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TATA SECURITIES



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Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi Limited Q2 FY2016 results Conference Call, hosted by Tata Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Subham Sinha of Tata Securities. Thank you and over to you Sir!

Subham Sinha: Good afternoon. This is Subham Sinha from Tata Securities Limited. I welcome everyone to the Q2 FY2016 conference call of Tata Elxsi. We have here with us Mr. Madhukar Dev, MD and CEO of the company, Mr. Manoj Raghavan, EVP and Head of the Embedded Product Design, Mr. Nitin Pai, who is SVP and Head of Marketing and Mr. G. Vaidyanathan, the Chief IR Officer. I now invite Mr. Madhukar Dev to take a call.

Madhukar Dev: Thank you. Good afternoon and welcome to the call. It has been another tidy quarter for the company, steady progress and all our initiatives which has reflected in a steady growth in our revenues and commensurate growth in our bottomline and the good thing is a lot of things that we set out in the earlier quarter are now beginning to bear fruit and there were no adverse surprises during the quarter. Everything went more or less as expected and Nitin, who is here with me will give you some of the highlights of the quarter and Manoj will talk about biggest business, which is the EPD business. Nitin Pai!

Nitin Pai: Thank you. Good afternoon. A few highlights from the last quarter for us across the businesses. I think the key highlight of course was what we have been doing in the broadcast space, so as you are aware there is a conference called IBC which typically is held in September which is a big focal point for the broadcast industry, it is held in Amsterdam every year. We participated in this show and that is also the occasion for us to showcase some of the latest solutions that we are now bringing into the broadcast and the operator industry, this includes our platform for Big Data Analytics called Panacea - that is the platform that is intended to help operators be able to identify problems, diagnose problems, and where possible even to allow the network to heal itself even before consumers register issues with their service or with their devices.

So, this is a platform that we announced and showcased at the event. It is also a place for us to highlight what we are doing on

the automation space, because again as you are aware as part of the overall digital transformation there is a big drive towards automation itself and when we look at our own experience and our own capabilities in the automation space as it relates to the broadcast industry we see two drivers. One is the workflow itself - in terms of how broadcast operators currently, develop and deploy services, so automating that workflow itself, also process of development in the deployment is one big area. The other is of course automation of steps within the workflow, including testing and so on. So, we had on show our latest solutions addressing both these areas and I am happy to say that there has been very good interest and one or two wins also in terms of adopting these solutions. So that was the update for the broadcast side.

We in fact followed that into another show called RDK Summit. So just to explain a little bit, RDK stands for Reference Design Kit and that is a software promoted by consortium lead by Comcast, Time Warner and Liberty Global - among the three biggest operators in the world. The idea here is of course to provide other operators in the industry an alternative to the use of proprietary middleware, and provide fantastic features for operators to deploy their video services. So we have been a partner to this consortium and we have been looking at how we can take this middleware to other markets and other operators, acting as system integrators. So that was the very good show for us too. We continue to be engaged on that side. But interestingly what we are also seeing is an evolving trend for Android. While Android has been extremely popular with Telcos as far as mobile systems are concerned. We are starting to see Android becoming interesting from a TV perspective with what Google has launched as Android TV.

We think this trend will accelerate going forward in the next few quarters or operators will mature to go Android especially from the Telco side. So, we saw this coming early so about a year back we had announced the availability of hybrid android set top box from our side. Please note that this is not a product from our side. It is an offering that helps customers accelerate what they are trying to do with Android and how they wanted to deploy services based on Android and I believe that is another trend that will stand as in good stead as we go forward. So that as far as the RDK Summit goes.

Coming to ID or Industrial Design, which is division of ours, but equally very important part of what we do. We have been seeing ongoing traction for what we offer as experience design. So as you may be aware, we have done very large projects including the design of the experience for the Mumbai International Airport, Terminal T2 as we call it that is few

quarters back. Last quarter we won through a tendering process the contract for experience design for the Kochi metro and we are seeing that accelerate especially not just with projects and infrastructure, but equally with corporate, so we are seeing trends in terms of other companies, other corporates wanting to enhance the experience what we are doing with customers or even visitors and we have won a few contracts and experience designed to along those lines. So that is a quick update from both the EPD as well as ID side in terms of trends as well as some of the new directions as we are looking at.

Madhukar Dev: Manoj would you like to highlight.

Manoj Raghavan: Good afternoon, As Madhukar said, we have had pretty steady quarter as far as EPD is concerned. The main growth driver for us an EPD is primarily the transportation business and the broadcast business. The transportation business, we have seen good spread in terms of the type of customers that we are engaging in as well as good mix in the geographies, so we are not dependent on any one particular geography or set up in the last customers. We have diversified our revenue mix and overall we have grown that particular business significantly. Good traction in terms of the advanced infotainment, telematics as well as EDAs and new initiatives like collected car and autonomous car. So we continued to see good traction both from our OEM customers and your own customers in this space. Broadcast business, Nitin has covered in detail and we continue to see growth with the operator space and interestingly we are increasing to see good traction in the broadcast space with our OTT offerings. Communication is other leg that we had and we continued to see good traction in IoT as well as in SDN and virtualization space. In fact, in IBC we were also given a slot on IoT where one of our experts spoke about the relevance of IoT in the broadcast space. Those are some of the key highlights from EPD.

Madhukar Dev: So that more or less sums up the quarter for us. We are happy to attend to answer any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Congratulations on a very good set of numbers. Firstly, if could you just throw some light in terms of division wise growth if possible so, so which was the fastest growing segment for us say between autos and broadcast in the quarter, some light on that?

- Madhukar Dev:** If you see our software development and services segment that is where we had the smart growth of about 10% as compared to the previous quarter and about 30% as compared to the same quarter last year and this was sort of equal in percentage between ID and EPD and within EPD the main drivers of growth is auto as Manoj said and broadcast, it is a fundamentally growth from the three segments.
- Atul Mehra:** Right and within ID for instance growth now also starting to come by from UK where we have opened the studio or is it even now continues to be largely domestic in nature?
- Madhukar Dev:** It is sort of balanced, studio is full to capacity now and we have enough us going on there. We may expand in the next couple of quarters and we are also looking at doing some work in Dubai where we have partnership with the brand consulting company and getting some assignment from there too. India continues to be our main focus.
- Atul Mehra:** Right and in terms of utilization rate during the quarter what would that have been and consequently in terms of margin is a 23% comfortable margin now going forward or do we have further levers in terms of margin improvement?
- Madhukar Dev:** Utilization was close to 75% still below 75%, so there is a little bit of headroom not too much and the margin as I mentioned earlier quarters, it is something that we should really look at as a trend over a bunch of quarters and not individual quarters, so I do not think it will be very different in the next few quarters, it does vary plus, minus 10% percentage points (not basis points). We are open to see that kind of change.
- Atul Mehra:** You spoke about in your opening remarks of some of the IoT developments that you all have been doing and where you are going to see good traction. So if you can just give us some examples of which are the areas specifically where you are seeing action in terms of IoT and some of perhaps some of the projects that without naming the clients if you can just broadly talk about?
- Nitin Pai:** Atul, if we look at IoT of course there are as many the industries as there are in the world that can actually benefit from IoT including banking and finance and so on interestingly. So when you look at from our perspective we have looked at few key areas that we can work on. One is the smart home itself because that is something that we have already been engaged with, because the moment we start working with operators and broadcast world and they look at their boxes in the home of the customer becoming

more than just box for video. It is a natural extension to seeing how the same box can now become a hub for the smart home where it allows you for example connect digital security cameras, motion sensors and so on and therefore start by providing security services, but then expand to more and more access to smart home, so that is something that we have been doing for more than a year now already. We have been working with Appliances Companies; I cannot names of some of these, but these are leading names of the world. We are working with appliance companies who are looking at their current appliances becoming smarter, so whether it is smart switches, smart lighting or just smart coffee makers and so on. So that is the smart home segment.

The second big one for us an IoT is the whole aspect of smart transportation as it has multiple implications. There is one implication of telematics system where you have every car technically become an IoT enabled vehicle, but we see more potential from the fleet management perspective where fleet owners now have greater visibility into where the fleet is, how it is performing what kind of metric is it driving and so on and so forth. So, fleet management itself is a big focus for us. The other two segments which we have see fairly good opportunity in healthcare where again we have already engaged with customers in being able to transform what is typically e-healthcare what I call as call centers which provides for emergency at customer home and if you were in trouble you can just press that button and you get to reach a call center where you can talk and report your problem. So we are seeing such companies transform themselves from simple services like that to far more sophisticated services with sensors that can tell you where you have to detect fall or to detect motion and so on and so forth equally on the back end. The same data can now be used to drive safety and sophisticated analytics prediction of what may happen in the next and so on. So the third for us is healthcare and the last is industrial automation. I think, as much as we see it on the B2C sides, B2B will be another place of adoption especially in industrial context. So that is the fourth area where we are looking at engaging. So I am not sure if Manoj mentioned this, but we have of course developed our own platform for IoT which we call Tether, so there is something that we again announced in a few shows last quarter and we are hoping that beyond services and pure services revenues there will also be some element of platform revenues coming in.

Atul Mehra:

In terms of medical as a segment, over the past few quarters talking about generally because the medical is generally long gestation in terms of breaking into clients, so are we now entering that in terms of inflection point in medical as a segment for us in the EPD?

- Madhukar Dev:** Not yet still in the early stages. I personally think it has been take another three to four quarters before we start seeing significant growth in traction.
- Atul Mehra:** Generally for second half and outlook going forward, so we are confident of this strong growth rate being maintained it is 25% plus which has been runrate so far?
- Madhukar Dev:** We never provide guidance and we have our own internal plans and at the moment we do not see any red flags, we do not see any cause for a long.
- Atul Mehra:** That is it from my side and wishes you all the best.
- Moderator:** Thank you. The next question is from the line of Shrinath Krisnan from Sundaram Mutual Fund. Please go ahead.
- Shrinath Krisnan:** Thank you Sir. Congrats on a strong performance. In power train and EDA space, what is the sort of work that you do Sir?
- Nitin Pai:** This is Nitin here. You asked for what can work we do in EDA and power train. So let me take up EDA first. So if you look at advanced driver assistance there are three key elements to the system here. The first part is really about what kind of sensors you have on board that can detect changes in the environment. For example, it can be cameras, it can be ultrasound sensors, it can be radar, ladar and so on and so forth. So there is a whole element of sensor in there. There is a second element which is what you do with the signal that has been captured and how do you process it and there is a third element which is what you do with now the processed data which is you just present it to the driver as an alert. You actually let the car itself take action, do you provide for semiautonomous mode where the car takes certain actions and the driver is expected to do something more. So I think these are the three fundamental elements and building blocks to ADAS and we are doing work in each of these three. So if you look at production cars, we are already working on production system which are to do with surround view cameras, rearview cameras, parking assist and so on. If you look at a little horizon further we are also working on advanced development, which is some of the steps towards driverless cars. So really that is what we are doing on the ADAS side, so predominantly its services, but services that relates to signal processing to integration of sensors to actually human machine interface in terms of how do you now present the data, so that is ADAS. As far as power train is concerned, there are two elements here. One is in terms of the increased of adoption of electric as well as hybrid vehicles, so if we think about it.

We do not do very much in core engine development. For example, we are not engine designers to be frank but what we are extremely good at software and software algorithms that can now control what the engine of the future will look like. So, as you look at electric and hybrid vehicles there is going to be sophisticated software they are going to be sitting on top of conventional power train that allows the vehicle to take decisions on when should the gasoline engine come on, when should they go electric, what is economy mode, what is power mode and so on and there is a fair amount of software development, coupled with appropriate testing, validation and integration that is really what we are doing in power train.

Shrinath Krisnan: In ADAS do you deal with people like Mobili or would you be working with OEMs, how do will be there level of interaction?

Nitin Pai: In general, because we are service oriented, large part of our engagement either with OEMs where you may have advanced development going on or with suppliers who are actually delivering and deploying the systems on behalf of the OEMs. Mobili if we really look at it is really a company, which is building and providing software algorithms which are well proven and then making it available to other companies. So far as that is concerned, Mobili has become a part of ecosystem, so if there is for example, Tier 1 or OEM who would like to license and adopt the Mobili based algorithm it becomes an integration service for us. But equally you have to remember that OEM and Tier 1 as much would like to develop their own.

Shrinath Krisnan: Thanks a lot.

Moderator: Thank you. The next question is from the line of Naveen Botra from Argh Financial Limited. Please go ahead.

Naveen Botra: Congratulation to Tata Elxsi for the excellent set of numbers. My question is regarding the employee benefit expenses. I just wanted to know how much increasing due to headcount increase and how much increasing due to the increment side Sir?

Madhukar Dev: Out of the increase that you see 85% is due to the salary revision that was affected on July 1, and the rest is due to headcount increase or change in onsite offshore mix.

Naveen Botra: So this is compared to Q-on-Q or YOY?

Madhukar Dev: Compared to Q1.

- Naveen Botra:** Compared to Q1?
- Madhukar Dev:** Yes.
- Naveen Botra:** What is the current headcount, if you can tell us?
- Madhukar Dev:** It is about 4500.
- Naveen Botra:** My second question is regarding this Volkswagen emission. How it is going to affect the connected cars and autonomous cars division in the EPD division Sir? Is there any affect on us also?
- Madhukar Dev:** Not a negative affect on us for sure, because we have nothing to do with but I am hoping it will accelerate development schedule the number of car companies in adoption of more electric capability, more hybrid, more electrics and therefore bigger opportunity for us.
- Naveen Botra:** So, it will be beneficial to our company going forward?
- Madhukar Dev:** That is our hope but let us see how things out. It may all be forgotten in two weeks time and business may be back to normal, many different cars being sold in India than anywhere else.
- Naveen Botra:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Sagar Lele from Motilal Oswal. Please go ahead.
- Sagar Lele:** In terms of additional electronics being used in cars, we must be at tipping point in the industry where probably at the addition of other ECU would no longer be sustainable in terms of cost or in terms of architecture complexity. So how is the industry changing in terms of I mean the demand changing in terms of ECU consolidation or the delivery changing in the same lines?
- Madhukar Dev:** Probably what is happening and we see the thing going forward is in auxiliary we see there is a deconsolidation, but cutting edge new technologies coming into the car. I do not think people who worry too much about the increased cost, because the increased benefit would far outweigh that, so to give an example, seat control module if it has four ECUs try to fold within two and eventually into one, but when you talk off EDA, any safety related thing, I dot think there is a much concern and having the cost of another ECUs delivering a higher service to be driver or the taxi man.

- Sagar Lele:** Fair enough and in terms of competition, who would be the common players will be witnessing and probably EDA or power train or IoT or probably if you could give some light on the competitor intensity in these three areas?
- Madhukar Dev:** KPIT from India is one major competitor in all areas of auto electronics. We do have offerings from some of the other companies including Wipro, but internationally our main competitors are companies which are a part of an OEM ecosystem who are virtually captive for one OEM and keep doing other work for them and in each OEM cluster, we have competitors like that. So, our challenge is to break into the ecosystem and get into an engagement and new relationship with that OEM, so that is really the competitive scenario.
- Sagar Lele:** But would it also be fair to say that in these newer areas or emerging technologies, you kind of player level playing field with captives or the established players that are existing internationally?
- Madhukar Dev:** Yes, I think so, I do not think we are behind the Rest of the World we are pretty much on par, but dislodging an incumbent is always a little harder to do and you have to have very compelling proposition, so that is what our aim is to.
- Sagar Lele:** Thanks.
- Moderator:** Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.
- Aditya Ahluwalia:** I have not been tracking the company very long, I just wanted to understand that on the revenue growth, is this sustainable very strong traction that we have seen, is it sustainable in the quarter to come, the sequential improvement like I have seen for the last six quarters now we have been sequentially growing revenues quite well, similar traction can we assume going ahead?
- Madhukar Dev:** I wish I could answer that. We really cannot assume what the future will be, but what I like to share with you is that what we are seeing is an outcome of very deliberate steps that the company took in the preceding period and we continue to take what we think the right steps to sustain this kind of growth beyond it is impossible to give an assurance for what we do like in the future.
- Aditya Ahluwalia:** But these revenues come from long term contracts, I would assume like for IT companies in general?

- Madhukar Dev:** An IT companies all, in fact it is very unusual for us to see contract project in 12 months, we are in project-oriented business and that is why in this results lot more uncertainties than conventional IT companies.
- Aditya Ahluwalia:** But at any point in time, I am assuming you would have visibilities for the next three months of revenues or at least six months of revenues but not more than that?
- Madhukar Dev:** Yes, somewhere like that.
- Aditya Ahluwalia:** Is it fair to assume at about 80% of our business in exports or what is that number?
- Madhukar Dev:** It is less than 80%.
- Aditya Ahluwalia:** The recent currency depreciation, is that playing into the margin as well or how are the contracts structured in general?
- Madhukar Dev:** Contracts are normally structured in the currency of where the customer is based. So, predominantly the US dollar, Euro, pound and occasionally Japanese yen and so on we has not been very significant currency change between the last quarter and the current one is anything, the pound fell a bit, Euro fell a bit, but the dollar sort of compensated for that. The forex play right now is not creating much of an impact.
- Aditya Ahluwalia:** If I am to understand in general currency depreciation would be a direct flow though as competitors on global or is it more Indian competition that we faced or let be passed on in time. You can just help me to understand?
- Madhukar Dev:** It is something like 45% of our expenditure in foreign currency, so if the rupee falls per it does not necessarily be all good news. Our expense also goes up.
- Aditya Ahluwalia:** This is the foreign cost we had you mean?
- Madhukar Dev:** We have presence internationally and we source to this and equipment and so on everything from overseas. There is a very direct link to the overseas currency to be extent of about 45% of our total expense.
- Aditya Ahluwalia:** You are saying that currency depreciation does not have material impact or it will have an impact to the extent of 80 minus 45?
- Madhukar Dev:** It will have an impact, but this is not sort of 100% benefit.

- Aditya Ahluwalia:** There is no pricing pressure on contracts, because of currency depreciation right. I understand costs will also go up, but as such pricing is not impacted?
- Madhukar Dev:** There is constant pricing pressure from the large customers, but more to do with the size of the engagement as the engagement becomes larger the customer start demanding concession and so on and we are fairly transparent and share actual costing data and wherever it is appropriate we do give them benefit and where is not the customer gives us a benefit. So it is not the global trends of pricing pressure.
- Aditya Ahluwalia:** I see that personal expenses are more than 50% of your sales? Can you just give me some guidance on the wage inflation that you are expecting in FY2016-2017?
- Madhukar Dev:** Our salary revisions are typically once in a year and they are effected from July 1st and these have been factored in the current quarter. There is unlikely to be a wage revision between now and next July and there may be change in on site offshore makes an area change in currency etc., and there would be an increase in headcount which will push up our employee benefit expenses.
- Aditya Ahluwalia:** How much was the wage inflation?
- Madhukar Dev:** If you see there has been about 11% increase in manpower expense between Q1 and Q2 about 85% of this was related to salary divisions.
- Aditya Ahluwalia:** Thank you so much. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Abdul Karim from HDFC Securities. Please go ahead.
- Abdul Karim:** Thanks for taking my question and congrats for a good set of number. I just wanted to know how much of your revenue comes from your group companies?
- Madhukar Dev:** Our revenue from group companies as in other Tata companies continues to be small though we are seeing marginal improvement, but however, between 2% and 3% of our total revenue.
- Abdul Karim:** On employee front, what was the attrition in this quarter?

- Madhukar Dev:** Attrition rate, the July-September quarter is the one that sees the higher attrition for us and it was close to about 16% to 17% in the quarter that just ended.
- Abdul Karim:** I think in July quarter that was 17%?
- Madhukar Dev:** Sorry.
- Abdul Karim:** In first quarter it was 17%?
- Madhukar Dev:** Yes, so second quarter was also similar 16%, 17%.
- Abdul Karim:** Any guidance you are hiring for FY2017?
- Madhukar Dev:** I think guidance for FY2016. We hire on a need basis as far as laterals are concerned and we hire fresh graduates with the intentional training and getting them ready to be deployed in time period training from six months to a year. So, we have a plan for the hiring fresh graduates and we are on course for that and laterals would be hired depending on the requirement of the business as it comes.
- Abdul Karim:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.
- Atul Mehra:** Thanks for the followup. Sir, I just wanted some sense in terms of what would be the constant currency growth during the quarter?
- Madhukar Dev:** If you look at our revenue growth of about 8% over the last quarter, 94%, 95% of business actual volume growth and the rest 5% currency.
- Atul Mehra:** Right and in terms of pure volume growth and pricing or mix change you anything of those sorts that we would have taken during the quarter or as such what I mean is pricing?
- Madhukar Dev:** No price change.
- Atul Mehra:** No price change in the quarter. What will be the onsite offshore mix right now for us?
- Madhukar Dev:** 30% onsite, 70% offshore.

- Atul Mehra:** In terms of markets that we are looking at in terms of growth, so is growth specifically coming in from particular pockets or is it more to do with...?
- Madhukar Dev:** Growth has actually come from all the markets that we address, of course it is not all equal, but this is one quarter where every territory has shown fairly respectable increase, so it is evenly distributed.
- Atul Mehra:** Right and in terms of hedging as of now, so what would be the policy that we are doing right now?
- Madhukar Dev:** We have a policy and we buy only options and we buy options for projected revenues which are not covered by foreign exchange expensive and we continued to be keep buying those.
- Atul Mehra:** What is the tenure that we are covering?
- Madhukar Dev:** It ranges from one quarter to four quarters basically.
- Atul Mehra:** That is it from my side. Thanks Sir.
- Moderator:** Thank you. The next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.
- Niket Shah:** Thanks so much for the opportunity. Sir, I just wanted to understand how has been the geographical mix for us and which would be the fastest growing market as of now for us?
- Madhukar Dev:** Just mentioned it seems more or less similar growth in all the geographies and the revenue distribution would be about 45 Europe, 35 America and rest India and Asia.
- Niket Shah:** Which will be the fastest growing Sir?
- Madhukar Dev:** Right now, some quarter we see marginal higher growth in one market and the next quarter we see the other way around, so it is impossible to say that high growth market is say Asia.
- Niket Shah:** I just wanted to understand from your client addition perspective, how much would be the contribution from clients that you added in the last two years or last one year is that good number to really watch out for which gives you sense that not only the existing clients are growing, but the newer clients also kind of really chipping in?

- Madhukar Dev:** Yes, if you were to say over one year, the clients added in more than 12 months say 12 to 24 months ago and what is the revenue contribution about 15% to 20% of our current revenue would have come from new clients that became our clients between 12 and 24 months ago.
- Niket Shah:** One final question would be on JLR how much that percentage is it still close to 20%?
- Madhukar Dev:** It is around that.
- Niket Shah:** Would it be possible for you to give us some brief sense how much was this number may be three or four years back from JLR?
- Madhukar Dev:** I would not know off hand, but as far as I know there has not been any dramatic change in the last three years.
- Niket Shah:** That is all from my side and best of luck for the next quarter.
- Moderator:** Thank you. The next question is from the line of Mitesh Kamdar from Aditya Equity Investments. Please go ahead.
- Mitesh Kamdar:** My question is on JLR only. What is the trend of the business from JLR we are witnessing right now?
- Madhukar Dev:** We are not seeing anything different from few quarters ago.
- Mitesh Kamdar:** Is it going at the company average or below or above?
- Madhukar Dev:** When you say share of JLR revenue out of our total is more or less the same over the last four quarters, so we have not seen any dramatic change, some quarters it drops by percentage point or two on some quarters, because by and large stable no major change.
- Mitesh Kamdar:** Thank you.
- Moderator:** Thank you. The next question is from the line of P Sachdev from P&Y. Please go ahead.
- P Sachdev:** Couple of quarters back you mentioned about the Japanese out of market opening up in the opportunity, are you seeing any traction there?
- Madhukar Dev:** We are seeing traction there and may be I will ask Manoj to talk off certain new engagement, so you had with some Japanese tier 1 some of them are from within Japan, come from their operational outside Japan.

- Manoj Raghavan:** After number of quarters we are seeing a resurgence of business in the automotive segment in Japan primarily because many of these Japanese companies also supply in the worldwide market and definitely now that they have won larger orders from OEMs out of Japan and they are looking for help from companies like us to support them in delivering solutions to these OEMs based in US and Europe. So, definitely at this point of time we have two significant opportunities. We are in discussion with couple of more opportunities and also our existing tier 1 customer business, which has been sort of constant over the last four quarters, probably in the next two quarters we see a growth in that business now, probably in the next two quarters we see a growth in that business. So overall yes from automotive segment in Japan we definitely see growth.
- P Sachdev:** Secondly on the medical equipment, do you know you are mentioning about the opportunities there, can you assume it as big as the auto and broadcast or how do we give the opportunity?
- Madhukar Dev:** We think it has the potential to be as big as auto and broadcast. We got to figure out the path to high growth and various subcategories within medical and we have tried to be present in most of them, we probably will have to decide over the next two quarters or something to specialize in one or two areas whether it is diagnostic, therapeutic or monitoring and become if occupied leading position they are likely to have done in broadcast.
- P Sachdev:** Currently, what would be the proportion on the medical equipment as a percentage of EPD revenues?
- Madhukar Dev:** Right now very small, insignificant.
- P Sachdev:** Thanks.
- Moderator:** Thank you. The next question is from the line of Naveen Botra from Argh Financial Limited. Please go ahead.
- Naveen Botra:** My question is to Mr. Nitin regarding the visual computing labs. We are not saving well since the last three, four quarters in the VCL division. So how we see the division going forward Sir?
- Nitin Pai:** What we have been doing is while we do see fairly cyclical trend as far as the entertainment business goes is obviously unlike the conventional manufacturing industry they do not have consistent flow of projects, so we are trying to see is how we can expand their focus into visualization as well as content development for the corporate industry. To explain for

example, automotive industry do require a lot of digital content that is developed for visualization internally for visualizing new models for showing at a consumer clinics or for taking it to auto shows so on. The same is true for many of the segments, so we have tried to do is to try and see how we can one, sell these kind of services and two actually win projects and engage with customers. I am very happy to say that we are seeing very good progress on that front, so with really in some sense we are trying to see how we still can change a little bit in terms of focus to markets that are a little more predictable and sustainable.

Naveen Botra: In the virtual reality we are seeing anything new or is it going to be two, three years down the line in the VCL?

Nitin Pai: Virtual reality as such VCL does not do much simply because as the word indicates virtual reality has to be real simulation rather than animated or pre-developed content, so virtual reality is something that we sell solutions from our system integration business and that continues to see customers that we win from the Indian geography. As far as VCL is concerned, whatever we do is high end 3D graphics and animation, so that is completely different area.

Naveen Botra: Another question is regarding the revenue side. 100% of revenue comes from services or there is some product by frequency if you can do or 100% is coming from the services side Sir?

Nitin Pai: We have two segments. One is the system integration segment and the other software development. The software development and services is the services and the system integration is predominantly equipment supply and with a little bit of maintenance services.

Naveen Botra: Product side exclusively we are not doing anything in the system integration we purchase and install in the customer's premises?

Nitin Pai: Correct.

Naveen Botra: As we are not doing anything new products and all these things.

Nitin Pai: That portfolio keep changing and we keep dropping, some offering and adding new products, new peripherals and so on that is fairly dynamic it is not static.

Naveen Botra: We are booking revenue generation services right only.

- Madhukar Dev:** No, in system integration the revenue that we are showing is the value include hardware and software resale as well as service related to that.
- Naveen Botra:** Our forecast regarding the IPR and licensing face the scenario remains the same in the quarter one you said that IPR or licensing face you can look forward in 9 to 12 months, so the timeline remains the same Sir?
- Madhukar Dev:** Yes, right now there is no change. We think in 9 to 12 months we will be ready to get some revenue from our IPR.
- Naveen Botra:** Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen, as there is no further question, I would now like to hand the floor. Over to Subham Sinha for closing comments. Thank you and over to you Sir!
- Subham Sinha:** On behalf of Tata Securities this concludes the concall. I thank everyone for attending the call. Have a good day.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Tata Securities that concludes this conference call. Thank you all for joining. You may now disconnect your lines.