Q4 FY20 Earnings Conference Call

April 21, 2020, 15:00 Hrs IST

Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi FY20 Q4 Earnings Conference Call. There will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Mr. Vaidyanathan. Thank you, and over to you, sir.

G. Vaidyanathan: Thank you, Stanford. Good afternoon. I welcome you all to the Q4 Results Conference Call of Tata Elxsi. We hope you are all safe and healthy. As per the government's directive of social distancing, all the executives of this conference are taking the conference from their respective homes. Joining the conference is the management team consisting of Mr. Manoj Raghavan – CEO & MD; and Mr. Nitin Pai – Chief Marketing Officer and Chief Strategy Officer. Manoj will give an overview of the performance of the company; thereafter, we can have the Q&A. I would request each of you to restrict to one question so that we can give opportunities to others. If time permits, you can rejoin the queue. The conference will be on till 4 o'clock. Over to Mr. Manoj Raghavan to give the overview, please.

Manoj Raghavan: Thank you. GV. Good afternoon, everyone. I hope you and your family are safe during this unprecedented time. So, I am pleased to report that we have delivered another quarter of steady performance, despite the current COVID-19 scenario. In the past few weeks, we were forced to work in so many new ways and operating models at such a large scale with such a short notice. We were agile and nimble in adapting to these changes. We have moved more than 98% of our employees to work from home.

What is more pleasing is that we have not let any of this hamper any of our customer commitments. Our customers have come back appreciating and thanking us for transitioning with minimum or no disruptions whatsoever. I would take this opportunity to sincerely thank my IT team and my admin team who have really worked around the clock to make this possible. I would also want to thank all employees who have accepted this as a new normal and continue to deliver and contribute to our success. And of course, to all our customers who stood with us, in this very difficult situation, we were able to deliver together and keep up our commitments. Last but not least, I would also want to thank my senior management team, who over the last four to six weeks have been working tirelessly to ensure that we are able to deliver this performance in Q4.

Now, our revenue for the quarter grew by 3.6% quarter-on-quarter and a very credible 8.3% year-on-year. Actually, if you look at it, almost two-thirds of it was volume growth, it was about 2.3% quarter-on-quarter and 5.5% year-on-year. Our PBT also grew by 7.5% quarter-on-quarter and 2.8% year-on-year. Those of you who have been following our company, our two main divisions, EPD and IDV, both of them showed good growth. EPD, our largest division, that contributed over 87% of our revenues this quarter, grew by about 4.1% quarter-on-quarter and 10.6% year-on-year. Industrial Design and Visualization business grew 7.6% quarter-on-quarter and 5.4% year-on-year.

However, our SI business was impacted this quarter, primarily because of the nationwide lockdown. If you understand that business, we get revenues when we really ship the hardware and software to our customers' place, and we install them and so on. But because of the lockdown, we were not able to ship any of the hardware, and that had an impact on our revenue recognition. Within EPD, the growth was driven by our Media and Communications vertical in Q4. We had 8.6% quarter-on-quarter growth. Our medical business continues to be steady, although last quarter it was flattish, it delivered 60% plus year-on-year growth. This vertical continues to grow at a rate that is faster than the rest of the company.

In the automotive segment, we have talked about the softness in the industry, even in the last quarter, which is now amplified by COVID-19. We are seeing muted sales forecasts from OEMs and associated reprioritization of their budgets and program funding. So, we do anticipate delays and deferment of deals from the automotive suppliers as well. So, in some sense, the situation today, as we stand, is very similar to where we were at the beginning of the last financial year. Although the reasons are very different, where the first quarter was significantly affected by other market reasons. Now, in Q1 last year, we had a significant budget cut in one of our top customers, and of course, there was softening in the auto market, which led to a sharp decline in revenues. But we managed to recover strongly over the next three quarters to finish the year with a small, but positive growth of revenues from FY19 to FY20. I think that is a pretty significant achievement for us, given our status in Q1 last financial year.

We have also diversified our offerings and revenues further, and automotive contributes now less than half of our revenues. We have expanded and deepened our offerings across verticals and also strengthened our footprint in the US. We took various measures for cost management in the first quarter last year, which were gradually relaxed over the rest of the year in line with what was needed to drive growth. While the market remains uncertain, and the full impact of COVID-19 on the industry, markets, and business for us in the first quarter and beyond is still not entirely clear. But having been through this over the last year and having recovered well, I have the confidence in our capabilities and our people to meet this challenge too. So right now, we are focused on building a platform for growth and aim for performance and growth in every quarter that exceeds that of the comparable quarter last year. So, this really gives me confidence that we can tide over the current situation and come out even stronger.

Now I hand over to the Moderator to start the Q&A.

Moderator: Sure. Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: I hope you and your family are healthy and safe. Sir, my question is around the automotive vertical. If you could just give us some sense as to, while Manoj did give some highlight on what is happening with the top customers, is this recovery expected to continue from Q1 onwards? And what about the automotive vertical excluding your top customer, how is that expected to pan out? More importantly, are you seeing any sort of cancellations in projects, or are they more of deferrals at this point in time?

Separately, if you could just comment on your medical devices and the communications vertical, in your previous call to give us an update on COVID-19, you had mentioned that those two verticals will be relatively better off, as compared to the other verticals in the company. In this entire background, how do you expect your profitability to pan out? What are the cost-saving measures that the company is taking to safeguard profitability for the year?

Manoj Raghavan: Sure. The transportation vertical and the automotive companies will definitely be soft; there is no doubt about it. Your guess is as good as mine in terms of where the other automotive companies and the suppliers, whether this will recover in Q1 or Q2. You should understand that most markets are still closed. When I say closed, most of the major European markets, whether it is Germany, UK, France, Italy, Spain, the US, and now Japan is also getting into that cycle. We are not sure whether China is fully open still, we are seeing very early signs. So, it's very difficult to comment on whether the automotive industry would recover and how quickly that recovery would be. And I mean, it's not only Tata Elxsi, but I am sure no other company in this scenario will be able to give you a very concrete answer to that. But we are hopeful that over a period of time, at least, we see the maximum effect in Q1 and hopefully, in Q2, we should see the economy gradually recovering. In Q3 and Q4, we hope it will be a V-shaped recovery or a U-shaped recovery, and we will get back to our growth rates and so on across these quarters. So, yes, in line with what we are seeing in the automotive industry, we are also very conscious of our costs. We are taking careful measures for each of the cost elements that we have. Just to tell you that, people are our assets, so we will not be retrenching anybody. The team that really has worked with us over multiple years and has contributed to the growth of this company, even though we may have some short-term blips, but I think this is a competency of the company that we have - our people. We will definitely ensure that even during these tough times, we take care of our employees. We are honoring all offers that we have made. And of course, any further hiring, we are taking it a little slow, as we want to understand when the market would open up and so on. Any further hiring, especially lateral hirings and so on, we will really do it only on a case to case basis, where we really feel the need for certain skills for certain customer deliveries. So, we are very consciously ensuring that we control our costs and boost up our profitability.

Vimal Gohil: Are we going ahead with the normal salary hikes, because some of the larger peers have deferred their salary hikes for the year?

Manoj Raghavan: We definitely have time for that. At this point in time, very clearly, there is no proposal that we have put, saying that we will give a salary hike. We will definitely look at how the economy recovers and take a call on that.

Vimal Gohil: Fair enough. Sir, if you can just highlight your view on your healthcare and comms vertical, that was expected to be less impacted as compared to the other ones.

Manoj Raghavan: Absolutely. So, we see less impact on both our media and communication business, as well as the healthcare business. And if you see last quarter, the significant growth that we have achieved as an organization has been pushed by our media and communication business. To me, two, three quarters ago or even four quarters ago, when we looked at from a mid-term to long-term strategy in terms of diversification, in terms of our overall market verticals and the various areas that we are operating in, now I feel more certain that all the decisions that we have taken in terms of really pushing our investments in the media communication side and the healthcare side has been the right decisions. And also, more importantly, the sub-segments within that we are really focusing on, I think those are all the right decisions, and that will really help this company in this financial year and coming financial year. So, media and communication, it is not to say that there is no impact, there will be some small impact, but we hope to recover and cover it up and even grow.

Similarly, in the medical vertical, also, what is happening is, most of the medical equipment manufacturers are reprioritizing all their R&D spends into COVID-19 related spends. So, typically, if you look, any hospital makes a lot of money on the so-called non-essential surgeries. And a lot of manufacturers make money by selling equipment for all of those surgeries. Now, with COVID-19 happening, all of the other surgeries have been put on halt and the entire focus is on COVID-19. So, for the latter half of the last quarter and even in Q1, we do not see this situation changing. All hospitals will be busy with COVID-19 related issues. And on top of it, if you realize, a significant portion of our revenues come from the regulatory work that we do for our customers.

Now, what has happened in this COVID-19 scenario is that many governments in Europe have relaxed the regulatory timelines. Now, what has that done is, the customers are now able to have a breather, and they can reprioritize and spend some of that money on COVID-19 related activities. But having said that, it is a very temporary situation. We expect our medical business in Q1 and beyond also to aggressively grow in the way that we have anticipated. It is just that this COVID-19 related scenario is putting some amount of caution in the way we project our revenues. Otherwise, I would still strongly believe that both media communication and medical would be the saviors for the company in this financial year and the next.

Moderator: Thank you. The next question is from the HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Hi, your commentary was very helpful. I just wanted to know, when you talk about these medical devices, they are all focusing R&D on the COVID-19 related things. Have we got any assignments from any company to develop something in our embedded design vertical?

Manoj Raghavan: No. So COVID-19 has made companies reprioritize and focus primarily on ventilators and such devices. Yes, we have got enquiries for designing ventilators specifically for India. In fact, our Prime Minister has requested Indian companies to come forward and see what we can do for ventilators. So, we along with other Tata Group companies have done some study to see how we can have homegrown ventilators in India. But that has nothing to do with revenues and it is an activity that Tata Elxsi, as part of the Tata Group, decided to undertake in the interest of the country.

HR Gala: So, it could be more like a social obligation.

Manoj Raghavan: Sure.

HR Gala: Okay. But anywhere else have we got any enquiries for this?

Manoj Raghavan: No, because ventilators are already well designed and well developed. It is just that more of the funding would go into assembly lines and manufacturing and rollout, and so on.

HR Gala: Okay. Sir, another question is, now you said that the situation is quite hazy and we cannot guess, how is the reaction of the customers based on whatever projects are in the pipeline? Do you think they will abandon it halfway, or how will they go about it?

Manoj Raghavan: No, see, wherever there are long-term deals that we have with customers, those would continue. I don't see mass cancellations. All said and done, most of the sectors that we have, they are unlike a hospitality or airline business and so on who have zero revenues. Both of my customers have revenues and they have projections and they have R&D that needs to be done. So, from a product R&D perspective and existing projects, cancellations are far and few. But definitely and especially in the automotive industry, there is some amount of negotiation on terms, credit terms, on rates, volume discounts and so on.

HR Gala: You were telling that in the automotive segment, customers are coming for renegotiating terms, credit terms, etc. What are some other aspects of renegotiation?

Manoj Raghavan: Those are the primary aspects of renegotiation. So, companies are also trying to reduce their overall cash flows and so on, to see if they can push it and get better credit terms. So again, it is very difficult to tell you that. It's an evolving situation. As we speak, we are communicating with each of our customers, and discussions and negotiations are happening. We know that our customers are in pain and we want to be with them in this difficult situation, without being unreasonable. Even if it is to take a short-term hit, we will do that with the intention of a long-term relationship. And we are very confident that whatever we do now will help us when the market recovers.

HR Gala: Okay, that's very good. Sir, last question from my side. Based on the delivery schedule, etc., which we had worked out, is there any revenue visibility for FY21? Like this year, we had a flat year of Rs. 1,600 crores. What do you broadly look at FY21?

Manoj Raghavan: Again, in the current situation, it's very difficult for me to give a colour to what FY21 would be. But our focus, as we look at it, we have been through a tough year last year, all of you guys know about it. All of you guys know how we have recovered over the quarters, right from Q2, Q3 and Q4 and get this company back to a growth path. We will continue to do that. All the lessons that we have learned are very fresh with us and we are seeing in Q1, a similar situation. And we will continue to do all the activities that we have done in the last year and we will do it even rigorously. We will puruse each of our customers; we will work with them to ensure that we take care of their business. So, what I can tell you is that we would go back and look at it and say, "Hey, every quarter if you look at, in Q1 we should be doing better than Q1 last year. Q2, we should be doing better than Q2 last year. And that is a focus for the company in this financial year. We would take it quarter-on-quarter each quarter, because it's very difficult right now to say, "Hey, what Q3 will be, what Q4 will be" because I have no clue how long this Coronavirus situation will continue. Now I am laser-sharp focused on Q1, to see if we can be better than Q1 of last financial year. And that is the focus for us as a company and we will also look at our costs and everything else to ensure that we are able to manage the situation reasonably.

HR Gala: And sir, to what extent our EBITDA margin can take a hit? Like in the fourth quarter we have a very good margin of about 30%. And for the full year, it has been about 23 - 24%.

Manoj Raghavan: Yes. In the short-term, I will not be able to make those. But again, I tell you it's an evolving situation. If we were any other company that ruthlessly fires people, or reduces salaries and so on, I could have confidently told you that, yes, we will be in the 22% to

24% margin. I don't want to do that because that will hurt our mid-term to a long-term situation. So, our midterm to long-term PBT target is to be in the 20% to 24% range, and we are very confident of that.

HR Gala: Sir, any capital expenditure planned for FY20?

Manoj Raghavan: We had plans but we are relooking at all of that because of the current situation. See, we wanted to invest in office spaces and so on, and we had plans across our delivery centers. But this new normal, right, COVID has really opened our eyes, and we see, "Hey, why do you really need more office space, we can work from home." So, we are really relooking at all of that. And, these are some of the levers that we have to see how we can reduce our costs further and is there something innovative that we can do? We are still on that path, so we will take some time before we get back to you on that.

HR Gala: The only thing in work from home is, how do you protect the confidentiality of the data and all that stuff?

Manoj Raghavan: Yes, so we have various IT related measures, including VPN, when people have to talk to our customers or share data, etc., it has to go through our firewall. So, we are controlling our firewall, and everything is protected. All patches are regularly updated. Our IT team is monitoring on a regular basis because work from home is the new normal for us. We are not sure what are the new risks or what are the further additional risks that would come in. We are talking to IT security firms to understand what other risks we should cover. Recently, a large services firm was hit by the “maze” ransomware. So, I immediately checked it with my IT team and they confirmed that all of that is patched up and covered and we have nothing to worry about. So, we are looking at all these updates coming from around the world, security incidents, immediately they are being evaluated. We are constantly in touch with our security partners to understand if there is a risk and whether there is a need to update any security patches. We are very vigilant. Rest is, if there are smarter people who can still figure out loopholes, we will have to figure out as it comes.

HR Gala: Okay. Correct. Sir, do you see any significant change in your onsite and offshore revenue mix?

Manoj Raghavan: Yes, I think that is something that we will see. Especially because of the COVID scenario and because work from home has been pretty effective. We are talking to all our customers. And one of the measures that we are taking, especially when customers budgets are getting reduced. We are telling the customers that in the last few weeks, even though our engineers were onsite, they were working from home, and were able to deliver value. So why can't we do the same thing by moving work offshore, and we will meet your terms, reduce the overall expense, and manage within your budget. So, we are talking to our customers and having these discussions, and a lot of our customers are buying into it. So I think that is the direction that the industry will move. Tata Elxsi is definitely moving in that direction. We could see the revenue contribution from onsite coming down, I would say. I will not be able to tell you what percentage right now, but it will come down compared to what it is currently.

HR Gala: So that will be good for our margin accretion, is it not?

Manoj Raghavan: Absolutely.

Moderator: Thank you. The next question is from the line of Mayuri Yadav from Equintas. Please go ahead.

Mayuri Yadav: Sir, two very evident trends are visible in your second quarter-on-quarter performance. One is definitely the broadcast and communications division has grown at a faster pace compared to the other segments. And in the geographic segmentation also we see that the US has contributed more whereas Europe has shown a marginal decline quarter-on-quarter. So, would it be right to say that a large portion of the broadcasting and communication business has, therefore, come from US geography? And if yes, then just if you can elaborate a little bit more on the nature of work that has been done in broadcast and communications. And when we see this will be a savior for FY21 along with medical devices, then what is the nature or what is the profile of projects that you are looking at that would contribute towards the FY21 revenue from broadcast and communications?

Nitin Pai: So, Mayuri, you are right on both counts. If you look at the growth in Q4, a large part of it was led by revenues in the media and communications business, as well as in geography wise from the US. But having said that, the two are not directly correlated. So, the US did see broad-based growth, we did have wins in healthcare and automotive and in media and communications. While media and communications grew across other geographies too, including in India, where we saw growth even from some of our customers that are public in any case that we work within India. And we have driven a large part of their growth even as OTT seems to be the flavor of COVID and lockdown. So, therefore, the two are connected but not completely. But in general, if you look at it, on the media and communications vertical, if you look at big drivers for growth and where we see the future is 2 - 3 ways. One is, we definitely see broadband in the home growing not just because of entertainment, Netflix and Amazon, but it will also grow because a lot more people will work from home. So broadband consumption is not just driven by OTT consumption but also because you will see a lot more work from home, especially across enterprises. We will see broadband connectivity in fiber, in wireless growing, you will see OTT growing. You will see operators even as they look at the kind of traffic, start to undertake some amount of network transformation and digital transformation of their own. And all three of these areas are growth areas for us because we have invested very strongly, we have a very good capability in these. I think we are ready for the future.

Manoj Raghavan: Just to add on to what Nitin said. I think, maybe a few quarters ago or maybe Q1 of last year, we talked about how we are ramping up our US sales team and how we are really focusing on the US to give us that growth momentum. Looking back, thinking in hindsight, we have made all the right investments there, and the set of things that we did then has really helped us in Q3 and Q4 to really boost up our revenue from the US.

Mayuri Yadav: Absolutely. Sir, your diversification strategy, which you laid out at the start of the year, is visible, be it at segment level or at geography level. So, just trying to understand the media and communication we have in this quarter done around Rs. 155 crores in that division, and automotive has done around Rs. 180 crores. So, do you see that this year, we will see broadcast and communication surpassing quarter revenue generation from automotive, and therefore will be a larger contributor as we go along in FY21?

Manoj Raghavan: Definitely media communication business will grow. That is not to say that we will drop automotive like a hot potato, automotive is still a good part of our business. So, if it happens, again, in this post-COVID scenario, it's very difficult to say what will happen and so on. But whichever way it happens, if automotive grows, I am happy; if media and communication business grows, I am happy. So, it is a very hypothetical question, either ways is good for me.

Mayuri Yadav: Sir, just because transportation may see some more pain in the coming quarters and broadcast and communication is growing at 7 - 8% quarter-on-quarter, so just by sheer math I see that surpasses the automotive contribution somewhere during the year. My next question, Mr. Raghavan, during our last con-call and in our previous interactions, we understood that pre-COVID, the overall deal pipeline was looking very healthy. So just want to understand, have those deals been put on hold completely? Or is there some negotiation, though maybe moving at a much slower pace, but there is some negotiation going on in terms of the new orders across the key verticals?

Manoj Raghavan: Yes, so you have all scenarios, right. We have business as usual; we have customers asking us to do more; few of them in media and communication and healthcare space are accelerating their business. We have a few customers who are negotiating for better terms, and there have been a few deferments also. So, it is an evolving situation. So, you have a whole spectrum of customers that we have, depending on how each customer situation is right in this COVID scenario, their responses are different. So as I told you, at least the key customers that have been with us over the last five, six years and have contributed to the growth of this organization, we are very very careful and we want to ensure that they also get out of this situation. And we really see how we can support and be with them in this tough situation, so that when situation improves, we definitely grow with them. So that's the philosophy on which we are working.

Mayuri Yadav: Okay. Sir, are we looking at some deal conversions happening even as of now amidst all these crises? Also, are we seeing more conversions happening for us, maybe at a slower pace?

Manoj Raghavan: Of course, we are having deal conversions, and that's an ongoing thing, right. So, there is a set of customers who are continuing to increase their spend with us, even in the current scenario.

Mayuri Yadav: Okay. And one last bit, we have also mentioned off having a larger deal, winning longer-term and larger size deals and average deal sizes have also have been increasing for us. So, going by that, yes, there will be some deferment of execution, but whatever projects we have already started working on, the work on those projects is continuing. So even in Q1, it is not a zero-growth scenario that you are looking at, there will be some growth may be as such.

Manoj Raghavan: Absolutely. So, it is not a zero-sum scenario. So, another strategy that we have in terms of looking at multi-year deals, looking at longer significant deals, and so on. And because of over the last four to six quarters, we have been able to move the needle. The situation for us, even as we get into this COVID and post-COVID scenario, I would say it's not as bad as if we would have been with smaller projects and so on, as there would have been cancellations immediately. And every quarter we would have had to hunt for new logos, new business and so on. So, I would say you can safely say that a lot of that is in the past. So, we are happy to have a lot of long-term customers and multi-year deals, which gives us the confidence. It is tough, no doubt about it. But I think all the steps that we have taken has geared us to be a lot more confident about the future in spite of the crazy scenario we have now.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum. Please go ahead.

Madhu Babu: So, we work on some of the futuristic projects on EV as well as infotainment and all that. So, one of our peers has been saying that some of the projects have been on furloughs and would be started at a later date. So, how are we seeing within multiple sets of accounts that delay? And last time in Q1 we saw almost, let's say, 20% decline Q-o-Q in their transportation vertical in Q1. So, what is the quantum of weakness we are expecting in Q1?

Manoj Raghavan: It's an evolving situation and very difficult for me to give you a number now and then later say that we are better off or worse off. However, we have customers who continue to spend, and for whom we continue to execute projects. Few customers have gone into difficulty due to which we have some amount of deferment and some customers asking us relaxation for the quarter in terms of better credit terms and so on. So overall, from an organization's perspective, we are focused on how we can continue our quarter-on-quarter growth, especially with respect to the year-on-year growth. See, sitting right now in Q4, we know that Q1 we will see a dip, I am not able to quantify the dip. But our focus is to ensure that we stay above Q1, or in the best case, we reach our Q2 numbers. So that's the sort of modelling that we are doing right now. And the approach is to ensure that year-on-year in each quarter we show a growth, or at least ensure that we are around those numbers.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Services. Please go ahead.

Ankit Kanodia: In the press release, we have mentioned that we have added some key customers in the rail and off-road segment. So, can you explain a little bit more about what kind of orders we have got from there, and if you can highlight some of the customers?

Manoj Raghavan: We will not be able to highlight the customer names; these are new customers that we have acquired. Nitin, would you want to take this question?

Nitin Pai: Yes. So, Ankit, just to give you a sense of the kind of work that we execute. If you understand, trains in that sense mirror the automotive segment to some extent because there the locomotive or the traction related propulsion systems, which are like the engines. We also have rolling stock which is all the compartments and the passenger comfort and convenience systems, including communication, entertainment, seating, air conditioning and so on. So, there is actually an absolute mirror to what we do in the automotive segment. And the work that we execute also is of similar nature, working on electronics and software that go in to trains. Whether it is communication systems, whether it is passenger convenice or comfort or to support their propulsion systems and related. So, the work that we are carrying out is also of a similar nature.

Ankit Kanodia: And in case of the off-road segment, are we looking at OEMs there?

Nitin Pai: That’s correct. And we have won some OEMs too.

Ankit Kanodia: Okay. So, is there any long-term contract in these?

Nitin Pai: Typically, if you understand, in our industry, you go through a journey of building trust. So, it is not IT deals where they are saying, we are renewing an IT deal and therefore $20 million per deal is now up for renewal and who is the best bidder. So unfortunately, R&D and engineering services don't work that way. And in that sense, you have to build it as you expand your presence into the customer project by project. So, we are on that journey. And like I think Manoj has also said before, this a long-term game. So, to that extent, diversification will not happen in a quarter or two quarters and so on. I think you are building customers, adding customers, working on projects, expanding projects within these customers. So, I think we will build it step by step. The good thing is, we are on that journey and well on that journey.

Ankit Kanodia: And roughly how much would be this as a total percentage of the revenues? Will it be a significant portion, or a very minor portion, this rail, and off-road segment?

Nitin Pai: Correct. So, at this time, I think we have declared that percentage earlier. We talked of the fact that it is still in single digits when you look at the overall transportation business. But it is growing quickly enough. So, the idea is that that accelerates a little faster than the rest of the automotive business. And that not only makes up for some of the gaps, but it also builds the platform for the future, because the skills are adjacent.

Ankit Kanodia: So, this off-road customer is Indian or no?

Nitin Pai: No, it is outside India.

Moderator: Thank you. The next question is from the line of Henrietta Seligman from Somerset Capital. Please go ahead.

Henrietta Seligman: My first question is, how easy is it possible to redeploy your staff from the auto vertical into other verticals, given that there is no demand there at the moment? And then secondly, what is the utilization rate of your workforce looking like in April or at the end of March? Just to get a sense of what the impact could be if this situation continues for a prolonged period. Thank you.

Nitin Pai: So maybe I will take that, and I will rely on you to just check up the utilization percentage in the meanwhile. So very quickly, in terms of the ease of redeployment of skills from what may roll-off automotive and how we can put them into other segments, I think the easiest ones are into adjacencies, that is rail and off-road. Because just like I pointed out in the earlier question, the systems are similar; the technologies are similar, standards may vary a little bit. So, in that sense, the first roll-off actually happens in terms of reuse of skills into adjacencies, whether it's off-road or rail. And then beyond that, you go segment by segment. For example, people who have worked in the infotainment domain, again bring skill sets of handling multimedia or handling connectivity, of handling communication within the car, and that is fairly easily re-deployable into the media and communications business.

Similarly, some experience in control systems is relevant for medical devices because they also rely on mission-critical electronics, very similar to some of the systems that you have in automotive. In fact, if you think about it the other way around, a lot of the car companies that are jumping to build ventilators are primarily because of that systems' knowledge and that capability there. And that's when I would say it's not 100% redeployment that I would kick off right away, I would see it layer by layer, starting with adjacencies and then going domain by domain and then looking at where they fit into medical or into media and communications. And in general, I think we have done fairly well on utilization because utilization I think they have reached an all-time high, I believe it is about 73.5%. So, we have, I think, hit some reasonably high numbers in terms of utilization. And in the context of COVID and the fact that we are all operating from home almost for the last two weeks, I think that is quite amazing.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: We are having more than Rs. 600 crores cash balance, so any organic or inorganic plan on a concrete basis?

Manoj Raghavan: No, we keep evaluating, there cannot be anything concrete in M&As, right. We are very conscious that, and especially in this situation, in the COVID situation, cash is very important. We need to be very careful about how we handle our cash. So, having said that, yes, it's also an opportunity to really pick up certain companies at cheap valuations. So, our M&A team is definitely working on it. We do have two or three opportunities that we are evaluating. But it is still at an early stage. However, if we find something that is a good fit, only then we would move forward.

Ravi Naredi: Okay. And sir, in quarter four other expenses are very much less. So, how you control it?

Nitin Pai: Part of that expenses being less was also because a lot of the travel was put on hold. Because if you think about it, we put domestic and international travel on hold fairly early into February. And subsequently, in March, travel was anyway banned in most of the countries. So, in that sense, the direct business promotion expenses in terms of travel and so on so forth were greatly reduced.

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

Rajiv Rath: So, I would like to know, I am sure in the auto and transportation to be precise, isn't the part of the business where your employees have to be at the manufacturing facility? So how much is any part of the business in any of your verticals where your employees have to be in the manufacturing facility?

Manoj Raghavan: No, we don't need to be in a manufacturing facility. At best, we have to be in their R&D offices, not in a manufacturing facility.

Rajiv Rath: So, let's say, in a case where you have to be in the R&D offices, how is that business been impacted, how has that movement being impacted because of the COVID situation?

Manoj Raghavan: Yes. So, as Nitin explained in the previous question, we are not able to travel to our customers' sites in March. So, what is happening right now is, and even where we have engineers who are working at the customers' sites, after COVID have been working from their home, they have not been visiting, they have not been going to the office, because offices are all shut down. So, what is happening is, we are talking to customers and saying, "Hey, anyway, we are not coming to office but we are still able to deliver, whether in the US or Europe or wherever our engineers are, they are working from home. So instead of working from home, they can as well work from India, it is the same situation."

Rajiv Rath: There would be efficiency loss, right?

Manoj Raghavan: I wouldn't say efficiency loss. In fact, on a case by case basis, in some cases working from home, we have been able to show more efficiencies. Of course, there are certain cases where we need access to some specific tools, infrastructure and equipment and so on. In those cases, yes, there will be some efficiency loss.

Rajiv Rath: Okay. Also going back to your previous comments, you mentioned how this first half of this year is very similar to the first half of last year, you drew a comparison. So, I wanted to understand, I mean, if you look at year-on-year performance, there has been about a 10% reduction in profitability. So, moving ahead, I mean, how do you see the next year in terms of profitability? I know it's tough to predict, but also, I wanted to understand more and more in-depth how do you see similarities in last year versus this year if you compare the first quarter? Because there is a big difference fundamentally what is happening. Last year there was a general slowdown, this year there is a lockdown plus a continued general slowdown. So how is it similar? I am not understanding, could you explain that more?

Manoj Raghavan: No, last year when you look at it, we had a dip in our business from Q4 to Q1, we had a dip in our business because of one of our key customers going through difficulty. This year, generally, as we move from Q4 to Q1, we see a similar stress in not just one customer, but in the overall economy.

Rajiv Rath: So, the impact would be larger, but the pattern is similar, right?

Manoj Raghavan: Yes, but over the next three quarters, which is Q2 to Q4, we have done certain diversification, we have done certain things that brought back the growth rate, to where we are now in Q4. What we are saying is, because of all these things that we have done, though there will be an impact in the overall economy, as far as we are concerned, we believe that, yes, there will be an impact, but the impact will be on similar terms like what had happened to us in Q1 of last year. To that extent, what we are trying to say is that "Look, we are trying to see how sitting where we are right now, how can you project revenues?" And we are trying to see whether we can be better than Q1 of last year.

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

Mayank Babla: Sir, as you earlier said, that a significant portion of revenues in the medical and healthcare segment came from regulatory work for customers. Could you just throw some light and give us some explanation regarding this piece of business?

Manoj Raghavan: So, I think we have discussed this over multiple quarters. We are talking off regulatory standards in Europe; it's called MDR. And any company that has to sell devices in the European market has to be certified for this MDR regulatory standards. So, anything that they do, the way they design their products, all the way to packaging and so on has to be as per certain regulatory standards. And there are certain deadlines, 2021, 2022, 2023, and so on, there are different product categories that have to be certified within specific timeframes. And if they are not certified, they will not be able to sell those products in the European market. So many companies, because of the time crunch and so on, and because of the fact that they don't have large internal teams to be able to do that, have come to companies like us to be able to support them to get these activities done so that they can continue to sell the product in the respective markets.

Mayank Babla: Sure. And the last question, Nitin sir had said that within the broadcast and communications space, there was a surge in demand for broadband consumption, OTT consumption, and telco digitization. So, are these the only three sub-segments which are showing some sort of strength or there are others also?

Nitin Pai: There are others too. I was just picking up ones that are most obvious for everybody, because you will be directly able to relate to the fact that OTT has picked up in terms of demand, even otherwise and especially in this particular time, so has broadband connectivity. And we believe all these are trends that are here to stay. So, there are other service areas.

Manoj Raghavan: There are definitely others like, for example, telemedicine, or video conferencing solutions, the entire 5G requirements. So definitely there are more.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Congratulations, Manoj and team on good set of numbers in trying times, as well as wish all the family members of the Tata Elxsi are well. Now, when you say that, we will be reasonable, if with our customers during these times, in future it can really help us in getting more business. So, in that scenario, also do we see that we are working with some tier-1 as well as OEMs even in the automotive, transportation segment, and they also want to reduce the cost; therefore some of the work that they are doing in-house we may tomorrow get an opportunity? And the second question is on the vendor rationalization, where we can really participate?

Manoj Raghavan: Yes, definitely. In this situation, there could be customers who would look at vendor rationalization, and so on. And Tata Elxsi being a significant player in some of these technology areas, we stand to gain at the expense of other competition. So, yes, it is an evolving situation; all of these are open and available on the table for us.

Bharat Sheth: And the second question, whatever they are doing in-house, some of the things can also be given to Tata Elxsi?

Manoj Raghavan: Yes. See, it depends on regions, right. For example, in Japan, they would want to save their own employees' jobs; they would want to continue to do a lot more internally whenever you have a tough situation. In western countries, many of them are not so sympathetic to their employees; they would want to look at their overall costs, and so on. If there is another party who can do with similar productivity and similar quality expectations, at a cheaper rate, definitely they will go for that option.

Bharat Sheth: Okay. And one more question if you can permit, just one question. So, when we are talking about working from home, so tomorrow or maybe say after say 3 - 4 quarters, whenever things are in a much better way, so working from home, so offshore can really grow much better way. So offshore, which will be a very margin lucrative business, but in that just give some kind of a sense, because then the top-line also will shrink in that case, correct?

Manoj Raghavan: Sure, that will be.

Bharat Sheth: So, how that ratio, broader ratio if you can really share?

Manoj Raghavan: Yes. So, sitting right now, it's very difficult to tell you whether it will be 40:60, whether it will come down to 35:65, whether it will be 30:70.

Bharat Sheth: Not that, I mean, from say four-six quarters.

Manoj Raghavan: I would say that across the industry if this thing works out well, we might look at a 30:70 scenario.

Bharat Shah: And shrink in the top-line will be significant then?

Manoj Raghavan: No. So, obviously, we will look at more volume growth, right. When people realize that they can do more with lesser budget and so on, they are not going to say, "Hey, I am going to shrink my budgets." Maybe one quarter they might shrink the budget because they have certain budget issues, but subsequent quarters when the situation improves, they say that "Hey, we can do more with limited budget." So obviously, they will also increase their outsourcing.

Moderator: Thank you. The next question is from the line of Karan Uppal from Phillip Capital. Please go ahead.

Karan Uppal: Sir, just one question on the communications vertical. Since that is the only vertical which is less impacted than most of the other verticals, what is the outlook over there? And second is, in that context, 2020 was the year when the 5G CAPEX was supposed to start in a big way. So, where are we on that journey? Any colour would be very helpful.

Manoj Raghavan: The media and communication business will continue to grow for us; there is no doubt. We have some of the leading companies from the world as our customers in this particular space. I think somewhere we talked about our adjacencies and we talked about new media and where we are going to focus on, and that is something that we would really focus on, especially in the US market we are targeting that particular space. We hope that we will be able to help our customers in their overall digitization initiatives in this particular space. We would expect our media and communication to continue this steady growth that we are seeing in the next financial year also. Regarding 5G, yes, we are involved, especially from the complete virtualization space, software-defined networking. We are part of various industry forums where our technical people are participating and contributing. We are seeing opportunities in that space so we would continue our investments. And hopefully, in this financial year, we could see some good returns from that investment.

Karan Uppal: Sir, at the moment, are you seeing the spend on the 5G getting delayed by, let's say, a year or something? Or things are fine, pre-Corona?

Manoj Raghavan: It is still very early to say whether the spends will increase and so on. There are certain countries that have already committed in a big way to go into 5G. So, I suppose we won't see any slowdown in those particular countries. There are a few countries that have not decided and there, it will definitely slow down a little bit given the COVID scenario.

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

G. Vaidyanathan: Thank you for joining the con-call in these testing conditions. I would like to thank Manoj and Nitin for taking the questions. We hope to come out of the situation at the earliest. Stay safe and stay healthy. Thank you, all.

Manoj Raghavan: Thank you, everybody. Thank you.

Nitin Pai: Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Tata Elxsi, that concludes today's conference. Thank you for joining us.

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