



Q4 FY18 Earnings Conference Call

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tata Elxsi Q4 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. I, on behalf of Tata Elxsi welcome you all to the Q4 & FY18 Earnings Call. We have with us Mr. Madhukar Dev – MD & CEO, and Hari Balan – Manager (Communication).

The agenda goes like this, Mr. Madhukar Dev will give a brief of the highlights of the Q4 FY18 earnings, and thereafter you can post your questions. And we would request each of you to restrict to one question, if the time permits you can come again and have other questions and queries clarified.

Now I will hand over to Mr. Madhukar to take it forward. Thank you.

Madhukar Dev: Thank you. Good afternoon and welcome to this call. In summary, it has been a very good quarter for the company. We have achieved a number of milestones in the quarter, not the least being a PBT for the quarter exceeding Rs. 100 crores for the first time. And what is particularly

satisfying is that all the key segments delivered reasonably good growth in the quarter. As some of you are aware, in the SI business, there is a substantial amount of resale component and that typically has a peak in Q4 and it ended up having a fairly robust quarter. But besides the resale, all the services business also showed a very good growth. And even if we look worldwide and if we look across at our business segments, everything registered positive growth. In all a very satisfying quarter.

The year itself was interesting too, there have been challenges in the year, with some of our major engagements flattening out, some even declining a bit, but new engagements coming in to compensate and also to give us growth. And that has been the case in both our main EPD segment as well as IDV segment. And what is really pleasing is that the setbacks were handled reasonably well, and we have ended up the year and the quarter on a very positive note.

With this I would be happy to attempt to answer any questions that anyone may have.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Harik Shah from Reliance Securities. Please go ahead.

Harik Shah: I had a question about your margins. This quarter, on a sequential basis your margins have gone down, even though your segment wise margins have increased in both your segments. So there seems to be high component of unallocated expenditure, so if you could give some sort of understanding on exactly what are the main components of this expenditure and the main reason as to why the margins were down on a sequential basis?

Madhukar Dev: The margins had not gone down on sequential basis at all. If you see even at a gross margin level we are up as compared to the preceding quarter. If you look at EBITDA, we are up as compared to the preceding quarter, and if you look at the PBT, we are again up in each case by about 1 percentage point, so our margins have not depleted.

Harik Shah: So, I think, I don't know, may be is there some mistake, because as per your numbers about Rs. 95 crores are your EBITDA in this particular quarter versus Rs. 93.5 crores last quarter. I do not include the other income component, so excluding other component I guess, I am referring to that.

Madhukar Dev: The numbers I have with me are EBITDA numbers for the total, where the EBITDA is Rs. 114.7 crores in the current quarter as against Rs. 100.3 crores in the preceding quarter.

Harik Shah: Sorry, I think you are including the other income component also?

Madhukar Dev: Yes.

Harik Shah: So if we exclude that part? That is what I am asking.

Madhukar Dev: Yes, we have not excluded, we have included everything.

Harik Shah: So, because if you see your other income has increased substantially versus the last quarter so do we have any FOREX component in that, if you could give that data?

Madhukar Dev: Let's say the other income as compared to the preceding quarter has gone up by about Rs. 12 crores, right, and the EBITDA has gone up by Rs. 14.7 crores. So, even if you take away the other income the EBITDA has gone up.

Harik Shah: No, last quarter I think it was Rs. 6.8 crores versus Rs. 19.6 crores this quarter, is that right?

Madhukar Dev: Yes, so it Rs. 12.9 crores, right?

Harik Shah: No, so I am talking about the margin sir.

Madhukar Dev: If you take away 12.9 from 114.7 it is still higher than 100.3.

Harik Shah: Okay, I think maybe we could take this offline. Is there any FOREX component in the other income?

- Madhukar Dev: Yes, there would be some restatement of assets and foreign currency.
- Harik Shah: So is there a profit on that, if you could give that number explicitly because you have been giving that in the first quarter and second quarter, so last quarter and this quarter I don't seem to have the figures?
- Madhukar Dev: I do not have a breakup of the total of the other income for the quarter but I have it for the year. If you look at the annual number which is Rs. 43-odd crores of other income, as currency gain on restatement of assets of Rs. 15 crores that is for the year. So my guess is for the quarter it will be about Rs. 5 crores.
- Harik Shah: And sir my last question, from an overall perspective on an annual basis what is the likelihood or the possibility of further expansion in EBITDA margins? So you did very well in FY18, so without giving any guidance or anything may be if you can...
- Madhukar Dev: We are not looking to expand the EBITDA margins at all, in fact we exceeded our internal targets in the current year, so we are happy to maintain it in a range like we have had in the previous year.
- Moderator: Thank you. Our next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.
- Vimal Gohil: Sir, I am referring to your segmental revenues, so the industrial design has recovered marginally this quarter, but however if I look at it on an FY18 basis, it is flat versus you had very strong growth in FY16 and FY17, upwards of 30%. So what would be your outlook on this particular segment going forward?
- Madhukar Dev: First, in this segment the project durations are relatively small, so it would be very hard to predict where we get to. But at the same time, we know what caused the problem last year and most of that is now sorted out. And therefore, we should be back on the same trajectory as we were before FY18.
- Moderator: Thank you. Our next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

- Ravi Naredi: Sir, if the Land Rover and Jaguar sales are not growing what is our strategy to grow in current year?
- Madhukar Dev: See, our dependence on Jaguar Land Rover is to the extent of about 22 odd percent of our revenue, and this really comes from their engineering and design business. We have very little to do with the marketing part of the Jaguar Land Rover. The engineering budgets are made with a view of about three to four years, because every new model takes that kind of time to build. So irrespective of whatever happens with their business in a particular quarter or a particular time period, engineering budgets will not be altered because the market is not picking up your existing cars, the urgency with which you need to introduce new technologies only increased.
- Ravi Naredi: Sir, how many employees we have changed this year, more or less?
- Madhukar Dev: How many what?
- Ravi Naredi: How many employees this time as of 31st March?
- Madhukar Dev: It is same as 31st December, at about 5,500.
- Moderator: Thank you. Our next question is from the line of Rohan Advant from MultiAct. Please go ahead.
- Rohan Advant: Sir, I first wanted to know what if your constant currency growth rate in FY18, and in Q4 FY18 as well as full year FY18.
- Madhukar Dev: The full year constant currency growth is 15% and the Q4 constant currency growth is about 5%.
- Rohan Advant: And Q4 over Q4 of last year or Q4 over Q3?
- Madhukar Dev: This is Q4 over Q3, Q4 over Q4 of last year is 12%.
- Rohan Advant: And sir within the EPD if you could give us some color of how each of our segments is progressing and the growth rates that they are seeing, the automotive, broadcast and medical and your segments?

- Madhukar Dev: The big one is the automotive segment and that is maintaining the growth rate that we have had for the last several quarters. The second one is broadcast which again is fairly stable, despite the fact that the offerings there are going through a churn because of new technologies and so on. The interesting thing in the current quarter has been some new engagements in our medical businesses, they are very small, in terms of revenue, they do not create a significant impact but these are with customers who have potential to give us fairly large business in the future. I am fairly optimistic about the future of the medical business which is right now a very small part of our revenue.
- Rohan Advant: Sir, our automotive is the fastest growing segment, what would it be as a percentage of our total revenues now?
- Madhukar Dev: About 60% is automotive.
- Rohan Advant: Okay, so 60% of EPD or 60% of the total?
- Madhukar Dev: You can take 60% of the total because even in design we do a fair bit of work in auto.
- Moderator: Thank you. Our next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.
- Niket Shah: I had two questions, one is on the utilization rate at the end of FY18. And second is, you were working on the autonomous car project for one of the UK clients and you had displayed that during the analyst meet I think a year back, any update on that, how is that kind of moving through?
- Madhukar Dev: First on the utilization, it was the same as at the end of December, about 82%. On the autonomous vehicle program, what we had shown you was a very basic prototype that we had built on a vehicle here. This has been enhanced to a full-fledged autonomous driving platform which we have branded as Autonomai, and this was licensed to major OEM during FY18. And sub-components of this have also been licensed to some Tier-I suppliers as well as OEMs. We are in discussion with a number of people who have interest in the entire Autonomai as a full-fledged solution which

would require some time to materialize and some time to execute. But the progress is fairly encouraging.

Nikit Shah: So Autonomai essentially will be a very large component now at least in the next two to three years from auto revenue perspective, or a significant one

Madhukar Dev: No, the services revenue would still be far more than the Autonomai revenue. While talking about IPs, I also mentioned that in broadcast business, we have video quality measuring tool, monitoring and measuring tool called FalconEye which had been in the works in the previous year and the year gone by. We demonstrated it in a number of trade shows and we have now got reasonably good traction there. We have had breakthroughs and a number of broadcast networks, and, in the current year, we should see a ramp-up in FalconEye sales also.

Nikit Shah: Sure. And how much would be IP based revenues for us as a percentage of total revenues?

Madhukar Dev: I would not have the exact number, I am guessing it would be around 5%.

Moderator: Thank you. Our next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Sir, if you could just give me the effort mix of your employees for year-end FY18?

Madhukar Dev: You mean time and material versus fixed cost?

Mayank Babla: No, just on-site off-shore effort mix.

Madhukar Dev: Our offshore revenues are about 60% and onsite revenues are about 40%.

Mayank Babla: Sir and if you could, wanted your opinion or guidance on the various next gen technologies that you had interacted about in the previous presentation such as AR, VR and an overview of all the segments that you presented there and what do you plan ahead for the next two years?

- Madhukar Dev: The new capabilities that we have built over the last 12-15 months have been relating to AR, VR, AI, analytics and so on. And the progress so far has been mixed, off and on we seem to have good engagements in AR more than VR and the success really has been the AI and analytics part of our business which has grown quite substantially in all the verticals that we address. And we had good interesting engagements, good problems that we have solved for our customers and we intend in increasing our investment in the AI and analytics part of our business.
- Mayank Babla: And sir do we have any particular platform for that or how does it function, if you can throw some light on the AI platform?
- Madhukar Dev: Would be able to tell you what kind of problems we are solving for our customers within the segments that we operate. For example, if you look at a car company, the application of AI is helping the car company get better organized for providing service or using predictive failure rates and so on. And in the broadcast business, we are trying using AI to predict subscriber churns and therefore what proactive action can our customers take to prevent subscriber churn and so on. So those are the kind of problems we are solving.
- Mayank Babla: And sir just last, throughout this year in FY18 what kind of client addition or new client wins did we see in automotive space?
- Madhukar Dev: Totally we added about 42 new customers during FY18, and I do not have a ready breakup, but my guess is about 20 of those must have been in auto.
- Moderator: Thank you. Our next question is from the line of Naveen Bothra as an individual investor. Please go ahead.
- Naveen Bothra: My question is similar to what someone had asked from Motilal Oswal, regarding the license and IP patents revenues. So you talked about 5% for the whole year or this quarter only?
- Madhukar Dev: Whole year.

- Naveen Bothra: So at the start of the year I think it was around roughly 0.5% to 1%, is it right?
- Madhukar Dev: It was about half of what we have landed up, it has grown about 100% in the year.
- Naveen Bothra: So, can we expect to contribute around 10% by the next year?
- Madhukar Dev: That is our target, certainly.
- Naveen Bothra: Because if we compare the last quarter of last year we have Rs. 53 crores more revenues but Rs. 48 crores more profit is also there from software services. So I think most of it is coming from licensing and patenting income.
- Madhukar Dev: I would not say most of it, some of it certainly, but not most of it, most of it continues to be serviced.
- Naveen Bothra: Services out of, because the employee income is also going up, despite that we are less, generally 80% to 90% incremental revenues are generating profit
- Madhukar Dev: Yes, we have had good profitable engagements, you see all service engagements are not of equal profitability, so it also varies depending on the mix of kind of work that you have got. So it was a good quarter and our having the right kind of mix and the right kind of IP opportunities also, so all in all everything contributed.
- Naveen Bothra: Earlier you said 60% of the total revenue is from automotive, so how much is from media?
- Madhukar Dev: About 30%.
- Naveen Bothra: And rest is 10%?
- Madhukar Dev: Yes.
- Naveen Bothra: Healthcare, medical and all these things include 10%?

- Madhukar Dev: Yes.
- Naveen Bothra: Thank you very much. We have already attained million dollar valuation under your leadership, now
- Madhukar Dev: That is because of support from all of you, hardly my work.
- Naveen Bothra: And we wish all the very best.
- Moderator: Thank you. Our next question is from the line of Govind Agarwal from Antique Stock Broking.
- Govind Agarwal: Sir, is it fair to accept growth rate acceleration in FY19? And what will be the drivers for growth in the automotive segment?
- Madhukar Dev: I will answer the second part of the question, the drivers of growth are really two. One is the move towards electrics and hybrids and the other is towards enhanced assistance with the ultimate destination there is autonomous driving. So these are the two areas which are propelling business in the automotive industry. In terms of growth for the next year, we do not give a guidance but in general terms, I can tell you things are looking quite promising at the moment.
- Govind Agarwal: And sir what is the visibility in terms of any work with automobile companies for revenues and partnership with various platforms?
- Madhukar Dev: It is a bit hard to even gauge, you know at any one time, we are in discussion with four, five companies and these discussions are not quick and easy, they take a long time. And some of them just fizzle away, some come through. But overall, I would say things are looking up.
- Govind Agarwal: One last question if I may, how is the product pipeline of the customer looking like compared to let's say a year or two years ago?
- Madhukar Dev: Certainly far better than two years ago and as compared to last year also, I tend to think it is a bit better, but dramatically better from two years.
- Moderator: Thank you. Our next question is from the line of Megha Hariramani from Pi Square Investments. Please go ahead.

Medha Hariramani: My question is on the R&D spend. How much are we looking to spend in next two years? And do we have any new product in the pipeline coming up?

Madhukar Dev: I cannot answer the amount that we spend on R&D but depending on the area of work, we do sanction budgets for in-house R&D depending on the effort. So it is very difficult to have a monetary value there, but we do certainly provide resources for doing in-house R&D and like the autonomous driving solution that we have, Autonomai, it requires a substantial amount of manpower, time and resources which we allocated a couple of years back because we thought without that, we cannot be a serious player in the automotive market, and that has worked out reasonably well. Similarly if you look at our IP in the video world, FalconEye, we started sort of developing this IP primarily because the existing solutions in the market were severely limited and they were not open systems and therefore fairly expensive, so we saw big opportunity and we put in resources. We have an IP that is ready, being bought by the leading broadcast networks in the world and the scope for selling more to the same customers itself is fairly large, apart from finding new customers. So, depending on the area, we figure out whether it makes sense to invest in particular R&D effort, or some R&D efforts are just for skill building where we do not extract any IP at the end of it and therefore no license revenues. Those also we keep approving depending on the areas that we are trying to get. I hope that answers your question.

Medha Hariramani: Yes, and the IP based revenues which is currently 5%, do we have any internal guidance on where do we see this percentage growing through in the next two to three years?

Madhukar Dev: We have our internal targets, certainly.

Moderator: Thank you. Our next question is from the line of Amit Jeswani from Stallion Asset Management. Please go ahead.

Amit Jeswani: Just wanted to understand about revenues coming from IP side, are majority of our revenue is just coming services side?

- Madhukar Dev: Yes.
- Amit Jeswani: So do we have any revenues coming the IP side at all?
- Madhukar Dev: I mentioned a little while back that 5% of our revenue is related to IP licensing.
- Amit Jeswani: Sir what is stopping us from being a 30% growth company? We have done that before, our base is pretty small. We say that, just going through your last con-call, we are not a commodity IT Company, we are a design company. This so many changes in the world what is stopping us to be like a 30% growth company?
- Madhukar Dev: On a lighter note, the fact that we are a listed company. Really speaking, it is a question of matching the available skills to the available opportunity, and that requires a certain amount of anticipation and a certain amount of pre-planning. If we get it right and those quarters, we see better growth than we see in other quarters. You are right, I think the market opportunity is big enough for us to look at a 30% growth and internally we do keep questioning all our processes, all our initiatives on why we are not being able to generate a higher growth. It has got to do with really matching skills with the opportunities and a lot of it has got to do with anticipating opportunities and planning for it. So sometimes we get it spot on, sometimes we struggle a bit, but that is what is holding us back, we need to improve our planning process.
- Moderator: Thank you. Our next question is from the line of Het Choksey from KR Choksey. Please go ahead.
- Het Choksey: I have two questions from the business development side. First thing is I was very impressed from last year's analyst meet about the potential which holds for airport infrastructure management and the metro railway express coaches. And what is exactly the progress on that front because we are seeing a lot of movement in that front in metros, selectively non-metros. And I think how do you think that this entire smart highway project are going to help Tata Elxsi going forward? That was one. The second question was on the battery management solutions segment in

automotive segment, how is the company shaping itself going forward with the increasingly demanding electric vehicle charging policy coming up and shaping of deep learning capabilities. How do you see these two things shaping the company going forward?

Madhukar Dev:

Certainly, the electric vehicle program as a whole of which battery management is an integral part, I see that as a major driver for the automotive business for the next two, three years. And I see today we are looking at only one kind of battery, I see multiple battery strategies coming in, multiple powertrain strategies coming in, and more the variety the greater the opportunity for a company like us. So I see that as very strong. On the airports and metro and highway, etc. wherever the customer is sending out an RFP or a tender just for design services we end up being very strongly placed and very often win, but if it is clubbed with execution which means running an operation or fabricating something or building something we have to partner with people who can do that, and then our fortune depends on the fortune of the partners that we go with. So, our effort there is to delink design from execution. If you see most of the smart city tenders also talk about, say a simple thing like a street light, it will say design, erection, maintenance of a street light. Now obviously the skills required to each one of them is quite different, so we end up partnering with somebody who can fabricate the street light, who can maintain it and so on and so forth. So we sort of lose control over our own destiny there. But if it is the design of a street lamp, yes, we think we can win against almost anybody.

Het Choksey:

And just to follow up that one particular question, I think everything looks good, how is that deep learning capability of the software block which was developed by the company some time back, especially that high definition map which we were trying to align with the fences, how is that segment shaping up in the automotive space, because I believe that all of the companies are shaping themselves towards that space.

Madhukar Dev:

That is part of our Autonomai IP and it is a nicely developed component of the Autonomai IP which is now ready for licensing.

- Het Choksey: Okay. So, all in all, in all these segments you see higher uptake going forward in the next few years?
- Madhukar Dev: Yes.
- Moderator: Thank you. Our next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.
- Sanjay Sathapaty: Sir, if you can just confirm what you mentioned about IP that it has doubled this year and again you are looking for doubling it to 10% in 2019, is it correct?
- Madhukar Dev: Yes, approximately yes.
- Sanjay Sathapaty: And is this business more profitable for you? I am sure it would be.
- Madhukar Dev: Not yet, currently it is not as profitable as services, because for every successful IP chances are that there is at least one other IP initiative which has not had that kind of success in the market, so that effort has not yielded results. But it is an art that we have to keep improving and improving the hit rate, potentially IP is very, very important for us not just for augmenting our margins but for survival itself. In the future we will not be winning business by demonstrating past experience and capability. In future we will win business demonstrating our IP which can be integrated into customer solutions and that is why the IP programs of the company are very important.
- Sanjay Sathapaty: Sir the other thing that I wanted to understand, you mentioned the JLR is 20%-odd of your revenue, I believe second biggest for you is Panasonic, so how big are top five customers for you in terms of revenue and is that a big risk that you think of?
- Madhukar Dev: I am not in a position to divulge the names of our customers, most of them are under NDAs. The one customer that we have had permission to share with and has been shared in the past was Jaguar Land Rover which is our number one customer.

- Sanjay Sathapaty: My question is what will be the total of top five, I did not really ask you to say customer wise revenue.
- Madhukar Dev: The revenue share of the top five customers?
- Sanjay Sathapaty: Yes.
- Madhukar Dev: About 44%.
- Sanjay Sathapaty: And lastly, you mentioned that you have finally kind of got a new big customer in the medical equipment space, and it seems that you are fairly optimistic about the particular venture. Is that something which is going to become meaningful sometime soon or it will take some time
- Madhukar Dev: Our hope is that we will be able to make it meaningful in the near future. Theoretically the medical business has very high potential because a very large percentage of the world population is under served in healthcare and anything that anyone can do to make healthcare more affordable and more easily accessible has a potential to increase. And you know every human being may not be buying the car but every human being does need healthcare. So that is why we have invested in that business and we are staying there, despite the fact that it has not become significant yet because we think five years, ten years from now that may become the mainstay of the company.
- Sanjay Sathapaty: Sir if I can just ask one last question, in terms of overall revenue, are you looking at the growth rate to stay or improve?
- Madhukar Dev: We are trying to improve the growth rate actually and we have that directive from the board and our management team is constantly working at actions that can help us grow faster.
- Sanjay Sathapaty: And the business environment is now conducive?
- Madhukar Dev: Could you repeat that please?
- Sanjay Sathapaty: To improve your growth rate the business environment is more conducive now than in the past or not?

- Madhukar Dev: Well, it has not changed very much, just that the pace of change in the markets that we address has accelerated over the years and therefore the opportunity for a company like us is increasing.
- Moderator: Thank you. Our next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari: Sir, one question I have is regarding, if I got it right you said your number of employees is 5,500, so they remained flat between 2017 and 2018?
- Madhukar Dev: No, between Q3 FY18 and Q4 FY18.
- Manish Bhandari: So how much employees you have added in between one year period?
- Madhukar Dev: I do not have the exact number, but would be a few hundred.
- Manish Bhandari: Sir I was just trying to come to the attrition number, so I think you are at 14% or 15% attrition number?
- Madhukar Dev: On an annualized basis we are at 12% attrition.
- Manish Bhandari: So is there any measure you have taken to reduce this attrition because there are not enough companies like yours, and may be if you could throw some light in which band you have seen this highest attrition on a one to three year band or five to seven year band?
- Madhukar Dev: Typically, in the three to seven year the attrition is higher. There are two drivers for attrition, one is the desire of the people to study more - so whether it is the master's in technology or even a business degree, typically they look at those at the end of the first three years. The other driver is the product companies which have captives or setting up captives in India. They look at service companies as a hunting ground because they do not have any P&L responsibilities, their cost centers for their parent organization, they are able to throw a lot more money than a service company can, even if the work is less interesting. So our effort is to make sure that all our employees realize that the work that they are doing is far more interesting here, the impact that they are creating is far more significant than doing one narrow slice of work in one product

company, because in a matter of a few years they end up working with customers in different parts of world and often in different businesses. And the overall value to their CV is much higher in a company like ours than in a product company. So, we look at all this and we have a number of programs that identify higher performers at every experience band, and those that we identify as higher performers we chart out their career paths, a bit differently from the rest, because we want to make sure that they stay with the company and their abilities are fully utilized.

Manish Bhandari: So, has the attrition level come down in last three years if you are to look at it?

Madhukar Dev: Yes, if I recall four years ago it was 18% or something.

Manish Bhandari: Sir my next question is regarding would your business require any kind of bolt-on acquisition on any of the areas to expedite the growth and you have requisite cash flows also.

Madhukar Dev: We would benefit from acquisition in certain niche areas, in the case of design for example. Design typically gets serviced by customers, by design agencies situated in close proximity to the customers. So in the large markets, if you are not a native, it is very hard to get design work to India. So we would look at design agencies which have access to major markets. So, also in the case of the automotive business, a number of big auto OEMs have a cluster of service providers around them and to get access to some of these, you need to work with the service provider. So we either get into a relationship with the service provider or there is an acquisition opportunity with good market access, we will look at it.

Manish Bhandari: Sir, I understand when I met you in your AGM, I saw some efforts to do an incubator or an accelerator and a company like yours was suitably positioned to take and scale that up. So why have you not done that and what is your thought process in that?

Madhukar Dev: See the space has changed very dramatically over the last few years, more and more start-ups do not require the basic facilities that we were providing, they are able to get everything on tap today, every service is

available on tap, including shared office space, shared legal advice, shared business advice, etc. And a lot of the start-ups today are very much more confident of succeeding, success means a business success for start-up or an exit for the promoters is a different matter, but they do not want to be associated with anybody, and want to be completely on their own. So we saw our role diminishing and therefore we are not pushing that very hard any longer.

Manish Bhandari: But sir if I look back at silicon valley most of the successful enterprise companies have a start-up and many of them are now circling around in India, so may be more broader thoughtfulness on your offering or differentiated on the offerings would have, or may be some changes in the offering would have made that far more, and may be that would provide some room for thought for you to...

Madhukar Dev: Yes, possibly.

Moderator: Thank you. Our next question is from the line of Pankaj Bajaj, he is an individual investor. Please go ahead.

Pankaj Bajaj: My question is regarding telecom space, what is our revenue share coming from the telecom space?

Madhukar Dev: I would not have that breakup of the telecom space at all. We have some engagements and I know it has grown over the preceding year, but it would be a very small component of our revenue.

Pankaj Bajaj: So second question is on the number of clients, any change in number of clients QoQ?

Madhukar Dev: No, in fact we are looking to reduce the number of clients and we want to deepen the relationship with existing clients. But that is a work-in-progress and not much output here.

Pankaj Bajaj: Okay. The last one is, revenue share from top ten clients?

Madhukar Dev: It is now 57% or so.

- Moderator: Thank you. Our next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi: Sir, can you share what is the internal target of your growth for this year?
- Madhukar Dev: Unfortunately, I cannot.
- Moderator: Thank you. We have the next question from the line of Vijay Kumar as an Individual Investor. Please go ahead.
- Vijay Kumar: It has been a great journey. I have been invested in this company for the last ten years, so in spite of first few years of boring output, but last three four years have been amazing and all the very best for the future. I have a couple of questions, first one is, how is this work with Unity taking off because VR, AR, 2D-3D all that space is going to be one of the promising sectors, so how is that shaping?
- Madhukar Dev: It is slower than we expected it to grow, but it is not as if it is stagnant of anything, but it is certainly slower than we expected the uptick to be. But nonetheless, these are skills which will be useful in many areas in the future, so we are staying invested and our partnership with Unity continues to be strong. And we think in the next two, three quarters we should see a significant change.
- Vijay Kumar: And how about National Instruments, the partnership that we have announced, how is it shaping?
- Madhukar Dev: Yes, it is for automotive test and simulation, and we have engagements which have come out of this partnership and we are recognized as probably India's leading hardware-in-loop-simulation service provider for auto companies, and that is in part, thanks to alliances like with NI.
- Vijay Kumar: One more question on another emerging technology like block chain, is Tata Elxsi looking at some acquisition in this space or build your own IP?
- Madhukar Dev: One of the IPs that we have built, and which should be getting deployed pretty soon is V2X emulator, it is a vehicle to vehicle, vehicle to infrastructure simulator. Now, we think block chain will get integrated with

anything to do with V2X and it will be our endeavor to build block chain capability into our simulator. We are not looking at block chain in areas outside of our current business, and in the current business, the vehicle-to-vehicle, a vehicle-to-infra is where block chain should have a play.

Vijay Kumar: And a final question, what is the cash in hand?

Madhukar Dev: About Rs. 390 crores.

Moderator: Thank you. Our next question is from the line of Vinesh Vala from Dolat Capital. Please go ahead.

Vinesh Vala: Sir, if I am not wrong our employee base right now is 5,500?

Madhukar Dev: Yes.

Vinesh Vala: And what are the plans of addition in the employee base going ahead?

Madhukar Dev: There are two levels of recruitment that we do, one is fresh graduates from leading colleges which is planned a year in advance, pre-committed, etc., so that is already on and now we will be starting to work on the hires for the calendar year 2019. The other is the laterals that we bring in, which depends on our engagements and our visibility of future engagements, and that is an ongoing thing depending on new areas that we are getting into or new opportunities, we hire those people as we need them.

Moderator: Thank you. Our next question is from the line of Anita Gandhi from Arihant Capital. Please go ahead.

Anita Gandhi: Sir, I want to know in each of your businesses one name of your next competitor and a little bit color on the market share in each area of business.

Madhukar Dev: I do not have this information readily available, but we have in the past talked about different companies competing with us in different spaces and in the automotive space, the companies that we encounter most often is KPIT. And it is different in different geographies, different verticals and our market share if you see globally is not significant, so therefore

there is a lot of headroom for growth, so we do not worry too much about winning business from somebody else, we think there is enough opportunity for all the Indian companies to grow.

Anita Gandhi: Okay. So, is Cyient your competitor in any part of your business?

Madhukar Dev: They are, but what we bring to the customer is unique set of capabilities and the combination of design and technology is something that we have built up over the last 10-12 years and this combination delivers outcomes for our customers which are far superior to what just a design company can do or a technology company can do. So, this combination is very potent and therefore is a key differentiator for Tata Elxsi.

Moderator: Thank you. Our next question is from the line of Kumar Saurabh as an individual investor. Please go ahead.

Kumar Saurabh: The auto industry is changing a lot in terms of there is lot of thrust on electric vehicles, so how do you see this as an opportunity for the company, can you give some more light on this?

Madhukar Dev: We mentioned in some other context, the pace of technological change is what determines the opportunity for a company like us. If technology is mature and static there is not much for us to do. And the car industry, automotive industry which had been largely static for almost 40-50 years has suddenly come to life with first driven by the need for lower emissions, then need for better driver comfort and driver assistance. And all that was moving towards autonomous driving, then came the electrics and hybrids and the power management and the battery management opportunity. So all these have enabled a car or automotive service provider like us to keep growing in these areas. So it is all very good right now.

Moderator: Thank you. Our next question is from the line of Dhruv Saral from Kredent Capital. Please go ahead.

Dhruv Saral: Sir I just wanted to know that we have been reading in the past that a lot of companies have opened GICs in India itself, so would they typically be

partners or would they be a standard entity that would actually be a competition in that sense?

Madhukar Dev: I was mentioning that a lot of international product companies have opened centers in India and whenever they open a new center yes it is a bit of a challenge to us. We find ways of cooperating with them, if it is a large engineering center there are special niche skills that we provide to them and we also help them manage the peaks and troughs of their work load. If it is a very small center and there is not too much we can do with them, except provide the opportunities which are complimentary to the capability that they have in their company.

Dhruv Saral: So sir, in that sense there is going to be sort of a cannibalization effect from your revenue, since this work could actually be done in-house they would not need to actually outsource it to a company like us, isn't it?

Madhukar Dev: True.

Moderator: Thank you. Our next question is from the line of Moiz Tambawala from Florintree Advisors. Please go ahead.

Moiz Tambawala: One question on your services business, as you grow going forward do you think that additional resources will be required, or do you see any kind of non-linearity in the growth of your services business?

Madhukar Dev: The pure services will need more resources and it will largely be linear, so productivity tools help us change the linearity of it. The IP business is the one where we can create higher impact with lower manpower so it is a mix of the two.

Moiz Tambawala: So by and large, on your engineering or your design services that would remain non-linear as of now?

Madhukar Dev: Will remain linear as of now.

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 con-call. See you again next quarter. Thanks a lot.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Tata Elxsi, that concludes this 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.