



Q2 FY19 Earnings Conference Call October 15, 2018, 15:00 hrs IST

Moderator: Good day, ladies and gentlemen. And a very warm welcome to the Tata Elxsi FY19 Q2 Conference Call. As a reminder, all participant lines will be on listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaidyanathan. Thank you, and over to you, sir.

G. Vaidyanathan: Hello, I welcome you all to this Q2 Earnings Conference Call. We have with us, Mr. Madhukar Dev – Managing Director. Mr. Madhukar Dev will start by giving a brief summary of our performance during this quarter and thereafter, we will open up the call for questions. We would request each of you to restrict to one question and if time permits, you can come back and ask further questions if you have any. Now, I hand it over to Mr. Madhukar Dev.

Madhukar Dev: Thank you. Good afternoon. It has been a fairly good quarter on many fronts. In all the key focus areas for the company, we have made substantial progress in the quarter. We have been looking at larger deals with a longer engagement duration and we have managed to bring in quite a few of those in the last quarter. We have been trying to grow our automotive business outside of our key account and we had

a very encouraging uptick in business from the automotive sector, besides the key account.

Our medical business which has been nurtured over the last several years is continuing to show very encouraging growth. And in the broadcast business, apart from winning deals, we have also been able to get into a new mode of engagement with a key customer where we would have a share of the success of the product that we are helping our customer launch.

In terms of financials, our numbers are already with you. And maybe to add to the published numbers, I may say that in the other income number that we have shown in our results, the component of foreign exchange gain is Rs. 14.7 crores. And the growth that you see in the prevailing currency is over 9% as compared to the preceding quarter and over 20% as compared to the same quarter last year. And in constant currency, this translates to a 3% growth over the previous quarter and about a 10% growth over the same quarter last year.

In terms of marketing, we participated in a number of key events and the most outstanding of these was the broadcast show in Amsterdam - the IBC, where we demonstrated our capability in technology based on the Android platform as well as our capability in the OTT area, which is the fast-growing segment in the broadcast market. We have also participated in many other shows, including in the communication area and so on.

In the design part of our business, we have won a number of awards in the last quarter for work that we had done in the earlier periods. And we are very pleased that our contribution in designing the Tata Experience Center in the renovated Bombay House has been appreciated all around and it is a very visible success of our capability.

So with that, I would be very happy to address questions that you may have.

- Moderator:** Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Utkarsh Katkoria from DHFL Pramerica Asset Managers. Please go ahead.
- Utkarsh Katkoria:** So the question is regarding the overall impact on revenue growth that the management sees due to the slowdown at one of our large accounts in the auto segment out of the UK, and possibly the uncertainty which surrounds the Brexit.
- Madhukar Dev:** You are right that there is a considerable uncertainty on how things will shape up for our key customer, Jaguar Land Rover. We are not seeing a very significant growth in our engagement yet, but we have a considerable amount of confidence that once things settle down, given the value that we have delivered to our customer and the respect they have for our work, our share of their business will definitely go up. In the interim, we have taken steps to grow our business in the transportation sector outside of this account, and we have made a considerable progress in the last few quarters and especially in the last quarter, in growing that business. So while we are confident that JLR will bounce back and will again start growing significantly, at the same time, we have been able to grow the other non-JLR accounts quite significantly too.
- Utkarsh Katkoria:** So if I may just follow up, what would be the percentage share of JLR, say about two, three quarters ago and today? So can we say that in spite of a slowdown at JLR, we are able to grow the other accounts?
- Madhukar Dev:** A few quarters ago, the percentage of our revenue that was coming from JLR was about 24% and it is currently more like 21 - 22%, it oscillates somewhere there. So there is a bit of a decline, yes, as a percentage of overall revenue.
- Utkarsh Katkoria:** And if you can just touch upon Brexit?
- Madhukar Dev:** Really, your guess on Brexit is as good as mine - we do not know what will happen. But business has always found a way to continue

irrespective of legislation, customs, and boundaries and so on. I am quite sure business will continue; I do not think they will suffer too much, even if there is a very hard Brexit. So we will just have to wait and see - there is also a belief that there may be no Brexit also. So let's see what happens.

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

Ravi Naredi: You mentioned about Hyundai Mobis collaboration today, so when will the revenue start and how much can we expect in the financial year 2019 and 2020?

Madhukar Dev: See, I am not in a position to give you individual customer-wise revenue projections. But this partnership is interesting from many perspectives. One of those is a tool that we are building for them for testing in the autonomous driving area. A tool like this, once completed, would be of considerable use and can be jointly licensed by them and us to other customers. So, it is more the strategic gain from it rather than the immediate revenue potential that is of significance in this tie-up.

Ravi Naredi: And sir, one more request, after you make a major announcement if you can give one investor presentation, it will be helpful to investors on what is going on. This time you have not mentioned anything about other income which was big misinformation in results. So will you tell something about that?

Madhukar Dev: Yes. I mentioned at the beginning that the other income includes FOREX gains of Rs. 14.7 crores.

Ravi Naredi: So next quarter onwards if you mention this thing in investor presentation along with the other income, it will be very helpful for the investors. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.

- Ankit Shah:** Sir, I had a question on the Panasonic deal. Sir, correct me if I am wrong, but initially, the deal with Panasonic was for product design for domestic and surrounding markets. And there was a second component which involved the development of core technologies for Japan and other global markets. So now has this deal been curtailed only to the domestic and surrounding market piece? Or that second piece is also going on?
- Madhukar Dev:** Both the objectives are being pursued and the work is predominantly done here in our facility which has people from Panasonic co-located. And their primary objective is to address the product requirements of this market. And at the same time look at intelligence and technologies that can be of use to Panasonic worldwide. So there is no change in the charter.
- Ankit Shah:** Sir, can you share the percentage of IP revenues for this quarter? And which segment contributes towards it?
- Madhukar Dev:** There is really no change, it is very similar to the last quarter, very small still. And the bulk of it really comes from the broadcast business and there is really no significant change.
- Moderator:** Thank you. The next question is from the line of Rushali Jadhav from MIB Investments. Please go ahead.
- Rushali Jadhav:** Sir, in an interview with The Economic Times on 3rd October, you mentioned about the double-digit quarter-on-quarter revenue growth. Could you throw some more light on it? What are the growth drivers, exact timeline?
- Madhukar Dev:** Firstly, that story that was published in early October was an interview that was done several weeks ago. And what I had mentioned was that our immediate objective is to get into a mode where we grow our revenues by 10% every quarter. And once we get to that over a few quarters, then we can look at pushing it up further. So that stays as our objective. And if you see, with a little help from the falling rupee, we did

come very close to 10% sequential growth in the quarter that has just gone by.

Rushali Jadhav: Sir, what are the growth drivers for this?

Madhukar Dev: New engagements, essentially.

Moderator: Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

Rohan Advant: Sir, in the last call you mentioned about margins and you said that your margins are high and you intend to get it lower. Now they are a bit lower than the last quarter. So are these current margins sustainable or you think that to pursue growth you could further bring margins down?

Madhukar Dev: As I have been saying over several quarters, our objective is to maintain margins at about 24% - 25%. And it so happened that in the preceding quarter also it was higher, and in the quarter gone by it was even higher. But in our planning, we factor in about 24% as the objective and plan our expenditure on that basis. So I do not think we should take the current levels to be a norm, it is more happenstance; 24%, 25% is a good margin and that is what we will work towards.

Rohan Advant: Understood. Sir, you are saying EBITDA margins, right?

Madhukar Dev: No, I am saying PBT on sales.

Rohan Advant: PBT on sales, okay. Which would include the FOREX gain/ loss?

Madhukar Dev: Yes.

Rohan Advant: Okay. Sir, the last question was a data point question. Sir, what was FOREX gain or loss in Q1 of FY19, if you could share that?

Madhukar Dev: Very little. It was in lakhs, not even a crore.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

- Vimal Gohil:** Sir, my question was really on JLR. So, if we are seeing some sort of temporary slowdown in that particular piece, does that really take anything away from our aspirational target of growing 20% for the next couple of years at least?
- Madhukar Dev:** No, not at all. And we are not seeing a very significant slowdown in the work coming out of JLR. What we are seeing is a change in the mix of work - we probably will be doing much more work offshore than onsite than we were doing before as compared to earlier quarters. So in terms of volume, I do not think there will be much of an issue.
- Vimal Gohil:** And sir just following up on the earlier question, the 10% growth that you are talking about, is it quarter-on-quarter growth or how is it?
- Madhukar Dev:** Yes, it is sequential quarters.
- Vimal Gohil:** And you are talking about targeting that later this year itself?
- Madhukar Dev:** Yes.
- Vimal Gohil:** Okay. So is it coming out from Industrial Design or is it coming from the engineering piece?
- Madhukar Dev:** Mainly from the engineering piece because even if industrial design grows at a much higher pace, it is only about 10% of our revenue so it cannot have such a big impact, it has to come out of electronics and engineering piece. Let me just clarify, that is our objective, I am not projecting a 10% growth. And as I mentioned that in the quarter that has gone by, thanks to the FOREX situation we did almost touch 10% that is all.
- Moderator:** Thank you. The next question is from the line of Naveen Bothra, individual investor. Please go ahead.
- Naveen Bothra:** Continuing from the IP revenues from the earlier question, if you can throw light on how much revenue we have booked in this quarter from IP-led revenues?

- Madhukar Dev:** I do not have the exact numbers, but it is not very different as a percentage from the previous quarter. So we still have some work to do to make it come up to the 10% that we have been aiming at.
- Naveen Bothra:** Yes. So by the end of this year, we will be near to that aspirational 10% revenue of the total revenues?
- Madhukar Dev:** Yes, that is what we are working towards. Let's see where we get to.
- Naveen Bothra:** Okay. And the next question is regarding the autonomous vehicle space, which we were earlier saying that the first autonomous vehicle, the complete autonomous vehicle on road, will be on our Autonomai platform. So where do we stand in this?
- Madhukar Dev:** Just to clarify, we started this endeavor with the objective of building skills to do two things - one is to generate IPs out of the whole solution which could be licensed and the other is to get service engagements from people wanting to do development in the area of autonomous driving because we will be able to demonstrate our capability. And we had one engagement with a top carmaker for implementing our entire solution on their R&D car, which was tested on a test track in Europe and met all the qualifying criteria that they had set out. So, that was a significant achievement. But the solution that we have, while we can put it on a car and make the car move autonomously, it is not something that would suit a serious carmaker. What will be of interest to them are specific sub-components of the solution which they could integrate with their solution and accelerate the growth. So we are in discussions with a number of customers on possibilities of licensing sub-components. The cars that we have running, whether it is in Bangalore or in Trivandrum in controlled environments, are demonstrators of our capabilities and the features that we have built into the platform.
- Naveen Bothra:** So we have not moved anything, licensing income from this autonomous vehicle, Autonomai, and all these things?

Madhukar Dev: In the current quarter, we only completed that engagement with the car company which was tested towards the end of August or early September so we have completed the delivery and the testing.

Naveen Bothra: Okay. Great news, sir. And if I may, just one more question, if you allow me to. Regarding the total number of employees by the end of this quarter, the 30th of September, how many regular employees are there nowadays?

Madhukar Dev: It is almost 6,000 employees, just a few less than 6,000.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.

Ashish Agarwal: Just a couple of questions. First is on the fact that some of the European auto majors have given some profit warnings because of the diesel car issues and also because they have to shift to electric cars. So first of all, on the electric car side, how much is the potential for us on the growth side for this? And my second question pertains to the industrial design business, now that business has been stagnant in terms of revenues. So where do you see that business, how should we look at the growth in that business?

Madhukar Dev: Okay. Taking the industrial design question first, we have seen new engagements coming in the quarter that has gone by, and there are a few fairly interesting opportunities that we see in the current quarter. So I think we will be back on our old growth trajectory for the industrial design business. In addition, a lot of integration between design and engineering has now been accomplished so a lot of our offerings to our key customers include an element of design, where the significance varies from engagement to engagement, but it is now an intrinsic part of our offering. So, with these developments, I think we will be quite comfortable in growing the design business.

As regards the European customers and the move to electrics and the slowdown, yes, all these are expected and factored into our scheme of things because there has never been a period where the car industry

has had a boom period for 15 years or 20 years without a slowdown. A slowdown is inevitable, whether it is due to diesel or it is due to Brexit, there is some cause or the other. Now, what I see as a major transformation in the car business is the possibility of cars being rented for use only and not being bought. And that has interesting implications for us because then the cars would be owned by either the car companies or their financing arm or leasing arm or whatever - a very tight integration of technology and the ability to pay for use for a car. It is not something that will happen very quickly but there is a good chance that it will be a reality in about five years' time.

If you look at electric cars, we have a sort of quick and dirty transformation of the gasoline powertrain into an electric powertrain in the same vehicle. Yes, it moves and it works on electric power but there are a lot of intricacies involved in making a good quality electric car as those of you who read about the challenges that Tesla has been facing. It is a fairly complex system, in that the entire mechanical structure of the car has to be different to be optimal for the electric powertrain. Also, the drive mechanism, your drive motor strategy will also determine how efficient the car will be; there will be trade-offs between acceleration time and battery longevity and things like that. So in each one of those areas, there is an opportunity for a service provider like us. So the shift to electric, while at one level is shifting pollution from the cities to the power plants, is an interesting opportunity for a company like us.

Ashish Agarwal: And lastly, we also have a small communication piece. How will that benefit from the 5G CAPEX, the growth of 5G?

Madhukar Dev: Yes, 5G. You see, our offering there involves software-defined networking, which really takes the control and provisioning away from the boxes into the cloud. And the need for making changes will be accelerated with the launch of the 5G. So our big opportunities will really arise when more and more operators are moving towards 5G and reassess their capital strategy and expenditure strategy. And we see an opportunity emerging there.

- Ashish Agarwal:** But have we started to participate or are we seeing deals coming on that, or is it still some quarters away?
- Madhukar Dev:** We have some engagements which are already in and some others which are in the works. And I think the next six months should have an interesting turn on how SDN will be embraced by operators.
- Moderator:** Thank you. The next question is from the line of Sanjeev P from the Tamohara Investments. Please go ahead.
- Sanjeev P:** Sir, just wanted to understand the kind of growth that we are looking at or aspiring to, 20% type of number. Is it on dollar basis you are looking at or rupee terms?
- Madhukar Dev:** It is in rupee terms.
- Sanjeev P:** Okay. And sir, what is the total number of employees that we have, what could be the split between on-site, off-shore?
- Madhukar Dev:** Our on-site revenues are about 40% and off-shore is about 60%. So, we would have less than 25% of our workforce on-site.
- Sanjeev P:** Okay. Sir, last question, which is more of a qualitative type of question. Trying to understand what kind of engagement we have with JLR and all. Obviously, the kind of spending that they do on R&D spend is a huge number considering what we are generating. So to understand what exact type of work that we are working with them and what are the possibilities, at least, do you see what we can offer and we can scale up?
- Madhukar Dev:** The work that we do for JLR is predominantly in electronics engineering. And their R&D spend is obviously quite large, like in all car companies, and the bulk of it is spent in-house. And then, some of it is outsourced to local service providers and some of these are specialized boutique houses which are doing specific kind of work. And then to service providers like us, which are more broad-based. And as I have said once on a call earlier, we are not the largest outsourcing partner in JLR so that gives us a considerable headroom to expand

even if their overall pie shrinks. As long as we are delivering higher value for the money that they are paying us, there is a good chance that we will be able to increase our share.

Sanjeev P: Sir, recent news regarding the Hyundai tie-up and engagement that we got. Could you please throw some light, what scope and what is the timeline that you are looking at?

Madhukar Dev: This is an engagement with Hyundai Mobis, which is a Tier-1 supplier, it is not the carmaker. And we are developing a tool for them which will accelerate testing of autonomous cars.

Sanjeev P: Okay. So what is the timeline or we have already started working with this engagement?

Madhukar Dev: Yes, the engagement has started.

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

Bharat Seth: We started in the transportation sector with infotainment. So, now how many other areas are we working on the automobile side?

Madhukar Dev: Infotainment continues to be a big play for us in the automotive area. There are interesting aspects to infotainment - on one hand, there is an adoption of a platform like Android and it is gaining traction and on the other hand, you have secure platforms like QNX from Blackberry with whom we have a partnership too. So infotainment itself has evolved. We continue to work in all the other areas of the conventional car, be it driver assistance or powertrain or body electronics. But the new opportunities are really in the area of electrification of the cars, there are a lot of opportunities in what is required to make an electric car optimal - from safety, from battery longevity, from acceleration and so many parameters. So we are really doing almost everything that has electronics in a car.

Bharat Seth: Okay. Sir, and one more question, if you can permit, maybe one or two questions. I mean, we are also in designing. So in tie-ups like the one

with Panasonic, we are engaged from the conceptual stage. So how are we able to leverage these opportunities in going into further electronics and in similar engagements whether it is a home appliance or broadcasting or autonomous?

Madhukar Dev: Obviously, if you look at Panasonic, we may start with a design concept and eventually do the electronics that deliver the outcome that is required of the concept and occasionally builds artificial intelligence to make the appliance smart. So you may start to design but you may go all the way up to artificial intelligence. So it varies from product to product and engagement to engagement but we have the capability to do it all.

Bharat Seth: And are we looking at any opportunity on the automobile side? I mean, from conceptual designing stage to taking full part till the vehicle is launched?

Madhukar Dev: Yes. But obviously the car manufacturers do not rely on one service provider for the whole thing, so they slice it and offer different pieces to different service providers. We have a play in all of it. So somebody gives us one, somebody gives us two.

Bharat Seth: And how big is the opportunity we are seeing in the broadcasting and communications side?

Madhukar Dev: The opportunity continues with the transformation to Internet TV. At a very broad level, you can watch a video of the same quality or higher quality over the internet today as you could over your cable or DTH but the interfaces are still clunky and therefore people are trying to build smartness either on the TV or a set-top box becoming a hybrid - it can work as a cable or a satellite set-top box that also has an internet connection. So you will see one interface and you have one way of viewing it so it delivers a smoother viewing experience. So we are seeing a lot of movement towards OTT which enables internet TV. And we have implemented some OTT apps for our customers and we see almost every broadcaster needing to make the transition in the near future - it is a big opportunity.

- Moderator:** Thank you. The next question is from the line of Aksh Vora from Praj Fin Corp. Please go ahead.
- Aksh Vora:** I just wanted to know what kind of revenue visibility are we seeing from a medium to long-term perspective, say, three to five years? Our aspirational aim is about 20%, but are we actually seeing the same, sir?
- Madhukar Dev:** We do not have visibility beyond the immediate future. So it is based on the triangulation of market opportunities, availability of skills, and availability of resources and that is how we arrive at an aspirational growth rate of 20% year-on-year. It is impossible for me to say what our revenue will be next year for example.
- Aksh Vora:** But medium to long term, our aspirational target would be 20%?
- Madhukar Dev:** That's right.
- Moderator:** Thank you. The next question is from the line of Apurva Prasad from HDFC securities. Please go ahead.
- Apurva Prasad:** Mr. Dev, you mentioned earlier about looking at larger deals and longer duration, so can you provide any metrics around that? I remember you had mentioned about a two-quarter duration earlier, so did you see that changing or in terms of TCVs that you are booking, is that going up?
- Madhukar Dev:** Yes. What we have been trying to do is to look at engagements which cross the four quarter boundary, so if we can have a multiyear engagement. All engagements are obviously not like that but we are pushing and targeting for longer duration engagements and consequently, the contract values are much larger than the shorter engagements. So instead of facing this challenge and pressure of finding new engagements every few months, we are trying to see if we can build on the credibility that we have in the market and look at longer duration engagements and we did make progress in the quarter

that's gone by and we have visibility on a number of other deals that we are chasing in the current quarter.

Apurva Prasad: Sure. And a follow-up to that question, I mean, anything in terms of change in strategy, maybe in terms of deal sourcing that you have changed which is bringing you success? That, and also on the automotive side, you talked about stronger traction outside JLR, so if you can maybe perhaps talk about geographies that are driving it.

Madhukar Dev: In automotive, the growth is coming from all the key markets that we are targeting - Europe, Japan, and the US, and that is outside of JLR. And in terms of strategy, while there is no significant shift but almost by the month, the strategy gets refined depending on the change in the environment. So, nothing significant as compared to last quarter but if you were to compare with what we were pursuing business two years ago to what we are doing today, there would be a fairly significant difference.

Apurva Prasad: Sure. And finally, just wanted to stitch together the outlook on revenue and margins. So I remember last quarter you talked about 20% YoY growth rate in rupee terms, we were at Rs. 67 - 68 to the dollar back then. So how would you see the constant currency revenue trajectory at least in the medium term? And why would margins target still be at 24% - 25%? I mean, is it that there is contract repricing which is coming up at a changed dollar-rupee level? Or there are investment plans that have gotten accelerated?

Madhukar Dev: No, the margins in the current quarter were helped to some extent by the falling rupee so it is not something that we would be able to sustain. Then we have taken on a fairly large number of new employees and there will be a certain amount of expenditure that will go in to train them and bringing them up to speed before they can start earning revenues. And our plan is to continue doing this into the next year also. So given all that, the PBT percentage that I mentioned- 24 - 25% seems a more realistic one than what we delivered in Q2.

- Apurva Prasad:** And also on the revenue growth number, is it a constant currency number that you are tracking?
- Madhukar Dev:** I actually do not have a constant currency number with me that I could share right now with you but maybe in the next call, we will try and address this.
- Apurva Prasad:** Sure. And finally, if you can just give me the utilization number, which was 81% last quarter. What is it for this current quarter?
- Madhukar Dev:** With the new additions, it would be about 78 - 79%.
- Moderator:** Thank you. The next question is from the line of Sagar Rastogi from JP Morgan. Please go ahead.
- Sagar Rastogi:** Sir, just a follow-up actually on a previous question that has been asked. So you said that you are targeting lower margins from current levels because...
- Madhukar Dev:** No, I am not targeting lower margins. I am only saying that margins that we had in Q2 may not prevail in all quarters.
- Sagar Rastogi:** Right, so should we, I mean, how should we think about the drivers for that drop? I mean, would it just be pricing where customers would come back and say...
- Madhukar Dev:** I just answered the previous question that we have increased our workforce significantly in the last few months and a lot of these people have to be trained at a considerable expense before they can start earning revenues. And our plan is to again induct a fairly large number of people in the next calendar year. So in order to grow the organization, we have to spend more money.
- Sagar Rastogi:** Right. So, I mean, fair to say it is more building the bench for the future growth that is where a lot of the investment is going?
- Madhukar Dev:** Yes, building the workforce for growth in the future.

- Sagar Rastogi:** Right. So you also alluded to how you were trying to get engagements with longer duration. So to get there, I assume, a lot of capabilities need to be added? And if that is so, would that also require certain investments?
- Madhukar Dev:** Yes, it requires two things. It requires credibility with the customer, which normally comes out of the engagements that you have had with the customer before. And if the area of work is new, then you have to add that capability too.
- Sagar Rastogi:** Understood. Lastly, could you share the number of sales and support employees that you have versus billable employees?
- Madhukar Dev:** I do not have the number readily with me, but I guess all non-delivery employees put together would be about 400.
- Moderator:** Thank you. The next question is from the line of Amit Jain from O.J. Financial Ltd. Please go ahead.
- Amit Jain:** Sir, I just want to understand the segment, which industrial segment you foresee will be driving the growth this coming future? So automotive, I understand that it is contributing about 60% of your EPD if I see the numbers. So is it going to be the main growth driver for you?
- Madhukar Dev:** Automotive is about 60% of our current revenue and we see that continuing at around the same pace. The rest of the transportation sector is a small component of the automotive revenue pie. We see a potential for growth in the smart home area which will be inclusive of broadcast, IoT and a number of other technologies coming together. So the primary drivers will be these two. What we have nurtured over the years is our healthcare and medical practice, which is now beginning to show very encouraging signs. So we should see it in a couple of years' time that segment also becoming as significant as the others.

Amit Jain: Sir, you just mentioned in the previous question about the type of engagement, about the duration of those engagements. So I couldn't get it properly, about the duration...

Madhukar Dev: Yes, okay. Traditionally, our engagements are short duration projects. And a long engagement would be maybe nine months and the average would be four to six months. We are trying to grow from that to engagements that last over four quarters, more than a year. So, we have had some success in finding bigger, longer engagements and there are a number of deals in the works which are also of a similar nature.

Moderator: Thank you. The next question is from the line of Ankit Shah from White Equity. Please go ahead.

Ankit Shah: Sir, on the IP side, in the last call you spoke about an innovative drug delivery pen. So has there been any progress on that? Have you been able to license it?

Madhukar Dev: I will not be able to tell you specifically what is the progress and where it is licensed, etc. But like that and a number of other IP initiatives, these are an ongoing part of our operations. And it is not expected that they would have a major revenue impact immediately. So these are all initiatives which will bear fruit in the future.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: So I just wanted to know about any new client wins that we have had in this quarter, specifically within the auto and the broadcast segment?

Madhukar Dev: Yes. We have had new client wins, about 12 new customers have been added in the last quarter, and some are fairly interesting. But the big, long-term engagements that we have got are from clients with whom we had engagements in the past.

Niket Shah: So this 12 includes auto plus broadcast?

Madhukar Dev: Yes, it does.

Niket Shah: The second question was on the healthcare part of the business. What kind of customers are we really tapping here, is it the medical equipment guys or is it the hospital guys? What exactly, when you said that, in the next few years, it will be substantially larger, so larger part of the traction would come from the hospital or the medical equipment guys?

Madhukar Dev: At the moment, the traction is more with the equipment makers. At some stage, I see that transitioning to healthcare providers where we go beyond, so to speak, outside the box into the solutioning of whatever we are working with.

Niket Shah: Okay, sure. And within this broadcast part of the business, are we seeing any cannibalization? Because obviously, set-top box people are moving from set-top box to apps like Hotstar and all. So, are both these segments growing for us, or one is not growing and another one is growing at a faster pace? So how should one really look at it?

Madhukar Dev: At the moment, both are growing and are sort of converging. I mean, the handhelds will always use only the apps but the large screen format would want a set-top box and the user would want a seamless experience irrespective of whether he is watching an OTT delivery or a satellite delivery or a cable delivery, and that is why the boxes themselves are changing and that is where we are seeing an opportunity.

Niket Shah: Sure. And final question, sir. Last time during our interaction you also highlighted that within the autonomous car, it would initially start with braking and Europe was about to come up with a regulation on the auto-braking part of it. And you were supposed to deliver a particular solution to a particular client in Europe. So has that gone through or that is supposed to happen? I thought that was supposed to happen in FY19.

Madhukar Dev: I am not aware of that, so I have to check and revert to you.

- Moderator:** Thank you. The next question is from the line of Naveen Bothra, individual investor. Please go ahead.
- Naveen Bothra:** My question is regarding the use of cash for organic as well as inorganic as we have the targets.
- Madhukar Dev:** We are looking at opportunities to look at inorganic growth and we made some attempts where the fit was not right or the valuation was not right so we have not succeeded yet, but the efforts are ongoing. There's a small group that works on this within the company.
- Naveen Bothra:** We have earned around, I think, Rs. 160 crores cash profit in this half year. And the rough utilization shows that trade receivable has gone up, other assets have gone up, fixed assets have gone up. So around Rs. 50 crores, Rs. 60 crores have been invested in, I think, organic investments and all these things if you can quantify.
- Madhukar Dev:** I would not be able to quantify the amount that we have spent on organic expansion. It's mainly got to do with investment in basic tools and additional manpower which will not be revenue earning for some time.
- Naveen Bothra:** Because the cash in hand has gone up by only Rs. 10 crores in this half year as compared to March, but cash profits are around Rs. 160 crores?
- Madhukar Dev:** Now for inorganic expansion, if we do make a significant one, it will have to be much beyond the cash that we have on hand.
- Naveen Bothra:** So around we are having roughly Rs. 500 crores.
- Madhukar Dev:** Yes, it is somewhere in that vicinity. Not quite Rs. 500 crores yet, but this cash can fund a small acquisition which is of strategic interest. But to get anything of scale, we will probably have to look at funding it through other means.
- Naveen Bothra:** Any merger and acquisition, not much cash, equity shaping and all these in the board's discussion and all these things?

- Madhukar Dev:** No. When there is, we will certainly share it with you.
- Moderator:** Thank you. The next question is from the line of Sanjeev P. from Tamohara Investments. Please go ahead.
- Sanjeev P:** Sir, regarding the Comcast engagement; there also we see some kind of slowdown and also disruption that is going on. If you can throw some light regarding the kind of engagement that you are talking about, the longer-period engagements or anything else if you would like to throw light on?
- Madhukar Dev:** See, the set-top box itself is changing into a home gateway, which will be your main communication interface to the home. It will have features that will enable you to watch video from various sources in a unified, seamless experience. There is really no slowdown in that. The slowdown is in the plain set-top box which was primarily a device to deliver digital TV with conditional access. That market is nearing saturation and therefore it will be in a new avatar that we will see the set-top box coming into our homes.
- Moderator:** Thank you. The next question is from the line of Lokesh Daga from Kotak Wealth. Please go ahead.
- Lokesh Daga:** You said that the company is targeting multi-year engagements. If you look at the current revenue, can you tell us what is the proportion of revenue from multi-year engagement versus revenue from short-term engagements?
- Madhukar Dev:** Very small. The multi-year engagements, we have just started winning some in the last quarter, so it is an insignificant percentage in the reported revenues.
- Moderator:** Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.
- Dipan Mehta:** Sir, I heard early in the call that you are increasing the number of employees strength, as well as training them. Is it to do because you see greater visibility in your businesses, or is it to augment certain

specific skill-sets which are perhaps missing at present in the organization?

Madhukar Dev: To grow our revenues, we need more people and the markets that we address are looking promising, so this is the right time to expand and that is the reason why we are adding to our workforce.

Dipan Mehta: And the second question, in the past you have clearly explained various trends in the industry which are benefiting the company and how it has, in fact, outperformed the other software companies. Any new specific trends that come to your mind which perhaps will be driving growth even further? We all know about the disruption happening in the auto industry and the entertainment industry. But any other specific macro or micro trends which have emerged perhaps in the last 6 to 12 months which may positively or negatively impact the company over a three to five year kind of medium-term kind of perspective?

Madhukar Dev: I had mentioned earlier in the call that at some stage we will see people paying for use of a car rather than buying cars. That is especially for the utility kind of vehicles. People may still continue to buy and own luxury sedans. Associated with that will be a whole lot of software and engineering work that will enable people to pick up a car anywhere in any city and drop it in any other city, and pay for the use they derived out of that car. And cars' health will be monitored, driving style will be monitored so that the drivers who have bad driving habits may not be offered the car again or may be charged a premium or additional insurance. So there will be a coming together of technology, information, data, and analytics. All that I see as a big opportunity in the years to come.

Moderator: Thank you. That was the last question in the queue. I now hand the conference over to Mr. Vaidyanathan for closing comments.

G. Vaidyanathan: Thank you very much. With this, we come to the conclusion of this Q2 earnings call. I would like to thank Mr. Madhukar Dev for taking the

questions and answering them. I would also like to thank all of you for joining the call. Thank you very much. See you next time. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Tata Elxsi, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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