



Q3 FY19 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi FY19 Q3 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 conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaidyanathan. Thank you, and over to you, sir.

G. Vaidyanathan: Thank you. Good afternoon. On behalf of Tata Elxsi, I welcome you all to the Q3 FY19 Earnings Call. We have with us Mr. Madhukar Dev – MD and CEO; Mr. Manoj Raghavan – Executive Vice President (EPD); Mr. Nitin Pai – Senior Vice President (Marketing).

Agenda goes like this - Mr. Madhukar Dev will give a summary of our performance during this quarter, Mr. Manoj Raghavan will give an update on EPD division, and Mr. Nitin Pai will give a brief update on other divisions and markets. Thereafter, we will open the call for questions. We would request each of you to restrict to one question and if time permits, you can come back and ask further questions if you have any. Now, I hand it over to Mr. Madhukar Dev.

Madhukar Dev: Thank you and good afternoon. And welcome to this conference call. The quarter that ended December 31st was an interesting quarter. It was full of challenges - some of which were foreseen and some unforeseen. Overall, I think, we did reasonably well to show a growth in our operating income, despite the fact that the

number of working days in the quarter were fewer than all the other quarters. And the fact that we had, in a number of our major customer accounts, extended furloughs, so there were billing losses for a number of days in the quarter. And the overall impact on the results of the change in the exchange rate was negative as against a very positive one in the preceding quarter.

So if you were to normalize for these factors, I would say it was a steady quarter, and we were able to handle the challenges that came our way and overall had a reasonably satisfactory outcome. With this, I would ask Manoj to present the highlights of the EPD business, which as you know, is the mainstay of the company.

Manoj Raghavan:

Good afternoon. Thanks, Madhukar. Yes, I would agree with Madhukar, that it was a steady quarter despite the few challenges that we have had. From a business perspective, as you know, automotive is the largest business in the EPD business. We continue to see good traction there. Main areas being active safety, ADAS, autonomous driving-related activities, Instrument Cluster, and eCockpit as well as AUTOSAR.

As you know, we have been developing our intellectual property in the autonomous driving area and we have licensed it to one of the key OEMs. But right now, what we see is good opportunities in automated validation as more and more OEMs are progressing in their autonomous plans. The challenge for many of these OEMs is to do with end-to-end validation for their different autonomous driving car scenarios. What we have for such customers is our test automation framework and platform. So we see a lot of opportunities coming in that space.

We are developing the next generation of AUTOSAR which is adaptive AUTOSAR. Again, we see opportunities coming in that space. And in ADAS, autonomous driving, active safety area, we see excellent opportunities in licensing some of the modules that we have, not end-to-end, but specific modules. So overall, if I look at the deal pipeline in automotive, I think we have a pretty good deal pipeline. And we should have steady progress in this business.

The second business that we have is Broadcast business. Again, a reasonable size business for us. We primarily work with the operators as well as the broadcasters and the CPE vendors who supply set-top boxes and gateways. Again for our operators, our offering in terms of both RDK and Android continues. We are the largest engineering partner in the RDK space for many operators. We see good

traction on the Android space also. A number of operators as well as Tier-1s are coming to us, asking for Android TV development and Android set-top box development. And from the CPE vendors, we see a lot of them moving into the DOCSIS side. DOCSIS 3.1 is becoming important in the west, and that is where we are investing. Of course, 802.11ax which is the next generation of wireless technology is another area we are focusing on.

Analytics, AI is another area that we see opportunities, especially with our operator customers. And OTT is the other big thing. As you know, we have had pretty good success in the Indian ecosystem. We are taking that to the worldwide market now. We will see some good traction in the next, I would say, a couple of quarters in the OTT space.

Coming to our Communication business, if you look at it, changes are happening in the communication space. The 5G rollout will eventually happen. We see good opportunities from our test and measurement equipment customers, who are getting those early orders for equipments for 5G rollout. So that is an area that we are focusing on. We have good capabilities on the SDN side, especially on the network transformation through SDN. So again, we have three operators signed up, and this is another area that we are focusing on. IoT is another big opportunity area for us. We have an open source based platform that we have worked on, and we will be taking it to all our operator customers and see how we can license the solution.

From our Medical business, it was a solid quarter. We are growing as expected, and we see this whole good opportunity in the MDR space in Europe, and that is something that we are focused on. And that will be the growth story for us in the medical electronic space. I think with these words; I would hand over to Nitin to take you forward.

Nitin Pai:

Thanks Manoj. Good afternoon, everybody. If I were to summarize what Madhukar talked about in terms of how the quarter was, and Manoj's summary of what we are seeing as traction and areas of interest from customers, I would sum it up as follows. So one, you have an existing customer base that is global but is predominantly in the US, Europe, and the Japan markets, with quite a few customers in India too. Therefore, there is an opportunity to increase penetration into new markets. And when I say new markets, these will be countries like China, Southeast Asia, and so on. And the opportunities there will be aligned to those markets, so, therefore, for example, China would be a market for automotive obviously, because it does

represent the largest consumer market for sure, and equally it is growing in the actual number of OEMs that are now operating out of China itself. If you look at Asia, it continues to be an excellent opportunity for media and entertainment, especially as media and entertainment transitions to OTT.

The other direction is in terms of existing customers and the disruption they face. And therefore how do you help them in their journey of transformation. Part of it is addressed through digital offerings, whether it is IoT, OTT, mobility, and cloud - these are all aspects of digital that customers need to adopt, embrace and pick up as part of their go-to-market.

The other part is in terms of helping them in their journey of owning software because this is a journey that we see is consistent across verticals. There are certain parts of the solution, certain parts of the software that customers need to own themselves to bring some amount of differentiation, to drive their competitiveness.

So really if you ask me, for us, it has been a journey of how do you manage existing customers? How do you continue to grow and retain customers? But then, equally prepare yourselves to support existing customers in new offerings; and two, look at new markets themselves. And therefore, while I will not talk about the internal efforts in terms of sales and market development, what you would see being reflected publicly is the events that we are participating in, right. So if you look at the Autonomous & Smart Vehicle Summit in China that was held in Shanghai between the 5th and 7th of November, in fact, that was on the sidelines of the Import Expo that China hosted for the rest of the world. This was really about being able to address emerging needs of the Chinese market itself.

If you look at the Android TV Summit that we participated in Thailand, in the same month, it was about how we support the media and entertainment market in the adoption of Android and other technologies that will help them migrate to OTT. The same is true of the event that we participated in MENA; this was in Dubai. And it was a global TV connect event, again, addressing changes and disruptions that the media and entertainment industry would face, and what technologies and what areas we could support local customers therein.

The other complementary aspect of this is the partnerships and alliances, which we have been continuously both building, as well as strengthening. So whether it is a Google on Android Auto and Android TV, or whether it is with other companies like

Blackberry and Ayla that we announced before. So you will see that there is a strong signature of how do we provide both existing customers, as well as new customers that we can acquire with propositions that are significantly differentiated, but also helping them in their journey of transformation. That has been the attempt and the journey that we have had for the past few quarters.

So with that, I would like to hand over to GV again so we can start the Q&A.

Moderator: Thank you very much, sir. Ladies & gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Dharmik Patel from Active Alpha. Please go ahead.

Dharmik Patel: I have a couple of questions. Firstly, we have been trying to reach out to the Investor Relations team, and your team is always inaccessible to us. We have been trying to reach out to you since last four to five months, but then we haven't gone through. Are there any concerns?

G. Vaidyanathan: No concerns. See, we have a protocol that before the earnings con-call, we do not meet one-on-one with any of the investors.

Dharmik Patel: So when can you meet us or when can we get on a call?

G. Vaidyanathan: After this, we can schedule one, maybe next week or next to next week.

Dharmik Patel: All right. And my next question is, with a negative outlook on Brexit deal, which possibly would not go through, so how would you see your impact of JLR business on Tata Elxsi. And what were the revenues from this business in this quarter?

Madhukar Dev: The revenues from JLR as a percentage of our revenue in the quarter ended December was about 20%.

Dharmik Patel: So is this on total revenue or automobile segment only?

Madhukar Dev: Of the total company. And it is impossible to say what will be the impact of Brexit and if it happens, does not happen, and how things shape up. Even in the current quarter, it is a bit hard to say concerning Brexit and JLR. So let's see how things progress.

Dharmik Patel: So what is your order pipeline from JLR presently?

- Madhukar Dev:** I am not in a position to share that.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.
- Vimal Gohil:** Sir, I have a few questions. First one is, you spoke about some challenges that you faced during the quarter. If you could highlight what were these challenges apart from the ones that were led by currency and the external environment? What are the other challenges that you are seeing? Are they very customer specific? Or could you highlight the nature of these challenges, please?
- Madhukar Dev:** Yes, the thing that really was beyond our control was the extended furloughs imposed by some customers. In the past, on-site work used to cease when the customers were closed for Christmas or Thanksgiving. And this time, we saw a number of them insisting on offshore work also being suspended for certain days. We also saw an extension of the normal holiday period, which was a bit unusual and more than average. These were challenges that were beyond our control.
- Vimal Gohil:** Is this coming back to normality now?
- Madhukar Dev:** Yes, that was in the quarter that ended. So afterward, everybody's back at work. So right now, there is no sign of anything abnormal happening.
- Vimal Gohil:** Right. Sir, I just wanted some more details on your autonomous platform. What is happening over there? How's the traction? How many clients do we have there? Could you apart from that give me one more data point? What is a non-linear revenue percentage as a percentage of our total business?
- Nitin Pai:** Right, so to give you a quick update, so if you look at AUTONOMAI, and that is what we have branded it as. It is a software suite that comprises of two parts: one is software that includes a set of algorithms that help customers build and develop their autonomous vehicles. So this is software that will go into the vehicle. And then there is a suite which has to do with validation, which is how to test any autonomous car for whether it would function well or not on the road without actually putting it on the road. That is a very, very important and critical problem to address. So if we think about it, there are two pieces. Therefore there is the whole set of elements which go into autonomous cars as algorithms and software which go into the car, that is one part. And there is a validation piece, which is what you would do in the labs to test any platform or any car for how it would behave in an autonomous

fashion. So the way we have been building the solution is also to focus on both parts of the problem because the number of licenses that you would get who would adopt your software will always be limited, simply because that is a strategic decision that customers have to make whether they make or buy. So to that extent, we are competing, first of all, with the make decisions that happen within the companies, and then when it comes to the buy decision, you are competing with everybody right from Google and Waymo to the startups that are sitting in the Silicon Valley.

On the validation side interestingly, the potential is much higher because the validation challenge remains common, irrespective of your make or buy decision. So towards that, you will find that the press announcement that we made with Hyundai Mobis, just about a quarter before, was in the direction of fulfilling or expanding AUTONOMAI to the validation side too to say what is it that we can do that is algorithm based, that is digital, that is AI based, that helps in testing of autonomous cars. So to that extent, currently we have a set of customers, of course, some of them are very prestigious names, we are still under NDA, in most of these cases we are not allowed to quote these customers. And in terms of progress, we have now just moved to on-road trials with our lead customer. So the cars are right now being tested on the road in a particular geography. So there is progress being made. But, I think more and more we will start seeing more significant opportunities on the validation side rather than on the platform adoption side because like I said, the make or buy decision remains still a very, very strong internal decision for companies.

- Vimal Gohil:** So monetization has not really picked up for AUTONOMAI. Would it suffice to say?
- Nitin Pai:** No, in fact, monetization has picked up. But a large part of the monetization is happening on the validation side rather than on the development side.
- Vimal Gohil:** And sir, what would be our non-linear revenue as a percentage of the total business?
- Nitin Pai:** It is still a minimal number. So if you recollect, we were still in the sub 5%, and we still are around that same number.
- Moderator:** Thank you. The next question is from the line of Utkarsh Katkoria from DHFL Pramerica Asset Manager. Please go ahead.
- Utkarsh Katkoria:** We see a slowdown overall in JLR, and of course, we are talking about some cut in capital expenses. So what does the management think about that? Is there any

concern regarding our top client? Are the deals from them slowing down? And what are we doing to sort of make good that revenue?

Madhukar Dev: See, more than two years ago, we embarked on a journey of growing business in the auto sector, outside of JLR. And we have expanded it to almost double the size of our JLR revenue now; this includes carmakers, Tier-1 suppliers, semiconductor companies and other players in the ecosystem. So the reduction of JLR as a percentage of our revenue has been progressing along over the last two, three years. Concerning JLR's business situation, at present, yes, we all know that it is a challenging environment in which they are operating. And there are bound to be some cuts in both revenue and capital expenditure, and as long as, I have said this before, we are delivering value for the money that they are giving us, I would not worry too much about what happens in one or two quarters. Overall, we will remain significant, and we will continue to be a major contributor to them. And they will remain a significant customer for us.

Moderator: Thank you. The next question is from the line of Aksh Vora from Raj Financial. Please go ahead.

Aksh Vora: Just wanted to know how is the geographical concentration right now in the company? Majorly, you mentioned in the early remarks that the US, Europe, and Japan markets are predominantly focused. So if you can give the mix? And also, are there any developments happening in China or Southeast Asia, are we seeing some opportunities?

Madhukar Dev: The geographical distribution would be about 55% Europe, about between 30% and 35% in the US, and the rest includes Asia and parts of India. We see a lot of traction in the Chinese market for sure in the auto business. We do not have any breakthroughs yet. We have engagements, which are steady and ongoing, but we are hoping that given the fact that they are close to 200 brands of cars in China, and it is the largest market in the world, we think that the future growth lies there. As far as broadcast is concerned, as Nitin mentioned, there are opportunities all over the world, and specifically in Asia - whether it is the Middle East or it is the Far East, we think the OTT offering will be of relevance in all these markets, quite apart from the US and European market.

Aksh Vora: And sir, in Europe 55%, how much of the share would be from the UK?

- Madhukar Dev:** I do not have it readily available. My guess, maybe half of that is the UK.
- Aksh Vora:** Okay, is there any impact seen in the last couple of quarters the UK being shrinking down? Or it is more or less the same?
- Madhukar Dev:** It's not shrinking. What is happening is it is not growing. It's not growing because of the uncertainty that is looming over everybody in the UK. So decisions are taking longer. The normal growth you would expect in a thriving business environment is what is not happening.
- Aksh Vora:** And do we envisage in further quarters to remain more or less the same? Or we see any drastic change in this year?
- Madhukar Dev:** It is an uncertain period. It would be hazardous to forecast how things will play out. I do not think anyone has a clue, let's just wait and watch. And if I may add, that internally when we make our plans and strategies, we model for different scenarios. So we know what to do when what happens.
- Moderator:** Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** Yes, just wanted to know in quarter two, we were quite sounding bullish and also thinking of adding a lot of manpower resources and acquiring specific capabilities and all that. I believe in the last quarter, a lot of things have happened globally and within India also. How do you see the trajectory of the manpower addition going ahead? Because otherwise we might be settled with deadwood, and we may not have that kind of growth that we were expecting in the business to be able to grow at say 20% CAGR in medium to long term? So what are your views on that?
- Madhukar Dev:** I think in our kind of business, one quarter is not an indicator of anything very positive or anything very negative. You have to watch over an extended period. And if you recall, most of the hiring that we have done in the last three, four, five months is primarily fresh graduates from engineering colleges. They are not expected to be revenue generating in the short term. So that is an activity that we have embarked on keeping the long term in mind. And I do not see any reason for us to feel that that has to be re-strategized. So at the moment, we are staying with that. Concerning how many people we will go and hire in the next round, we have to see how things shape up in the next couple of months. But we certainly will be hiring more fresh graduates because the skills that are being needed in the market today are evolving

and changing and therefore, you do need a refreshing of your capability portfolio. So all in all, I would say, it is not a very dismal situation. Yes, but you are right, last quarter was a very excessively optimistic situation. But I think, let's just wait and watch, it should play out all right.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi-Act. Please go ahead.

Rahul Picha: So our IP related revenues were around 3- 3.5% at the beginning of the year. So where do they stand now? And what kind of visibility do we have on this going forward?

Nitin Pai: If you look at the percentage, there is possibly a small shift upward, but that is in the context of the overall revenues also increasing. So in that sense, IP revenues have stayed near constant, but they have grown alongside the rest of the revenues. And if you look at revenues, they grow about 17% year-on-year if you think about it that way, when you look at the quarter-on-quarter basis. Having said that, the intent for IP was slightly different. The intention for IP was twofold. One, it should allow you to deliver enabled services along with the IP, which will act as a multiplier. Two, it is also supposed to be non-linear in the sense that you develop once and then your investments do not have to be at the same level, but you should be able to take it and resell it to multiple customers. So when you think about it, there are two strategic directions that IP in our context would take. Since we are not a product company, where we are we going to the retail market, it is still B2B, so it has to ultimately work with what customers are doing and how it fits into their offerings. So in that sense, I think what we are seeing is a slow maturing of the portfolio. So if you look at it, and again I would take Madhukar's view, do not look at it from a quarter-to-quarter basis, stand back and look at it from where were we three years back, where it was near zero to what kind of portfolio we had at that time which was very component oriented to where are we today, where we see a little more verticalization and a more solution-oriented approach of what we offer as IP. I think that is the maturity path that we have been on.

Rahul Picha: Okay. So in that sense, where do we see this going up in the next two to three years?

Nitin Pai: I think, we would be happy to see it growing of course, but I think we would be really delighted to see it starting to impact the services associated with the IP. And

therefore, becoming an enabler for services, which are multifold rather than standalone revenues beginning to increase.

Rahul Picha: Got it, okay, and just one last question, what was the constant currency growth rate in this quarter?

Madhukar Dev: It was 2% quarter-on-quarter and 10% year-on-year.

Moderator: Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.

Ankit Shah: Can you share the headcount number as of December?

Madhukar Dev: It's about 6,100 at the end of December.

Ankit Shah: Okay, Sir, I had just one more question. TCS acquired W12 Studios which is primarily basically into the creative and digital design studio. I just wanted to understand if this is the target set of new kind of company which we could have been looking at or something of that sort?

Nitin Pai: I think, this context of small boutique design houses or design companies being acquired, I believe is in line with what we are seeing from across the market, isn't it? So you can look at every IT company worth its name, and you would know that they have been trying to acquire some amount of design capabilities. So to that extent, I would only be thankful that we have built in something organically over the last 15-16 years and that has reached a particular scale. And I also foresee that integration of such design businesses into companies, which are not used to design is not easy.

Moderator: Thank you. The next question is from the line of Sanjeev Panda from Tamohara. Please go ahead.

Sanjeev Panda: Sir, you said, we have been adding employees in the recent time. And they will take some time to begin generating revenue. Could you please throw some light by what time they will start generating revenue in terms of employable or chargeable?

Madhukar Dev: It's not as if there will come a time when we switch on and they start generating revenue. It depends on the skills that are required. So what typically happens is, about six months after we hire them, they start getting inducted into billable programs. Now the speed at which they get inducted depends on their skill levels,

the growth in specific engagements and other factors - so starting six months, ending 12 months.

Sanjeev Panda: And how many incremental or additions that we are planning for this year or maybe next year?

Madhukar Dev: We have not firmed up our plans, but it should be upwards of 500. Manoj?

Manoj Raghavan: Yes, for next year's fresher hiring, we are looking at a headcount of about 800. But the incremental lateral we would look at as and when the opportunity comes in, there is no specified number there.

Sanjeev Panda: Okay, sir, out of curiosity I am asking, till last quarter we have been telling about 20% aspirational growth and this quarter, we found a little bit of softness and lot of challenges. Is that something which has changed in this quarter completely? Or you think that long term 20% type of aspirational growth that we talked about still stands good?

Madhukar Dev: See, internally we have to find a way to grow 20%. That is non-negotiable. So irrespective of what setbacks we have in 1 quarter or the upticks we have in another, we have to take a set of actions that enable that growth. If you look at Q3 historically, the growth in Q3 over Q2 is very, very small. So, therefore, there was nothing terribly unusual. What was unusual was a near 6% swing in the rupee exchange rate between the beginning of the quarter and the end of the quarter. That was quite dramatic. So that is what put us on the back foot. The external factors, business factors are nothing unusual.

Sanjeev Panda: Okay. So sir the currency impact that you are seeing could you quantify it if I have missed in the earlier part of the call?

Madhukar Dev: As shown in our published results, the impact is a Rs. 26 crores swing between the positive of Q2 and the negative of Q3.

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

Ashish Chopra: I just wanted to ask a question on the environment in the context of furloughs. Sir, you mentioned that you had a typically extended furlough which ran into a larger number of days in the US and also got extrapolated to offshore. So usually, we see

this happen when the environment on the ground is not very, very strong. So I just wanted to check if you would probably also be harboring that view? And secondly, whether this was the case in auto as well as the other verticals and whether this was spread across both Europe as well as the US?

Madhukar Dev: Yes, I suspect our customers themselves are a bit uncertain of their business environments. And some smart purchase departments use this as an opportunity to show savings. So I think even those customers who have no reason to be uncertain of their revenues and are doing rather well, impose these furloughs and extended furloughs and restrictions. That's just because there is a new purchase man, who has come from another industry, wanting to show how we can do savings. But sooner or later, they will realize that their programs get affected and delayed by doing this. So I think, it is a temporary blip.

Ashish Chopra: Okay, but was reasonably broad-based is what would be the right way...

Madhukar Dev: It was broader than it usually is, yes.

Ashish Chopra: And just secondly from my side, sir, could you break up this 10% CC growth YoY across the key verticals of your business?

Madhukar Dev: No, I wouldn't have that with me, sorry.

Ashish Chopra: In a ballpark, would be able to just throw some light if autos would be stronger than broadcast and communication...

Madhukar Dev: I think auto and broadcast would be similar and everything else is very small. Something maybe 7%, something maybe 11%, that kind of swing.

Moderator: Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: This is with concerning your comment in the last conference call, you said that there is a strategic shift in terms of garnering the longer duration projects. So I just wanted to know that what are the organizational changes you've made in terms of the sales and how this is progressing and what will be your view for next 1 year or 1.5 years to 2 years on this strategic shift?

Madhukar Dev: Manoj, would you like to answer this?

- Manoj Raghavan:** Yes, it is true that in the past, the typical duration of our projects used to be between six to eight months and every time we had to bid for new work and that leads to some amount of inefficiencies. We have been pushing towards, discussing with our key accounts and key customers to see how we can have annual contracts and even longer-term contracts, two years, three years contracts including signing strategic contracts with some of these customers. So yes, what we have done is we have identified a set of critical accounts where we would push for long-term contracts. We have made one person responsible from the sales organization and one person responsible from the delivery organization for each such key account. This definitely has resulted in; I would say, considerable progress in that we do see a lot more long-term deals and even as we speak, the trend is positive. I am pretty confident that in the next two quarters, we will see a lot more long-term deals which are two, three years commitments from our customers. I think that would give a lot more stability and growth in our outlook for the EPD business.
- Manish Bhandari:** And another follow-up question was on the attrition. And what has been achieved to reduce the attrition, incentives and maybe ESOPs or any further training to reduce the attrition?
- Madhukar Dev:** We have a multi-pronged program to contain attrition, and it is led by our HR Head. But it is implemented by all operating managers. And we have seen over the last three, four quarters, attrition has come down quite significantly.
- Manish Bhandari:** If you could quantify how much has been the progress?
- Madhukar Dev:** I think we have now, sub 12% for the quarter that ended in December.
- Manish Bhandari:** And it used to be 17% to 18%?
- Madhukar Dev:** Yes, from there to 12%.
- Manish Bhandari:** And this looks sustainable - 12%?
- Madhukar Dev:** These are things that you have to keep working on. It's not as if it is a one-time fix. We do not have ESOPs. So there is no lock-in for any of our employees. We have to make sure that there is engagement in work, engagement at a human resource level, and identification with the company and environment in the company that people like to continue in. So these require sustained activity, and there are some managers

including a colleague of mine who works directly with me, who are involved in rolling out all these initiatives. And it is an ongoing process.

Moderator: Thank you. The next question is from the line of Vivek Pathak, an individual investor. Please go ahead.

Vivek Pathak: I just wanted to know your views on the growth drivers for the wearable computing market? And how you are going after the opportunities in the wearable computing market?

Nitin Pai: Okay. So as far as wearables are concerned, I think, there are two aspects here, there is one hype cycle which has to do with wearable as a fashion accessory, and I think we are starting to see that plateau isn't it. Because of the likes of Fitbit and so on. You do not see them or even the Apple Watch; you do not necessarily see an uptick in the wearable market in that context. I think, the real growth in wearables is coming in the custom markets, where you are looking at the use of wearables as a mechanism of diagnosis, as a mechanism of health monitoring, as a mechanism of safety and so on. I think those are much smaller; they are not as big as the retail markets. They are much more specialized use cases. They are much more bespoke in the kind of sensors included and the type of use cases that they support. I think that is still a developing market if you ask me. It's not yet developed. Why? Because sensor technology is now related to miniaturized sensors and the kind of battery that is required to run them et cetera, are still technology challenges. They have been addressed for accessories and fitness trackers but not necessarily for custom markets. So I think, that is a market that we still need to wait and see how it develops into.

Vivek Pathak: So do you have any case studies on the ground? Or do you have dedicated sales and marketing people for this market?

Nitin Pai: No, we do not have dedicated sales and marketing teams for this market. But you would find examples of wearables that we have done over the last seven, eight years, not just today. In fact, we worked on the world's first medically approved fitness tracker which was meant for the sports market. We worked for that in the UK, seven years back. Equally, if you look at the safety wearable that was made through collaboration with the Tata Group CTO office, it was for industrial safety. So we had a role to play in developing that wearable itself. So there are enough

examples that are public in fact of our work in wearables, but there is no separate team because we see it as an integral part of our consumer electronics business.

Moderator: Thank you. The next question is from the line of Akshay Ramnani from HDFC Securities. Please go ahead.

Akshay Ramnani: Can you talk a bit about the industrial design segment? Like what is your outlook around the segment?

Nitin Pai: I think the way we see the industrial design segment is there are two parts. There is one part which is a standalone product design, where we work with automotive companies, we work with consumer packaging goods and so on so forth. So you will see great examples of that on our website itself. So the type of work we do for Unilever or a P&G or Amul or Cadbury and so on. You will find some lovely examples of the kind of work we do. The other is what supports the digital part of consumer experience, so whether it is user experience, experience centers, user interfaces whether it automotive, OTT, mobility and mobile apps; I think that is where we see the most significant growth. And we are excited by that growth simply because it is very aligned and synergistic with what we do from EPD. The ability to go and look at the auto market and not only help customers in digitizing their infotainment or digitizing the way they approach customers but also providing that design overlay, whether it is for user experience, user journeys or otherwise, I think is what excites us. So I think that play of synergy between designs and how it interacts with engineering to deliver a customer experience I think is really the journey forward.

Akshay Ramnani: So what would be the split of our business mix be in this high-growth market which you just spoke about?

Nitin Pai: You're talking of when you take the industrial design business and then look at the split between the two?

Akshay Ramnani: Yes.

Nitin Pai: So at this time, it is roughly about 50-50. It was much smaller before and it has now grown to match the rest of the business, which is more analog design, if I may say so. So it is now got to be about equal size.

Akshay Ramnani: Okay. Just a couple of data points which you have been sharing earlier? What would be your utilization percentage and on-site offshore revenue mix?

- Madhukar Dev:** The offshore on-site mix is unchanged. It's 60% offshore, 40% on-site. Utilization was marginally lower than last quarter about 76%.
- Akshay Ramnani:** And what would be the top 10 accounts as a percentage of our revenue?
- Madhukar Dev:** About 52%.
- Akshay Ramnani:** 52% and the same number for the previous quarter would be?
- Madhukar Dev:** I do not have it ready. I think, may have been marginally higher 54% or so.
- Moderator:** The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.
- Apurva Prasad:** Sir, I am just trying to reconcile, when we are talking about 20% growth ahead, I mean we have decelerated from about 15% constant currency to 10%. So how do I reconcile this 10% growth currently? I mean, which segments are we really expecting an acceleration here? Maybe in terms of verticals, if you can talk about?
- Manoj Raghavan:** In terms of verticals, definitely automotive and broadcast would lead our growth. But at the same time, our medical business is another business that we expect in the next four quarters, like next financial year if I look at it, I would expect a lot of contribution coming in from the medical business.
- Apurva Prasad:** So is there a stated sort of aspiration number, 20% constant currency growth or that is the number where we are...
- Madhukar Dev:** No, 20% was never a constant currency growth. 20% was prevailing currency growth, and we stay with that.
- Apurva Prasad:** Right, and add just one more if I can squeeze in? So on the margins, you talked about additional investments to expand in newer geographies. So how should we really look at margins? Do you think 25% EBITDA can hold on?
- Madhukar Dev:** Yes, it may change by 1 or 2 percentage points in a particular quarter. But overall, we want to maintain at around that level.
- Moderator:** Thank you. The next question is from the line of Manju Bhasini from Sundaram Mutual Fund. Please go ahead.

Manju Bhasini: Sir, a lot of positive commentaries as far as the environment and how we are trying to ramp up in terms of per deal sort of wins from the accounts and the ecosystems that you are trying to develop there. But how do we read this? I mean this is not reflecting in the numbers, at least, for the last nine months there and the traction has come off from what it used to be in the past. This along with the top account decline that we are seeing. I mean other than JLR, there is no name that we really know about who is maybe 10% sort of our overall revenue size or something nearer to that level. So can you help me understand reconcile these aspects there?

Madhukar Dev: So what is your question?

Manju Bhasini: Question is the commentary is still positive, but the numbers aren't coming through. So how do we reconcile these two? Are we too early to assume that numbers have to come through, but it is taking some time or what are the difficulties that we are facing on the ground? And other than JLR, is there anyone closer to 10% of our overall sales mix?

Madhukar Dev: Yes, let's take the JLR question first. We talk of JLR primarily because we are allowed to, and JLR does not object to our publicly talking of them as a lead customer. The fact that we worked within the product development and engineering space, most of our customers because of that restrict us from making their names public. We have some customers who are growing quite rapidly, and we probably have at least one customer who should be crossing the 10% threshold very soon, if not already done. So the customer mix is relatively satisfactory. We get about 40% revenue from the top 5 and 52-odd-percent from the top 10. So I do not have any concerns or worries on that score. Concerning your question about the commentary being positive and results being negative, I do not think the results are negative. We have, even in the quarter gone by, as compared to the year ago, we have grown by about 18% in revenue, and yes, we had a challenge with the profit number because there was an adverse impact of the exchange rate but like that we had a positive effect in the preceding quarter. So these things square off. What we have to look at is the revenue is growing at a healthy pace, and profits will follow. So I would not say that our results are not in line with the positive commentary. I think overall, it is quite positive. It was a slightly tricky quarter primarily because of the lesser number of working days and lesser number of billable days.

Manju Bhasini: And this other account which you say is most likely to cross the 10% turn mark, is this again in the auto space? Or it is in that broadcasting area?

- Madhukar Dev:** No, it is not in the auto space.
- Manju Bhasini:** Okay, sir, and what is our stated hedging policy? There has been quite a bit of volatility in our other income part. If you can help us understand the policy and the hedges as of the date and the rate at which the forwards are taken?
- Madhukar Dev:** Yes. You see, I have always maintained that we are very conservative in our hedging. So in some quarters, you see a very positive outcome of our policy, and in some quarters, you see a negative one. As long as the net is positive and not negative, I do not think a company of our size can afford to have a large team which is constantly looking at hedging strategies daily, taking bets one way or the other. So last quarter, you saw an abnormally positive impact. This quarter you see unusually negative implications. So it sorts of squares off.
- Manju Bhasini:** And what is the outstanding forward position that we have? And the rate at which it is hedged?
- Madhukar Dev:** I will not know that.
- Manju Bhasini:** Can I get back to the team post the call, maybe if they can help me later on with that?
- Madhukar Dev:** You may mail your question to Mr. Vaidyanathan who heads our Investor Relations apart from his other roles. We will revert to you.
- Moderator:** Thank you. The next question is from the line of Aksh Vora from Raj Financial. Please go ahead.
- Akash Vora:** I Just wanted to know last quarter, I think, you mentioned that we would be growing in terms of 10% quarter-on-quarter. Do we still see ...
- Madhukar Dev:** I need to stop you there. I said, our objective and our plan, and all our actions are targeted at growing 10% quarter-on-quarter. We have not got there. We are yet to get there. So yes, this quarter was a setback. That does not mean we will abandon the plan.
- Akash Vora:** Sorry, I just misunderstood about that thing. But are we seeing the same visibility on what we had mentioned about?

- Madhukar Dev:** See, visibility is only at the end of the quarter that I can share with you, I can't share the visibility before the quarter-end.
- Akash Vora:** And in terms of the order book, we usually have two to three months kind of order book at our end. So it continues the same way? Or how is currently the order book?
- Madhukar Dev:** If we look over the last 6 quarters, the order book position at the beginning of the quarter has steadily improved. Every quarter, we are a bit better than we were at the beginning of the previous quarter. But that does not correlate 100% with what we end up at the end of the quarter with.
- Moderator:** Thank you. The next question is from the line of Utkarsh Katkoria from DHFL Pramerica Asset Managers. Please go ahead.
- Utkarsh Katkoria:** Yes sir, just a question on pricing environment and how do you see that? Do you see pricing pressures due to maybe reskilling of employees or higher training costs, or just higher wage demands, or perhaps some client-related issues? So just on the pricing environment, what are your thoughts?
- Madhukar Dev:** We see a mixed bag of trends, and really they tend to neutralize each other. But the one thing that concerns us a bit is the fact that large companies have purchase departments who purchase services as well as components. They're very used to demanding volume discounts. Now volume discounts do not make sense in a services business, which is manpower intensive. It makes a lot of sense in when you are buying components, you get to higher volume, and you are entitled to a discount. So we are seeing a demand for volume discount creeping in off and on. And we spend a lot of time and effort trying to explain that our incremental cost is the same whether it is the first unit or the hundredth unit. And therefore, a volume discount is really not relevant. But, we are seeing a trend of people demanding that.
- Moderator:** Thank you. The next question is from the line of Rahul Picha from Multi-Act. Please go ahead.
- Rahul Picha:** Sir, on the margin, even adjusting for the forex difference, the margins have been coming off a bit over the last couple of quarters. So what are the reasons for this and the outlook going forward on the same?
- Madhukar Dev:** Essentially a discipline in execution is the reason why the margins have not got challenged. And we are maintaining that discipline even though we know that

expenditure will go up. We have to hire more people; we have to expand, we are hiring more space. And so all these have cost implications. But overall there may be short-term anomalies, but overall I think, we will try and maintain these margins.

Rahul Picha: Sir, so pricing is not the primary issue right?

Madhukar Dev: No, it is our expenditure.

Participant: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: So sir, I just had a question on the large deals bit and also as you referred to just a little while ago on the pricing. So you have been chasing now much larger duration contracts, right? And which inherently embed these higher volumes kind of work. So is this a trend that you are now beginning to witness as a result of that pursuit, whereby clients are asking for discounts? And I wanted to also know from you as to what would be the strategic stance in these cases considering that there is that significant discount which may impair the margins a little bit. Would you continue to pursue that with the expectation of bringing margins back? Or you would be better off leaving that on the table?

Madhukar Dev: Yes, I think it is a question of making sure that the customer has the right information, and explaining, sharing information with the customer of the fact that just because you are buying something by the hundreds does not mean the cost comes down for me. So it is more transactional handling than anything else that we have to do better.

Ashish Chopra: Right. And just lastly, sir you mentioned in the opening remarks a bit about how the newer markets are also under-penetrated and offer a great opportunity. So just wanted to know if you could throw some more color on whether there is an active stance as part of your budgeting and planning exercise to chase down and grow some of these segments which are smaller for us and maybe have bigger teams that we would be looking to invest into going forward maybe starting FY 2020?

Madhukar Dev: We take measured steps. We do not embark on a big campaign; it is not as if we are opening five sales offices in China and four in the Middle East in one go. We do that as we start seeing traction, we start seeing signs of business coming in. Yes, we invest in expansion, but not in a manner that will significantly impact the P&L at any time.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vaidyanathan for closing comments.

G. Vaidyanathan: Thank you all for joining the call. See you next quarter. Thank you

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of Tata Elxsi that concludes today's conference. Thank you for joining us. And you may now disconnect your lines.

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