



Q1 FY21 Earnings Conference Call July 22, 2020 | 15:00 hrs IST

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tata Elxsi Q1 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. G. Vaidyanathan. Thank you and over to you, Sir.

G Vaidyanathan: Good Afternoon to you all, and thank you, Stanford. Welcome to the Q1 earnings call of TATA Elxsi. In Bangalore, with us, we have Mr. Manoj Raghavan - CEO and MD, Mr. Nitin Pai - CMO and CSO. The agenda goes like this - Mr. Manoj Raghavan will give a brief overview of the Q1 performance post which you can pose your questions for clarifications and answers. Request the participants to restrict to one question each. If we have time, you can join the queue for further questions. Now, I will request Mr. Manoj Raghavan to take it over.

Manoj Raghavan: Thank you, GV. Good Afternoon to all the investors, thank you for joining us today, and I hope you and your families are safe in this COVID situation. Considering the uncertainties that we saw across all the verticals at the end of the last quarter and the beginning of this quarter, I would say that performance for the quarter gone by has been quite satisfactory both in terms of top line and bottom line. As you guys would have seen, our revenues for the quarter grew by 10.7% year-on-year, and our PBT grew by 33.9% year-on-year. Of course, quarter-on-quarter, we have seen a dip, but I think you should see the dip in the context of the difficult situation that we had in the industry due to COVID.

The company's largest division, Embedded Product Design Division, EPD, grew by 13.2% year-on-year. Within EPD, I am happy to let you know that both the media and communications business unit and the medical and healthcare business unit recovered sharply during the quarter and posted sequential growth as well as a very healthy 20% and upwards year-on-year growth.

The media and communication vertical grew 23.3% year-on-year, and 3.3% quarter-on-quarter and the medical and healthcare vertical grew by 26.5% year-on-year and 5.3% quarter-on-quarter. However, the transportation vertical continues to be muted. This had an impact both on our EPD business as well as on our IDV business because a significant part of the IDV's business is from the transportation segment. However, while we say the transportation segment is muted, we continue to win both new deals as well as add new customers in this segment, but just that the deal closure cycles have definitely become longer due to deal deferrer, higher scrutiny, and of course, an evident slowdown in decision making across the value chain.

Lastly, I am delighted with how we have successfully managed to institutionalize remote working and continue to serve our customers across the world seamlessly. In a matter of a couple of weeks, we were able to move more than 95% of our workforce to work from home with the right infrastructure, right security practices, and so on. During the quarter, we managed to have maybe about 15% of our employees come to the office and 85% working remotely. However, in the last couple of weeks, we have once again moved back to 95% working from home because, in many places, we have had additional lockdowns, which necessitated our employees to work from home. I would really want to thank all our employees for embracing this change so quickly and continuing to deliver and contribute to our success and, of course, to all our customers who have stood with us in these very challenging times. With that, I would hand it over to GV for the Q&A session. Thank you so much, and I look forward to your questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Sir, my question is on your gross margins, on a sequential basis there is a 375 odd basis points dip in your gross margin this quarter, what would you attribute this to? Would it be more to do with your probable non-fungibility of employees, especially in the onsite project and pricing pressure, that is my question number one? Secondly, one is a related one, on your operating cost, you have managed to keep your cost down extremely well, how sustainable is this? As and when revenue growth improves, what portion of your cost savings could come back?

Manoj Raghavan: I am not sure of the 375 basis point reduction, but however our top line has de-grown by about 8.7% quarter-on-quarter, and that has a direct impact on our bottom line as well. Whatever you talked about, including the fact that fungibility of resources are concerned and of course, we have had additional expenses because we have had a number of our employees who were stuck in overseas locations who could not come back because of COVID, we had to bear all those additional expenses. So I think that explains the sequential dip in our profitability, I think about 14% or so.

Regarding operating cost, yes, we have been able to control our operating cost, we have had very, very strict controls in hiring, in any expenses, we have also not added any new office space, no travels happened during the quarter, so several things also helped us to manage the operating cost, of course, we have not given a hike in the salaries this financial year, so all of that has actually helped us to manage our operating cost better.

Vimal Gohil: Sir, what portion of it is sustainable? I mean, what portion of your cost could come back once the growth comes back?

Manoj Raghavan: As long as COVID is there, a lot of those big-ticket items like travel, office space, and so on will continue to be muted. This is a new normal; the industry is going through a lot of changes, so I would say, at this point of time, it is very difficult to say when things will get to normal and how much of that cost addition will come in. As of now, I do not think in the coming quarter Q2 at least, we see any additional cost pressures coming on us.

Vimal Gohil: Sir, lastly, could you just comment on the demand environment, especially on the auto, what has changed incrementally over the last quarter?

Manoj Raghavan: Auto demand is still muted, I would say. We are winning deals, but at the same time, some of the large deals that we have been chasing with some of our key customers are getting slowed down and are getting pushed by a quarter or so. We continue to be cautiously optimistic about the auto segment, we are not writing it off, but we are placing our bets correctly so that we do not depend overly on that particular segment for our growth.

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

Madhu Babu: Sir, on broadcast and communication, which is now the biggest vertical, so how do we see the sub-segments there? And could you talk about the top account there how it is growing?

Manoj Raghavan: The top account is a large multi-services operator based out of the US, so our business with this particular customer has been growing pretty well, I would say. We have been engaged with this customer over the last 12 years, and over this period we have won significant deals, significant consolidation opportunities, a lot of high technology especially in the new broadband space as well as OTT space, so a number of things that we are doing for this particular customer.

Madhu Babu: The other sub-segment within broadcast and communications, what are the new opportunities we are chasing?

Manoj Raghavan: Basically if you look at it, one is the operator segment which I talked about. Apart from the large operator in the US, we have large operator business in Europe, in India, in South Africa. We are

looking at the Middle East as the next opportunity where we have a number of deal pursuits that are happening, so this is a globally spread sort of a business that we have. We also work with the broadcasters, so that is another segment that we have, the OTT players, and so on. The third segment is the devices segment, companies that provide devices into this space, set-top boxes, and other devices, so these are three main segments in this particular industry.

Madhu Babu: Just on the work from home, can it be the new normal even post-COVID because engineering design is a bit different from IT services, so how do you see the post-COVID CAPEX/OPEX and you know the work from home?

Manoj Raghavan: There is a set of opportunities for which there is no hardware dependency, or there is no stringent customer confidentiality sort of requirement, those requirements can still work from home if possible. But a lot of our requirements also mean that we need access to special labs, specialized hardware and so on, so those it will be difficult for us to have a complete 100% work from home; we may have a mixture of both. So far, we have always been 100% work from office only and have not had a work from home policy till COVID happened. But maybe there is an opportunity based on the learnings that we have to dilute this a little bit so that we give options to our employees to work from home partially and partially work from the office. So this is something that we are working on right now, there is no straightforward answer here. It is based on a deal to deal, customer to customer, and so on. We cannot, like IT companies we give you a blanket sort of a statement here, but we would definitely encourage a lot more work from home now that our employees have seen the advantages of work from home.

Moderator: Thank you. The next question is from the line of Ritesh Bhagwati from Rockstud Capital. Please go ahead.

Ritesh Bhagwati: I have a question on our industry verticals. As we are seeing muted growth in transportation, can we expect strong growth on medical devices front from this fiscal and contribute significantly as a percentage of sales in this year or will this growth be gradual one? Also, can you let us know what has been the utilization rate in this quarter versus last year?

Manoj Raghavan: Medical devices continue to grow for us. I think we have grown 26% year-on-year and slightly more than 5% quarter-on-quarter. I think we would continue this growth trend as I communicated in my last investor calls and so on, we have been investing significantly in this business both from a delivery capability perspective as well as from a sales force and demand creation perspective. I am happy to let you know that this growth momentum would continue. COVID is like a blip here; we could have done much better if not for COVID, but having said that even now, we see strong deal momentum happening in this industry. From a utilization perspective, I would say last quarter we were about 76%, and I think now we are slightly below 70%. So there is room for us as the demand creation goes up, we will be able to absorb the additional capacity that we have.

- Moderator:** Thank you. The next question is from the line of Naveen Bothra, an Individual Investor. Please go ahead.
- Naveen Bothra:** My question is regarding the growth opportunity, in the last Q4 concall you had said that we do have two or three opportunities that are being evaluated but at an early stage. So can you throw more light on that growth opportunity, and has that moved forward?
- Manoj Raghavan:** You are talking about acquisition opportunities, right?
- Naveen Bothra:** Yes.
- Manoj Raghavan:** No, in the last quarter also, we have evaluated about three opportunities, but we could not see a strategic fit into our company, as well as the valuations were on the higher side, so we have not progressed on those. But however we are evaluating, because of COVID-related issues, some opportunities are coming up to us, I would say we are in the evaluation stage, nothing significant to report right now.
- Naveen Bothra:** In this year, there is some chance of inorganic acquisition going forward in Q3, Q4, ...?
- Manoj Raghavan:** We are constantly evaluating on this front and there is a team with a mandate that is going after it. If there is anything that comes up, at the appropriate time, we will keep the investors informed.
- Naveen Bothra:** My next question is regarding the top five customers, in absolute terms, JLR has year-on-year declined by 7 crores, but if we see top customers, they have grown from 80 crores to 106 crores this quarter, so that is a growth of more than 30% suggesting increased engagement with all these four customers, so is there any further room to ramp up these customers, is this growth sustainable going forward?
- Manoj Raghavan:** Of course, I think the good part about not just the top five, the top 10 customers is that they have been with us for a long time. We have had issues in a couple of customer places where we had some dip in business because of COVID, but everybody else, we have really strengthened, if you compare Q1 of last year and Q1 of this year, we have shown a pretty good bounce back, and that has really helped us to mitigate some of the revenue dips in accounts like JLR.
- Naveen Bothra:** Is this sustainable going forward, Sir?
- Manoj Raghavan:** Absolutely, Mr. Bothra.
- Naveen Bothra:** My last question is regarding the JLR, have we seen the bottom of JLR in the absolute terms, will it stabilize or further de-grow from here on?

- Manoj Raghavan:** Your guess is as good as mine.
- Naveen Bothra:** The visibility and the deal pipeline and the execution?
- Manoj Raghavan:** It is a difficult business; I mean, the company itself is in a difficult situation.
- Naveen Bothra:** From 98 crores top two, we have come to 53 crores from JLR. If I am not wrong Q1 FY '19, we have come to 53 crores, so will it stabilize here around 50 crores?
- Manoj Raghavan:** We have two objectives Mr. Bothra, one is to protect our revenues from our top customers, and my intuition is that we have bottomed out and we are getting good vibes from the management out there, that there are some new deals that we are talking of and so on, so hopefully next quarter will be slightly better is my hope and then the other thing that we are doing is we definitely want to de-risk this situation. This is not a good situation for us when we have a dependency on one key customer, I think to a large extent, we have de-risked. However, in the subsequent quarters also we will continue to de-risk . We are growing other accounts far more aggressively so that any plus or minus in some of our key accounts should not affect us disproportionately, that is the focus for us.
- Moderator:** Thank you. The next question is from the line of Harish S. Talwalkar, an Individual Investor. Please go ahead.
- Harish S. Talwalkar:** I have around two to three questions. The first one is regarding your transportation vertical, it has impacted and muted, so what is the company's plan to mitigate this sluggish demand, and the second one is relating to employee benefits. Has it increased due to salary increments, or it has some bonuses or performance incentive? The third one is regarding the financial report you had said allocable assets and liabilities, so what it is exactly and what it includes?
- Manoj Raghavan:** Transportation business definitely is showing muted signs right now, so traditionally we have been working with automotive OEMs and Tier-1. So consciously what we have been doing over the last two or three quarters, we have been looking at adjacencies to this market, which is we are looking at rail, off-road, and commercial so that the skillsets are similar, the skill sets are fungible. So that is a segment that we are really focusing on, having additional sales bandwidth, delivery bandwidth, and so on, so to an extent, yes, we have been pretty successful; it is early days, though. We have some new customer engagements there, and that business is growing, so that is one of the key de-risking plans from a transportation business overall. Of course, the other thing is we have been aggressively growing our media communication business as well as the medical business. Again in the last three-four quarters, that has been the focus for the organization, so that we sort of de-risk the automotive industry and the potential downturns in the particular industry. So I think we have been doing that consciously, and I would say that is one of the reasons that we have been able to mitigate this steep decline that we have had and come out with a respectable sort of numbers. Employee benefits have gone up slightly, we

have added about 200 people in the quarter, but we have also had a set of people from overseas who have come back. So if you see net-to-net, what I understand from my team is that the expenses have actually come down slightly. There has not been any new bonus or any other incentives that have been paid, so we have actually managed the cost very, very well I would say.

Harish S. Talwalkar: I had just checked a year-on-year basis; that is why it increases?

Nitin Pai: Year-on-year if you look at it, we have added employees from that period because June 2019 we already had plans to add about 600 fresh engineers that we added over that period. So, in general, overall employee headcount has gone up, and we had revisions between that period, from that time to now we have one round of revision, so it accounts for those two costs.

Let me put it this way, there is nothing unusual here because if you look at it quarter-on-quarter, you will find that we have managed costs quite well, while on a year-to-year basis simply because there is a headcount increase and there is some amount of employee benefits increase that has happened during the one year that we are talking of.

Manoj Raghavan: Regarding the third question, I am sorry you were not clear regarding the assets and liabilities. What I would suggest is please frame your question and send it to our company secretary, we will have our finance team respond to you with the answer.

Moderator: Thank you. The next question is from the line of Kishore B., an Individual Investor. Please go ahead.

Kishore B.: My question is like did we find any opportunities from this COVID crisis which could be implemented in the company's future that may help us to reduce the cost structure and all?

Nitin Pai: Mr. Kishore, from what I understand you are not talking of opportunities from the market, you are talking of opportunities within the company to reduce costs, is that correct?

Kishore B.: Yes.

Manoj Raghavan: If you talk of reducing cost, I think that will happen over the long term, where we rationalize our office space and the requirements. Right now, we are still maintaining all our office space, and in fact, we are spending more because of the additional IT security requirements and laptops for employees and so on. In the short term, I will not say you will see any reduction. But in the mid-to-long term, as we relook at our overall infrastructure requirement and the office space requirement, we could see a reduction in some of those expenses. But you have to also bear in mind that many of our office rentals are long-lease rentals, they are locked in, so we cannot just get away; we will have to pay before we can get away. So we have to evaluate all of that, I think we will do that at the appropriate time.

- Kishore B.:** Any large deal wins in any of our verticals, Sir?
- Manoj Raghavan:** We have had deal wins. I would not say large, but a couple of million dollars we have had a couple of deal wins, one in the automotive space and one in the medical space. Our existing engagements continue to grow, especially in media communication, as well as medical space.
- Moderator:** Thank you. The next question is from the line of Mayank Babla from Dalal and Broacha. Please go ahead.
- Mayank Babla:** Sir, we have seen broadcasting communication grow over the last two years, and transportation reduce in the revenue mix. Where do we see, going ahead, what is the management's vision? Where do we see this normalizing? What kind of mix can we see going ahead if you could point us in the direction?
- Manoj Raghavan:** I think we have been communicating this in multiple calls. In the long term, we definitely look at 40:40:20, 40 from transportation, 40 from media and communication, and 20 from medical. So that is going to be the long term, in three to five years that is going to be the way the revenue is going to look like. There would be these short term ups and downs, but in the long term, that is what we are looking at.
- Mayank Babla:** Sir, my second question would be if you could help us with any new platform that is, and can the pipeline like we have Autonomai and FalconEye in transportation and media? Are there any new platforms that we are developing that are in the pipeline?
- Nitin Pai:** Yes, we do have few platforms that are under development; some of them actually relate very appropriately to what is happening with COVID, especially where customers don't have the ability to manage and maintain operations with human capital at the site. Therefore, they are looking at how they can remote operate many of their operations or network operation centers, and so on. We are building not just building; in fact, we have built some very, very interesting platforms that allow you to virtualize some of your management of these assets. At this time, it is actively being deployed at a leading operator, so we already have our first customer win there. We are actively trialing and scaling that deployment, and the idea is to go from 100,000, 200,000 to a million devices under management, and then go beyond. So I think we are on a very, very good wicket as far as this particular platform goes because when we built it, we do not have COVID in mind; it was just meant to move customers in the direction of automation and remote operations. But with COVID, I think we are only going to see accelerated interest in these kind of platforms.
- Mayank Babla:** Nitin Sir, which industry would this be present, this platform?
- Nitin Pai:** Media and telecom industry, this is meant for operators who actually have operation centers right now. In fact, even in India, people have had problems because these are 24/7 network

operating centers, and you need a large set of people sitting inside operating and managing these centers. What we are building is a solution from which you can log in from anywhere, you can monitor, but not just monitor because monitoring is not enough, you can manage the network too.

Mayank Babla: Sir, you guided that you saw some green shoots in the top client and overall transportation like most of it is the worst is behind us; so Q2 can we see a good pump up I am not asking for guidance I know you do not give guidance, but qualitatively if you guide us?

Manoj Raghavan: From the transportation industry, I would still say it is early. We really do not see, of course, the situation is improving, but at this point in time I would not be confident to say that we have a recovery and things will improve and so on. However, from media communication and healthcare medical practices, definitely, we see increased spend, a lot more customer traction, and so on. At least in the short term, which is one quarter, I would say we would see the trend that we saw in Q1 continue. However, I would say maybe Q3 or Q4, or in H2, we would see some amount of recovery in the automotive industry. I think Q2 is still I am not so confident that we will see a great recovery.

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

Henrietta Seligman: I have about three questions, the first is just on the trend of working from home, will that also help increase your offshore ratio going forward and how could that sort of impact the margin? The second is on the security of working from home, which you sort of mentioned in the introduction. Could you go into a bit more detail about how you are able to keep customer data secure, and are reassured that it is safe when your engineers are working from home? The third question is just, I understand that there is limited visibility on the outlook, but how do the deal and tender activity compare at the moment versus this time last year, and how does it break down by vertical? Thank you very much.

Manoj Raghavan: Thank you. If you have seen in this particular quarter, our onsite-offshore ratio actually came down to more offshore and less of onsite. I think it is 63.5 to 36.5. So far, we have always been in the 60:40 sort of a situation, so definitely because of COVID, many of our customers' budgets have been affected. So we have gone back aggressively to our customers and push the model of more offshoring so that within whatever is the reduced budget of the customer, we will still be able to manage the overall activity and provide our services to our customers. At the same time, moving work from onsite to offshore also helps us improve our margins. So I would say we will see that accelerating a little bit at least in the short-term, maybe in a quarter or two, we will have more offshoring and less of onsite. Also, the fact that air travel to different countries is still prohibited, so we have to use local resources, and we will not be able to have engineers travel from India, so that also pushes us to really move a lot more work offshore.

Yes, from work from home perspective, we do have the security-related issues, but we have a very good security architecture that we have built. We use Microsoft's advanced threat protection; we use McAfee, so there are multiple ways, we use Palo Alto firewalls; there are employees who need to access the resources directly over the Internet like office mail, and so on; they come directly with multi factor authentication to have a secure application login. So everybody else needs to access source code, and so on, though they are working from home, they do a VPN and dial in remotely into a server that is within our firewall. So we are really able to use many of these, including VPN, multi factor authentication, firewall that is there, and remote RDP into our network. That is where we have been able to ensure that none of the information goes out of the organization, and as usual, in all the endpoints that we have deployed, USB is disabled. We have endpoint protection software that is installed; we have no admin rights on any of those machines and multiple of these factors that we are looking in.

We have also looked at Red teaming, and we have organizations like BitSight that we have used to really check how secure is our overall infrastructure. I think the last count that I heard was we were about 730 or 740 points, which puts us in the top half of many services companies from an information security point of view, so we continue to really use internal resources and external resources to ensure that we do all the red teaming, ethical hacking and all that and see that there are no holes that any hacker could exploit. We have looked at the maze ransomware that had attacked another company, and within minutes of that, we had all the patches installed across the network, and we were well protected.

So I believe it is ultimately a cat and mouse game, but we have made all the investments for a secure work environment, and we continuously focus on really evaluating best-in-class security architectures available. We are constantly on the lookout for better options to protect ourselves. So this is something that we are very, very careful, and we will continue our investments in this line, so I hope I have answered that.

Regarding deals and tender activity, I would say as compared to Q1 last year, we definitely do see some slowdown, and that is natural because of the COVID scenario that we have. We are hoping that Q2 and Q3 we will see better, we already see some signs of at least in a few vertical activities restarting, we are fairly confident that things will improve from now on.

Henrietta Seligman:

Just on the offshoring issue, do you expect that to be sustainable to some degree beyond COVID?

Manoj Raghavan:

I think so because the customers also have, if you leave it to ourselves we would like it to be 90:10 because it is very much possible to really go all the way there, but most of it is that the customers are not confident that we will be able to manage remotely. But right now because of COVID, I think customers are also slowly getting around to understand that, yes, offshoring can work, remote working can work, even in their own locations, people are working from

home and are able to contribute effectively. So I think the resistance is more from the customers' end which I hope will come down because of COVID.

Moderator: Thank you. The next question is from the line of Jairaman K., an Individual Investor. Please go ahead.

Jairaman K.: I just wanted to have a guideline from the company on the revenue mix going forward, we have three verticals, I can see the medical sector is around 7%-8% given the opportunity COVID times do we see any remarkable increase in revenue, are we exploring opportunity in this particular thing?

Manoj Raghavan: As I said, our long-term revenue mix is about 40% from the automotive industry, 40% from media and communication, and 20% from medical, so that is the revenue mix to which we would be moving.

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

Rohan Advant: Most of my questions have been answered, Sir, on the drop in JLR revenue, I wanted to understand how much of the drop is on account of say business volumes itself dropping or it is more on account of reduction in value owing to the offshore-onshore mix? That is my first question? Secondly, on the industrial design segment, we have seen revenues at around 40 crores for around nine quarters now, so just wanted to get a color on the opportunities we see here and also the kind of end industries we serve here. Is this mostly transportation, or is this more than that, and are there growth opportunities?

Manoj Raghavan: JLR revenue drop is a mix of both offshoring as well as reduction in their overall budget. I do not have the numbers immediately, but approximately almost 80% of the drop is because of budget issues, and rest 20% is because we are moving to offshore. Could be plus or minus 5%, but this is the broad indication I do not have the numbers offhand with me, but the real fact is that it is more budget-related.

IDV, Industrial Design Business, also I think has been affected significantly due to COVID since a lot of work that they do are on design intervention, research, which requires people to go out into the market, interact with people. Hence, many of these activities could not happen because of COVID and lockdown across the world. Having said that, in the beginning of Q1, we have a leadership change there, we have a new person and there are set of activities that we are doing to really refocus on this business because we believe this is one of the key differentiators as compared to competition. There is a lot more that we can do in this business. Just give us a couple of quarters and we will see some amount of turnaround in this particular business, so that is something that we are working on.

Moderator: Thank you. The next question is from the line of Karthik Sambhandham from Unifi Capital. Please go ahead.

Karthik Sambhandham: Sir, my first question is regarding the capital efficiency that we usually see historically is quite high for us, but in FY '20 we saw a little bit dip in the ratio, so given the amount of cash that has been built up, how do we see it going forward for this year, are we looking at a better payout or bonus or could you shed more light on that?

Manoj Raghavan: Our dividend policy is out there in our website, we will definitely relook at it, I think even in our AGM we have had some questions about it, so we will really evaluate it with our Board of Directors and come out with clear plans of how we are going to use our capital. So yes, we have about 650 crores of reserves; we definitely, as a growing company, need significant cash portion, especially when we are trying to do some inorganic activity, so we will keep that in mind and come out with a clear policy shortly.

Karthik Sambhandham: Sir, just one more question, we see that even the year-on-year increase is around 10%, but the bottom line has increased significantly, and we have seen like in travel expense is almost 30% of our bottom line in the previous fiscal year. So given that this year because of COVID, we might see some tailwinds from that, are we expected to have this kind of a margin uptick going forward because you mentioned you want to focus on the year-on-year growth for this fiscal?

Manoj Raghavan: We will continue to focus on the year-on-year growth, our margin guideline, PBT guidelines remain the same; we would want to be in the 22% to 24% range. I think we had a dip in few quarters in the last financial year, but if you see over the quarters, we have smartly been able to ramp up our margins and almost end the year with slightly lower than the 22%, but we began Q1 with a very positive increase in our margin. So I think we would want to continue that and we would want to be in that 22% to 24% range. Yes, your observation on travel costs is valid; because of COVID, there was no international travel, and hence that expenses have been saved, and that also contributed to improving our margins.

Karthik Sambhandham: Sir, are we seeing any like you mentioned that work from home is completely not possible for ER&D kind of a firm. So are we going forward, we are looking at any rent negotiations that could probably happen?

Manoj Raghavan: We have already done that, rent negotiations have happened. We got minor concessions and so on but what we will do is we will really look at, hey, do we really need all the office spaces that we have currently and we will take a call. But we want to take the call once we have the clarity on when this pandemic is coming to an end, and also, we need to restructure our policies and work from home and so on. We are in the process of doing all of that; of course, as I said, we have gone back and negotiated some reduction in our overall spends.

Karthik Sambhandham: Sir, what is the overall USD revenue for this quarter?

- Manoj Raghavan:** It is about \$54 to \$55 million.
- Moderator:** Thank you. The next question is from the line of Gaurav Hinduja from GEPL Capital. Please go ahead.
- Gaurav Hinduja:** My question was broadly on the order book if you can sort of give a guidance on the growth going forward say from a two-year point of view and do we see most of the orders coming from a high margin accretive like you mentioned broadcast, and also you mentioned regard to the off-road transportation mix with regard to the Railways and auto ancillary. So what percentage of the overall transportation revenue can we look at that in the next say two to three-year guidelines?
- Manoj Raghavan:** We do not give projections for order book and so on, but what I would like to tell you is we would definitely want to grow year-on-year. If you look at it in the last investor call, I said that our focus is to ensure that in Q1, we would definitely grow more than Q1 of last year, but I am happy to say that we have even beaten the Q2 numbers both top line and bottom line. So we are ahead of our own estimates. We would want to continue that, definitely in Q2, we want to really accelerate and grow beyond Q3 last year and so on. We want to keep this growth momentum up and, hopefully, end the year on a pretty positive note; maybe if you extrapolate it, between 5% to 10% is the growth we are looking at in this financial year.
- Of course, high margin both our medical healthcare business, as well as media and communication business, are relatively, from a margin perspective, better than our automotive margins so as we continue to grow that, which is definitely a benefit that would accrue to us. Off-road, rail, and so on is still a small percentage of our overall transportation business, I would say currently about 4% to 5%, but having said that this is a new initiative, so it takes some time, and over three years, our stated objective is to have these adjacencies grow to between 15% to 20% of the overall transportation business, so that is what we are looking at.
- Moderator:** Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.
- Dipan Mehta:** Sir, I have two quick questions, one is that have any of our orders been deferred or canceled because of this COVID situation, that is question number one and question number two is that because of this COVID-19, and there are perhaps changing trends on spends as far as technology is concerned. So will the company be benefiting from those changing trends, or is it not going to make much of a difference because of what the world has gone through in this pandemic?
- Manoj Raghavan:** Order deferring and canceling; yes, we have had a few of them, especially in the automotive industry, and I think that is a direct result of why we are showing this dip in that automotive industry segment. Regarding technology trends, I would ask Nitin to respond to you.

Nitin Pai: I think it is a bit of a mixed bag on how we see technology trends and whether they really have a headwind, tailwind, or a neutral effect on us. In general, because we are in the ER&D space and R&D is a discretionary spend. I would have said that any pressure on companies typically tends to reduce a little bit of their technology spend, especially if it is discretionary. Having said that, you would notice that it is not true in media and communications because what you have actually seen is an upsurge in consumer demand, whether it is OTT, whether it is data or voice, and so on.

Equally, if you look at healthcare, again, there is accelerated demand in certain sectors for the kind of medical devices and equipment that is required, so it is a little bit of a mixed bag. In general, the auto industry is depressed because mobility as a market is affected. Whether it is shared mobility or whether it is individual consumers buying cars for their own.

In the media and communication, and healthcare, it is always a positive trend. The second tailwind that we see is what I described as our platform play. For example, what we are building out is Intelligent Consumer Experience, ICX. That is a platform that is meant to automate and enable remote operations for companies, so platforms like this, I think, will see an upsurge in demand and requirement. So I think there are certain positives, anything which we are doing for companies which enables them to digitize or to enable automation or to do things remotely, I think there is a new demand for it. While for everything else, it is subject to their own market position and their own ability to spend.

Moderator: Thank you. The next question is from the line of Prakash Chellam from Marathon. Please go ahead.

Prakash Chellam: Could you just give some color on the revenue growth in terms of constant currency both year-on-year as well as in dollar terms?

Manoj Raghavan: The constant currency year-on-year growth is 4.1% and quarter-on-quarter, there is a decline of 10.7%.

Prakash Chellam: Maybe on the transportation vertical, could you give us some sense sort of projects which you see in terms of demand growth. Is it in the powertrain side, is it connected car side, what are you seeing growing, what are you seeing dropping in that segment or the ADAS segment?

Nitin Pai: I think what we are definitely seeing is a lot more activity in the electric car space, so I can tell you what is going up and what is not necessarily growing, so the pivot towards the electric platform, electric components, and electric vehicles is a definite trend that we see. Connected technologies will definitely see an upswing partly because that is very consumer-facing, partly also because that is being seen as a new revenue stream, where with connected cars, you have new revenue streams that OEMs can drive, a better value that they can drive.

Autonomous, I think, is definitely seeing a slowdown, so without question, autonomous technologies are definitely seeing a bit of a slowdown in terms of R&D investments, deployment as well as expected production program dates.

Moderator: Thank you. The next question is from the line of Arjun Balakrishnan, an Individual Investor. Please go ahead.

Arjun Balakrishnan: I just have one question, it is regarding the fact that over the years we have developed a niche and all our intellectual property oriented more towards the automotive sector, but now there is a decrease in spending in the sector, so do you think that we have enough new IP developed in the other two sectors to exponentially grow?

Nitin Pai: If you look at how we are investing, automotive and broadcast and communications have always seen almost near equal investments. Though you hear or rather we have talked more of what we have been doing with Autonomai and other platforms in automotive, there are equally great solutions that we have been developing and deploying in the media and broadcast world too, including Falcon Eye which has been our automation and test automation solution that has been on for the last four-five years now.

Intelligent Consumer Experience is really a solution for telecom operators and similar companies. TE-PLAY is a new OTT platform that we are building out that enables the rapid launch of new OTT services.

On the medical side, at this time, we are not trying to build too much intellectual capital. By the way, we do have patents filed even in the medical space; we have about eight or nine patents that have been filed just over the last one or two years. But having said that, the focus for medical is right now to scale customers and scale business volume and investments in platforms, etc. are being considered a little more slowly in that space simply because of where they are.

Moderator: Thank you. The next question is from the line of Naveen Bothra, an Individual Investor. Please go ahead.

Naveen Bothra: One small question regarding the revenue-by industry vertical is around 4.2%-4.3% from the last four-five quarters, so in the absolute terms it is around 16 to 18 crores. So is there any component of licensing recurring revenues which we are getting because the revenue mix absolute terms are more or less at 16 to 18 crores, so any recurring licensing revenues we are getting in that other segment?

Manoj Raghavan: You are talking of industrial design business?

Naveen Bothra: No, revenue-by industry, others 4.3%?

- Manoj Raghavan:** Other is a set of different activities that we do in consumer appliances and one-off projects from other industry segments, and so on, so we do not have any intellectual property. These are all one-off projects that we get.
- Naveen Bothra:** It will be better from now on if you can present the factsheet in the constant currency terms also, that will be quite helpful?
- Nitin Pai:** Sure, Mr. Bothra, we will consider including that in the factsheet.
- Moderator:** Thank you. Ladies and Gentlemen, we take the last question from the line of Bharat Seth from Quest Investments Advisors. Please go ahead.
- Bharat Seth:** Sir, you have beautifully moved from onsite and offshore mix ratio. So going ahead, can you give some sense? How does it really move I mean from onsite to offshore? And the second thing is that how much do you think because once you move the onsite to offshore a hit on the revenue side approximately, as a ball park, not I mean?
- Manoj Raghavan:** We do not see it happening all of a sudden in one quarter and so on. This quarter we are able to change the onsite-offshore mix fairly little bit because of COVID and so on, but I think it will stabilize. There may be slightly more, maybe I would say by the end of the financial year, we may reach anywhere 68% or 70% offshore and 30% onsite. So we are also conscious of the fact that suddenly if you move everybody from onsite to offshore, it will be a hit in our revenue. Even though margins may look better, there will be a hit in the revenue, so I think we will moderate that so that along with our business growth in other areas, we will gradually move the ratio to about 70:30. I do not think you will see a hit in our revenue because of this; we will take care of that.
- Bharat Seth:** But that will definitely be helpful on the margin side, correct?
- Manoj Raghavan:** Yes, not just the margin, in general, ease of doing business, motivating our employees, ensuring that we are in charge, in control of a lot of things, training our employees. Once they go onsite, many of these become very difficult to manage, we do see a lot of other positives when we have a better onsite-offshore ratio.
- Bharat Seth:** Sir, one question to Nitin, about the platform which you said, can you give some color, one is where you are talking of millions of devices, I mean connecting with the COVID, so how much big is the opportunity do we see and have we already started commercializing that platform?
- Nitin Pai:** Yes, we have already started commercializing, so what we did was that because it is a mission-critical product because it actually works in the operations of the customer, this is not R&D where you can delay by one month or the program delays by two months and your launch is affected, but nothing more. Here it is managing active devices in the field and monitoring and

managing active consumer devices. So to that extent, what we did was even as we developed it, we started to pilot this about four months back, in fact just before COVID. So that is very interesting in terms of timing, we started to pilot this before COVID because we did not know about COVID at that time and what happened with COVID is that it just accelerated. So the customer also forced us to make sure that it works better, implements better, manages more devices. So we have reached a point where now we are controlling more and more devices that the customer currently has under deployment, and the idea is to increase the amount that is under deployment, but the good part that is happening for us is that solution is also becoming hardened, so when I say hardened I mean in terms of it is getting baked better in terms of how we can take it to other customers, so we have already started to take that case study and the capability, and we have started to already discuss this with certain other customers across the world, and we are seeing very encouraging interest in the platform.

However, you have to note that adoption is not going to be sudden because these are also big decisions for customers, because automation is not just something you can do as a casual decision. You will have to take a strategic decision on saying, yes, I will implement the solution, please start piloting, please start implementing, now switch over from what we were doing before to this. So that is going to take some time, but I think what is good for us is that Covid has taught that you have to have something like this as your Plan A and Plan B, and that is why we think there is great potential with this.

- Bharat Seth:** Is it fair to understand that you said that this is for this communication centre?
- Nitin Pai:** Typically, it is for operators who may have set-top boxes, who may have gateways, and other devices deployed either with enterprise customers or retail customers like us.
- Bharat Seth:** Any other platform in the near-term that you would like to launch?
- Nitin Pai:** We are thinking and conceptualizing a few, but of course, we will announce them at the right time.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. G. Vaidyanathan for closing comments.
- G. Vaidyanathan:** With this, we come to the end of the con call. I would like to thank Manoj and Nitin for taking the call and all the participants for joining the call. Please stay safe and healthy, see you in Q2 results con call. Thank you.
- Moderator:** Thank you very much, Sir. Ladies and Gentlemen, on behalf of Tata Elxsi, that concludes this conference. 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.