



TATA Elxsi Limited Q1 FY2017

Conference Call Transcript

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TRANSCRIPT OF TATA ELXSI INVESTORS MEET – 27TH JULY, 2016

PARTICIPANT:

Hi this is Mohit Jain from Anand Rathi. Just wanted to check if there is any change in your growth outlook for this particular year. And are there any changes in the deal size over the last 6 months or so.

MANAGEMENT:

One, we do not issue any guidance and that is more for our own sanity than for anything else. The day we reconcile to the fact that the growth outlook is inferior to what we started the year then we are sure to end up that way. As far as our vision goes nothing has changed. We try our best to stick to our plans and find ways to get there.

PARTICIPANT:

So what kind of changes are you seeing in terms of deal pipelines?

MANAGEMENT:

In terms of deal pipelines we are not seeing any significant change.

PARTICIPANT:

My name is Rohan. I am an individual investor. We have been reading a lot about Google Android and Apple's Carplay. Now if these become common platforms for cars as it has happened in the mobile phones, what implications does it have for Tata Elxsi?

MANAGEMENT:

Certainly I have answered that. So I will ask somebody else to answer that. Would you want to?

MANAGEMENT:

So couple of things first of all we are looking for opportunity. So we are already working with customers to help integrate an Android Auto or an Apple Carplay. Please note also that an Android Auto is nothing more than an ability for your display on infotainment system to mirror what is on your mobile phone. And the connectivity of your mobile phone to connect to the connectivity of your car. So it is just using the 3G chip or 4G chip, and all it is doing is map whatever you are seeing your mobile phone and that is being transferred to the infotainment system. It is as simple as that. It is just a way to mirror. That is not as threatening as what we believe will come

much later. For example, there is a play from Google to release a Play for infotainment system to come. Nothing to do with the mobile. It will be a dedicated operating system for cars. That is much more disruptive. For us it will obviously be an opportunity because anything that comes up, customers are going to need capability to be able to support and build on it. Now what does that mean for automotive car makers in terms of should they adopt Android Auto what all Android Apple comes up with next, I think it's a question for which there are still no answers as yet. There will be a set of customers who will not want to. So we will have more work with them because they will want to compete. There will be a set of customers who will want to and hopefully we will work with them too.

PARTICIPANT:

And is this disruption only affecting the infotainment piece of our business or does it affect the entire auto segment?

MANAGEMENT:

At this time these are predominantly meant only for infotainment because if you remember my comment on operating systems, Android and iOS cannot be done real time. So you will never use them for anything except infotainment.

PARTICIPANT:

I am Girish. Sir you have taken 25 years plus to cross 1000 crs. What do you think went wrong in these 25 years? And I heard I think in the last call you had mentioned, I think results call, Q4 results call, that you were targeting about a billion dollars by 2022. So what do you think are a good change for you to get that number?

MANAGEMENT:

First we have internal targets. We are not really telling anyone that in 2022 we will become a billion dollar company. We don't do that. We have targets for growth. Growth from existing businesses and we will look at other businesses. You mentioned the last 25 years, I am not sure if you are aware that this company was never meant to be a services company. This company was setup to manufacture super computers in India in 1989. Tata Industries received a further license from the Government of India to do so after 8 years of waiting. And this campus was originally designed to be a factory. But everything changed with Manmohan Singh's second budget that computer manufacture in India became commercially unviable.

And a lot of the investment that we had made in manufacturing was wasted. And we had to find a new business for ourselves and we found that business based on earlier sales of computers. It is from those origins that we created the service lines that exist today. And we are constantly adding new capabilities and shedding old service lines. So we are constantly evolving business. What we will be in a few years' time, all that I can say is we will not be a commodity of a boring predictable business at all.

PARTICIPANT:

I am Niket Shah from Motilal Oswal. Thanks for that presentation, it was fairly elaborate. I have a question which is largely on the broadcast side of the business. So if you look at the transformation of auto business model, our revenue growth has been more structured if you look in the period of last 4-5 years. In broadcast it has been slightly more volatile because the set top box guy does not need to grow as rapidly as the auto guy needs to. To media owners, do you think that the growth rates within the broadcast part of the business will become more structured? Or will it actually cannibalize the sales in your auto or set top box part of the business?

MANAGEMENT:

I will just make a comment before I ask Manoj to answer your question. The media business broadcast has two components. One is the electronics equipment makers who are making the set top box. And the rest of it is the operator who is part of the media business. The media business inherently is lot less predictable than the auto business. So with that I will ask Manoj to answer that.

MANAGEMENT:

Yes, so we are seeing a change in the broad base itself. So the traditional set top box is now evolving. They are becoming gateways, they are becoming convergence devices in the home and so on. So as you rightly said our set top box business would get affected to an extent. and as we speak today we see no growth happening in those areas. Of course we have been focusing on the MSO business over the last few years. That is equivalent to what we call OEMs in the transportation business. So they have the maximum budgets and they have the capability to spend maximum there. So if you ask me about 5years ago, 6 years ago, we were focused more on set top box guys. Currently a lot of our business, majority of our business in the broadcast space comes from those. So to that extent I would take precautions that whatever changes are happening in the set top box area would not affect us that much. MSO business will continue to grow and at the same time there are new opportunities in OTT. So that broadcaster space actually opens up a new market for us. A new opportunity for us. So that doesn't mean that it will be at the expense of MSO business or the set top box business. To that extent if you look at the MSO, an operator, he is forced to give OTT services because every other competition is giving. If he doesn't give that service, the consumer will go out to other operators right? So I would say that we are well positioned in a good place. I don't see a cause for concern at this point in time.

PARTICIPANT:

I am from HDE Master. I want to know if you provide the breakup for EPD and the industrial design? As in how much of the EPD comes from auto and how much comes from industry?

MANAGEMENT:

We don't give that out. It is an internal metrics that we measure. But EPD is about 80% of the company's revenue, ID and visualization is about 15 and everything else is about 5 %.

PARTICIPANT:

Do you provide break up for tier one?

MANAGEMENT:

No we don't.

PARTICIPANT:

The broadcasters and device manufacturers?

MANAGEMENT:

We don't call out numbers sub. Segment wise

MANAGEMENT:

We report only two segments- Software Development Services (SDS) and Systems Integrations Services (SIS). In fact we have started to break up design and EPD and SI only more recently within SDS.

PARTICIPANT:

I am from Peers Mutual Funds. My question is that for three segments which you report, how do you get paid for each of them? If you can help me understand that. How do you get paid? So for example design bit I could understand that you get paid on a time and effort basis. For let's say JLR how do you get paid?

MANAGEMENT:

We have several models of engagement. The dominant ones are effort linked or outcome linked. And effort means time and material that you have spent. And outcome is the fixed bid project which tells you that you deliver this and I will pay you this much. So we have both models. We are also trying hybrids of these and some deferred revenue products. We are trying those. But the dominant ones are time & material and fixed bid.

PARTICIPANT:

So any relation with the sales of product itself?

MANAGEMENT:

By and large none. There are very few engagements where there is a linkage to the products.

PARTICIPANT:

That is an industry phenomenon so none of the clients, not even your competitors would pay.

MANAGEMENT:

I wouldn't know of that.

PARTICIPANT:

Alright thank you.

PARTICIPANT:

Jayesh Shah from Ojha Group. Am I right in understanding that you don't have much repeat business given the nature of the engagement and the ticket size for each project on order is relatively low? Does that mean you don't have good visibility internally though you don't give guidance?

MANAGEMENT:

Yes. We don't really have visibility and I cannot tell you like our IT brothers that in March 2017 our revenue will be this, up to 2 decimal points. We don't have that kind of visibility or order book.

MANAGEMENT:

We have visibility for 45-50 days. We have visibility not more than that. That period stands right now, 45-50 days. Not more than that.

MANAGEMENT:

Yes, so when you say repeatability and so we do have customers who continue to give us projects. But if I understand your question whether like the large IT companies you have order books for multi-year, 5 year contracts typically. So those are not the contracts that we would have. A typical contract size, a typical contract duration is 6 months to 9 months, maybe 12 months, but, now, that doesn't mean the customer evaporates right? We do a good job and there are other avenues that the customer comes up with, whether enhancements to the work that we have or new product development that he is planning. So a lot of it is also dependent on our customer situation. His budget, his situation in the market place, how much of R&D budget he is able to procure. So if a product is successful and he has done well in the market then it is likely that he will continue to engage and we grow that relationship. But we don't have that 36 months, purchase order or one contract which is signed and we have to deliver on a periodic basis for the next 2-3 years. No.

PARTICIPANT:

So does the metric of top 10 customers, 20 customers as a part of your overall revenue, do they make sense at all?

MANAGEMENT:

Yes, they do for us to make the own internal plan etc. they do. And despite the fact that the revenues are all project based, we do get an excess of 90% of our revenues in any period from the existing customers. Repeat customers are very high.

PARTICIPANT:

Mr. Dev I wanted to ask you one thing which is converse of the question asked in the beginning which is about cloud. How much part of your revenue do you actually get worried about that cloud or something of that kind and you need to keep scampering in the value chain?

MANAGEMENT:

Actually if you look at our business we thrive in areas which are rapidly changing. And therefore we don't worry about the change of something commoditize. That is happening all the time. Something what we were doing 5 years ago as a breakthrough technology is today being seen as built in devices that we buy. So that is not the main worry. The more the change the better the operation will be for us. Our challenge is to spot the opportunity before others do. And to drop a dying business sooner than others. So getting that balance right is what is getting all of us gray hair.

MANAGEMENT:

So cloud is not a worry at all. Cloud is a huge opportunity for us.

MANAGEMENT:

So last two questions , that, we will take.

PARTICIPANT:

We talked about the new R&D team which was setup in the last quarter and the integration with Tata Group Technology Center is looking for. So any new development in that team, or in that integration which we are going to see?

MANAGEMENT:

Actually right now no change in status.

PARTICIPANT:

No new projects we are doing with them? Robotics with Tata Robot or something else.

MANAGEMENT:

The robot design that we did was for Tata Automation which is an associate company of Tata Motors. So not for the group technology office.

PARTICIPANT:

Group technology office I think was the enabler and coordinator.

MANAGEMENT:

No. This company makes robots. So we did the design for them. And we have few other projects which are sort of group led. We are a part of those.

PARTICIPANT:

The currency has been very volatile in recent times. Last couple of quarters we have had losses on the foreign exchange side. Obviously post Brexit the volatility has actually gone up. Could you throw some light into what impact it could have for us as we see things today?

MANAGEMENT:

Yes. You see currency rates today, whatever they are if they are stable, they are okay. We know how to manage. It is changes and very abrupt changes that hit us very badly. So in the last 6 days of the last quarter we saw a significant part of the revenue disappearing and there was very little that we could do because even the hedges that you take are meant for a steady stage circulation where you have opportunities measured on certain dates and so on. You can't – unless you know from before that this is the outcome of the referendum. So an abrupt change like what we saw is something that hits us. So at the moment we don't know if there will be any sudden abrupt changes in the current quarter. My own expectation is that we will see stability and improvement in exchange rates going forward. Let's see how it will go.

PARTICIPANT:

What exactly is the medical segment?

MANAGEMENT:

It is a very small part of our business. It is a new initiative we started 2 years ago. We have to find our way forward whether it is a class of devices we should focus on or is it time for us to move to the healthcare providers rather than makers. So it is very early days and it is not significant but we are in the process of firming up a strategy going forward.

PARTICIPANT:

I would like to understand about our local and global competitors and how are we different from them.

MANAGEMENT:

I thought we talked about the fact that we are unique in that, we offer design and related engineering for electronics, for the segments that we address. That is the key differentiator that we have. Even internationally that stands us in good stead and there are very few competitors with that capability. In terms of local competition, all the IT companies also play a role in electronics. So all of them compete in some area or the other. Internationally what happens is depending on the location of the customer in the immediate proximity of the customer you have small specialized companies which provide service to the customers and very local typical work. If you take a car company, there will be a bunch of companies servicing a Toyota in Japan or a BMW in Munich. And we compete with them.

PARTICIPANT:

I am from Goldman Sachs Asset Management. Just a question about capabilities. Do you think you have everything that you need or do you probably need to do some acquisitions? And also related question, is what do you think about the dividend payouts if you don't make any acquisitions?

MANAGEMENT:

We certainly don't comment about the capabilities that we need. There is a question on if there is an opportunity which is a one off, it is better to work with a partner and collaborate and deliver. If we think it is a scalable and high potential thing, we need to bring that scale in. We either bring in people with that talent, or if there is a combination of skills that the organization presents to us which we don't have, that we need, we certainly look at an acquisition. In terms of the dividends we are now required to have a dividend policy which will be made public very soon.

PARTICIPANT:

Maybe next quarter or so?

MANAGEMENT:

Yes. by January it will be made public and that is a statutory requirement. And, it will be hosted in our website.

PARTICIPANT:

Historically you have not been very acquisitive.

MANAGEMENT:

No we have not been. Primarily because we look at M&A opportunity to either bring us a skill that we don't have which is scalable or an access to a market that we are not able to access otherwise.

PARTICIPANT:

Sir, my question is that in Q3 you had said that revenue growth will be around 20%.

MANAGEMENT:

I am sorry I have never said these things and I keep telling everybody that we have our internal targets and we don't give guidance. I am a patient man, but I get very worked up when I am misquoted.

PARTICIPANT:

I am really sorry about that. But which vertical do you see the real growth coming from for our company?

MANAGEMENT:

Yes, right now it's the transportation business.

With that we will close this meeting. Thank you so much.

MANAGEMENT:

So any further questions, you can pose to us, when we will have the con call for the Q2.

MANAGEMENT:

My colleague will lead you out. And what I would like to do is invite you back after lunch to the same place wherein we will have our teams to show you little bit around. Just to make sure that we do justice. We have a lot more number of people who have joined us than expected. So a simple thing, we have color coded the batch. So the batch color has no other implication apart from just being able to break up into groups. So what we will do is we will have all of you come back here and we will break you up into 3 groups. We will take one group to show you what we are doing on the design side, so that takes away one part of the team. The other will be a break up between the parts here. Equally on the way as you step out you will see that we have a small demo for you on what we are doing in the autonomous car space. Obviously it is not everything that we are doing in the autonomous car space. We can't show you that. We thought we will show you a little bit. So do join us. It is 1:40 now. So if we can plan to be back by about 2:15 or so. Then we will break you up into groups and take care of you. Lunch with due respect to all our colleagues from the Jain community is pure veg and from Rajdhani. So no onion, no garlic and so on. So everybody will be veg today. Thank you so much.

MANAGEMENT:

Thank you.