Q2 FY20 Earnings Conference Call
October 22, 2019, 15:00 hrs IST

Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi Limited Q2 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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: Thank you. Good afternoon, I welcome you all to the Tata Elxsi Q2 FY20 Results Investors conference call. We have with us in Bangalore Mr. Manoj Raghavan - the new CEO and MD of the company and Mr. Nitin Pai - Senior Vice President, Marketing.

The agenda goes like this: Manoj will give a brief overview of the performance of the company for Q2; Nitin will talk about our IDV business and marketing initiatives followed by Q&A. Request you to please restrict to one question and if time permits, you can come back in the queue again. Over to Mr. Manoj.

Manoj Raghavan: Good afternoon, this is Manoj here. I am happy to report that we are back on our growth trajectory. If you remember, last quarter when we started, I had updated that our Board definitely wanted us to recover the situation quickly. So we are happy to announce that we've managed to recover from the significant decline that we had with our top customer, which really impacted our results in the first quarter of this financial year. Our quarter-on-quarter growth for the current quarter is 6.7%, and I am pleased to report that this is primarily volume-led with almost negligible Forex gains.

Year-on-year, if you have noticed, there is a decline because we had a pretty good Q2 last year and there was lot of Forex gains and so on. So if you really look at it, the volume drop from Q2 last year to Q2 this year, it is only about 1%. So we have almost made up whatever volumes we had dropped in Q1 in this quarter. And if you look at our overall revenues from the top customer, it is about 16.3% in Q2. So our top customer is more or less constant volume wise. However, we have grown significantly across regions, across the market verticals.

If you look at divisions, the EPD business, which is the largest business for Tata Elxsi, we grew about 5.3% quarter-on-quarter. Our Design business also grew about 12.9% quarter-on-quarter. And our System Integration business also grew by 27% although from a small base. So if you look at within our EPD business, our Transportation vertical, which is the largest business vertical for us, it grew at 9% quarter-on-quarter. If you remember last quarter's business was impacted because of the decline in one of the top customers in the transportation vertical; however, this quarter we have managed to really grow significantly with some good wins. I am happy to announce that, that is a pretty satisfying performance from the Transportation vertical.

Media and Communication is other significant piece of our business and again we had a steady growth of 5%. Our medical business was growing pretty nicely, there is a small blip but that is mainly due to paperwork delays. We had won deals but we could not convert it into revenues because of some delays in paperwork, otherwise we are showing pretty much a flat growth for the medical business. However, we have enough traction and in Q3, we will definitely see growth in that business.

As far as geographies are concerned, our U.S. market grew nicely by about 9%, that's pretty significant growth for us, India grew about 18% and the rest of the world grew about 15%, again, owing to new customer additions and growth in existing accounts. Europe has remained flat predominantly with small bit of Forex losses in GBP and Euro. However, in constant currency terms, Europe has grown by about a percent while U.S. grew by about 7.5%.

There has been a constant demand from investors that we upload fact sheets and give more information to the investors. If you have noticed, we have improved on that count, we have uploaded a fact sheet with key metrics for the past 6 quarters on our website, which if you have not seen it, and I request you to please go through it.

From a business perspective, if you look at our automotive business, we won a couple of deals in the Electric Vehicle space. One is a pretty large tier 1 supplier in Europe and other is a startup company that's really building ecosystem around the Electric Vehicles. We have won another large deal with a tier 1, again in Europe, in the connected Cars space. And we believe that this particular deal has the potential to grow significantly over the next couple of quarters.

On the media and entertainment space, we have won a pretty significant deal on the OTT side, again, against some very large competition of us. It gives us confidence that we will leverage our investments in the OTT space and the various ecosystem partnerships that we are building to really win more deals in this space. As we speak, in Q3, we have a number of large pursuits that we are going after, both in the Automotive and in the Media space. It gives me good confidence that we are on a good growth path moving forward.

I would now request Nitin to discuss about our Design business as well as talk to all the events that we have participated. But before doing that, one important thing is our PBT margin for the quarter is 17.7%. But if you have noticed, there is a one-time provision that we have provided for the accrued retirement benefits for ex-MD. If you remove that one-time provision, margins is about 23.1%. So as discussed in last quarter and multiple quarters before, we constantly aim to be in that 22% to 24% PBT margin range. I'm happy to say that operationally if you look at it, this quarter we have achieved 23.1% as compared to 18% or so last quarter. So I think on a margin front, it has been a pretty good improvement and a pretty good performance. And we would aim to see how we can continue with this growth.

I now hand it over to Nitin.

Nitin Pai: Thanks, Manoj. Good afternoon, everybody. This is Nitin here. Quick update on the round up on the market side. We continue to invest in improving our brand and our market recall. So to that extent, we did participate in key trade events and trade shows across the world, IBC being one of the major events that we do annually. So at the International Broadcasting Conference in Amsterdam, we had a very significant presence this time, with speaker slots, with very large stalls, with multiple customers walking in, so it was really a fantastic show. We followed that path with the RDK European conference. Now as you are aware, we have been talking of this in the Media and Broadcast Communications segment context, there we said, look, the world is going open source as far as middleware goes for TVs and for entertainment. And there are 2 big camps like you have in mobile space, you have the android and the android TV part and you have the RDK, which is led by Comcast.

So in this particular case, it will be RDK Euro Conference where we were the speakers as well as key presenters in that session. So we continue to establish our market presence across key conferences and trade shows and so on, that is one way to bring in customers. I am also very happy to announce that on the solutions side, the product that we have developed on the V2X side we have enhanced it for Augmented Reality and we call it now AR-V2X. Now this represents a significant step change in the way companies can test V2X services. Now India will not see V2X services for a long time, I'm sure. But globally this is picking up, and we believe this is the next big thing that's coming that will support autonomous cars and safer driving. So the AR-V2X product that we developed won the Silver at the AutoSens Awards in Bonn in the last week of September. This is a big achievement for us simply because if you think about who was on the stage with us and who were some of the other award winners, you had Mercedes-Benz with their new user experience, you had General Motors with their technology and so on. So we are really proud of what we have achieved with being recognized on that stage.

Coming to Design, I think you have seen the volume growth. We grew about, I believe, 13-plus percent over the last quarter. I think Design is starting to pay dividends for us, partly in terms of how it complements the deals that we have on the EPD side, whether it's automotive or whether it's broadcast, whether it's OTT, how design comes into augment and complement and allow us to differentiate ourselves against competition in this space. And we are also happy to report that the Visualization business has won some nice long-term deals on the content development side and very importantly these are not for the pure entertainment market, these are more for corporate content development and that brings in both the certain level of steadiness and predictability to revenues, it also brings in some amount of margin improvement, right?

On the SI side, of course, revenues are small, but we have shown a very good growth of about 27%. A large part of it is reengineering what they are doing for system integration in terms of being able to focus on software, value-added services and experience centers and so on. So I believe that though it's in a small base but we are starting to reengineer that business in stages. So that is a quick update for you across the various businesses and markets. I will now hand over the conference back for Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, whatever you have mentioned in your investor highlights, whatever deals we have won, what will be the value of the deals?

Manoj Raghavan: The value of the deals in the current quarter would not make too much of a material difference, 2% of it could be from new customers but 98% to 98.5% is still from existing customers.

Ravi Naredi: Okay, in value wise, it is very less, right?

Manoj Raghavan: For the quarter, but moving forward definitely there will be a long tail there.

Ravi Naredi: And how much we can expect in the quarter 3 and quarter 4?

Manoj Raghavan: We definitely expect to continue this growth path, I can tell you that we have visibility. I won't be able to give you a number in terms of how much would new deals contribute in Q3 and Q4 but I can clearly see a path to growth.

Ravi Naredi: Can you tell this in new deal value?

Manoj Raghavan: We don't disclose the new deal values, sir.

Ravi Naredi: And sir, how much margin expansion possible in H2 second half?

Manoj Raghavan: Margin expansion is a question of topline, how much we are able to grow topline and also how much we are able to improve our utilization. At the same time, we are also adding employees in the freshers and so on. So our endeavor is to keep the margins between 22% and 24%.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: I want to understand in the employee cost you have put a note 5 for 21.60 crores as settlement paid to ex-MD. So does this not get accrued on an ongoing basis, sir? Why has it suddenly come as a line item at this point of time? Normally gratuities and all you would do on a going concern, on a continuous basis depending upon the years of employment.

Manoj Raghavan: As I understand, at least for the MD's pension, we were not able to provide for it because the Board approval for the pension happened only in the last quarter. It is not as if this entire amount is paid to the MD, this is only an amount that is being provisioned but the pension will be paid on a monthly basis. But, however, as per our auditors, we have to recognize the entire cost provision in one quarter.

Dipan Mehta: Is it that whenever an MD or a senior personnel retires then the Board decides what is the gratuity to be paid to that person? I mean that leaves an open liability to the company, no?

Manoj Raghavan: Yes, so if you remember, this is something which is a mandate from the Tata Group especially for long-serving CEOs of the Tata Group and they have a policy for the CEO's pension. However, it is left to the Boards of the individual companies to take a decision. So our Board took a decision in the last Board meeting that Mr. Madhukar Dev is entitled for the Tata Group's scheme for the CEOs, mainly because he has served the organization for almost 30 years, out of which he was the CEO & MD for the company for 18 plus years, Additionally, Tata Elxsi did not have any stock options or any other schemes of really supporting the senior management. So taking into consideration all of this, the Board decided that he was eligible for the special retirement scheme.

Dipan Mehta: The second question is relating to the tax rate. I mean, have you decided on which particular taxation will be applying going forward?

Manoj Raghavan: We are still debating about it. We have time till we file our return probably in November of next year. So we have time to take the decision, it is still under consideration, I would say.

Dipan Mehta: And one last question sir, I mean you had mentioned in the last conference call that this quarter would turn out to be good and in fact it has turned out to be better. So are there any specific events or trends which have taken place by which you feel your company and the sector as a whole has started to grow at a slightly higher pace than what we have seen in the earlier 3 or 4 quarters, any specific events or challenges which you overcome which you would like to discuss, sir?

Manoj Raghavan: Yes, so what has happened is - even in the last quarter, we had a number of large deals that we were working on. However, many of these deals slipped over the quarter. So in this quarter, we were able to close some of the long outstanding deals and we were able to really grow and show some good run rate growth. What is happening overall in the industry - I would say there are a number of smaller deals that we're picking up. But the large deals are taking 2 to 3 quarters to close. So that's the trend that we're seeing and there are actually deals that were to close in Q1 has been pushed to Q2 and even now there are some deals that are pushed to Q3. So the pipeline, I would say, is pretty strong and we're pretty confident that we will be able to continue on this growth path.

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

Rohan Advant: Yes, sir, I had questions firstly on the specific line items, first is the salaries. In the last quarter we were told that the salary hikes will be due in the September quarter. But if we look at the employee cost, excluding the one-off of 21.63 crores, the cost actually looked lower sequentially in September '19 over June '19. So if you could throw some light on that? And my second question is again on other expenses, they were down to 55 crores in September quarter from 59 crores in September '18 and June '18. So what is the reason for this reduction?

Manoj Raghavan: Yes, so on the first question, yes, we took a decision during the last quarter to postpone the salary hike. So that will happen in Q3. So that's why you're not seeing any hike in the salary expenses. With respect to other expenses, in general because of the Q1 performance, we had very strict cost controls, including the number of travels that we make, the number of events that we participate and so on and so forth. So we really ensured that we tighten up all of that, and I think we are able to reduce those expenses.

Rohan Advant: Sir, on the salary hikes, what could be the sequential impact in basis points owing to the salary hikes?

Manoj Raghavan: From an employee cost perspective, it will be about 7% to 8% increase approximately.

Rohan Advant: Okay. And sir so in spite of that you think the growth rates will be able to help us to maintain margins sequentially?

Manoj Raghavan: Yes, so that is where I'm pushing my teams. It is definitely a challenge but is also an opportunity for us to continue on our growth path.

Rohan Advant: Sir, on the tax rate, it is still at 29.29%. So you said you are yet to make a decision. So how does this work? Until you make a decision you don't move to the marginal tax rate of 25.17%. When do we expect….?

Manoj Raghavan: In terms of the tax rate, right? So we are still at the original tax rate.

Rohan Advant: Sir, so from Q3 will it move to 25.17%? Or when do we make that shift?

Manoj Raghavan: We definitely have time till end of the year to take that decision, So we are evaluating whether should we go to that tax rate or should we explore the alternate tax rate by may be investing more in SEZs and so on and can we better the tax rate. So that's the discussion we're having right now.

Rohan Advant: Okay. Sir, and lastly, in terms of the large new contracts that you alluded to in the commentary, sir, how is the scale up of these contracts likely to be? And when shall we see meaningful impact of these contracts in revenue numbers?

Manoj Raghavan: I would say in, at least couple of these contracts definitely in the half year H2, we should see significant growth opportunities. We have already ramped up a little bit in Q2, and we should see significant growth in Q3 and Q4.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Thank you for actually putting up that fact sheet, it was much needed. But just a few more questions. So what is the effort mix in terms of percentage of employees onsite and offshore?

Nitin Pai: We do not disclose the effort mix at this time. We believe it does not provide any further insight. So at this point we are restricting just to the revenue mix.

Rohan Advant: Okay. And sir number of employees as of last quarter?

Manoj Raghavan: Number of employees is 5,947, just shy of 6,000.

Mayank Babla: Okay. And sir, what is the utilization rate if you could give us?

Manoj Raghavan: Utilization rate is about 71%.

Mayank Babla: Sir, what was the reason to push the wage hike to the third quarter?

Manoj Raghavan: As you all would have seen, our Q1 results were not great from a profitability perspective - we had come down. So we really wanted to ensure that we show a positive intent to the market that we are growing both topline and bottom-line and there was also a specific mandate from our Board to control all expenses so that we show better results this quarter. What we have done is we have really gone through each cost items line wise and we've really taken active measures to really see how we can control them and, of course, we have also boosted the utilization, I think the last time we were at about 65%, we took it to 71%, we controlled our hiring. So a lot of these measures really helped us to show this profitability.

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

Ankit Shah: Sir, can you share some key deals that you would have won over last say 2, 3 quarters and have started work on or they've started contributing to the revenues?

Nitin Pai: Yes, so maybe I will take this and I'll have Manoj add to it as required. So if you look at it in that sense, given the fact that we are in the engineering business and the fact that these are never multiyear contracts like you do in IT, we are project based. So to that extent, depending on the sectors that we work in, it is always ranging from anywhere between 6 months to 1 year, 1.5 years, 2 years of programs that we work on. So to that extent, there are always projects that are rolling off and there are new projects that are always starting. So to that extent, the composition of revenues always has something with you are adding new deals and they are ramping up over a period of time and they crest at certain point and they start to slowly ramp down a little bit as you get to close those projects. So, therefore, it is very difficult to say that you can call out a few deals and then say this is the impact of a few deals and this is also difficult to say which of them are new, which of them are existing customers because as you understand, a large part of what we do and what we execute and what we bill is from the existing customers. So therefore, I don't think there is much impact that you'll would get from providing a number like that. It is technically driven by all these new, just remember that even when we look at revenue in quarter-on-quarter but the volume growth has to be driven by new deals and how they ramp up.

Ankit Shah: Sir, the question was not on the quantitative side, it was more on the qualitative side. In terms if you can talk about some of those deals more so from the longer duration contracts which we could have won over last 2, 3, 4 quarters?

Manoj Raghavan: Yes, so if I could answer that a little bit. If you really look at it from customer mix that we have, top customer top 5 and top 10, you know that we have a dip in our top customer. But however, if we look at the top 5 and top 10, we have maintained the numbers of the previous quarters. So essentially what it means is a dip in one of the customers have actually been made up by other customers in the top 5 and the top 10, which shows that the other customers have been growing. And that is also because of the deals that we would have won in Q4 last year, Q1 this year and so on and those ramp ups that are happening.

Ankit Shah: Can you share the IP revenue contribution for the quarter?

Manoj Raghavan: IP revenues was, I would say, muted. It was around 3% or so. So this quarter we did not have any large IP wins. However, we need to tell you that IPs have actually contributed in winning new customers. Though the IP revenues have been small, we were able to build significant services revenue on top of it.

Moderator: Thank you. The next question is from the line of Piyush K from PM Financial. Please go ahead.

Piyush K: Sir, last quarter we had Q1 JLR incomes revenues coming at 15% of the total incomes that is revenues. How much that could be for this quarter?

Nitin Pai: So if you look at the fact sheet, I think you will get precise revenues of the top customer.

Piyush K: Yes, I am able to see that sir. So the top customer here it is the concentration comes to 16.3%, so is that completely JLR?

Manoj Raghavan: That's correct.

Piyush K: Okay, so from last time we have improved on JLR. Sir, another thing I would like to ask that...

Nitin Pai: Yes, in actual revenues, JLR would have grown just a little.

Piyush K: Okay, and what about the diversification, sir? You were talking about diversifying in the auto or some JLR, so is there any deal...

Manoj Raghavan: So if you look at it, JLR has remained flat. And we have also announced that overall Transportation business has grown 9%. So obviously, there has been diversification and growth in other accounts. On top of it, I think, last quarter also we said that we are moving into adjacencies, which is aero, rail and off-road vehicles and so on. So I am happy to let you know that almost 4% of the revenues from the Transportation business now comes from these new adjacencies. So we started it just a few quarters ago, and we've won some good deals. So hopefully we will be able to grow that moving forward.

Piyush K: Okay, sir. Sir, another thing was that, that I was seeing the contract type of fixed price and time and material, I see that fixed price is still near around 45%-46% levels and time and material goes about 53%-54% levels. So what could be the difference here with the margin percentage when it comes to the fixed price and time and material for us?

Manoj Raghavan: We really don't disclose that information. But just to let you know that time material is a steady margin as you guys know. Fixed bid depends on each individual engagement and amount of risk that is taken and deliveries that we have to make and so on. So it's very difficult to give you one number because that keeps really changing quarter-on-quarter depending on the basket of fixed-bid projects that we have and the risk profile of those fixed-bid projects. So at this point of time, we don't have that information to give you.

Piyush K: And one more last thing that how many customers or the big deals which we must have, kind of, taken into Q2, sir?

Manoj Raghavan: You are asking about the total number of customers?

Piyush K: Yes.

Manoj Raghavan: We had 161 active customers in this quarter

Moderator: Thank you. The next question is from the line of Deepanjan Dutta, an investor. Please go ahead.

Deepanjan Dutta: I would like to ask this question that at the beginning of this financial year, you have forecasted a 15% growth, but after Q1, it was said that you will try to achieve that target. So do you think this company is on the right path to achieve that target in the H2?

Manoj Raghavan: Yes, so you'll know that there's been an extraordinary situation with our top customer in Q1 and that continues in Q2. And if you look at it, the revenue hit is to the tune of about 30 crores a quarter, so we have a significant dip in that. And in spite of that, we are in a position of recovering that situation, So yes, it all depends on H2 and how the various deals that we've won, how we are able to ramp up and also depending on the new customers that we go after. Yes, I am not sure whether 15% is still something that we will be able to do, but definitely we are looking at being in the double digits.

Deepanjan Dutta: So if it is not 15% what do you think you may, kind of safe scale, you'll say, that what kind of percentage you will be able to go after?

Manoj Raghavan: As I said, we would look to see how we can grow into double digits, so I don't want to get into the specifics here because there are so many variables that are not at all in our control. Maybe in Q3 and so on, if we have a better indication of that, we will disclose.

Moderator: Thank you. The next question is from the line of Rohit Bhat from Airavat Capital. Please go ahead.

Rohit Bhat: I just wanted to check, in August you announced the diversification to other businesses. More importantly you announced that you are decreasing your work on Autonomai. So given that I mean, you talked about your EV deals as your biggest deals this quarter, can you give a broader context on what your strategy is going to be going forward?

Manoj Raghavan: Yes. As you know, we have invested a lot in Autonomai. So it's not as if we are defocusing from the autonomous car, we are going slow because in the market, we see customers instead of going after level 4, level 5 Autonomous, are really looking at level

2, level 3. So we may not have one large Autonomai IP licensing but we have various sub-components that we are pitching to customers and there is a lot of interest in taking on those IPs. The good thing about that is it also comes along with services. And what we now tell our customers is that we have a good team that is trained on advanced autonomous driving capabilities. We are integrating that with our capabilities in artificial intelligence and we are building tools to create various data points for autonomous driving scenarios and so on and so forth. So that is where the push is. We are really not pushing Autonomai as a platform, but we are pushing the capabilities that we've built, the various subcomponents and IPs that we have and the tools that we have for verification and validation of autonomous framework. So that is what we are pushing. And we see a good interest from customers whether it is OEMs and Tier 1s because right now, there is no such tool available in the industry and also we are showing some of those in trade shows and events, and we are seeing good traction and opportunities around that.

Rohit Bhat: Got it. And within your top customer itself, have you lost wallet share to others? Or have they dropped their budgets?

Manoj Raghavan: We have not lost wallet share. In fact, we are focused on how we can increase our wallet share. They have been having budget constraints and that is the reason why there is this cut in the overall budget. However, we hope that this quarter or next quarter, the situation would improve and we will get back to our growth rate.

Rohit Bhat: But just on wallet share itself, you have not dropped wallet share?

Manoj Raghavan: No.

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

Bharat Sheth: Congratulations on a good set of numbers, and welcome, Mr. Raghavan, as the CEO of the company.

Manoj Raghavan: Thank you, sir.

Bharat Sheth: Sir, just can you say some qualitative thing on, as Nitin said that in this engineering business, the project we won project by project and the project period is around 6 months to 2 years. But if we can get some color, how this deal size is increasing or not for each of the projects that we are running? What was that 2 years back and now?

Manoj Raghavan: Absolutely. So I would say 2, 3 years back, our deal sizes would be in the 100K to 500K sort of a range. And for us, $1 million was a pretty good opportunity and good deal. Right now, we are looking at opportunities in 10 million, 20 million sort of pipeline. In a few cases, above 50 million also. Yes, this business is slightly different because most of our customers have yearly budgets. It's very difficult to have a multiyear contract. Of course, in some cases, in our large customers, we've had those multiyear contracts. But again, even though there is a multiyear contract signed, because it is engineering budget, if there is anything that has happened at the customer's business, for example, our top client and what happened to them, even though we have signed up a multiyear contract but when the business situation worsened, they did not cut the IT budgets because they had to keep the company running, but they cut the R&D budgets. So even if I say I won a $50 million deal, that doesn't mean much, except for the yearly PO that we have. Of course, there is an intent from our customers to continue over the next 1 year or 2 years or 3 years, but there will be many reasons why some of these could be cut short mainly because of business reasons from our customers. So these are some large deals, which I was talking about. But most of the other deals are in the 500 K to maybe a couple of million dollars. And these deals are typically in 6 months to 18 months sort of timelines. But as compared to 2, 3 years, definitely, from deal size of 100K to 500K, we have moved to an average deal size of maybe a couple of million dollars.

Bharat Sheth: Sir in auto we work largely with either OEM or the Tier 1 supplier, correct?

Manoj Raghavan: Of course, our large customer is an OEM, but most of our business actually comes from Tier 1s, that is suppliers.

Bharat Sheth: how is it in the media & communication and medical devices? Is it the same? I mean how does it operate there? Can you give some more color on media & communication, and how do we see the business opportunity for this both the business?

Manoj Raghavan: Yes. So most of you have been so obsessed with our automotive or transportation business that you have forgotten that we have pretty big business in media & communication and the medical business which has been growing significantly quarter-on-quarter and adding new revenues and adding healthy margins to the organization. I am thankful for you to point out this particular situation. Yes, our media & communication business has been growing, motoring along very nicely. We have some large customers. Some of the world's leading customers in this space are our customers. Whether you look at the #1 media operator, #2 media operator, #3 media operator in the world - are all our customers. The #1 media operator in India, the #2 media operator, the #1 OTT operator in India - all of them are our customers. So we, over a period of time, have really morphed this business and all these customers are undergoing significant digital transformation. Their existing businesses are getting turned, and that provides a good opportunity for a company like us because we bring in both the engineering capabilities as we exactly understand the media & communication space. At the same time, we are also able to bring in the impact of the digital domains such as cloud, IoT, OTT, a number of things that are coming in, we are really leading there. And of course, there's a lot of usage of open source as Nitin said in the case of Android TV, in the case of operators or RDK. These are all significant areas of opportunity. And if you ask me, both in Android TV and in RDK, we are #1 engineering partners in the world both in terms of number of engineers as well as revenues. So yes, I have a pretty good feeling about the media & communication space, and we'll continue to dominate the space. We, of course, continue to grow well in the medical space. As you know, it is a new business that we have incubated. Medical is about 7% of the overall business right now. And we have aggressive plans in the next 3 years for this particular business and I am investing in sales bandwidth both in the U.S. and European markets. We have good opportunity on the regulatory space. We are also looking at the pharma space to get in. The idea is in a 3-year timeframe to see how medical business can be as big as the media & communication or automotive business. So that is the push that I am giving internally to the teams, and I think we have good delivery capability and good leadership team that is pretty confident that we will be able to move in that direction.

Bharat Sheth: Sir, when do we expect automobile business which is contributing almost 50%-60% can come down to 40%, despite growing and other pieces growing much faster?

Manoj Raghavan: It was about maybe 52%, 53% of our revenues. It's come down to about 48%. It's not that automotive business has dropped. As I said, they have also grown nicely. But the media business is also growing nicely.

Bharat Sheth: Okay. Sir, in media, we largely work in U.S. and India or Europe also too?

Manoj Raghavan: Yes, we work across geographies; U.S., Europe, India, Middle East, Africa, Japan. We have wide presence. We are no exploring APAC including Malaysia and Singapore.

Bharat Sheth: Sir, we were expecting some kind of IP revenue to start flowing from Q3 for media business? So is it on that track?

Manoj Raghavan: We've had some IP revenues in, I think, Q4 and Q1. In Q2, we had several bids that we have placed. There are several large bids that have not closed yet. Maybe we'll be able to declare some of that in Q3.

Moderator: Thank you. The next question is from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: So on the transportation side of the business, we have been saying that the pipeline had been good enough. But if you look at the industry scenario, especially in China and now in Europe and U.S., the industry itself has been slowing down. So when we look at that and when we look at our pipeline. Is it that the pipeline is there, but it is moving at a more sluggish pace. And so going forward, our growth in this particular segment for the next few quarters, it might be impacted?

Manoj Raghavan: No, as I discussed last time also, there are large opportunities in this space. And yes, the decision-making times are getting longer. It is from maybe 2 to 3 quarters before there are closures on some of these deals. So yes, while the deal pipeline is pretty good and healthy, but closures would take time. And we have a number of deals that we are projecting to close in Q3. So yes, there is some sluggishness but however, these are deals that we have bid for in Q4 and Q1, and some of them are still continuing their evaluation and so on. Hopefully, we should see the light at the end of tunnel in this quarter.

Nirmal Bari: So the deal closure has been kind of getting delayed for all the players? All the players as in all the OEMs and Tier 1s? Or is it only for JLR?

Manoj Raghavan: No. It is true for most of our Tier 1s and OEMs. It's not specific to JLR. So if you look at it, even in Q1, we had a number of deals under discussion, but they all got pushed due to which in Q1, we are not able to show that revenues. Some of those deals closed in Q2, and that is why we are able to now show a significant growth in that business. And some of them have pushed to Q3, and hopefully, we'll be able to close some of them.

Moderator: Thank you. The next question is from the line of Krishna Parekh from Alcazar Associates. Please go ahead.

Krishna Parekh: My question is, what is impact of Brexit, and are we prepared? Will that have any material impact on our contracts?

Manoj Raghavan: We are in the R&D business, so there's no impact on our contracts, but it will definitely impact our customers' business. And due to that, if you look at it, I would primarily look at maybe our top customer. We do have a number of GBP businesses. There could be some foreign exchange risk associated with it. We don't know which way the currency will move. But most of our other GBP projects are all in the media and entertainment space, which is all confined within the U.K., and there's no impact of Brexit on some of those businesses. But in automotive space, yes, there could be some impact. We are still not sure which way it will go. And also, we are not sure about the foreign exchange implications of that.

Moderator: Thank you. The next question is from the line of Mayuri Yadav from Equentis. Please go ahead.

Mayuri Yadav: Sir, my question is sir, last quarter, it was mentioned that the revenue was impacted partly because of JLR and also some large orders where the work couldn't start. So this 6% to 7% Q-on-Q growth that we have seen in this quarter, is it because of the work has started on the projects, which we mentioned in last quarter the work couldn't start? Or is it because of the new deal wins that is contributing to this growth?

Manoj Raghavan: It's a combination of both. We definitely had new deal wins, and we also had some of the projects that we were expecting to start in Q1, they actually started in Q2.

Mayuri Yadav: Okay. So these new deal wins. Can you share as to largely which geographies have contributed? Is it from the U.S. or the Europe? These new deal wins if you can just give us some understanding on that? Where has it come from?

Manoj Raghavan: It has been a good performance across geographies. Yes, of course, we have won some good deals in Europe. But more importantly, from the U.S., from Middle East and from India and Japan. In all geographies, we have had new deal wins.

Mayuri Yadav: Okay. But in terms of overall contribution, any specific geographies, which would have contributed more in this quarter?

Manoj Raghavan: Definitely, U.S. has contributed a significant portion and U.S. has been growing steadily for us and that is a good sign. And the aim is, of course, that U.S. business will continue to grow.

Mayuri Yadav: Right. And sir, if I have to ask like the new deal wins are largely in the automotive? Or again, is that...

Manoj Raghavan: Both in the automotive and media & communications space.

Mayuri Yadav: So the mix which you have mentioned on Slide #5 more or less that is the kind of mix you would have seen in the new deal wins as well or...

Manoj Raghavan: Yes.

Mayuri Yadav: And sir now that you are seeing the revenue growth traction building again, how soon are we targeting to reach the 10% Q-o-Q growth that we have been talking about for quite some time now?

Manoj Raghavan: We'll take it a quarter at a time. Maybe after a couple of quarters, we look at it and see how...

Mayuri Yadav: Sir, but at this stage, are you confident of this 6%, 7% maintaining for the next 2 quarters? Are you expecting this also to improve quarter-on-quarter a little bit?

Manoj Raghavan: I would urge you to wait for a couple of quarters. You'll see how we are performing. We have a good decent pipeline. I don't think that is an issue for us. However, the deal closures as we discussed in the previous question also, we can't predict some of those, right? We expect certain large deals to close in the quarter. However, if that gets pushed and so on - there will be some ups and downs. But overall, we are on a growth path. I have no doubt about it. Unfortunately, because we are on this quarter-on-quarter sort of a situation, it becomes very difficult to predict sometimes.

Mayuri Yadav: Absolutely. Sir, in terms of now that we are looking at this kind of growth to continue, so what is the employee addition plan that we have? And the consequent impact it can have on the margins, if any? So would it be through utilization ramp-up? Or you are looking at increasing the headcount also?

Manoj Raghavan: Yes. Definitely, our utilization is about 71%, and we would definitely push the utilization to go up to around 75%. I think that a company of our size and the various areas that we work in, 75% is an optimal point to reach. Beyond that, I think we will struggle when we get a new customer and so on. So definitely, we will improve the utilization. We will also do some new hiring, again, depending on requirements and some of the large wins that we have. It is a combination of both.

Mayuri Yadav: Right. So overall, therefore, we are, again, confident despite the wage hike that we will take in Q3, we will be in that 22% to 24% EBITDA margin range.

Manoj Raghavan: See, that is the real aspiration. But, however, let me also caution you that Q3 is a short quarter, we have holidays coming. Maybe a number of our customers will suddenly announce furloughs. Some of these are beyond our control at this point in time so I wouldn't want to commit anything

Mayuri Yadav: Of course, sir. Sir, my last question is, and I'm referring to the Slide 5, again, of the EPD operating matrices that have been provided. Here, the industry vertical wise breakup has been provided and we mentioned that automotive has grown 9% Q-o-Q. So it is with respect to the EPD, that element that has grown 9% Q-o-Q. Is it?

Nitin Pai: That's correct.

Mayuri Yadav: And medical has been flat. I couldn't get broadcasting and the communication business. That would have grown at Q-on-Q...

Manoj Raghavan: 5%.

Mayuri Yadav: 5%. And what was this others? Is this a design?

Manoj Raghavan: No. The others is home appliances, consumer electronics, and systems and so on and so forth.

Moderator: Thank you. The next question is from the line of Navin Bothra, an individual investor. Please go ahead.

Navin Bothra: My question is regarding this half year, we have invested approx. 70 crores in fixed assets. So if you can throw some light on it? And the next question is related to this one. Are we planning to enter any new segments like gaming and others?

Manoj Raghavan: That is because of the change in the IND AS accounting policies where all the leased rentals would have to be treated as fixed assets with liabilities being set-off against them and that is why you are seeing the increase in fixed assets this year. Gaming and others, we have been in gaming for quite some time. We still have a small percent left. We've figured out that that's really not a scalable business for us. We win one-off projects and so on. But however, from the design business and the animation business, we see a good opportunity there. In fact, we have won some good opportunity within educational service provider that's also in the educational games and so on. So that is something that is a good win for us from design business. So that is something that we will continue to focus and grow that piece. However, we'll not get into the engineering game development and so on, that is something that we're not really focusing on.

Moderator: Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.

Manish Bhandari: Thank you for the improved disclosure and I'm sure you will improve it far more going forward. Thank you Manoj for this. I have 2 questions. One regarding the use of cash which you have on the book. So as a shareholder, I would be glad to know that if you have any plans to acquire and it has been lying for quite some time and the pile is growing. So you have lot of opportunities to build or maybe buy out expertise in the new verticals or as well as to strengthen and fortify in your existing verticals. So what is the Board and the general management thought process and now there's a change of baton here at least in our company. So between you and Nitin, how it has been decided?

Manoj Raghavan: So yes, the Board's mandate is also very clear - you have a lot of cash and you need to really be careful in deploying this cash to see how this could really help our company's growth. Acquisitions, M&A is definitely one way. We are not ruling it out. As you all know, over a period of years, we have been pretty shy of some of this. But however, the mandate is very clear moving forward. We will definitely look at acquisition, but we'll not acquire a company just for the sake of acquiring a company. Even as we speak, there are opportunities that we are evaluating. However, in all I would say, it would be hardly appropriate for me to comment whether we will do something this quarter or next quarter, but we are actively looking at these opportunities. I think M&A will definitely be one of the key strategies for us from the next financial year perspective. So I just want to give a clear indication that you may not expect anything in this H2. If something comes our way and is really attractive and so on, we'll definitely look at it. But I think we need to push some of that into the next financial year.

Manish Bhandari: Sure. My second question is regarding the investment you need to do in the sales engine in each vertical. So are you using any of these levers to add up significant sales on the sales investment and sales engine? And if you could throw some light what has been achieved in this quarter maybe going forward?

Manoj Raghavan: Yes. So sales, definitely, if you look at it, across geographies, we have been investing in sales resources. We have virtualized sales team in U.S., in Europe and in Japan. We have partners in Korea and China apart from our own investments. We have added sales bandwidth especially in the new areas that we're going to focus on, especially on the medical side of the business as well as in the transportation business, which is the rail and aerospace and so on. So we have actually started adding bandwidth there to really focus on some of the new opportunity areas for us. So yes, I would say a lot of investments or most of the investments are focused on some of the new growth areas that we are focusing on.

Manish Bhandari: Manoj, one clarification, if you could throw is, is the JLR has set up its own design center in India in the last few, I mean to say, months or maybe last few quarters? And would that change any in terms of our association with JLR?

Manoj Raghavan: No, I don't think there is any, it's a small development center, mainly focused on very advanced engineering and those areas. It is, I think, a 20 or a 30-member team and they are fresh engineers and they're all learning the ropes and so on. So I don't think that this is going to cause any concern for us. In fact, we will actually complement that particular center and we are in touch with the key management there and definitely, we'll be able to work along with them. I don't see any threat from that particular center.

Moderator: Thank you. The next question is from the line of Sanjeev Panda from Tamohara Investments. Please go ahead.

Sanjeev Panda: Sir, as you said, you want to grow the non-auto business, which is broadcasting especially, and the health care, which is growing at a pretty decent rate, and its contribution could be higher than the auto very soon. So the margin profile in these 2 categories apart from auto, just to ballpark or any guidance directionally. Will they be higher, lower? How is it?

Manoj Raghavan: It is a very difficult question. But let me tell you in general, automotive customers are the most demanding customers.

Sanjeev Panda: Yes. I got it. One more thing that as you said the Q3 is going to be, obviously, seasonally weakest quarter because of the holidays and all. And at the same time, we are talking about hikes that we have pushed from Q2 to Q3. And also we talked about the cost cutting which is reflecting in our other expenses, which is going down. So is there any other also room left out for cost cutting? Or this is something that you have done and it's going to be the case for the next couple of quarters.

Manoj Raghavan: No. We'll continue that in terms of really looking at our overall expense profile. Where all do we spend money and wherever there is no immediate linkages to revenue or customer impact, we would be postponing some of those to the next quarters. We know that there are headwinds like the holiday seasons and so on coming up, and we really need to take care of our bottom-line. So we'll continue those measures.

Sanjeev Panda: Sir, the last, if I can squeeze. In the last time conference call you said that the non-JLR, the non-top customer, the other auto companies, we have seen slow in terms of decision from their side, delay in terms of decision. But at the same time, the global scenario of auto has not really changed. So have you seen any change or the same environment is continuing from your client perspective?

Manoj Raghavan: I think the environment is generally tough. And as I said there were certain deals that have got pushed from one quarter to the next quarter and so on. So that continues. And you would have seen the overall results of multiple companies, right? So it shows the trend that, yes, there is some softening in the market. Having said that, it is not that there are no deals available. There are a number of deals that we are bidding for. What we are not able to judge is whether they will close in this quarter or the next quarter or the quarter beyond. So that is something that is very difficult to predict at this point in time.

Moderator: Thank you. The next question is from the line of Vijay Kumar, an investor. Please go ahead.

Vijay Kumar: Many of the questions have been actually asked. But I thought I'll just broach upon a topic. Something like what's out 3 months back was JLR and BMW. I think they have got to be on the R&D side for further newer options. Did we ever start any discussions in the new platform?

Nitin Pai: Yes. If I understand correctly the question was BMW and JLR have announced a collaboration, I think this is in the case of the electronic drive units for these. And question is, whether we have had any discussions with that entity? Maybe I'll answer that. So while the collaboration has been actually in play for some time now, it is just that the announcement was made now. It is not that something was brought up only in March, April, and it was suddenly announced. Really speaking, that collaboration has been on for some time. That is our understanding. And we have been working with JLR on certain elements already. So there's nothing new in that sense.

Vijay Kumar: What would be the opportunity for Elxsi with the new entity in the sense that BMW would have similar vendor or similar software providers like Elxsi for BMW just like JLR has Elxsi. So would we have had a chance of winning any orders with the new entity?

Nitin Pai: Yes. On one hand, they are independent customers for us, right? So we work with both. And whatever we do is completely independent for both these customers. In this particular case, there's a certain amount of collaboration that has been declared to share R&D investments and certain transfer of technology. And like I said, we have been working with JLR on certain parts of those for some time now. So beyond this, we don't see any larger opportunity. Whatever we do will continue to be independent for those customers. So as such, there is no separate JV setup just to clarify. So there is no third company to work with.

Vijay Kumar: Right. One more question on the opportunity that India would have from companies like Apple and others moving into India to manufacture or assemble. Will we stand a chance to win any design or work with such large corporations in the future?

Manoj Raghavan: We will have nothing to do with Apple moving their manufacturing to India and so on. I don't think Tata Elxsi has a play there. However, Tata Elxsi has a play for example with one large retailer who is investing in India currently. They are building their own India-specific brands. So we are actually working with them to design some of their products' packaging. From an industrial design perspective, we have a number of projects that we are doing. And moving forward, as the number of India-specific brands and product categories increase, there will be an opportunity for us to really work on them.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Henrietta Seligman from Somerset Capital. Please go ahead.

Henrietta Seligman: Well done on the results this year. Great improvement quarter-on-quarter. My question is, how much competition are you seeing from other players now when you tender for new projects? And how does that compare to the last few years? And then just a very quick question. I didn't quite hear the answer to what the utilization rate is of the workforce at the moment?

Manoj Raghavan: The utilization rate is 71%. The competition, yes, competition is there in a number of deals that we bid, especially in the automotive sector. Competition is less in the media & communication and health care segments. In many cases, both in media & communication and in the medical business, we are sort of their single vendor so it's very difficult to give you one specific answer about competition. But however, I think we really focus on capabilities and core competence that we have, bringing our design elements to really differentiate our capability with respect to competition and our end-to-end product delivery capabilities. So I think it is a mix of what I have explained.

Henrietta Seligman: Okay. And I mean given the slowdown that you've seen in auto, are you seeing more people entering the tenders and going after that business at the moment?

Manoj Raghavan: No, I don't see that there are new players coming in or typically, in the automotive scenario you have 2 or 3 companies bidding for some of these opportunities.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vaidyanathan for closing comments.

G. Vaidyanathan: Thank you all for participating in the Q2 results investor conference call. And we hope for your participation in Q3 as well. I would also like to thank Manoj and Nitin for answering all your queries. Thank you all.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Tata Elxsi Limited 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.