



“Tata Elxsi Q4 FY2016 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi Q4 FY16 Earnings Conference Call, hosted by Motilal Oswal Securities. 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 would now like to hand the conference over to Mr. Niket Shah from Motilal Oswal Securities. Thank you and over to you Sir!

Niket Shah: Thanks so much. We at Motilal Oswal are extremely pleased to host this call to discuss Q4 FY16 Earnings for Tata Elxsi. From the management, we have Mr. Madhukar Dev, Managing Director and CEO; Mr. Nitin Pai, Senior Vice President and Head Marketing and Mr. G. Vaidyanathan, Chief Investor Relations Officer. I will hand over to Mr. Dev for his opening remarks, post which we can open the floor for a Q&A session. Over to you Sir!

Madhukar Dev: Thank you. Good afternoon and welcome to the call. It has been a very interesting quarter for Tata Elxsi. When we started the quarter, there were challenges that we were facing. A few of our bigger projects were coming to an end and we had to start new projects and bring them to a scale which is significant and to a large extent we were successful in that. We managed to have a reasonable growth in the quarter as compared to the immediately preceding one and as compared to same quarter last year a fairly significant growth.

We did face a few challenges. The exchange rate especially with respect to the British Pound, the trend was not particularly favorable so that has had some impact on our bottom line. But otherwise the quarter has been fairly satisfactory on all counts. All our businesses have done reasonably well. All the geographies have done quite well too, barring Europe partly due to the exchange rate in UK and partly due to the end of some engagements, there is a slight shrinkage in revenue but was more than compensated by the other geographies.

If you see our segment results you will find that even the system integration business had a reasonably good quarter, which is not surprising for them as the fourth quarter of most years is their peak quarter. But a fair portion of that revenue relates to hardware which is bought and sold. So the impact on the bottomline is only marginal and not proportionate to the revenue increase that we saw in the fourth quarter.

The services segment had a reasonable increase, all said and done, just under 5% as compared to the preceding quarter and had a marginal favorable impact on the bottomline too.

With that I am happy to attempt to answer any questions. Nitin and I will talk about the various business segments, if you have any queries or anything else that we can answer or GV, let us know. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini: Sir, your Embedded Product Design division has actually grown 3% sequentially, which is slower than the last six quarters that we have seen, which has been growing at more than 5% sequentially. So is there anything to read into it and how is the trend going to be in the future?

Madhukar Dev: No, I would not read any trend in that. Like I mentioned, some of the sluggishness that you may notice has got to do with the temporary unfavorable exchange rate that we saw in UK and these are very marginal differences. I don't think there is anything to worry about it.

Anil Kini: Anything that you would like to share on the newer initiatives on the healthcare, which we had initiated in the last year and something on the ID as well?

Madhukar Dev: Sure. On the healthcare side, on one hand we have had a few more customer wins, still small engagements but one of our major engagements which we had with the customer, has seen the product getting deployed in healthcare and may be Nitin can elaborate on that particular project.

Nitin Pai: Thanks. A quick note. We are quite happy to have been working with this customer who is based in the US. They are developing a product that actually allows existing hospitals to hook up their standalone medical diagnostic devices, for example X-ray machines, ECG machines and so on. It allows you to retrofit and in some sense almost like IoT, connect an adapter to the existing machine and allow it to now transfer data digitally of whatever scans or diagnostics it takes. As you know healthcare is a fairly regulated business so to that extent data privacy and security are of the highest concerns across. So this product includes the ability to communicate and connect, transfer data digitally, by providing the right level of regulatory compliance and data security. So that is a wonderful thing we have and the product was launched in late Q4. In March it was trailed at two hospitals. It has received extremely good feedback and we hope to scale with the customer as they continue to deploy this and expand this product into more and more hospitals. Interestingly, for us from a technology perspective, it represents two parts - while it is for the healthcare domain, it represents IoT on one hand and it also represents Software Defined Networks. Software Defined Networks allows you to automatically scale, configure the network of any entity from a single place, rather than employing a lot of IT administrators to locally go and

configure machines and so on. For us this is a wonderful example of SDN in an enterprise network.

Anil Kini: Would this be project related revenue for us or would it be service related revenue for us? How is the stickiness of this revenue?

Nitin Pai: The stickiness comes from the fact that we have been involved in the product from initiation to launch therefore we are assured to continue with this customer simply because we bring the only and deepest knowledge. Interestingly we only have the customer team which was actually technically smaller than ours and we were the only vendor servicing this so we do not expect competition, rather we expect to grow with the growth of this product line within the customer base.

Anil Kini: That is wonderful. Something that you would like to share on the IP which you had mentioned last analyst meet that you will share some more details on the IP that Elxsi is working on?

Madhukar Dev: None of the IPs is really ready to deploy, though two of the smaller ones are undergoing in-house trials right now. Maybe another quarter or two, we maybe in a better position to share the marketability and the readiness of these IPs. We have progressed but not to a point where we can say that this is a ready product or a ready IP.

Anil Kini: Would you like to give some guidance because you have grown 27% topline in March FY16? Would you keep the run rate going on for March FY17 as well?

Madhukar Dev: We do not give guidance, but we are working on accelerating our growth, so it depends on how successful we are. Whether we accelerate or hold the same position will depend on how successful our efforts are.

Anil Kini: Sure, last question is number of employees that you would be having and the hiring program that you would be having for next year?

Madhukar Dev: Yes, I think we ended the year with about 4700 odd employees and during the year we are taking a very large number of relatively junior engineers. We should have about 800 to 900 of them onboard in the first 6-7 months of the financial year. Laterals will be hired as required and that we have been doing over the last six odd quarters. Based on our needs and requirements, we have been hiring laterals and they are averaging at about 75-100 a quarter.

Anil Kini: So that on a 4700 base, you are talking about nearly 20% rise in the employee base for next year right.

- Madhukar Dev:** In terms of sheer headcount but a lot of them will be fresh graduates and very junior engineers.
- Anil Kini:** Thank you so much and all the very best.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union KBC Mutual Fund. Please go ahead.
- Vimal Gohil:** Thank you for taking my question. Most of my questions have been answered in the previous question, but just one more question. In the beginning of the call you alluded that you had a few big projects that were coming to an end and you found there was a bit of struggle in the beginning of the quarter. So what did we do differently this time around and what is the visibility you have at this point of time in most of your projects?
- Madhukar Dev:** I am happy that we were able to start new engagements which more than compensated for the decline in some of the older engagements which were coming to an end. They are not engagements with customers that were coming to an end but programs that were winding down. So we were able to find alternate engagements within the same customer organizations and we were able to scale up quickly enough to have a positive impact on the revenue in the quarter.
- Vimal Gohil:** That is brilliant to know, Sir and I believe your margin in this particular quarter have been hurt partly because of GBP and also because of the revenue mix, more of system integration coming into play.
- Madhukar Dev:** Exactly.
- Vimal Gohil:** So this should correct next quarter and so should your margin? Correct me if I am wrong.
- Madhukar Dev:** Other things remaining equal, it should. And you are spot on. Because of the SIS revenue increase there is a negative impact on the margin and so also because of the exchange rate which happily seems to have moved in the right directions since the end of the financial year.
- Vimal Gohil:** That is all from my side. Thank you and all the best. Just one very humble suggestion from my side, if the company can probably meet analysts and investors more frequently that will be appreciated. That is all from my side.
- Madhukar Dev:** Yes, I will take a minute to explain what we do as a structure thing. Every quarter-end, we have a call like this and following our AGM which is now planned for July 26th, we will hold an analyst meet in our campus in Bengaluru. So there it is not just a Q&A thing. We will show you around our labs, show you some demos of the products that we do and you

will get to interact with a larger number of people than the number that participates in the call.

Vimal Gohil: So this will be probably in the first week of July.

Madhukar Dev: No, end of July, it is probably 26th afternoon or 27th, we will let you know.

Vimal Gohil: That is great to know Sir. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

Niket Shah: Thank you for the opportunity. I just wanted to know if you can just share how has been the growth within auto and broadcast for us in this quarter, and if you can also highlight how is the deal pipeline looking like and the kind of visibility within these two categories specifically?

Madhukar Dev: The growth in the auto business has been almost twice as much as in the broadcast business but the interesting thing is that in broadcast, we see a deal pipeline which is much stronger than it has been in the last three quarters. So we think broadcast is also now picking up and some of our new initiatives, including working in the area of OTT are now gaining momentum. In fact one of our Indian customers has launched an OTT service with an acknowledgement of Tata Elxsi's contribution on their website, you can see it. So broadcast going forward, looks quite promising, better than it has been for several quarters in the past. Auto continues to be very exciting.

Niket Shah: What would be our utilization rate and how much headroom do we have to really further improve it going forward?

Madhukar Dev: Utilization rate have remained almost the same as the previous quarter that is about 75%. I do not think there is any significant headroom now for squeezing out more efficiency there. So that is a problem that has got fixed.

Niket Shah: The final question is on the margins I think this year we have ended with roughly around 23% kind of EBITDA margin. Is there some room to further move it up over the near-to-medium-term or this is where I think broadly it will settle?

Madhukar Dev: I think this is where it will be. You may see marginal movement from one quarter to another, both upwards and downwards and we will be happy if we are able to maintain it at these levels.

Niket Shah: Thanks so much and best of luck Sir.

- Moderator:** Thank you. We will take the next question from the line of Naveen Bothra from Arch Finance Limited. Please go ahead.
- Naveen Bothra:** Congratulations to Tata Elxsi team for the excellent set of numbers, once again. My question is to Mr. Madhukar Dev, MD. Sir we have started incubation as a serious business proposition in Tata Elxsi.
- Madhukar Dev:** Yes.
- Naveen Bothra:** Where do we stand today? Is there any change in the strategy?
- Madhukar Dev:** Yes. We are actually in the process of reviewing our strategy for our incubate program. When we started it, the offering that we had was of relevance and value to start ups then. The startup landscape has changed very dramatically in the last two years and we want to recast our offering there to remain of value and relevance to contemporary startups.
- Naveen Bothra:** What type of recast are we thinking about?
- Madhukar Dev:** We are in the process of doing it so I am not yet in a position to tell you but we will certainly figure out what is of interest to startups today, what value can be delivered to them and we certainly want to continue to have a play in the startup space.
- Naveen Bothra:** My next question is regarding the advent of IoT. How is the advent of IoT going to impact Tata Elxsi and to what extent are we ready for it, because we are hearing a lot of things about IoT, so can you articulate the effect of IoT on our company?
- Madhukar Dev:** Let us take our readiness in terms of capability. Every element of IoT belongs to areas of technology where Tata Elxsi has capability and has worked. Now the question is where is the money in IoT, is it in making equipment or gear and selling. That is not our business anyway. Is it then in helping our customers make IoT products - possibly or is it in helping people derive benefits from IoT by integrating technologies and rendering a service. I will give you an example. Suppose we had IoT in the context of vehicle data and not data relating to just location or fleet management, but data which tells you of an impending failure in a vehicle. If I am able to run a system by which I generate data, monitor data and be able to tell my customer's customer that this component or this subsystem in the vehicle is going to breakdown so you need to bring it in for service. We think there maybe value in that but these are possibilities. We are still not sure how well it will play out, but we are gearing ourselves to be a player if the opportunity becomes a reality.
- Naveen Bothra:** My last question is regarding the highest single order we are getting. A \$10, \$15 million or \$25 million, if we can quantify it?

- Madhukar Dev:** I think the highest would be still under \$10 million.
- Naveen Bothra:** Thank you Sir. This is from my side.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Mr. Madhukar Dev congratulations. In your guidance and the leadership the company is expanding too much and I congratulate you once again. Is there any new work that we received for satellite work from ISRO in this quarter?
- Madhukar Dev:** No, we have not.
- Ravi Naredi:** Is there any work expected on the lines of any satellite work or ISRO work?
- Nitin Pai:** Last time we worked for ISRO in terms of VSSC was for the Mangalyaan mission.
- Ravi Naredi:** Mangalyaan mission, we have got some work but afterwards we have not received any contract. So is any order in the pipeline or any thoughts are going on like this?
- Nitin Pai:** Not really, we always continue to explore business with VSSC and ISRO because they do a lot of engineering and product development. However, there is nothing that significantly impacts our business or business volume. We look at the work that we do for a VSSC or ISRO is more from a perspective of prestige and national pride than from a perspective of revenue and therefore an impact that it will make.
- Ravi Naredi:** Thank you very much Sir. All my other questions have been answered already. Thank you.
- Moderator:** Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.
- HR Gala:** Congratulations Mr. Dev. Sir a couple of questions, some time back you said that on incubation program you are going to be very careful. Just wanted to know have we made any investment in any startup?
- Madhukar Dev:** No. We have not made any investments. What I have mentioned was that we are reviewing our strategy of supporting startups through our incubate program. We think what we started this initiative with, was of relevance to startups at that time. Today startups probably value other inputs other than what we have to offer. Therefore, we are just taking mid-course correction to see what incubate should be all about for the next two years. But there is no financial investment.

- HR Gala:** There are no financial investments and even going ahead also you will not be getting into the investment mode as far as the startups are concerned?
- Madhukar Dev:** I would not rule it out. It all depends on what area and what technology and how quickly or closely it relates to what we do.
- HR Gala:** So if something appeals to you then probably you may.
- Madhukar Dev:** Yes.
- HR Gala:** Sir we are reading a lot on what is happening on the automotive side with Tesla and Mahindra and all these people are getting on with the electric cars. Probably over 5-10 years, the landscape of the automobiles, the way which we have seen over last few decades is likely to go through revolutionary change and we are we gearing up on the embedded software as well as on the industrial design side?
- Madhukar Dev:** In fact if you look at where Tata Elxsi has a play, it has in markets and product categories where we are seeing very rapid change. Wherever there is change there is an opportunity for us and that is why you are absolutely right when you say that in the next 10 years, the landscape will be completely different. That is what is giving us an opportunity and that is what we are excited about in the automotive business, because it has not seen this kind of change before and with every change there is an opportunity for a company like us, both for industrial design as well as electronics.
- HR Gala:** As far as the defense and the satellite related question one gentleman asked, and also recently we have launched the GPS type of satellite, our own, first probably so far, do you think there is any scope for us to work with these agencies?
- Madhukar Dev:** As Nitin mentioned that we do not think there is a big financial opportunity for a specialized service company like us. But we would be very happy to be associated in prestigious projects which are of national significance and therefore we are always happy to be in discussion and bidding for opportunities wherever we can get in these programs.
- HR Gala:** Anything you can do on the defense side, because defense is also technologically very backward and I think we are rapidly going to change the way in which our armed forces move around. Do you think this can be to do with some sort of designing work for defense forces?
- Madhukar Dev:** There are possibilities but it is fairly complex. We have made a few attempts in the past and we really need to go in partnership with somebody, not on our own. But you are right

defense is emerging as a big opportunity and we need to have some plans on how we would play there.

HR Gala: Because I think our own Tata Group is also engaged with this kind of activity so probably as you rightly said we can do some sort of partnership with somebody. Sir last question, from my side this 2022 vision of \$1 billion US. I think that seems to be quite feasible now. It does not look like a fairytale anymore. What will be your comment?

Madhukar Dev: Yes it does not look like a fairytale. I agree with you, but there is a hell of a lot that we have to do to get there and that is what excites us. The entire management team is very happy at what we have achieved in the last few years but it gives them the confidence to approach the future with a lot more aggressive ambition than before. So hopefully we will get to some significant outcomes.

HR Gala: Thank you very much Sir. Wish you all the best.

Moderator: Thank you. We will take the next question from the line of Dishit Shah from Ambika Finance Capital. Please go ahead.

Dishit Shah: Congratulations on an excellent set of numbers, Mr. Madhukar Dev. My question is regarding which geography is now contributing significantly for us. How much percentage is from US, Europe and Japan? Can you give me the break up?

Madhukar Dev: Yes, Europe continues to be the largest, despite what I mentioned about the exchange rate, somewhere about 40% of our revenues; US is marginally below that - 37 - 38%. India has picked up quite significantly and between India and the rest of Asia, we have seen a reasonable uptick. Within this Asian region in the coming year, I expect Japan to show significantly improved performance. You may recall that in the last quarter also we had talked about Japan and our changes there. We are beginning to see some results out of that. Some new engagements have started. It takes a while to scale up business in Japan, but I think we are on the right track. There are good opportunities coming in and we should in the current year see Japan as a big contributor to us.

Dishit Shah: Well if I pick up the notes during the call, you said the broadcast pipeline is also improving and you are seeing traction in India, Asia as well as in Japan. I am tempted to feel that we should be able to do a lot better in topline than what we have done in FY16. Would that be a correct statement to say?

Madhukar Dev: You see, if our business was such that if you get an engagement and it continues for five years, then what you are saying is absolutely correct, but ours is a project based engagement so when a project comes to an end, we have to find alternate ways of generating revenues

and that is why occasionally you see a blip in that, you see a quarter which is challenging and another quarter where the results are a bit better than the overall trend. So while we think there is a great opportunity, the momentum it is very good, we feel confident that we can execute work that comes our way, we can hire people, bring in talent. So, on all those counts we are in a good position.

Dishit Shah: What worries you? Let me put it the other way around, what would be your main concerns?

Madhukar Dev: My major concern is a very large global macroeconomic one. You see what we are seeing in the developed world even today is a very artificially propped up buoyancy. You still have zero or negative interest rates. If anything goes wrong, there is no room. What happened in 2008-2009, the governments and central banks still had room to step in and prevent a catastrophic decline; though that room does not exist any longer.

Dishit Shah: Yes you were already into a negative interest rate era, or are virtually close to zero.

Madhukar Dev: So the sooner the developed world gets back to normal commercial rates of interest and sustained demand and consumption, the more stable the world will be. So I think that worries one off and on.

Dishit Shah: Sir the other question I had, apart from the auto and broadcast, which are the other areas. I remember healthcare was one thrust area. Couple of quarters back, you had said that is where we are putting a lot of thrust on. So how are we shaping up on the healthcare side?

Madhukar Dev: We have seen a very slow progress but we are still committed to it. We still think that has the potential to become a very major contributor to our revenues in the years to come. We think we probably have to change some of the things that we are trying to do from the approaches that we have had. In the early days what you do is you take any work that comes your way and then realize and refine the strategy to say okay I am going to focus on these two areas of healthcare and nothing else. We are getting to a point where we will be able to make those choices and then probably invest in those choices more aggressively, which should lead to better outcomes.

Dishit Shah: Any other area that you think has a potential to be as big as broadcast auto or healthcare?

Madhukar Dev: Yes. In fact we think there are going to be opportunities which will eclipse what we have in broadcast and auto currently, but what these are is the subject of a new initiative we have launched in the company, led by a very senior executive who we have given the sole responsibility of figuring out what the new business opportunities for the company will be. So he has got a small team and they are doing some research, some prototyping, some participation in trade bodies and fora. We think again during the current financial year we

will be able to identify and start working on one new market which will be of high potential in the years to come.

Dishit Shah: So would it be that in July when you make a presentation, you will be able to talk a little more on that aspect?

Madhukar Dev: If we have been able to home in on an area and are moving ahead, certainly we will be able to share that review.

Dishit Shah: Sir how do you see the margins? You are now fairly around 23%, 24%, so do you think you will be able to maintain or improve?

Madhukar Dev: We are doing everything to make sure we maintain this. You will see an occasional increase by a percentage point or two, so also a decline but on an average if we are somewhere near 22%, we will be very happy.

Dishit Shah: Thanks a lot and all the best that is all from my side.

Moderator: Thank you. The next question is from the line of Ganesh Radhakrishnan from Pristine Portfolio. Please go ahead.

Ganesh R: Congratulations for the very good set of numbers. I have a couple of questions; one is what is the kind of our revenue from your largest client, say Tata Motors and JLR? How much will it be for our revenue and is it going up or how is it?

Madhukar Dev: We get about 25% of our revenue from our biggest customer, while in absolute numbers it is going up, but in relative terms the other businesses are growing marginally faster than this customer.

Ganesh R: Second thing is on the pricing perspective. Just because you are getting into the new technologies like IoT and all, do you see that overall the average price, do you see an uptick in it and do you see that going forward?

Madhukar Dev: No. Actually we are not seeing a major opportunity for premium pricing in any of these areas. They are in such early stages that customers have to see true benefits coming out of them before they will command any premium. So we have not got there yet.

Ganesh R: Maybe another one is how is the kind of projects that you are doing are divided between let's say outcome based or fixed price and time and material. What would be the split between the two?

Madhukar Dev: Outcome based generate about 35% of our revenue and the rest is based on the effort.

- Ganesh R:** The last question is that how much kind of skews in the margin do you expect, say in the next two quarters, because of the kind of salary hikes?
- Madhukar Dev:** Our endeavor is to make sure that we absorb the increase in salaries by a better mix of teams that we deploy so that the margins are not impacted too heavily.
- Ganesh R:** Thank you Sir and all the very best.
- Moderator:** Thank you. The next question is from the line of P Sachdev from P&Y. Please go ahead.
- P Sachdev:** My question is on the payout. In spite of generating record profits, which is obviously a 50% year-on-year growth, your dividend has only gone up by 30%, in fact less than 30%. Any comments on that?
- Madhukar Dev:** This is a decision that the board takes on the basis of what is the requirement of money within the company and what returns we can generate with that, as against giving it out as dividends. If you see our dividend history, there were very difficult challenging times when we worked with very high payout ratios and we actually borrowed money to run our operations. We have happily reached a stage where the payout ratio can be reasonably moderate, where shareholder returns are reasonable and at the same time, there is enough money to look at ways of expanding the company. It is never linear. After all when we were paying Rs.7 to a share there were many ups and downs and we maintained that. So it is not linked directly to the impact on profits. It has got to do with where we think the money can generate a higher return for the shareholders.
- P Sachdev:** Yes, but correct me if I am wrong, your business is not a very capex intensive business or opex intensive, whatever you call it.
- Madhukar Dev:** Yes, it is not. But there are ways of looking at accelerating growth which may require some amount of money.
- P Sachdev:** Could you throw some light on those ways?
- Madhukar Dev:** I am not sort of speculating on investments in technologies, investments in IPs etc. as being the big ticket items but there could be opportunities that come our way where we think if we put our money where we believe we can get a higher return. We do not want to be in a stage where we are hamstrung because we cannot because we do not have money. This is how we were for almost 10 years. So that is the reason why the payout ratio has been made to balance between having money to seize those opportunities, and at the same time give a return to the shareholders.
- P Sachdev:** So does that mean an acquisition is also in the pipeline?

- Madhukar Dev:** I am not saying it is in the pipeline, but I do not want to rule it out.
- P Sachdev:** Secondly, what about your guidance for the current fiscal. You have been mentioning 25 - 30% CAGR for the next many years so what is the guidance for this year?
- Madhukar Dev:** We do not give guidance and we are happy with the rate at which we have grown in the last year and all our efforts are at improving that.
- P Sachdev:** So you think this is sustainable, this 25 - 30% growth?
- Madhukar Dev:** Should be. It is a challenge because as I have said in the context of another question, it is not as if our engagements are multiyear engagements which gives stability, ours are project based. So the challenges we have are different but the market opportunities seems fairly positive. That gives us the confidence to chase numbers which are more ambitious than before.
- P Sachdev:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.
- Ritesh Rathod:** Good afternoon. Sir, just your point of maintaining 20 -30% growth rate, but if I see FY16 v/s FY15, your rupee growth rate would be 26% and if I try to convert into dollar growth rate it is just 18 - 18.5% to 19% because this year currency has depreciated rupee by 7%.
- Madhukar Dev:** We do not get all our revenues in dollars. We get fairly sizable amount of our revenues in British Pounds. Some in Euros and some in Dollars and fair bit in Indian Rupees. So we have had a fairly good volume growth and the impact that you see is not 10% due to exchange and 16% due to volume. I think the difference is about 3% points.
- Ritesh Rathod:** Sir how much would be volume growth and how much would be the impact of exchange which would have helped you?
- Madhukar Dev:** By my estimate 90% of the growth is due to volume and about 10% is due to the exchange rate.
- Ritesh Rathod:** So 3.5 - 4% would be the exchange rate. Why I am asking you is, because in the last 1.5 - 2 months most of the emerging market currencies have appreciated and even rupee would. If it appreciates against all your currencies where you are exporting, then we would have a negative contribution from this kind of thing. So would that interpretation be fair that if currencies appreciate, you would have a negative impact, both on revenue and may be higher impact on margins?

- Madhukar Dev:** Yes that assumption is correct.
- Ritesh Rathod:** If you can help me out, you see your engagement project based business where you need to replenish, what is the portion of project based which is having a particular duration? How much is the annuity based kind of business in your overall? If you want to break it, if it is assumed at 100, how much would be project based and how much would be annuity based?
- Madhukar Dev:** It is almost entirely project based. Annuity based is near zero, but the difference lies in what is the average duration of the project. While project durations can range from as low as one month to may be one year, we fairly end up being an average somewhere about seven to nine months is the duration of a project engagement.
- Ritesh Rathod:** So median would also be over there, 7-9 months.
- Madhukar Dev:** That is right.
- Ritesh Rathod:** Sir, if I see your margins this year, you did 23% and if I see the overall mid IT services I think you would be on the top end among the mid-tier companies of the same range of 1000 crores run rate. So are you a bit worried when other companies are entering in the 14, 16, 18 and even 23%? I am more talking of medium term margin? Do you think margins can step down because there is pricing pressure, lot of competition and on top of it currency getting appreciated?
- Madhukar Dev:** We have gone through many years of 14%, 15% margins too so we know what leads you there and what prevents you from going there and that has got to do with disproportionate amount of efforts being invested in what you perceive are potentially high return areas and which do not deliver that high return. Some years ago, we were doing a lot of work in wireless broadband and that did not really give us the kind of returns that we expected. That is a question of how seasoned the management team is, how sharp their decision making is that determines. We do not want to be ultra safe and not have a play in high potential areas where there may be a risk involved, but at the same time if you are watching those activities closely and are taking the hard decisions in time, it is possible to contain those risks. So I think we have a good management team. We are in a position to take those calls. For the moment, I am not worried about margins coming down because of our missteps.
- Ritesh Rathod:** You said you have 4700 employees, how much would be India based and how much would be outside India, onsite-offshore?
- Madhukar Dev:** I do not have that breakup readily so I will just make an estimate. I think we would have about 400 overseas and about 4300 here, but this is an estimate. I do not have that number readily.

- Ritesh Rathod:** So any kind of rupee volatility would have lot of impact on your margins because you have lot of costs that would be rupee based and your revenues would be export driven dollar, Euro and whichever currencies?
- Madhukar Dev:** Yes indeed.
- Ritesh Rathod:** Thank you Sir. That is all from my side. Wish you good luck.
- Moderator:** Thank you. The next question is from the line of Ajay Khandelwal from BOI AXA Mutual Fund. Please go ahead.
- Ajay Khandelwal:** Thanks for taking my question. Sir, if you can explain how is the competition behaving for the verticals that we are present in and continuing on the same line about the last question, how is pricing for us because ours is a different model, project based, so how is pricing every time, we get a new project, how is that moving?
- Madhukar Dev:** As regards to competition, we do have the Indian competitors who play in some other markets that we play. It is not 100% overlapped with anybody, but we also have to compete with local competitors in the international markets where we operate. With the international competition we obviously have a price advantage and with the Indian competitors we may not have a significant price advantage. But in the areas that we operate, we have a level of capability which gives us an advantage - the experience and the previous engagements that we have had help us win more business rather than price.
- Ajay Khandelwal:** So, in terms of capability, who do you think is a close competitor to us in the verticals that we are present in?
- Madhukar Dev:** There are many of them. If you look at the auto business, KPIT is a renowned company. If you look at some of the other businesses, Wipro has a fairly good reputation and then you have local companies and some of them are very small companies, but they are highly specialized in some of those areas and have good capability.
- Ajay Khandelwal:** For tier 1s, do you think this opportunity size is somewhat restricted and it does not require that kind of time and effort from their side, so they are not entering into this space?
- Madhukar Dev:** Are you referring to the big IT companies?
- Ajay Khandelwal:** Yes correct.
- Madhukar Dev:** They do occasionally come in and have a play and some of them succeed in a few engagements but given the size of these engagements and the complexity they probably gravitate towards larger engagements which give them stable revenues over many years and

potentially higher margins. So as long as the other businesses are more lucrative, I suppose they will focus more there than here.

Ajay Khandelwal: Sir, in that case for us competition will not come till the time these size of projects are small, opportunities are niche but once we also start gaining scale because our revenues are growing faster. Beyond a point, do you think there is a certain revenue, you may say that we have reached a scale that the refilling of pipeline could be a hassle?

Madhukar Dev: I do not think so.

Ajay Khandelwal: Not in immediate future?

Madhukar Dev: No.

Ajay Khandelwal: Thank you.

Moderator: Thank you. The next question is from the line of Anup Upadhyaya from SBI Mutual Fund. Please go ahead.

Anup Upadhyaya: Sir, in the past you have shared that the revenue visibility for you is close to 1-1.5 quarters going ahead, and you have also shared that the growth outlook for full year, you essentially rely on certain leading indicators. It will be helpful if you could share some examples of the leading indicators that give you confidence that a 25- 30% kind of growth rate is sustainable for the whole year.

Madhukar Dev: I cannot give you specific details of what gives us the confidence, but it is a mix of a number of things - number of enquiries, the number of discussions that we are in, number of bids that are under active consideration, our own existing customers' budgets and how they are scaling up for the future. It is a combination of all these things that gives us the confidence of the opportunity in the imminent future.

Anup Upadhyaya: Thanks a lot.

Moderator: Thank you. The next question is from the line of Avinash Verma from Dalal & Broacha. Please go ahead.

Avinash Verma: Thank you for the opportunity. Actually, I just wanted to have an industrial breakup within your software development business. So can you provide me that like how much is automotive, what is the broadcast in general?

- Madhukar Dev:** If you look at our electronics, embedded product design, about 55% would be transportation, about 30% would be broadcast, and the rest would be communication, systems and healthcare.
- Avinash Verma:** Sir, how much is embedded as a percentage of whole software development?
- Madhukar Dev:** About 80%.
- Avinash Verma:** How much was it last year, if you can just give me?
- Madhukar Dev:** That remains the same. It ranges between 78- 84% or 85% something like that. It is around 80%.
- Avinash Verma:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhishek Gupta from Goldman Sachs. Please go ahead.
- Abhishek Gupta:** Thanks for the opportunity Sir. Just one clarification first, you mentioned you will be hiring about 800 freshers in the current year. I understand from earlier conversations that you have about 15% attrition rate, so this 800 level I assume is the gross, add to that you have mentioned about 100 laterals per quarter, right if I am not mistaken?
- Madhukar Dev:** Yes.
- Abhishek Gupta:** So in that case you are looking at about 1200 overall gross head count addition and on your existing employee base you may see about 600 to 700 employees leaving the organization which net-net means you will add about 600 employees.
- Madhukar Dev:** We hope to do better than that, but yes, stay with your logic.
- Abhishek Gupta:** So I am just saying you understand that given that we state that most of the business is still linear in nature and non-linearity is not still kicked in, this 600 on 4700 will just give a visibility of about 12% to 13% kind of a growth.
- Madhukar Dev:** The effort that you need to execute the first project in a particular domain reduces quite dramatically as you gain experience and expertise and when you have acquired that and you are doing the second, third, fourth, fifth project you progressively see less effort being consumed. So it is not a linear correlation with the head count and therefore the revenue that you bill.

- Abhishek Gupta:** So, that is exactly the point I am trying to understand. At one end we say that the effort is towards moving away from linear to non-linear. It would be helpful for us to understand that what composition of your business right now you call as nonlinear and again incrementally what are the levers, which will make this non-linear revenue proportion increase for you going forward?
- Madhukar Dev:** When we refer to non-linear, we refer to licensing and royalty based or revenue share models, where we invest in effort, create either an IPR or a design which we license, which generates revenue over a period of time. That is the non-linearity that we are chasing, which is still not of any significant proportion yet.
- Abhishek Gupta:** Continuing on the same thought, you were about 1000 Crores of revenue currently and you have aspiration to reach 3000 Crores of number in a few years out. I am again trying to relate that with your margin expectation, where you are saying that these are kinds of margins which you would like to maintain. Again, if I try to draw a parallel here, given the fact that we are almost looking to triple our revenues from the current base and yet not seeing any operating leverage in the margins. Then again there is a disconnect when you say that when we are moving towards non-linear business but yet your profitability assumption or expectation are just two measures to maintain the numbers or the margin level. Where am I mistaken here?
- Madhukar Dev:** I just said that the non-linear revenues that we are chasing relate to creating and investing in IPR or design that we license to generate revenue on royalty basis, and that these are still not of any significant proportions. So unless we get there and have visibility that this model can be a significant game changer for us and can help us give you a projections which is based more on reality than pure estimates, till then we will assume that there will be no change in the margin of the company.
- Abhishek Gupta:** So the growth expectation is predominantly assuming same business model as of today?
- Madhukar Dev:** I am not being able to get across to you that the growth expectation comes from multiple dimensions. One of those is a non-linear IP or revenue share model and other is by having more expertise in a particular domain and going deeper and therefore executing those projects with lesser effort. We are doing all these things. I cannot tell you that this is what is going to take us forward.
- Abhishek Gupta:** Let me try to rephrase it once. What I am trying to understand is that given the fact the size of non-linear is currently very small and obviously the effort is to increase it going forward as a percentage of revenue, are we hinting at the growth of non-linear and linear is going to be at a similar pace and hence that incremental margin opportunities will not come into play for us?

- Madhukar Dev:** No.
- Abhishek Gupta:** So in that case, then why your expectation is to maintain margins?
- Madhukar Dev:** Because I have no visibility of how the non-linear business is going to kick in. Therefore what is visible is the existing business model and that existing business model gives the confidence that in a steady state we should be able to maintain margins where they are.
- Abhishek Gupta:** That was helpful. Sir, just one more question and again it is for my understanding. When you talk about project based engagement and you talk about the design and the development of the software. In terms of the overall IP does it rest with the client or do we own it and again I am trying to understand if we own it, then there is a scope for reusability of the same?
- Madhukar Dev:** Yes, in most of the contracts the IP belongs to the customer, but if we think there is an opportunity for us to leverage the IP, we forego some of the revenue for the project in return for co-owning the IP or if we think it is really very hot, we license that IP to that customer and we do not charge him for the effort at all. So it has got to do with our judgment of the potential of that IP.
- Abhishek Gupta:** It is kind of a co-cdevelopment in that case for you?
- Madhukar Dev:** Most of the time it is a development for the customer and the customer pays us for our effort and the outcome, then he retains the IP entirely. There are times when we are able to give off some portion of the revenue in return for an ownership of the IP and so on.
- Abhishek Gupta:** Just a last one from my end Sir. I missed out the number in the earlier caller's question when you talked about that the overall INR growth. How much would be let us say comparable like-to-like currency growth if I exclude the benefit of currency, which you would have got it from the translation?
- Madhukar Dev:** 90% of the growth that we had in the year is due to volume growth and about 10% is due to the exchange rate.
- Abhishek Gupta:** Thank you Sir. That should be all from my side. Best of luck.
- Moderator:** Thank you. The next question is from the line of Kunal Thanvi from Centrum Broking. Please go ahead.
- Kunal Thanvi:** Congratulations on a good set of numbers. Just had one small question on system integration business. The portion of system integration has been decreasing all throughout the year like it was 8% in Q1 which was reduced to 5% in Q3, but suddenly in Q4 we see a

dip again and it is 7% now. So going ahead what would be the typical mix between system integration and SDS?

Madhukar Dev: What we tried to do in system integration is that wherever there is a hardware purchase involved we encourage the customers to buy it themselves and therefore what we bill is for our effort in integrating the solution and installing and running it. There are occasions when the customer is not in a position to buy the hardware, and therefore we have to buy and supply and that is when the revenue for that hardware enters our books. So our effort is to eliminate that revenue and keep only the service component and that is why you see it going up and down occasionally.

Kunal Thanvi: So typically it would be fair to assume it would be 5% of your revenue going ahead, right?

Madhukar Dev: Yes.

Kunal Thanvi: So, if I see on a Q-on-Q basis there has been a decline in the EBITDA margins as well. So, should it be fair to assume that one of the reasons for that is the increase in the system integration in the particular quarter?

Madhukar Dev: Yes it is.

Kunal Thanvi: Thank you so much. It was helpful.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for their closing remarks.

Madhukar Dev: We thank everybody for participating and the patience they have shown in understanding our business. We look forward to seeing most of them at the Investor Meet that we will hold in July. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.