



TATA

TATA ELXSI

Transcript of Investor Meet

July 27, 2015

**Tata Elxsi Investor Relations Meet Held on Monday, July 27, 2015 at
the Registered office, Bangalore**

- **Host G VAIDYANATHAN –Company Secretary**
- Welcome to the Tata Elxsi’s Investors Meet, we have with us our MD and CEO, Mr. Madhukar Dev, Mr. Manoj Raghavan, Senior Executive Vice President and Mr. Nitin Pai, Senior Vice President. The agenda goes like this, there will be welcome and opening remarks by the MD, Nitin will talk about the brief overview of Tata Elxsi then performance summary Q1. Then we will have a Q&A session then lunch and post lunch there will be a facility, there has been some demonstration arranged. I request since we have to give time to all the participants, please restrict your questions to 1 each. If time permits you can raise any other queries you want. With this I pass on to Mr. Madhukar Dev.
- **Mr. MADHUKAR DEV – MD & CEO**
- Thank you. Good afternoon and welcome to our conference here. This is a first time we have got all of you together here to our facility. And this is part of the new regulation adopted by the Tata Group for interacting with investors and analysts etc. We also thought, we could have had this on a call, we could have it in some other facility, we thought it will be a good idea to have you visit Tata Elxsi, have a firsthand experience of who we are, what we do, what kind of technology and creative capability the company has and leave it to your imagination to figure out what can be the future of this company rather than us trying to explain everytime. In part this is because almost every week we get a potential client visiting here who tells us after the visit that they never thought that we have this kind of capability or they could accurately understand us without experiencing what we have to offer here. So I hope the time you spend here will be useful for you to get a more accurate understanding of what we do. The financials are all in the public domain, you analyse them far more closely than we do. So if you have any questions we will attempt to answer but probably you will have better answers than we have. The whole idea of this interaction is just to let you experience firsthand what Tata Elxsi is all about today. And we keep changing, we keep adding new capability or businesses as we go along and what we will present to you today is what we are doing now. And I hope you get true and accurate understanding. Thank you.

- **Mr. NITIN PAI - Senior Vice President**

- Thank you. Good afternoon again, on behalf of GV the standard disclaimer the point that we do not as a policy make any forward looking guidance, we do not provide updates. So to that extent please construe whatever we are talking of in the right context. So this notice of course you would see as we put up the performance summary officially on our site too. And we will of course put up a soft copy of a presentation that I make today up on the website that will be a little later but we would be happy to send you a personal copy once we note down your email ids.
- So very brief introduction to Tata Elxsi, if you really look at what we do, actually it can be summarised in one single slide. We do three things, we work with technology, we work with design and we work with engineering. So essentially these are the three key pillars on what our entire service delivery is based. And then if you say where does technology go? Where does design go? Where does engineering go? It's across three layers. So you have the layer of devices, traditionally that is where Tata Elxsi has operated for the longest time, product engineering, from the word itself comes from product. So the understanding being there has to be a physical product which we would engineer. There would be technology that goes inside, there would be design to make it suitable for users, there would be engineering because that is the way you would pack all the features and functionality into that device or box. So to that extent over the last 25 years we have built capabilities layer by layer within that device sector starting from silicone design going all the way upto the application layers.
- The next you have the application itself because as you target consumers and users for a specific need you need to build applications on top. And as you would understand the world is changing, your application is no longer just inside the device or inside the box. So earlier your router used to deliver everything that you need, your phone was self contained. You will find increasingly that what comes to you possibly is just the frontend and the entire intelligence resides back somewhere else. So to that extent the whole context of embedded vis-a-vis a Cloud delivered service vis-a-vis a mobile app delivered service. So we do work with all three and that is the changing context for us too. At the topmost layer and I think this is an important differentiation is the context of the user because traditionally as engineering companies you are divorced from the user. You are close to your customer not the end user of that product or service and that is something that you built very specifically as capability within the company. The ability to understand customer's customer, the ability to understand customer's users and therefore build that consumer insight back into the product, back into that service. So whether you call it user interface design, whether you call it user experience, whether you call it consumer insight led design, whether you call it

design thinking which seems to be a very current word right now. That is something that we have been doing for the last 10+ years building capability within the company, across the company to be able to provide for that level of design, right.

- The other part of course comes to industries that we address so obviously we don't do the entire world, we are very specific. So we address the broadcast and consumer electronic market, the two are converging so we see a strong correlation between what happens in consumer electronics vis-a-vis the broadcast and content delivery, that is part 1. The second big market for us is communications, traditionally the entire space of telecom whether it's wired or wireless interfaces, the third is automotive and industrial, automotive being the larger part, they are aligned industries, everything to do with control systems. So how do you control objects to behave in a particular way and how do you make sure that they behave absolutely precisely the way you want them to because that's the rigidity of an automotive or an industrial system. It cannot afford to boot once in a while like your phone does, it cannot afford to hang and then you shut it down and start it off again, your car will work the way you wanted it to always. Your industrial systems will have the same mission criticalness that your cars will have.
- So that's another segment that we address and of course over the last few years we have looked at healthcare and medical devices very specifically not just healthcare as a broad topic but devices as a very specific area where we believe that our capabilities can be targeted. So that's a very quick understanding of what we do and where we are, if you look at the automotive sector so again we have been working on automotive engineering for the last 15+ years, we have built a Centre of Excellence sheerly around automotive engineering. We are working with Head of the Top 10 OEMs across the world, we are working with about 25+ suppliers. So in the automotive industry as you would know you would have the OEMs or the car companies and the brands would essentially integrate systems that come to them from various suppliers. And these suppliers either provide full systems so somebody could be doing the entire cockpit, somebody would provide you the entire braking system, somebody would provide you the entire engine plus the engine management system and so on. So the OEMs integrate all the systems together so we work with both, with the OEMs but more importantly with the suppliers.
- That's where a lot of product engineering gets done and of course we have the necessary certifications there whether it's the Auto SPICE Level 5 which is the highest level of maturity that a company can reach in automotive software because the way the industry looks at it, SEI CMMi Level 5, every second company in Bangalore has one so that does not mean a thing. In the automotive

industry they would go by certifications that guarantee the kind of safety criticalness that the industry demands because that is the kind of liabilities that they carry. So therefore we are certified for SPICE Level 5, we are premium members of various consortiums within that so there are standards that are being driven in the automotive industry just to make it easy to plug and play systems from different suppliers into a car. So Odessa, the Komatsu, GenIV are all reflections of these in different areas. Some of them are to do with car networks, some of them are to do with infotainment, some of them are to do with how do devices like tablets and phones interface inside the car with the car system. So we work with the whole host of these standards and consortiums.

- Broadcast and consumer electronics, I thought this is a better illustration because if you simply look at the home today, you have a plethora of devices, some devices are conventional. You would have a TV, hopefully a smart TV, 4K, hub CH1, you would have connected devices whether it's a phone, it's your PC, it's your laptop, it's your landline and so on. And you would have your connectivity into the house whether it is broadband, satellite and so on that provides you both content as well as data connectivity. The ecosystem that we work with is really this you have the centre of the universe which is your service provider. Your service provider brings that broadband data or your content into your house, it could be via satellite, via cable or over IP. And you have the rest of the ecosystem supporting them so whether it's your Set Top Box supplier who supplies to them, whether it is semiconductor chip vendors who are supplying into the box vendors, whether it's the middleware or conditional access vendors who are again supplying to the box, putting it in, supplying it to the service providers.
- So the centre of the universe tends to be really the service provider. Why? Because even your channels, the studios and channels that are creating content whether it's news, whether it's movies, whether it's music and anything else, again have a channel purely through the service provider. That's the way they get into your house so that has traditionally been our market working with each part of this puzzle, working with semiconductor vendors, whether in partnerships or directly, working with Set Top Box companies to build those boxes, to work with middleware vendors to integrate that middleware into the boxes and supply it to the suppliers and so on. But now increasingly you will find that there is a new route so if you look at the red line the red route, it's really the new route into the home. You will find that now channels have a way into your house without necessarily going through that service provider. They come to you via the internet so when you look at the service like a hotstar or you look at anything else around the world in terms of over the top content.

- What it really means is that the service provider is going to be cut out of his pie of money, you are going to get into the home directly with content as long as you had internet connectivity. If I had a phone and I have 3G I would listen to Hungama, I see videos, I see movies. I no longer involve Tata Sky or Reliance Digital or Videocon service there, it is no longer the service provider because there is another route into the hall. That's an interesting context for us so you are finding a large market not just through Pay TV but also through over the air and over the top content. So that market is evolving so at this time again we have a strong history in that market, we are working with the leading vendors whether it's the box or the service providers or the studios and channels so we are starting to engage there. Very quickly communications, traditionally we work with unified communications, what does unified communications mean? It is simply the video conferencing that you do, the audio conferencing that you do, the shared meetings that you do, all these come to you through technology that are relating to unified communications, video conferencing, audio conferencing, tele presence and so on.
- Traditionally we have had an extremely strong play in that market, we continue to build on that, we are finding a transition, what used to be hard devices on the table now are becoming apps on your phone, they are becoming apps in your laptop. I no longer have to do a tele conference via a dedicated device, a camera on the TV, I can do it through my camera on the laptop. So that's a transition, that's a Cloud migration, we are working with that segment. You have the classical network infrastructure, the devices, the routers, switches, base stations and so on and so forth whether it is wired or wireless we continue to engage there. And more importantly we are now working with customers and their migration of physical products either partly into the Cloud or fully into the Cloud. So this whole concept of Software-Defined Networks and so on is something that we are now starting to adopt and help customers with. So that's the journey that we see with communications so that continues to be a strong segment for us.
- Medical electronics as you are all aware is reasonably recent entry for us as a calculated entry into a particular vertical. So there of course we offer the conventional services going right from concept development for customers to validation. And medical devices again like the automotive industry are heavily regulation governed. So whether it's FDA, whether it's CE, whether it's the Brazilian norms, whether it's the Japanese norms, each of these markets have barriers of saying what qualifies to be sold and used in that particular market. So we are heading ourselves familiarise with that, we are offering those compliance services to customers too beyond just helping them engineer their new devices. Markets again we have selected a set, remember we work in the devices market not healthcare as an overall segment. So to that extent whether it is therapeutic devices, whether it's diagnostic devices or whether it's patient monitoring, there

is a very strong element of physical devices, processing that happens locally, intelligence that happens locally and decisions being made locally. So all these are not Cloud delivered, these are local decisions, local systems. So we are working with that journey of customers in terms of going from mechanical, electromechanical to fully electronic, from unconnected devices to fully connected devices. So that's a journey we are making on the medical side.

- Semiconductor traditionally has been something that you have worked with consciously because you have been needed to build this layer by layer capability. So whether it's chip design, whether it's validation, whether it's supporting customers after the chip comes back from the fab and the foundry. So we have been working with customers and supporting that entire flow. And in many ways we look at this segment as horizontal simply because it strengthens and supports what we do in the other industry verticals because in many ways for us semiconductor is horizontal because the semiconductor industry in turn feeds into various verticals. So therefore we have been conscious in trying to target our semiconductor services to align with the business verticals that we are working with, the industry verticals that you are working with whether it's broadcast, automotive and so on. And again great experience here, we work with the world's leading fab companies. As you would understand semiconductor world is divided into two parts companies that own their own foundries and companies that don't. So we work with leaders in both. Equally companies that don't have fab include very small start-ups, very innovative start-ups sitting from the bay area building new technology whether it's for IOT, whether it's for sensors and so on, we continue to engage with some of them too simply because it aligns with what we would like to do with other industry verticals.
- Moving on because I have just described what we do in terms of electronics broadly and the segments we address there. Industrial design is the layer that comes on top from a consumer insight led perspective. And our ID teams work in 4 distinct areas, traditionally we always supported what we do in electronics with complete product design. So whether it's a new switch that you are building, a new TV that you would like to design, we provide not just the software and electronics that goes inside but also the way that TV will look, feel and behave. So it has always been a part so therefore whether it's the user interface part where it is digital or the physical part we always work with customers across the world. Leading FMCG companies so whether it is HLL or L'Oreal or P&G, you will see examples of these. On the other hand you have the whole area of branding and graphics simply because that is the way consumers perceive your product. so when it's in a shelf you don't see the product inside, you don't see the shampoo inside, all you see is the way the bottle looks, the way the graphics are, the branding, the messaging that has been thrown to you.

- Sometimes even the point of purchase is placed, specific ways to dispense the product and so on, that is something that we do for customers. I think the most interesting part is what is happening at the bottom, service design, this is a very interesting trend that we see globally including India. So if you look at the kind of work that we are now doing in metros, we started with Bangalore metro of course with way finding and signage design. We then won the Mumbai monorail project, again to do signage and design, we then a big one with Terminal T2. So if you do not know we did the design, the entire experience within the T2 terminal not just the experience in terms of passenger flow and in terms of signages. Even the kiosk that you see, the seating that you see is designed and implemented by Tata Elxsi. The idea there is to deliver and experience for both passengers as well as facilities so it goes beyond products, it's not just one seat or about a kiosk or so on, it's about what happens when somebody enters the facility, how does that experience work.
- We have done exactly the same thing for hospitality, how is customer experience or guest experience controlled? How do you control it from the time he would book a room to the time he pays his bill and goes out? So how do you plan the entire element of service design? So that's a very interesting growing area for us, as you maybe aware we also will be shortly working with Kochi metro going right from branding to the entire experience of that metro for that city. So we do hope to carry that experience not just to customers in India but to infrastructure and to metro and other smart city initiatives across the world. So that's a very quick idea of industrial design.
- VCL essentially creates rich multimedia content so a logical target for them has been the entertainment industry. So whether it's Hollywood, Bollywood or TVs that is a logical and first target market but what we have also seen is that there is a great market that is possibly available when you look at rich content for the new digital world because almost everything that customers have to do in a digital world has to do with content. You need to provide content that is available to you whether on YouTube or whether it's multimedia on your site or to your technicians or otherwise. And we see a great possibility that in terms of providing rich content and visualisation as a service for existing product customers not necessarily for Hollywood and Bollywood. So we have made some inroads there and we expect to also to build upon that particular area. So if you don't mind I will just interrupt and on a small video. Sometimes the message is better said with the video than by me talking. So this one is an example of what we are doing for the digital world.
- This example just to give you a sense was a digital sales product that was created for a wellknown heavy construction equipment company. And if you think about it, it involves three elements that is rich content there because the whole idea

was that you can't setup showrooms for construction machinery, you can't take the product out to the customer. You are essentially talking virtually and the usual way was brochures, you would have brochures after brochures. How do you sell accessories? How do you sell attachments? How do you sell the product value? So the idea was to create a digital tool that also supported multiple languages, you remember the end customers are sometimes not necessarily English literate, you need to provide for multiple languages. So the idea was a sales tool that provides you an interactive way of selling a solution, configuring it, would have videos there, I will show you how each of the products work, how the accessories work. You also have solutions selling because you would be able to sell parts and say how does a value add up, how do your EMIs work, how does your ROI work and so on. So in many senses this project was actually a joint project between VCL-ID who did the entire user experience and the ambit of teams who did the entire app on a tab. So that was just to give you a sense of the kind of possibilities that happen once you start thinking digital.

- Another example from a VCL perspective just to underscore the power of visualisation.
- Just a point here is that the entire video that you saw just now was completely virtual in the sense that the vehicle did not exist, it was built from a model that was supplied by the engineering teams within our company. The terrain doesn't exist, it was created virtually and the idea was to be able to visualise how the product would look, feel and behave without it having to be a physical entity. So whether you use it for consumer clinics or whether you use it for market feedback, whether you use it for management reviews, whether you use it for an event. So the whole idea is that there is this whole option of content that can be created to target various purposes and that is a sense of kind of work that we are doing. I do not want to run the usual 2 minute clips of all the kind of movies that VCL has worked on, they are great of course. I wanted to show you little bit of what they are doing outside of the entertainment business itself.
- So having talked of VCL, I am sorry, our system integration business continues to provide integration as well as support services. So as you understand there are two parts to what we do there. On one hand we represent, resell and integrate equipment, software and solutions with certain principles that we represent. So if you look at the bottom here you would find the collection of companies that we represent for both software as well as compute, storage and networking gear. We represent these companies, we integrate solutions on behalf of them into enterprises here and of course we continue to support them. On the other hand we have a completely separate business what we call professional services which provides administration as well as IT management services independent of whether we sold equipment or not. So that part is both in India as well now

expanding to certain overseas geographies while traditionally the system integration services has always been restricted to the Indian geography simply because your partnerships with these principles will always be restricted to a certain geography. So this business continues, we do report this completely separately as a segment within our annual reports as in results.

- Just a closing slide, I just wanted to talk where we are seeing ourselves going. We are seeing ourselves in a middle of fantastic period of convergence and where is this convergence coming from? It's coming from all sides, your consumers are converging, your markets are converging, your technologies are converging. And you will see this, you will see these examples time and again across industries. You are having this very very interesting crossovers and collisions if I may call that or intersections between industries, markets, consumers because they are all getting together. And what you are finding is that that is where some of the greatest opportunities lie, each of these intersections of course causes disruptions because it means either this guy will win or that guy will win depending on who is coming in from which direction. Equally it means challenges because your traditional sources of revenues like in the case of broadcast, so your classical service provider never thought of a Google or an Apple or an Amazon as competition, they were not in that radar at all.
- And suddenly you find that the Google TV, Apple TV and Amazon Fire, you would actually have competition from these rather than you having to worry about what the Sky is going to do or what Reliance is going to do. This changes the entire model because you are suddenly having an intersection of somebody who is coming in from the internet software world into the broadcast world, they are entering completely in a disruptive mode over the air. You are saying don't worry who is providing you the pipe I will give you the content. So that disrupts because they are not traditional competition, how do you react to that and that is the thing where some of the greatest challenges as well as opportunities lie. And I think in the same context there is also where the value of Tata Elxsi is because if we really look at these markets whether it is consumers and therefore the insight that we bring of how and what people want, how they behave and what user centric design means whether it is context of engineering, where we have been fantastic and great capabilities in select key markets.
- We don't cover the entire world, we don't cover every single market there is but in the markets that we operate we bring great focus and great capability and of course technology that what we are set up for. So 25 years of enabling technologies across these key industries, I think this is the combination, this is the in some sense if I may call it that intersection that we bring to customers. And I believe that is what will drive larger business for us and the ability to help customers, innovate new products and services around those intersections. So I

am going to leave it with that, infact I have interesting examples because for example if you look at Telecare. So we are working with this company who has a very simple service, they provide a pendent and it has a button. And the idea was that anytime you have a medical emergency because this is meant for people who stay at home, who most likely live alone. So if you look at the western world you have a large population that is aging and they are not supported with the same social fabric that you have in India that parents stay with kids or they are staying with one of the kids and so on, they are staying alone. And therefore you need some kind of an emergency assistance care so you have this pendent that you wear.

- You press the button, it's a hotline, it dials directly into 24/7 medical care centre, they decide whether they need to send an ambulance, they need to send a relative, what they need to do next. It was simple service like that doing very well but what we have been working with them is on this transformation where we have now brought in a whole set of sensors into the home. We are saying it's not just about me, if I am staying in a home and I am alone, I need to have an ecosystem that supports me. So wouldn't it be great if I also had a mechanism to connect all the diagnostic devices so whether it's my blood pressure, whether it's my glucose meter, whether it's my temperature reader and so on, can I have those measurements being connected and sent to the same care center everyday. And those are recorded and trended in terms of analytics. Can I not also have other safety devices because you think about old people especially people who have becoming Senile, Dementia, Alzheimer's. You also have an issue of are they safe, have they forgotten something, have they left the gas on, have the left the tap on in the bathtub, have they forgot to turn off something. So the idea is not from a safety, not in the context of typical safety and security as we think about it. We think about when I am off will my home be safe? Here it is not about that, here it is about the person who is inside but will he be safe just because he has forgotten stuff?
- So we are integrating all these sensors including wearables into that environment. We are also building a tablet based app so that it kind of gives them lifestyle advice. So if you are a diabetic patient it is going to be through management that you will deal with the problem not through medical mean. So therefore can we continuously monitor and advice them on what they are doing? How they are doing? And what they should be doing next? So all this is backed up by connectivity so you are now providing guaranteed connectivity through wireless, through mobile, through wifi. So we have a single gateway and then we are leading that into a backend which is the same 24/7 response center but now backed up with analytics, with the video connected to your doctor. So you can even talk to your doctor over the tablet, equally well leveraging lifestyle monitoring and so on. So the whole point that I was trying to make was you

would suddenly see that the healthcare service provider is now breaking into what would be a smart home provider, a security provider, a connectivity provider, so it's a convergence. And technically all the skills that we use are to do with video processing, to do with multimedia, to do with sensors and sensor integration and analytics so that's the journey that we are seeing. Very very interesting journey with customers. So I am not going to say more, I am just going to leave it there. Thank you.

- Just to continue very quickly I just thought I will present a quick performance summary, this is in line with the usual slides that we put up on our website. So if you look at Q1, so we grew to what Rs. 243.5 crores as compared to Rs. 231 in the previous quarter and about Rs. 191 in the quarter the same year before. In terms of revenue growth we grew about 5% quarter on quarter, we grew fairly handsomely by about 28% year on year. So that was the revenue growth overall for the company. If you look at Profit Before Tax similarly we had a good run, we grew by about 20% quarter on quarter from Q4 to Q1. We grew far more by about 76% year on year. So again this would be something that you would be very familiar with. If you look at business composition by division because this is something that we don't publish within the annual report itself or on the usual results. So our Embedded Product Design or the EPD part which is led by Manoj grew marginally over everything else to about 80%. ID again grew, Industrial Design grew to about 11.5%, again marginal growth there, VCL and system integration have been continuing. So VCL at this time just about a percentage of our overall revenues while system integration is about 7.6% just under 8%. So that is a quick snapshot of how we have done in Q1, I leave to GV to moderate the Q&A from here. Thank you.
- **Host G VAIDYANATHAN –Company Secretary**
- Thank you Nitin. So now we can start the Q&A. Please spell out your name and company and any of our executives will answer. Can we start?
- **Q&A Session**
- **Q1. Mr. Atul Mehra – Motilal Oswal:** Atul Mehra from Motilal Oswal. Just from a management perspective so we have been speaking about 25-30% growth materialising for us over a longer term. So as we are positioned right now so what are the levers that at the management level that you'll see which will result in 25-30% kind of growth in the next 3-5 years. So what are the levers that you actually look at when looking at growth from that perspective over a 5 year period? And on the ground what are the challenges that we are facing, at some

quarters we have lesser growth as compared to the other quarters where growth is materially high. So if you could just elaborate on that? Thank you.

- **A1. Mr. Madhukar Dev:** Okay. There are two ways of looking at it, which are the businesses which will drive growth for Tata Elxsi in the future? One is the EPD, the Electronic Product Design and the other is the design, the Industrial and Experience Design business. These are the two major drivers of growth for Tata Elxsi and that has been the trend over the last 7-8 quarters too. We are getting to a point where there is 20-25% growth year on year is becoming, we are getting closer to that, it's becoming a reality. What will in turn drive these two businesses to propel us forward is the fact that almost everything that is happening around the world has an element of electronics built into it. The so called smart has electronics and the winners will have better packaging, better user experience etc. which are all unique strengths that Tata Elxsi has.
- As regards your question on what are the challenges and why do we have not a predictable quarter on quarter growth where I can sit here and tell you what my revenue will be in the quarter ending next year June or something. It's primarily got to do with the kind of work that we do which is typically project based. So projects come to an end and new projects start and there are quarters when there is a slack period and that's why you see absence or slowdown of growth. And there are quarters when the projects are running at full steam so that's the nature of the business. What I would urge you to do is to see the trend line rather than each individual quarters.
- **Q2. Mr. Parekh – Excel Securities:** Good afternoon thank you for having us here. Sir, my name is Mr. Parekh, Excel Securities. One very important question I would like to ask is Mr. Pai laid a lot of stress on convergence that is going to be the future which will help more growth. Do you think you are required to acquire a company to fuel further growth in other areas too that the company is not present or where there is less growth?
- **A2. Mr. Madhukar Dev:** I will leave it to Mr. Pai to answer this.
- **Mr. Pai:** There are two parts here, one part is about whether there is a consideration for inorganic growth at all . Yes, there always is but however these considerations have to be in line with, they have to be strategic. So in that sense we will not acquire just to acquire scale, they have to compliment us either in terms of market access or in terms of filling gaps in our portfolio that are strategic to us. So that is part 1 of the question of whether inorganic is at all part of our consideration. But having said that do we find the immediate gaps in our portfolio, difficult to answer because if you notice we have been always careful about being a focus player. So that is why we have not looked at product

engineering as one single word with which you can go and hammer every single market out there. So there are clearly markets that we have stayed out of even though they are listed as large or as growing.

- So the idea here was that we would build critical mass and where we have critical mass and critical capabilities is where we will make a difference. In every other market we will only be fighting against an undifferentiated set of competitors so in that sense we have been limited in what we do. Similarly if you look at expansion, we have expanded into medical electronics and while we always worked with some medical companies, it has been a very focused, strategic calculation to say hey this is something that we should get into and we should try to grow and build. So it is aligned with our thought process.
- **Q3. Mr. Avinash – Astute Investment Management:** Hello sir, this is Avinash from Astute Investment Management. I had few questions, number 1 is till 2008 Japan was our strong country where we had 20% of business what happened over there that it felt to 10%? And do we see any tailwinds that would take us back to 20 or 30% from Japan? Number 2 is...
- One of the things we had requested was we will go around with one question per person first so that everybody gets a chance and then we will come back if there is time to ask the second question.
- **A3. Mr. Madhukar Dev:** Your question is about Japan and what happened to the Japanese market, no better person than Manoj Raghavan to answer that. He is the one who setup our business in Japan, grew it and he Heads our Electronic Product Design.
- **Mr. Manoj Raghavan:** Yeah, if you have been following the industry in Japan, Japan has been going through a deflation and a lot of economic situation. On top of that we had the earthquake then the Fukushima incident and a lot of curtailment of budget from some of our key customers there. If you look at it when we grew to 20% or so a lot of our business used to come from consumer electronics companies. And infact the consumer electronics practice was built upon Japanese customers. But if you really look at it now whether it is Sonys, the Panasonics and some of the big names worldwide are struggling big time. Year on Year, Quarter on Quarter they have been losing money. And so actually that has affected our business, infact unlike US companies where they just let off people and they outsource to save cost, in Japan it's the other way round. They cut-off the external parties first and they try to save their jobs which is what actually is happening in Japan economy now. So these are some of the reasons why our business went down. Of course Japan has a market, it's a large market for us, it's not that we have grown up on that market, the good part about Japan

industry right now is the automotive industry is doing really well. So our focus in the last few years as well as going forward would be to focus on the growing market, automotive market. And hopefully we will see better growth for us in Japan. Percentagewise you still have an issue because our US and Europe business have grown much faster. So if you look at a percentage, maybe Japan will still, I don't know if we will ever reach 20% or not because other businesses have grown significantly. But however from a pure Dollar value or a Yen value we will definitely see growth in Japan.

- **Q4. Mr. Apurva Prasad – Reliance Securities:** Good afternoon, Apurva Prasad from Reliance Securities. Just wanted to understand within the EPD any particular growth drivers in terms of industries there or is it pretty much secular there, even that would be helpful?
- **A4. Mr. Madhukar Dev:** Yeah, the two primary drivers are the automotive, electronics business and the broadcast electronics. In some quarters you will see one of them pushing forward better than the other. Last few quarters we have been seeing auto pushing ahead faster than broadcast.
- **Q5a. Mr. Dev,** I think we have come very close to your dream of being 30% CAGR growth in revenue with what we are looking at in Q1. Now in terms of the size of the engagements that we get from OEMs and other clients, how do you see the traction in the per order value which you earlier said that is something around 235 million on a 3-6 months horizon. Do you see any significant ramp up so that you know we can have a very clear, distinct visibility for the revenue growth at this rate?
- **A5a. Mr. Madhukar Dev:** Quite honestly not yet, we don't see a significant change. At the same time there is a movement towards more large engagements and lesser small engagements. So the mix is changing but the overall trend is not significantly different than what it was a year ago.
- **Q5b.** But still you are confident that we will be able to sustain the kind of growth that we have seen?
- **A5b. Mr. Madhukar Dev:** What gives me confidence is the fact that we have people who are committed to it, we are all working towards it. And this is not a company that has never seen a reversal in the past and we know how to handle reversal and how to climb back. So that's what gives me confidence that we will grow and we will do....
- **Q5c.** And just if you can permit me one question, in this first quarter of FY `16 how much has been the FOREX effect?

- **A5c. Mr. Madhukar Dev:** If you see we have talked of revenue here and not total income. And under the head of under income the FOREX benefit has been classified so that's mainly FOREX benefit, a little bit of interest income.
- **Q6a. Mr. Naveen Bothra – Arch Finance Limited:** Myself Naveen Bothra from Arch Finance Limited, Delhi. Regarding the business model of our company Tata Elxsi are we moving slightly to different zone, we are having two divisions software development and system integration. Are we also moving into product licensing and IPR revenues also because the personal experiences for the last few quarters are expanding slowly and the revenue is increasing very much? So are we getting any revenues from the IPR related and patent related things?
- **A6a. Mr. Madhukar Dev:** We do have IPR and patent initiatives running in the company, probably there is little more energy now than a few years ago because we can afford to. As far as their impact on revenue is concerned we are yet to see a significant impact, there are occasional opportunities to license but we see that emerging say four quarters down the road more significantly than at present.
- **Q6b.** We are looking towards variables if a certain milestone after that the variable will come also in pro licensing business?
- **A6b. Mr. Madhukar Dev:** Let me put it differently the IPR initiatives are not yet matured enough for us to know whether they are succeeding in the market or not succeeding. In about four quarters from now we will have a portfolio of patents and IPRs to be able to answer your question better whether the initiatives are yielding results or not.
- **Q7a. Mr. Pranshu – Goldman Sachs:** Good afternoon, this is Pranshu from Goldman Sachs. In terms of project pipeline visibility like do you have a lot of repeat clients that come to you with projects? Or are you aggressively looking at new client acquisition?
- **A7a. Mr. Manoj Raghavan:** We do have a very large percentage of our revenue coming as a repeat business from existing customers. But at the same time we are working towards diversification of customer portfolio and adding on new clients. We add on new clients where we see potential, where we see a certain amount of technical challenge so that you know there is stickiness. We don't want to get into engagements where we can be unplugged and somebody else get plugged in very easily. So yes, we get a lot of repeat revenues but we covered new customers too.
- **Q7b.** Sir, if you could talk a little bit about competition specially global competition in the embedded software side of the business particularly in the

automotive and the broadcast communication businesses? And emerging technologies if any and how we are geared up to address the same?

- **A7b. Mr. Manoj Raghavan:** Yeah, we operate in markets around the world, in US, in Europe and in APEC and in Japan. There are local competition in each of these countries and in case of Europe it is competition from the Eastern European region. In case of Japan competition is from of course the local Japanese companies as well as companies in China and Korea. In the US typically a lot of the competition is Indian companies, Indian counterparts a number of them. We have these large big organisations whether it is the Infosys, the Wipro, the HCLs, they compete with us especially on large deals. At the same time there are specialised competition for example in the automotive side it is KPIT, in the communication side it could be a Sasken and so on. So there are two types of competition both the large generic IT players as well as the smaller niche companies. What is your second question?
- Yeah, technologies so as Nitin pointed out you know rather than standalone products a lot of our offerings and services are going to the Cloud. So Cloud, IOT, Software-Defined Networking, these are some of the areas that we are investing in, Madhukar did talk about the IPRs and patents. So we have a lot of initiatives which we are investing in some of these areas and hopefully 3-4 quarters down the line we will be able to update you on the traction on each of these areas.
- **Q8a. Mr. Nirbhay – N Square Capital:** This is Nirbhay from N Square Capital, I think Europe is a very significant portion of our revenue mix and we are seeing sluggish economic growth over there and even currency side there are some headwinds. So can it impact our revenues in the future? And how big is JLR in Europe?
- **A8a. Mr. Madhukar Dev:** JLR is currently our largest customer and it accounts for close to 20% of our revenue. We do have a number of other automotive suppliers in Europe who are our customers. And currently the automotive industry in Europe is not yet really seeing any uncertainty or slowdown, infact there is a lot more investment in technology happening in Europe than probably anywhere else in the world. So at the moment that's not a challenge but if you track the automotive industry it is cyclical, the cycles are not predictable. So at the moment the auto industry worldwide is doing reasonably well and a lot of that growth is driven by innovation and electronics coming into the car which is the place where we operate. So not much of a concern at the moment.
- **Q8b.** So this 20% is overall revenue or Europe revenue?
- **A8b. Mr. Madhukar Dev:** 20% of overall revenue.
- **Q9a. Mr. Sorbh – Quantum:** Sir, this is Sorbh from Quantum. A bit more colour on your human resource side what kind of people that we hire and lateral and

thrasher makes in. is the typical pyramid structure of an IT services company valid for us also?

- **A9a. Mr. Madhukar Dev:** I wish it were, it would make life much easier, it's not strictly valid because when you operate in specialised areas experience is extremely important. And customer's value add and we ourselves see better outcomes with old hands, people who are experienced etc. We do hire a number of freshers, we hire from about 15 select engineering colleges in the country and we hire electronics, communication and computer science graduates. On the other hand the design business of ours is driven by qualified designers, ethnographers, the architects, graphic artists, communication experts, visual communication experts. So they come from another pool of colleges from where we hire and we do hire a large number of laterals too. Last year probably was the year when we hired more laterals than ever before so both in electronics and in design.
- **Q9b.** Waiting period for freshers...?
- **A9b. Mr. Madhukar Dev:** Laterals would really have an induction and plug in period so that's not very long. Freshers go through almost 5-6 months of classroom training then they get deployed on the in-house projects eventually as buffers in customer projects and then become billable engineers.
- **Q9c.** About a year?
- **A9c. Mr. Madhukar Dev:** About a year but it can vary if somebody is very bright he could be billable in 6 months and the laggards could take a little longer than 1 year.
- **Q9d.** What pace is your opportunities space within the auto industry expanding? Have you seen some amount of growth because automation and electronics within cars are probably moving at the very fast pace?
- **A9d. Mr. Madhukar Dev:** Yes, that is the primary driver of our automotive business. The speed at which electronics is getting sucked into the car is what is driving our business.
- **Q9e.** Is it also the growth that is dependent on new product launches? How does the growth cycle behave, is it like when Mercedes or JLR for that matter launches a new car you get a large project?
- **A9e. Mr. Madhukar Dev:** Yes, it is dependent on, every car company runs plans for different model years what car will be launched in 2017, 2018, 2019 going five years down the current time. And we end up working in projects that range

from immanent launchers to five years down depending on what element of technologies that we are working in. Next question please.

- **Q10 Ms. Shraddha – AMSEC:** Hi, this is Shraddha from AMSEC. When you talked about competition you talked about larger global peers as well as specialised niche companies like KPIT. But I wanted to know about competition from captives how has that scenario changed over here?
- **A10. Mr. Madhukar Dev:** We don't see captives as competition, we see them as potential customers. And we work with captives in, India captives in number of international companies and we don't really compete with them for any work.
- **Q11. Mr. Dileep – Spear Global:** This is Dileep from Spear Global.
- Sir, this is Dileep Ammula from Spear Global. I saw that there is a 7 times increase in depreciation but I didn't find any CAPEX investments in the current quarter?
- **Mr. Madhukar Dev:** Your questions is what is the CAPEX investment in the current quarter?
- **Mr. Dileep Kumar:** Yes but depreciation is much higher 7 times than last quarter.
- **A11. Mr. Madhukar Dev:** No, if you see depreciation we had given an explanatory note last year. We adopted a new depreciation policy which resulted in the last quarter's depreciation being reduced because we had provided an excess in the earlier quarters. So you should not compare with Q4, you should compare with Q1 of last year really. So it is not as if we have spent a lot more on CAPEX and therefore depreciation has gone up, no it is because we had overprovided for depreciation in the first three quarters last year. And therefore the Q4 depreciation was downsized.
- **Q12. Mr. Anil – Envision:** Hi, this is Anil from Envision. Again on human resources what would be your utilisation grade right now and given where your revenue per employee is right now around \$30,000, where do you see that scaling up to?
- **A12. Mr. Madhukar Dev:** Utilisation is in the early 70s and we are comfortable with this though we would like it to be a few percentage points higher than where it is. In terms of revenue per engineer again I think it will remain at a level that it is. You know unlike an IT company we do have to have a lot more investment in training and working on in-house projects, build a portfolio of competence etc. So 70-75% utilisation is quite satisfactory for us.

- **Q13a. Mr. Mohit – Anand Rathi:** Hi this is Mohit from Anand Rathi. It seems like you are gaining significant market share at the expense of your competitors that you mentioned. Do you think it is a function of your topline spending more or is it more to do with differentiation when you go to market?
- **A13a. Mr. Madhukar Dev:** First I am not sure if we are really gaining market share or not. What I am sure of is our revenue is growing satisfactorily. And I attribute it more to the combination of services that we offer than anything else which is quite unique. As Nitin said in his presentation we are seeing these unique intersections of requirements which are overlapping with the competence that this company has built over last few years and that is resulting in our accelerating our growth.
- **Q13b.** Secondly what is your average tenure of a particular project which gives you some visibility to next few quarters?
- **A13b. Mr. Madhukar Dev:** Our median project duration would be typically 6 months, you had a second question.
- **Q14a. Mr. Avinash Dulani – Astute Investment Management:** Like your Embedded Product Design even TCS is into same lines, I had read in the website TCS Embedded Systems. How does it conflict with it and how do you decide that this customer would be serviced by TCS or Tata Elxsi?
- **A14a. Mr. Madhukar Dev:** TCS does anything that anyone can do in the area of computing and electronics, it's a 100%. Each one of us tries to find a niche in which we are strong rather than being a generalist and the areas that we have identified for ourselves are automotive, broadcast and unified communications and more recently an initiative in medical electronics. And in these areas we rarely overlap our compete with each other, very very rare.
- **Q14b.** And last question, how much of your revenue comes from your Group companies?
- **A14b. Mr. Madhukar Dev:** It's embarrassingly small, if you keep JLR out, JLR was a customer before it became part of Tatas. If you were to exclude that it would be hardly 2-3%.
- Okay. Thank you.
- **Q15. Mr. Mitesh Kamdar – Aditya Equity:** Hello, I am Mitesh Kamdar from Aditya Equity. How big is IOT as an opportunity?
- **A15. Mr. Manoj Raghavan:** IOT, personally saying it is a huge opportunity. If I look at it it's more of a system integration sort of an opportunity. And opportunity by we can make a difference to the business results of our customer. If you ask me about the product design opportunity, these products are pretty

small wearable devices or sensors. The value of each of those individual components maybe pretty small but if you can put together a system and solve the business problem for our customer that opportunity can be a big opportunity.

- **Q16. Mr. Kunal – Centrum Wealth Management** Sir Kunal here from Centrum Wealth Management. My question is if I want to understand the total market for EPD segment that is the probable size of the total market. And what is the share of Telex and India as a whole in it?
- **A16. Mr. Madhukar Dev:** Before I ask Nitin to answer that I would like to clarify that we don't play in the whole market, we play in select verticals. And what is the size of the market and what is our share is something Nitin will answer.
- **Mr. Nitin Pai:** Just to note here is that traditionally what has happened is that while the Gartners and Forresters and so on do extremely incisive estimates of markets in many verticals, product engineering still is relatively less covered. NASSCOM does of course publish a certain amount of survey and results based on product engineering. I am not so sure how right they are because the estimates that cover both captives as well as what service providers would do as outsourced business. But broadly if you look at it I would say that the broadcast market in our estimate is about \$400-500 where we would roughly do about 10% in terms of market share. If you look at automotive equally difficult to estimate simply because the market is an expanding market, it is a growing market, equally there is a shift in market because if traditional markets such as US and Europe are now moving Asiawards, a little bit towards Latin and so on so it is also moving the target in that sense. The way we see the automotive market especially from India outsourcing perspective is in the range of about 600 million and growing. So I am just talking about what it is at this time so therefore our market share would be again somewhere in that same percentage, 10-11% is my guess.
- Communications market, traditionally telecom has always been a very very big market, right because whether it's for outsourcing or IT or otherwise, telecom always has been a much much larger market. But having said that telecom has also been under stress as an industry simply because of on one hand you have the Zettis and the Ovaways who are crushing everybody else on the other hand you have a consolidation to just a few players left because Alcatel being acquired by NSN you just have a few companies left, Ericsson, NSN and period, you are done. So to that extent telecom we are not so sure, equally at Madhukar said we do very specific things in telecom. We don't compete and do everything that a HCL or a Wipro would do, we are very specific in unified communications, infrastructure and so on. Our guess is that the market is again about

Rs. 900 crores, Rs. 1,000 crores in terms of what we do. We are not saying how big is the telecom market, in terms of our focus areas and what we do, how big possibly is the market there? So again that leads us to about 7-8% market share there so this broadly is the estimate. Medical devices is still a growing market so we don't really have very reliable numbers, NASSCOM has some projections, we are not very sure of whether they are right. So I will reserve my comments on that size.

- **Q17. Mr. Anil – Envision:** Hi. Anil from Envision. How much would be the Top 5 customer's contribution to your revenue and can you name few of them?
- Can you name few of the Top 5 customers apart from JLR that you mentioned.
- **A17. Mr. Madhukar Dev:** Yeah, I have already named, took the liberty of naming them because somebody else named them first. But we have NDAs where we are not supposed to disclose because what we are doing is core to their business. Top 5 customers about 55% of our revenue.
- Thank you.
- **Q18. Mr. Soumitra – Espirito Santo:** Hi sir, this is Soumitra from Espirito Santo. How easy it has become to get business from JLR post the acquisition by the Tata Group? And if it has become more easy then how do you incentivise the sales people for that particular account vis-a-vis other accounts?
- **A18. Mr. Madhukar Dev:** Those are details that I won't discuss even within the company but broadly I can tell you that what has happened in JLR post acquisition by Tata Motors is the space or the velocity at which that company is introducing new models is dramatically higher than ever before. And that naturally means more work to be done, more work to be done in-house, more work to be done through outsourcing. And it's not easy or difficult it is just that the quantum of work available in JLR has increased dramatically which is you can see the number of models they have introduced in the last 12 months. Their plans for the next 12 months, Jaguar Land Rover did not work at this pace ever before.
- **Q19a. Mr. Nirbhay – N Square Capital:** Nirbhay from N Square Capital. What would be a share of IP based revenue in our FY '15 sales? Do you think it can materially change in...?
- **A19a. Mr. Madhukar Dev:** It is currently very negligible because the IPR portfolio that we have is really IPR components not IPR systems and it would be a negligible share right now. So we would wait till our IPR initiative matures a bit and then we will be able to share with you better.

- **Q19b.** So, in terms of our journey towards that are we satisfied as a Group or...?
- **A19b. Mr. Madhukar Dev:** It's early days but so far so good we are quite satisfied with the progress we have made.
- **Q20a. Ms. Praneeta – Goldman Sachs:** Hi, my name is Praneeta from Goldman Sachs. This is regarding geographic expansion and entering new markets. Where do you see the biggest opportunities and in which segment?
- **A20a. Mr. Madhukar Dev:** The markets that we are operating in with reasonable presence are North America and Europe. We see those opportunities continuing for the present, I think over the next couple of years we will see a significant India opportunity. And yes there are other geographies, if we can revive Japan there would be opportunities there. But India maybe a more interesting opportunity than anything else, it all depends on how, what is planned really plays out on the ground and in India.
- **Q20b.** What about the LATAM..?
- **A20b. Mr. Madhukar Dev:** Not so much an opportunity for us, they are more a consumer of technologies rather than developer of technologies. If you look at Brazil they have a fairly advanced broadcast system and that's been driven by the Football World Cup, the Olympics and events like that. But in terms of developing core technologies none of the LATAM countries is significant for us.
- **Q21.** Sir, last question from my side. Vision 2020, revenues, targets have you set yourself something of that kind?
- **A21. Mr. Madhukar Dev:** No, I have set myself visions many times before and failed so I am superstitious, no vision, just try doing the best we can.
- **Q22.** So we have been accelerators to some start-ups. What is the basic idea behind those investments?
- **A22. Mr. Madhukar Dev:** That's very interesting and I would love to talk of it. What's happening and this started happening, we saw it begin almost 8 quarters ago. The startup activity particularly in the Bangalore area was somewhat similar to what the bay area saw 20 years ago. And we feel that it will catch on and some big game changing technologies will emerge from here. So what we are trying to, we don't have money to invest in these start-ups. What we have is little bit of technical and business wisdom that we have in-house so what we offer the start-ups is essentially advice and mentoring and reviewing and telling them what we think they ought to be doing. And we give them basic infrastructure from which to operate rather than going around signing agreements and leasing and so on.

We allow them to function from within the Tata Elxsi premises and we guide them on what we think they ought to be doing. For every 100 applications we select maybe 2 or if we are lucky 3 that we think have the opportunity to go ahead. And in return we take an equity position in these start-ups. As they grow and mature and become valuable we think that is when we will get our payback. That's essentially because even as a small company we really cannot have the same spirit as a startup has in challenging the status quo trying to think of a disruptive technology and so on. And we certainly want to have a play there and we think we can have that through this incubate programme..

- **Q23.** What percentage of our business comes from start-ups which are VC funded?

- **A23. Mr. Madhukar Dev:** Currently very small, there was a time when most of our business from North America was from start-ups which were VC funded. And that's why we used to have lots of challenges in realising our revenues. A lot of them would not be there to pay, a lot of them would not have the intention to pay. Today we actually look at something very interesting in terms of business or technology then we work with a startup otherwise we stay away from start-ups generally.

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