting it also slows down growth considerably especially you have to look at the bottom line and down to the first decimal or second decimal of percentage points being a listed company and we do not have any other business which sort of keeps us

guaranteed of a certain amount of revenue and profit and which will keep coming, our business is purely this.

Nishit Shah: That is useful. Thank you very much and all the very best.

Moderator: Thank you. The next question is from the line of Naveen Botra from Praj Financials. Please go ahead.

Naveen Botra: Congratulation to Tata Elxsi team for the excellent set of numbers once again. Sir my question is regarding the platforms are being introduced, how many platforms are being introduced and which are the industries these will cater to Sir?

Madhukar Dev: I am not sure we understand your question, if you could elaborate?

Naveen Botra: How many platforms are being introduced?

Madhukar Dev: When you say platform what exactly do you need?

Naveen Botra: The platforms that we are talking about platform revenues and all, like consumer electronics, medical electronics or IOT, size of platform we are thinking about?

Manoj Raghavan: So we have five-business vertical at this point of time and the latest vertical being the medical electronics, which we have got in, we are of course evaluating a few verticals, but I think in the foreseeable future we would continue with these five verticals.

Naveen Botra: So we have already launched some platforms?

Manoj Raghavan: Yes, the broadcast is one, transportation is another, communication is the third, medical electronics is the fourth and semiconductor is the fifth.

Naveen Botra: So we have already booked revenues from platforms in this December quarter Sir?

Madhukar Dev: I think there is some mix up. My suspicion is we have not understood what exactly you mean by the platform, if you could explain?

Naveen Botra: If I can confirm it later. Second question is regarding IPR and licensing revenues, what is the timeline we are looking into, is this the same as last quarter?

Madhukar Dev: There is really no dramatic change in the quarter except some progress on a few IPRs, we still do not have any great revenues coming out of this IPR, but we are continuing to invest and we expect may be another quarter or two quarters from now some returns from the efforts that we are putting in now.

- Naveen Botra:** Thank you. I will come later on.
- Moderator:** The next question is from the line of Ritesh Chheda from Lucky Investment. Please go ahead.
- Ritesh Chheda:** Sir few quarters back you had given the Rs.3000 Crores kind of vision how are we tracking on that vision and if you could tell us the core growth drivers for achieving those Rs.3000 Crores in business?
- Madhukar Dev:** We have our own internal plans on growth and so far the progress has been according to our plan. We think we can grow a bit as we go along over the next few quarters, we still do not know how exactly and what will play out and the key drivers for growth are our EPD and industrial design business, industrial design is a very small fraction of our total revenue, so essentially it boils down to EPD and within EPD out of the five business units, it is really the auto electronics and broadcast which are likely to drive growth in the next three, four quarters, after that we may see some of the newer businesses where we are investing, but for the moment, this is how it looks.
- Ritesh Chheda:** Just trying to break that vision on the near term since lot of your business is project business, I do not know but where you discretely give out the order book number, but my guess is you would have sufficient idea on the visibility so do we have at this juncture visibility for the next three, four quarters, which would inherent correspondingly point at the continued growth rate, at least can you give us some idea on that side?
- Madhukar Dev:** We never have visibility that goes beyond the next quarter or at most half of the following one, it is a number of leading indicators that help us gauge how things are turning out and all those lead indicators right now look no different from what prevailed a few quarters ago, so while I cannot say for sure what our growth rate will be two quarters or three quarters from now, but at the moment, there does not seem to be any challenge.
- Ritesh Chheda:** So the business nature is one, which gives you sufficient visibility of the two quarters at least?
- Madhukar Dev:** About quarter and a half.
- Ritesh Chheda:** Okay thank you very much and all the best Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Abdul Karim from HDFC Security Limited. Please go ahead.
- Abdul Karim:** Thanks for taking my question and congrats for best set of numbers and I have two questions, first what is the capex investment in the current quarter?

- Madhukar Dev:** There is only a very small amount of capex that was invested in the current quarter. I think about Rs.4 Crores, I do not have the exact number.
- Abdul Karim:** How do you see the order visibility from the government of India in EPD and industrial design space?
- Madhukar Dev:** We currently do not do much work with the government. We have off and on had some projects from DRDO Labs and so on. We are trying to see if there is an opportunity to do design work for some of the government agencies based on the work that we have done for the Bangalore Metro or the Kochi Metro, etc., and that is all got to do with improving the passenger experience at railway stations and so on and we are trying to expand in that area at the moment.
- Abdul Karim:** See on the human resources front, what is your utilization level right now and what was the attrition rate this quarter?
- Madhukar Dev:** The utilization level is similar to the last quarter, it is just above 75% and the attrition is a bit lower than last quarter, it is down to about 15%.
- Abdul Karim:** Last quarter I think it was 18%?
- Madhukar Dev:** 16%.
- Abdul Karim:** 16%, this quarter 15%, okay. Thank you all the best.
- Madhukar Dev:** I may just add that this does not necessarily reflect a trend, this is a not a quarter of high attrition traditionally.
- Abdul Karim:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Rohan Adwait from Multi Act. Please go ahead.
- Rohan Adwait:** Thanks for this opportunity. Sir like you have been highlighting that ours is a project driven business, I wanted to understand what is it that drives these projects? Are these driven by new car launches or it is general R&D, but of these auto OEMs, but where there might come a period where the services we provide might be more and more relevant for that particular phase of R&D?
- Madhukar Dev:** It is really more features for future products that drives the bulk of our business, there is a small quantum of opportunity which has got to do with exploratory R&D and very often

that is a joint effort between our teams and the client's team, but the bulk of it is relating to new features or new functionality coming in future cars.

Rohan Adwait: Is it a fair understanding that once we have a relationship with an auto OEM while the client will give us some business every year, the amount of that would change depending on the features that they are working for currently.

Madhukar Dev: Yes.

Rohan Adwait: Thank you. That is all from my end.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: Good afternoon Sir. Within the auto segment you had mentioned auto is the key growth driver going ahead also, can you help us understand some, say some examples of what you do here in the embedded system piece within the auto and how big would the contribution from our group entities be here, the kind of work that you do for say Tata Motors or someone what would that proportion be and how has that segment been growing for us in the last few quarters?

Madhukar Dev: I will answer the second part first and then ask Nitin to describe some typical projects that we do, and the two are not necessarily correlated. Jaguar Land Rover was our customer from a time before it became part of the Tata Group and continues to be a key customer and we get something close to about 25% of our revenues from work related to Jaguar Land Rover and Tata Motors.

Srinath Krishnan: How has this been growing over the past few quarters?

Madhukar Dev: It is going at the same pace as our overall revenues and that is why share is more or less static and Nitin will now discuss.

Nitin Pai: Just to sit back a little bit if you take a car and break it down by domains or areas you really have a few that are distinct, you have power train, which is really the engine, the transmission, and everything related to the cars moving, you have the chassis, you have the body systems, you have the safety and security systems and then you have the infotainment. But there are some emerging areas which did not exist before, if you look at active safety while seatbelts, brakes are found as part of the classical safety system, what we look at as rearview cameras or ultrasonic sensors for parking or lane departure warning are all new aspects of safety, which is now classified under something called active safety and telematics is the next new area which is really because of the car becoming connected, so if

you look at what we do in each of these, it varies of course domain to domain, if you look at power train you would typically be involved in the software development that is associated with normal power train or electric or hybrid power trains because obviously the engines need to be smarter to be able to decide when to switch from one mode to another, be able to conserve power, take decisions and so on, so it is a fair amount of software work, equally there is a fair amount of classical electronic development that goes into power train, if you look at areas like infotainment or autonomous driving or active safety they are far more software intent simply because the hardware does not do much, it provides you the right signals and the right sensors are deployed to get you the signals that you need to process, but everything is fundamentally algorithmic in nature in terms of what you do with that data that has been sent to you and what kind of decision do you allow the car to take. So you think about it, there is traditional electronics which is truly embedded in nature in terms of pieces of hardware, both chips as well as custom boards with software written on them to allow the particular functionality to execute itself and then there is more sophisticated software that is now riding on top that allows more decision and control.

Srinath Krishnan: In most of our cases are the OEMs our clients or who are we dealing with clientele in say the auto embedded space?

Nitin Pai: So we deal with both. So OEMs and suppliers are both two large segments that we address in the automotive space. A small contribution comes to us from silicon vendors who are also working in the automotive electronic space, so OEMs and supplier sometimes have similar requirements that both of them are commissioning product development right from R&D through development through validation and verification. In certain areas, as you would know, the OEMs do not undertake R&D or development themselves they rather specking out or providing requirement specks for what they want and then validating what comes back from the suppliers, so we service both.

Moderator: Thank you. The next question is from the line of Kaustubh Kale from Motilal Oswal Securities. Please go ahead.

Kaustubh Kale: Congratulation on the steady set of numbers again. My question was regarding the industrial design part of business, Sir over the last few quarters on an average we have grown by 35% upwards, but this quarter our growth came to like 19%, any particular reason for this and connecting question was that you were looking for a partnership with a brand consultant in Dubai, so any updates on that piece of business basically?

Madhukar Dev: What was the 19% that you mentioned?

Kaustubh Kale: What I was saying is basically, I was going through your performance highlights for this quarter, the industrial design part of our business has grown by around 19% and on an

average it has grown by more than 35% to 40% over the last few quarters, so any particular reason for this?

Madhukar Dev: Industrial design growth is a bit slower in the last quarter as compared to the previous two quarters. Yes there are some projects, which were linked to certain milestones, and those milestones could not be completed in the quarter and therefore what you see is a slightly slower growth, but that should get sorted out in the next quarter or the one after. As regards the brand consulting we continue to work with our partners in Dubai and we have executed a few more projects in India along with them and are also getting some design work from their customers also. So that relationship is going well.

Kaustubh Kale: That was the only thing from my end. Thanks a lot.

Moderator: Thank you. The next question is from the line of the Vimal Gohil from Union KBC Mutual Fund. Please go ahead.

Vimal Gohil: Thank you for the opportunity. My question was regarding your customer base ex-JLR, Sir what is the kind of traction we are seeing and the solution that we are essentially provide to JLR, are these cross-saleable to other clients as well so how do we work on that?

Madhukar Dev: The work that we do for most of our customers and that is too not just of JLR has the IPs residing with the customer, so we cannot sell that to their competitors. There are separate initiatives where we built component or component IPs which gets integrated into a full solution which go to our customers and those components or component IPs are things that we can reuse. So our effort is to increase our portfolio of such components and that is where we think we can bring in some level of non-linearity in our growth.

Vimal Gohil: Sir, how big will be this component of resalable solutions right now, if you can give me some ballpark number?

Madhukar Dev: It is right now very small. It is insignificant.

Vimal Gohil: But you see this growing fast in the future?

Madhukar Dev: We hope to and that is why we are investing and adding to our portfolio of such components.

Vimal Gohil: On the other part of my question, how are the client ex-JLR, how are the OEM ex-JLR tracking as of now and how they are expected to do so in the near to medium term?

Madhukar Dev: Today if you look at our auto business, we have a fairly healthy set of customers outside of JLR and Tata Motors, a lot of these are relatively new engagements, but they are growing

nicely and there are a good number of them and we think in the future they will grow quite significantly. Manoj, you want to add anything here?

Manoj Raghavan: Quarter-on-quarter, we definitely see customer addition growth in OEMs and tier Is, so to that extent if you are questioning about are we de-risking ourselves, yes definitely we are de-risking from JLR. JLR still is a very important customer for us but at the same time we have a number of other customer additions that will help us de-risk.

Vimal Gohil: Right, I have one more question, but I will come back in the queue then. Thank you.

Moderator: Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: Thanks for the opportunity. From my understanding, development in the automotive industry is mainly done in Germany, so while part of this can be attributed to the number of OEMs in the region, there are also multiple vendors offering integrated services at range from software development to production, so how do you weigh the value proposition of pure play software players versus vendors that have multiple touch points in the ecosystem?

Madhukar Dev: First, we believe that the most interesting work is not all happening in any one country. We see stuff happening in Korea, we see stuff happening in Japan and of course US both in the Detroit area as well as in the California area and UK of course has a lot of initiatives due to the racing deals being all based there. Our play is a bit different from that of companies which are doing development and supply of components and I think all the car companies understand the value that a pure design and software company brings as compared to somebody who is designing and is also supplying the equipment, because what we do belongs to the customer, what the component supplier is doing and supplying belongs to him and therefore the competitive advantage that the customer gets is only for a very short term. What we do, gives him a long-term competitive advantage, so that to me to my mind is a key difference.

Sagar Lele: Thanks.

Moderator: Thank you. The next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: Thanks again. Could you give the split of revenues between fixed priced projects and time and material and also if you could also share proportion of revenues delivered onsite versus offshore?

- Madhukar Dev:** The splits are coincidentally almost identical for the two, it is 35%, fixed 65% time and material 35% onsite and 65% offshore.
- Sagar Rastogi:** When you do work for say an active safety component or driver assist system right for a car then next time that when that component gets refreshed, is that one year or three years?
- Madhukar Dev:** Nitin, could you attempt to answer that my guess is as to do with the generation of semiconductor?
- Nitin Pai:** That is right. If you look at active safety in some sense part of it is driven by regulation right, if you look at laws, there are laws that will mandate that any vehicle that are pulling trailers need to have X safety systems built in, in terms of being able to predict turn cycles and so on. Pedestrian detection becomes compulsory in certain markets, collision detection becomes compulsory in certain markets, so part of it gets mandated by law and typically automakers tend to follow that cycle, because that gives them enough time to be innovative and make sure that it is incorporated. Part of the cycle is driven by innovation in the sense of Mercedes Benz for example, wanting to differentiate itself from the rest of the luxury carmakers and therefore introduces a new type of parking assist. So that is the first to market kind of a move where they are accelerating the cycle of introduction of certain features. So, in general once the feature gets in it typically stays there for a set of model years, it is just that in the case of active safety I think the cycle is turning a little faster in terms of more sophisticated features overriding current features generation by generation.
- Sagar Rastogi:** Thanks that is useful background. If you could perhaps quantify a little bit so that we could get proper context, so for example, this pedestrian system that you talked about. When was the last time or when was it first introduced and when was significant step change there that sort of came in and which led to a lot of new work for you guys.
- Nitin Pai:** Pedestrian detection is still being implemented, but if I look at rear view cameras, the rear view cameras are something that we worked on about five years back and they got started to get introduced in cars in about three years or so and it is that it was introduced in the first time only three years back it is just that some of the OEMs that we are working for introduced it in their vehicles as cameras rather than ultrasonic sensors about three years back. Subsequently what you have seen is that while that continues that has now grown into addition of additional sensors in the front, so that you can now do collision warning. So that camera also has a purpose except that it has purpose greater than just being for parking or for reversing back it ends up being integrated into functionality for collision detection also and we are seeing implemented starting now.
- Sagar Rastogi:** You basically mean every two, three years something new comes up and that leads to more work?

- Nitin Pai:** That is correct because typically that is a cycle that it takes to make sure something work absolutely well enough for an automotive company to take liabilities.
- Sagar Rastogi:** Fair enough. Thank you so much. I will go back in the queue.
- Moderator:** Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** Thank you Sir. We see that some of the autonomous driving or whatever segment which you have mentioned are pretty critical and are high-grade growth drivers for the industry. But from general observation, in general in auto ancillary industry, OEM owned suppliers find difficult to get business from competitor OEMs with Tata being the owner of JLR and do you think German players, German OEMs, would be coming to work in some critical projects like what you have mentioned, will it be easy to scale up business in the non-JLR front with these OEMs?
- Madhukar Dev:** It certainly is not easy and it has not been easy scaling up even in JLR. It has taken many years and lot of effort, but the fact that we are a separate company with no crossholding with Tata Motors or with JLR gives us legitimacy as an independent company in the design space. We have no interest in making components; we have no interest in making vehicles. We only help our customer's make their vehicles better. So, the concerns that some customers may have whether we are part of Tata Group and so on we try and address those concerns by explaining the structure of a Tata Group and the fact that just because we carry a Tata name does not mean we get preferential treatment from other Tata companies or we give preferential treatment to other Tata companies. We try and just reinforce that messaging.
- Srinath Krishnan:** How nonlinear is this business, if I understand correctly here that proportion of people addition to the incremental business should not be very high, is that right? Can you reuse the same platforms or solutions, which you have given to your clients, it can be reused across multiple client base correct or is it restricted to them only?
- Madhukar Dev:** In most of our engagements, the IPR belongs to our client. It is only when we have invested upfront in building a component or subsystem which we deploy for one customer where we have the rights to deploy for another customer. It is our endeavor to build a bigger portfolio of such component and subsystem IPs and we have been investing in some of them and will continue to do so, but today the bulk of the engagements are such that the IPR belongs to the customer and therefore there is a linearity and very little opportunity to scale.
- Srinath Krishnan:** Thank you for that and what would be the proportion of IPR driven revenues here?

Madhukar Dev: It is very, very small today it is not even measurable.

Srinath Krishnan: In that case, it does not really restrict you right, you mean to say IPR revenue is very small if the ones, which we own which Tata Elxsi, owns?

Madhukar Dev: Exactly, so it restricts.

Srinath Krishnan: Thank you very much Sir.

Moderator: Thank you very much. We will take a last question from the line of Ravi Naredi, an Individual Investor. Please go ahead.

Ravi Naredi: Can you tell me what is the satellite business and how big it is for Tata Elxsi?

Madhukar Dev: Mangalyaan is probably, Nitin.

Nitin Pai: I would assume, I am not sure which one of the two. is it satellite operator that you are talking of such as dish?

Ravi Naredi: Mangalyaan we have get some business, so such type of business we are getting in again and again or how big the business for Tata Elxsi?

Nitin Pai: Sorry if you can repeat the question again because we missed some of your words first.

Ravi Naredi: Satellite business, how big for Tata Elxsi?

Nitin Pai: Just to explain because I may not sure what satellite you are talking of, there are two aspects of anything to do with satellites that we do, one is in the broadcast business we work with operators who use satellites to transmit signals, so good examples are if you think about India, Tata Sky or Dish are typically broadcast operators but using satellite rather than cable or terrestrial, so we do work with such customers and even as the broadcast business has been growing we have been adding and servicing quite a few of the satellite based operator companies.

Ravi Naredi: No, we have listened to some Mangalyaan you have done some job for India?

Nitin Pai: So that was the only other one, so if you look at aerospace while we continue to work with aerospace customers as a part of transportation, this work with Mangalyaan was a one off project.

Ravi Naredi: Any further, any development in aerospace?

- Nitin Pai:** Yes, we continue to work with some customers there, we are hoping that the business will grow a little more than it is currently, it is right now very small, but nothing to do with ISRO itself because that was a unique project.
- Ravi Naredi:** Lastly any business we are doing for airline industries also, Airbus or Boeing or anything?
- Nitin Pai:** Not directly for Airbus or Boeing but with some of their suppliers.
- Ravi Naredi:** Thank you very much Sir and all the best and we hope with flying colours again the next quarter, thank you very much Sir.
- Madhukar Dev:** We hope so too.
- Moderator:** Thank you Mr. Naredi. Ladies and gentlemen with that we take our last question. I now hand the floor over to Mr. Subham Sinha for closing comments.
- Subham Sinha:** On behalf of Tata Securities, this concludes the conf call. I thank everyone for attending, have a nice weekend.
- Moderator:** Thank you very much, Mr. Sinha and members of the management team. Ladies and gentlemen on behalf of Tata Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.