Q3 FY20 Earnings Conference Call

January 14, 2020, 15:00 Hrs IST

Moderator: Ladies and gentlemen, good day. And a welcome to the Q3 FY20 Earnings Conference Call of Tata Elxsi Limited. 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, Stanford. Good afternoon. I welcome you all to the Tata Elxsi Q3 FY20 Results Investors Conference Call. Thank you for joining us today and Happy New Year. The financial statements, quarterly fact sheet and the press release are available on our website. We have with us today Mr. Manoj Raghavan – CEO & MD; and Mr. Nitin Pai – Chief Marketing Officer and Chief Strategy Officer.

Mr. Manoj Raghavan will give a brief overview of the company's performance, followed by Mr. Nitin Pai who will give an overview of our company's performance by divisions. We will follow that up with the Q&A session.

And as you are aware, we do not provide specific revenue or earnings guidance, and anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

With that, I would like to hand over to Mr. Manoj.

Manoj Raghavan: Good afternoon, everybody. A very Happy New Year to all of you. I am pleased to report that we have delivered another strong quarter, both in terms of top-line and bottom-line. And as you would have seen in terms of top-line, this is the highest ever revenue in the company's history. So, I would consider that given the issues that we have seen in the past couple of quarters, I would say that we have well and truly recovered.

Our revenues grew almost close to 10% quarter-on-quarter and about 4% year-on-year. A significant portion of this growth came from volume growth. So, if you look at it, our constant currency growth in the last quarter was 6.8%.

The bottom-line performance has also been quite satisfactory. PBT grew by close to 45% quarter-on-quarter and the PBT margin for the quarter was close to 23%.

The revenue growth in this quarter was again broad based across divisions. We have seen good growth across divisions and across geographies. So, if you look at it, EPD and the Industrial Design business grew almost close to 10%, 9.8% and 9.9% respectively. SI also grew by about 7% quarter-on-quarter.

Within EPD, if you look at it, the two large verticals grew pretty well. Transportation vertical grew upwards of 10%, and the Media and Communication vertical delivered another quarter of steady growth, about 5.3% of growth. And as you would know, medical is the fastest growing piece of our business. Though from a small base, we have been able to grow by upwards of 40% quarter-on-quarter.

Of course, the performance was led by strong execution and ramp -ups in the large deals that we have won in the previous quarters. And that also reflects in our utilization rate, which has increased to about 75% in the last quarter. So, I think that has been very satisfactory and it shows in the uptick in our margins. The quarter also saw addition of leading customers and wins across verticals in multiple segments.

So, I would now hand it over to Nitin to really give out a little more details about each of our businesses.

Nitin Pai: Good afternoon and a very Happy New Year to all of you. I am just expanding upon what Manoj shared. I think it has really been an all-round performance, the metrics will tell you that. Whether you look at it as markets, geographies, or even business divisions, I think we have really seen everything come together. And in many ways, I think this performance was supported by very strong execution and ramp-ups across all customer base. And we are not talking about just the top five or the top 10 here, we have really seen far better mining, far better execution and consistent ramp-ups across customers going well beyond the top 10.

On the other hand, from a strategic perspective, we have been working for some time now on creating very strong synergies for customers in being able to bring design and technology together, especially to drive innovation and new products and services. I think we are really starting to see more and more of this in action. And I think a very good example of this is the new user interface for Dish TV and D2H called Orbit. This was officially launched in December by Dish and this brings together a very seamless TV and online OTT experience together, in one elegant and easy-to-use experience.

And if you then stand back and look at what this requires, this requires a deep understanding of consumers and interactions. It requires a blending of design and user experience, along with the underlying technology. And for us, a large part of this is digital, simply because you are using AI, you are using machine learning to personalize the experience and deliver that personalized experience to the consumer. Even on a standalone basis, of course, our design capability continues to be recognized globally and the latest wins in two categories, packaging and product design at the India's Best Design Studio Awards 2019, which was again in the last quarter, I think is really a reflection of that global capability.

We continue to strongly participate in market building activities. So, we continue to participate in leading events across the world, including ELIV, stands for electronics in vehicles. This is a leading event in Germany. This time, it was hosted in Bonn in mid-October, where we showcased solutions for electric, connected and autonomous technologies.

We also equally continue to invest in building and strengthening our strategic alliances in all three verticals. So, we featured as speakers, showcased our offerings for connected TV and OTT at the Android TV Summit which was hosted in Bangkok. And this is an event that's held by Google. So, in that sense, we were invited and were representing Google in the entire Android TV ecosystem.

In general, I think summarizing back again, strong performance across divisions and markets. Synergies that are starting to play out very well between parts of the businesses, including what we do in digital technologies in development and technology as well as design. And I think we continue on our ability to market ourselves better.

That's a quick summary for you. We are open to questions beyond this. I am just going to hand over back to GV.

Moderator: Sure, sir. 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, I just wanted to understand what are the kind of salary hikes that were offered in this quarter, onsite and offshore?

Manoj Raghavan: Offshore on an average was 8%. And onsite between 1% and 2%, depending on the geography.

Vimal Gohil: And sir, this is completely absorbed in this particular quarter, right?

Manoj Raghavan: Yes, the hikes were effective October 1st 2019.

Vimal Gohil: Okay. Sir, if you could comment on your performance in your top customer that continues to be slightly on the decline. And plus, also comment on the overall auto vertical, how is it looking now? Because we have had a rough few quarters previously. So, if you could just comment on the outlook on the same. And also let us know, what is the kind of order book that you are seeing in healthcare? Because healthcare although on a lower base, is showing some very strong growth, so what's the outlook on those two verticals - auto and healthcare?

Manoj Raghavan: Sure. So, JLR definitely has bottomed out. In fact, in this quarter we have seen a small growth. So, to that extent, I would say that it is wrong to say that JLR has declined, but relative revenue share, because other accounts have grown faster, you might see it has de-grown. But in reality it has grown slightly, but slower than the other customers. So, definitely JLR has bottomed out and hopefully in the subsequent quarters, based on their business outlook and performance, we hope to recover our situation there.

Automotive industry in general, as you know, we have been talking about it since I think January, since Q4 of the previous financial year, definitely there is a slowdown and we have seen this all the way till the June quarter. So essentially what has happened is a lot of the deals that we were bidding for were pushed back or postponed. But what has happened in the last quarter is, we have won quite a few of these deals and also started servicing these deals – ramp-up of headcount and so on in these deals. That has really resulted in this growth that we are showing, slightly more than 10%, 10.4% growth in the automotive industry.

So, I believe it is very early to say whether we can sustain this sort of growth moving forward. But what I can tell you is, whatever deals that we have won, we are aggressively servicing them, deploying resources and so on and so forth. So, I am pretty confident that at least in subsequent few quarters we should be able to continue the growth path. Whether we have totally recovered from the automotive industry, again, depends on the various trends that are being played out, whether it is on electric car, connected car space, on autonomous driving and so on. As and when our customers really start looking at outsourcing some of those large pieces, that is where we will really see further growth. So, I would be cautiously optimistic at this point in time.

Regarding medical business, I have always been very bullish on this particular business. As I have stated earlier also that we will continue to grow very aggressively in this particular business. I think the outlook continues; we see good traction across the globe. We see some large opportunities coming our away, and we should continue this growth all the way into the next financial year also. So, that's in brief about both automotive and the medical piece.

Vimal Gohil: Sir, last question would be on margins. Given the fact that our utilization has fallen to almost 75% versus about 80% on an average. And because your growth outlook seems to be very strong, do you expect the ensuing growth in utilization to also impact your margins positively going ahead? And how much can this utilization go up yo?

Manoj Raghavan: I doubt if we were ever at 80% average, maybe we were at 70% average. So, in fact, the utilization went up from 70% to 75%. So, I am not sure about the source of your data. We are not a typical IT company and we have multiple businesses. So, we would definitely need a strong bench to be able to not only meet the growth expectations of our customers but also new customer additions and so on. So, I would say 75%, 76% is a good place to be in. Of course, depending on the business growth, this number could go up slightly. But we would at the same time keep hiring and adding resources from the market and from colleges. So, I am pretty satisfied with the current situation, it could go up a few percentage points.

Vimal Gohil: So, margins will remain in the band, right?

Manoj Raghavan: The margins will remain in the 22% to 24% band, and that's what we are aiming for.

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

Ritesh Bhagwati: Sir, my question is like, how is the decision making on spending from clients seen in this quarter versus previous couple of quarters that you might have seen, can you give us some sense of that? And has there been a pickup in big deal wins that we have witnessed?

Manoj Raghavan: So, if you look at it, the three main verticals that we have - Automotive, Media Broadcast and the Medical. So, in Media Broadcast and in the Medical space, we see business as usual and we see growth happening in-line with whatever we have been projecting. And definitely, I think our account mining and new business development activities are going in full swing there. So, we don't see any hesitation from our customers in terms of holding back and so on. So these two segments would continue to grow.

Automotive, this quarter was good. And again, I would like to say that we won some good deals. We won a couple of Tier-1 customers in the U.S., we have won a couple of OEMs in the APAC region. So automotive deals are happening, but at the same time the industry is still not out of the woods. So, decision making is getting delayed so I will not be able to really comment so much on the automotive scenario as the medical and the media and communication space. This quarter was good. Hopefully next quarter will also be good.

Ritesh Bhagwati: Okay. Just one small question, so what are the total number of customers we have as on Q3 FY20? If you can just help me out.

Manoj Raghavan: The total number of customers is about 160.

Ritesh Bhagwati: Have you won any new customers in this quarter or lost any customer?

Manoj Raghavan: There have been a few customer additions definitely. I don't think we have lost any customer. Even if we have lost, it would be insignificant tail accounts, because I strongly believe that there is no point in holding a number of these tail accounts. So, we are also looking at how to rationalize this big list. Essentially what matters are the top 40 to 50 customers.

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

Mayuri Yadav: Sir, we have an almost touched the 10% Q-o-Q growth which we have been targeting, we have mentioned that in the previous many quarters that we are aiming towards that quarter-on-quarter growth. You have mentioned that the while in automotive, the things are not that clear, but in medical and the broadcasting space, you are fairly confident of the current growth to be sustained going forward. So, my question is, assuming that the automotive with the current deal wins that you have had in this quarter, the growth rate is around this region. Then would it be right to say that the growth can be even higher given that the medical devices segment is now doing fairly well for us?

Manoj Raghavan: In an ideal situation, if we fire on all cylinders and there are no untoward incidents, yes, then what you say is correct. But we know, in reality it doesn't happen. So, I would say, yes, even if you look at it, 5%, 6% growth quarter-on-quarter is pretty reasonable, if you look at it. Yes, medical business will grow much faster, but they are also at a much lower base.

Mayuri Yadav: Absolutely. So, are we in a way, therefore, talking about an overall revenue mix change in coming quarters, because already medical devices is touching around 8% of our revenue? So, are we talking of significant mix change from here on?

Manoj Raghavan: Sure. I mean, not immediately, but in a three year time frame. And I have already communicated on that earlier also that in a three year time frame we definitely see medical business being a large part of our overall portfolio.

Mayuri Yadav: Sir, any quantification, even a broad range would really help. If we say it will be a large contributor then can we put some range around it?

Manoj Raghavan: See, the idea is, the three businesses are almost like three pillars or three legs of a stool. So that's the way I see it, so that we are not over-dependent on any one segment. Having said that, I would be happy if the medical business is anywhere between 20%, 25% at the end of three years.

Mayuri Yadav: Okay, that helps. Sir, and just if you can give us some more understanding as to this particular quarter in the Healthcare and Medical Devices segment, this kind of growth, which geography, what kind of work that we have done? Is it a short-term project or is it one year beyond kind of project that we are executing in that space? So some understanding there will help, sir.

Manoj Raghavan: Yes, the good thing about the Medical business is, most of the business is long-term. When I say long-term, it's beyond a year, many a times it's a three year sort of a thing. So when you look at our TCV perspective, the medical business is carrying a healthy TCV. So, yes, a lot of the business right now is based primarily in Europe, and in the U.S., where the big medical companies are there. Of course, we do new product development, we do a lot of IoT, connectivity sort of work in the medical space, we also do a lot of regulatory activity in the medical space. So it's a combination of all these three that is really pushing the medical business.

Mayuri Yadav: Sir, what will be the average deal size in the medical devices segment that we would have done till now?

Manoj Raghavan: I will not be able to give you that data right now. But I would say it's a pretty satisfactory.

Mayuri Yadav: Okay. And in terms of margins, would the medical devices be a better margin segment for you, given all the entry barriers and the processes that you have to go through just for the registration and to build a client base?

Manoj Raghavan: Yes, the margins are superior as compared to other business.

Mayuri Yadav: So last question, what was the IP revenue contribution in this quarter for you?

Manoj Raghavan: IP revenue was pretty insignificant in this quarter.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya: My first question is, if you can give us what would be the top client, top five and top 10 client's contribution in this particular quarter?

Manoj Raghavan: It's there in our fact sheet which is available in the Investors Section of our website. The top customer is 15.7%, top 5 is 37.8% and the top 10 is 50.8%.

Amar Maurya: Yes, then I will take it from there. Sir secondly, now given that the run rate of around Rs. 400 plus crores, and we are confident that from this level also we will be able to maintain at least 3.5% to 4% kind of a top-line growth. So, basic driver for the growth would be in that case then would be the Broadcast and the Healthcare?

Manoj Raghavan: No, if you look at this quarter, automotive still grew upwards of 10%.

Amar Maurya: But that is like, we are hoping that it will grow next quarter in the same pace.

Manoj Raghavan: We have good deals that we have won. And that growth momentum will definitely continue. We are not ever here saying that, "Hey, transportation will grow slower than others". And so what we are saying is, the outlook is a little bit cautious, because we have had Q1 which was not great, and then Q2 we recovered a little, Q3 we definitely did well. What will happen going forward, we are not confidently being able to say that, yes, we are on the recovery there and so on, right? So maybe a couple of quarters of steady performance will give us the confidence.

Amar Maurya: Okay, because if I am not wrong, stripping JLR in this quarter, you would have grown by around 15% in the transportation segment?

Manoj Raghavan: I am not sure whether it is that high, but yes, it definitely grew faster than the 10%.

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

Ujwal Shah: Sir, just wanted to understand each vertical's potential in terms of outsourcing as well as our capabilities, considering that we are seeing a lot of competition from large Indian players as well. So what capabilities that Tata Elxsi has developed which gives it an edge over these players?

Nitin Pai: I think if you fundamentally look at it, you have to remember that we come from two different directions. IT companies come from the fact that they have been up to the CIO for a long time in all these years, and they are now talking to the R&Ds and the CTOs. While we traditionally have always been talking to the CTOs. And that's I think the fundamental difference between the two types of companies - pure play product engineering vis-à-vis IT companies who are broad basing their offerings.

Our capabilities are built on the basis that, unlike IT, where you can build tremendous fungibility of skills and capabilities, so you can have 1000 Java developers working for a project. And as long as you bring a domain layer on top, you don't really necessarily need any great domain capability or skills at the bottom layers. And unfortunately, that is not true at all in the product engineering space. First of all, you don't have projects that have 1,000 people, they are much smaller teams. And on the other hand, your teams require to be equally competent all through the pyramid. And therefore, your pyramids are steeper, your pyramids are far more deeper and more capable. So, to that extent, I would say, that is the fundamental differentiation. 20 years of being able to work with companies in product development and R&D by itself in many ways, I would call it a work secret or a capability that the company has built.

I think what we have added to it is two parts. One is the design capability, which again has been organically built and not bolted on like we would buy a design company from outside and try to figure out how to make value out of them. I think that coupling and that synergy, which I also referred to right at the beginning is another strong differentiator for us, especially when you start to appeal to strategic levels inside the customer organization.

And lastly, of course, digital for us has always been a play. Because if you fundamentally look at what we do, we have been working on devices and devices are becoming smarter. Therefore, what you call as autonomous cars or connected cars or smart set-top-boxes or OTT, for us all of that is digital. So I think, in many ways I think we are at the right cusp of what the world requires now, which is design plus tech, and which is driven by smart and connected. So I think we are in a happy place.

Ujwal Shah: Great, thanks. Secondly, sir, on the healthcare space, the traction that we are seeing currently and what we are expecting ahead is very, very strong. So some ideas specifically for healthcare space, have we got into some new areas, developed some new domains or what is driving this kind of growth that we are seeing in healthcare space and your confidence on its sustenance?

Nitin Pai: I think if you remember, we tried providing for this kind of an entry in the healthcare space for some quarters now. So obviously, it's not a flash in the pan, it's not something that just started to play out over four quarters. If you really look at it, the journey has been over 12, 13 quarters at the least. And at the beginning, the fundamentals of the industry start to play. It's a conservative industry, there is a strong incumbency factor, there is resistance to signing on new vendors and so on. And once you break those walls, I think you will see that movement is far, far easier, both within the customer that you have won, as well as by reputation into other customers in the same segment or the same domain. And I think that is really working out for us. That is part one.

Part two, I think we have also been careful to make sure that we don't stay with only the product R&D part, but we also look at downstream work including regulatory and so on. So in that sense, like Manoj said, we see longer contracts, we see longer engagements, we see larger TCVs. I think there are two factors playing out, therefore - customer additions, better penetration to customers simply because you are breaking down typical incumbency and conservative walls. And the fact that we are also building service lines that have greater TCVs.

Ujwal Shah: Thanks. And lastly, the offshore/onsite mix that we have achieved this quarter, do you think this is more of a quarterly syndrome? Or do you think this is the level that we would like to stabilize and grow further upon?

Manoj Raghavan: Yes, I think definitely we would like to be around the same 40 to 60. 40% onsite and 60% offshore. So, I mean, we have been hovering around that for a number of quarters. Maybe 0.5% or 1% here and there, but we have been around that.

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

Ankit Shah: Sir, in the last quarter you had alluded to tight cost control to fall in the target margin range. You shared that you restricted participation at certain events and business development, etc. So what's the update, is there any revision on this front?

Manoj Raghavan: Yes, so I think last quarter there were a number of things that we had to do because we had salary hikes, we had freshers coming in and so on. So we were a little cautious. But I think now that the business has grown, and we have the confidence, so we will go back to our usual stand. Of course, we will still be conservative as far as expenses are concerned.

Ankit Shah: Okay. Sir, in the beginning you clarified that the salary hikes are fully absorbed, so the hike was taken on let's say 1st of October something.

Manoj Raghavan: Yes, the hikes were effective from 1st of October 2019.

Ankit Shah: Okay. And lastly, any update on utilization of cash, either in any inorganic opportunity or consideration of higher dividend payout or buyback?

Manoj Raghavan: No, we are exploring. We are discussing with our Board. So, at this point in time I don't have any specific to report.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Just wanted to clarify, at the start of the year you guys had suggested that you were looking at about 15% growth for the year, and then we had a weak start in Q1. So, given the bounce back that one has seen in the last couple of quarters, are you hopeful of sustaining that kind of growth momentum going forward?

Manoj Raghavan: Yes, we hope to sustain that growth momentum. Of course, for this financial year, we would be pretty flat. But moving forward in the next financial year, definitely, if we maintain this growth momentum we will definitely be able to not just recover, but also compensate for whatever dips that we have had.

Manik Taneja: So if I heard you correctly, you mentioned about 5% to 6% sequential growth within possible range?

Manoj Raghavan: It's a good target for us to go after. Of course, it's pretty early. We are cautiously optimistic that it can be done. We just want you to really bear with us for a quarter or two more, so that we can confirm that, yes, this growth momentum is good for us.

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

Rohan Advant: Sir, my first question is regarding our GBP revenues, if you can share what percent of our total revenues are in GBP and what percent of our costs are in GBP?

Manoj Raghavan: Approximately I would say 25% of our revenues would be in GBP. I am not sure about the cost; I just need to check with our finance team. But the top-line is about 25%.

Nitin Pai: Just to comment on that is that, while the revenues come in in GBP, understand that that's an onsite offshore mix even within projects that we execute. If I were to just extend the company's 40:60 mix, I think that would be a good reference.

Rohan Advant: Okay. Sir, and ex of JLR, what segment would our GBP revenues lie in?

Manoj Raghavan: We have large customers in the media and communication space. So, primarily Automotive and Media and Communication, these are two large segments there. Medical, we are still not really broken into any large opportunity in the UK, but subsequent quarters, hopefully we will be able to report some.

Rohan Advant: Okay. Sir and lastly on the medical healthcare segment, the kind of traction that we have seen in this quarter and the outlook that you are sharing, what is driving this? Is there any regulatory change that has triggered this or is there any macro cause for this kind of traction?

Manoj Raghavan: I think, in the previous question Nitin has very, very clearly articulated what is driving our medical business. So, I wouldn't want to repeat the same. But yes, definitely there is EU-MDR playing out. All companies that have to sell in the Europe markets have to be MDR certified. So that definitely is helping us to bring in opportunities.

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

Madhu Babu: Sir, in Automotive can you get a breakup of the service lines, like powertrain or electric vehicle? So the nature of engagement, infotainment, stack. So which are the three big areas within automotive we are working on the services?

Nitin Pai: If you look at it, broadly, our work within the automotive space is led by infotainment and connected cars, because that's the one that is consumed most and is applicable to almost everybody. That is followed closely by what we do in both autonomous driving, which is the higher end, as well as driver assistance technologies, which is ADAS. So AD and ADAS are a close second in terms of the volume of work and the nature of work. And then that is followed then by powertrain. And obviously, we have seen a reversal of work there where conventional powertrain declines and work that you are doing in electric vehicle and electric vehicle architectures is increasing. So it's really in that order.

Madhu Babu: Sir, just we have seen something written on robotaxi on our website. I mean, so could you tell how that is monetized, the technology we developed there?

Nitin Pai: So if you look at it, the robotaxi demonstrator was really work that we are doing jointly with another partner called AEye. And they are developing a very unique kind of radar that technically is capable of seeing almost 1 kilometer ahead so they provide fantastic range. And our job was to make sure that we can build up a demonstrator of that technology, integrating those sensors in a very record time of a few months. So really the exercise has been to work with them, to integrate their sensors into our Autonomai stack, which is our own autonomous vehicle stack that we have developed and licensed to a few customers. And the idea was to show that integration and implementation of completely new sensor technologies and use cases is very, very easy.

What we have done on top of that is layered a whole consumer interface which allows, let's say, typical taxi hailers, so that is consumers like you and me. And it really builds on the use case of what happens when there's a fully autonomous car so there is no driver there and it's really being used as a taxi. So what would the experience be? How do you hail such a taxi, how would such a taxi deal with onboarding and off-boarding passengers, and so on and so forth? So it's really a combination of user experience when it comes to a taxi kind of a scenario coupled with Autonomai as our stack implemented in an actual vehicle.

So the monetization is really about, one, AEye is a customer for us in any case. So that engagement itself is a paid engagement. But on other hand, what we see as opportunities is the two of us going to market together.

Madhu Babu: Okay. So just, is it similar like Mobileye, which is Intel funded in Israel doing that vision, which is anyways on the higher end, if I am right?

Nitin Pai: If you look at Mobileye, Mobileye was a standalone company, of course. They built very specific technologies coupled with their own hardware. So they had their own cameras and their own hardware which works with their software. Here it is two different companies, because AEye brings the sensor, Tata Elxsi brings only the software. So in many ways we are trying to put software and hardware together.

Madhu Babu: And just one more question. We talked of venturing into other areas within automotive, like rail and other segments. So just your view on that. Thanks.

Nitin Pai: So we do continue to focus on that, but obviously it is both a de-risking as well as an expansion strategy for us. And that continues to grow at the same rate. It is just that we have had extraordinary growth in automotive in this quarter. But otherwise, I think that non-automotive piece, which includes rail, off-road and commercial vehicles continues to grow very well too.

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

Bharat Seth: Manoj, now if you have articulated that in two, three year time frame medical will be around 25% plus. So how do we see remaining two parts - transportation and media vis-à-vis what we are currently?

Manoj Raghavan: We continue to grow. As far as Tata Elxsi is concerned, these are mature markets, will continue to grow at the same rate or even faster. So, in no way are we going to say that we are going to de-focus from either Automotive or Media and Communication. They are very, very important for us and they will continue to be. The only thing we are saying is, we have spotted a good opportunity in the medical space and we have built good capabilities over the last four to five years and we are now leveraging on all the open opportunities that come away. We have built certain frameworks that really help us to scale rapidly, that helps us to really win customers faster. So we have sort of nicely managed that particular piece, that is really helping us. So, medical will definitely continue to grow faster, but that doesn't mean the other two segments will not grow.

Bharat Seth: Manoj, my questions is, if we really look at it from medium-term perspective, the outsourcing potential in auto vis-à-vis medical and this media, so how do we see which is our biggest pie? So when we are talking about growing this business, so auto has, I believe, a higher potential of outsourcing being a very large industry, correct?

Manoj Raghavan: Yes. But each of these, so hundreds of billions of dollars, large outsourcing. So we are a small pie there, so it doesn't matter for us.

Bharat Seth: I mean, from medium perspective, again, I mean, auto will bounce back, correct?

Nitin Pai: If I may answer it slightly differently. It is not the intent to grow auto any slower, it is just a de-risking strategy. So if you think about it, do we believe that auto can be a very big business? Of course it is. Is it already a huge industry? Of course it is. But are there issues that we see that will affect the structural nature of the industry, will affect R&D? We don't know. Think about it as we are building a very active de-risking strategy, the de-risking strategy has to kick in before the risk occurs. And therefore that is what we are doing. And the intent is not to slow down auto in any case.

Bharat Seth: So Nitin, on this electric and hybridization there is a lot of joint development is happening globally. And now Chinese people, European players as well as American players have tied up with the Chinese players also. So how do we see this opportunity will play out for us with Chinese players also coming in very big way on this development side, outsourcing. Will it have any impact on us?

Nitin Pai: So I am breaking up your question into two parts - threats and opportunities. So threats are of the following nature. One is what happens when companies cut down R&D spend, or rather share R&D spends between themselves? So that's one type of risk. The second risk is, what happens when everybody sees that this is a huge industry, it is growing, there is a lot of money in it and therefore you have more competition, right? And we see both.

On the other hand, when you look at opportunities, the fundamental point is that all these are disruptions led by technology. So the software content in electric car is going to be even far, far higher than what you would see in a conventional car. While the conventional car was still predominantly mechanical, with a layer of electronic control on top, the electric car is fundamentally digital in that sense.

So for us, the way we see it is that opportunities, sheerly because of where the technology curves are going, only indicates that R&D spend in our area of business, in our capabilities space will increase. On other hand, there will be certain attractiveness to the industry simply because of the sheer size and the sheer volume of work, which will increase the number of competitions. And that's why I think somebody earlier talked of IT companies entering this space and they are and it's our job to make sure that we always differentiate ourselves against anybody who comes in.

Just the last point I would make is, please note that we have announced wins even in China.

Bharat Seth: Nitin, now you talked in beginning on the synergy of designing and technology, so how we are going to play this designing for auto side?

Nitin Pai: That is already being played, really. If you look at the design, it plays at two levels. One is in the physical level, which is what you see and what you touch and feel in the car, which is predominantly exteriors and interiors, that we have been doing for a long time. I think the real new space for the car companies and us, over the last seven, eight years, has been the user interfaces of infotainment systems and digital clusters and so on. And equally, the fact that most of these cars now come with an app outside, whether you use it for fleet management or a connected car service, I think those become digital interfaces, and that is all of UX and UI. So, the work that we do for a Zee5 or a Dish TV and so on is as applicable to a car company today.

Bharat Seth: And how that will play out for media and broadcasting, if you can touch upon little, I mean, potential?

Nitin Pai: I think it's exactly the same. That's why I quoted the example of Dish TV at the beginning. The fact that we see a very strong play between design and tech there.

Bharat Seth: Okay. And any opportunity on IP side, I mean, scaling up?

Nitin Pai: We continue to examine that. As far as products are considered, you have to understand that we are right now dealing with a limited portfolio of products and IP. And they have their own cycles, unlike services where you can lock in TCVs and you can engage for a period of time, and therefore there is predictability. Unfortunately, IP has a little bit of an up and down in terms of predicting revenues and wins. So, until we evolve to a model where maybe there's a lot more royalty component and therefore an annuity part after what we sell, at this time our IP is really one time sales and therefore, very difficult to predict in terms of how much they will contribute in any given quarter.

Bharat Seth: One last question on bookkeeping side. I mean, when we expect to move to this new tax regime?

Manoj Raghavan: New tax regime, we are still evaluating and waiting for the Budget. So, we will take a decision sometime in March.

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

Naveen Bothra: My question is regarding the top five and top 10. Is there any customer from the healthcare and medical devices segment in the top 10?

Manoj Raghavan: There is one customer in the top 10.

Naveen Bothra: And the second question is regarding the fixed price contracts. If we see Y-o-Y, there is growth of around 8% in the fixed price component. Whereas time and material, even if we compare Y-o-Y or Q-on-Q that is same around Rs. 207 crores, Rs. 208 crores. So going forward, what would be the percentage of all these fixed price and time material, around 51%, 52%?

Manoj Raghavan: It will be around the same. See, we don't really plan for some of this, it also depends on the type of deals that we are bidding for and type of opportunities that come our way and so on. So it should be around the same.

Naveen Bothra: Because if we see in the quarter-on-quarter, fixed price contract are around 20% more.

Nitin Pai: That's right. But Mr. Bothra, the point is that some of this you will see as variations of 2%, 3%, 4% quarter-on-quarter. But really the nature I think we will see as more of a 50:50 kind of a split. We don't want to go too much in any one direction either. So, I think this represents a nice balance of fully committed versus what we see as time and material.

Naveen Bothra: Yes, around these levels it will be?

Nitin Pai: That's correct.

Naveen Bothra: And the last question is regarding the impact of salary increase. We have added around 400 plus employees, 7%. And 8% salary increase is also there. If you look at between the salary increase and the addition of employees.

Manoj Raghavan: I really don't have this split with me immediately. But we will see how we can get that to you.

Naveen Bothra: And the last question is about the accounts. How much is the cash and cash equivalents at the end of the quarter?

Manoj Raghavan: About Rs. 600 crores.

Moderator: Thank you. The next question is from the line of Sumit Pokharna from Kotak Securities. Please go ahead.

Sumit Pokharna: Sir, just wanted to understand, are you planning to add more verticals which can help in getting a more addressable market?

Manoj Raghavan: Right now we are still evaluating. But as Nitin said, primarily we are focused on these three verticals. And we are looking at adjacencies in these three verticals. For example, from an automotive perspective, we are looking at rail and off road and so on, which will be adjacencies.

Sumit Pokharna: Secondly, what employee power we have, how many of them are fungible and how many are not fungible?

Manoj Raghavan: It has no straightforward answer here, if a person who is really working on EV, electric vehicles, you don't want to put that person into a media communication, OTT space, right? Because of all the training, all the investments that we have made. So, that is the difference between IT companies and companies like us, very difficult. There could be some amount of fungibility at the junior levels, but as they specialize and as they grow becoming more senior their fungibility comes down.

Sumit Pokharna: Okay. Last question from my side, if you can show me vertical wise what's our plan for investment in sales engine?

Manoj Raghavan: So we have, already, if you look at it, based on the growth rate we have been investing heavily in the medical space. We have onboarded new sales people both in the U.S. and Europe. So a lot of the investments that we have been making has been, of course, on the medical space. As well as, on a need basis, in both Transportation and Media and Communication side we have augmented the sales team.

Moderator: Thank you. The next question is from the line of Keyur Vekaria from FSS. Please go ahead.

Keyur Vekaria: Wanted to ask questions about the merger opportunity between TCS and Tata Elxsi, so it's in process or what is the scenario or status?

Nitin Pai: We have dealt with this question for the last 20 years I think, so we will continue to deal with this. I think no comments from our side, because really if you think about it, the decision has to be taken at the Tata Sons level. It has nothing to do with TCS or Tata Elxsi. So we wouldn't know anything about this, we have no comments.

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

Ritesh Rathod: Sir, if I see Q-on-Q movement in your fixed price, onsite-offshore ratio and other expenditure, it seems there's a dramatic shift within a quarter. So anything which you can highlight, like what has led to this kind of shift in all these ratios? And is there a connecting thing between all these three things - the offshore, fixed price and the other expenditure?

Manoj Raghavan: All I could say is, this is the first time we are hearing something like this. So maybe we will talk to the finance team and see how are you making that connection, right? There is nothing intentional or nothing that we have done that can, I can't give you any answer that could lead you to any inference.

Nitin Pai: I will just say that, if you think about it, they are all range bound, in the sense that they are not beyond the typical range. So, revenue offshore-onsite has always been around the 40:60 mark. On the contrary, T&M we are trying to be around 50:50.

Ritesh Rathod: Yes, I agree that. But if you see from last three quarters, post JLR drop we had a new reset in the onsite-offshore ratio as well as the fixed price, because of the sharp drop in JLR from 21% to 17%, 16.5%. This is why the whole mix got a reset to new level. So on that new base, if you see last two quarters, things have shifted. Which is why I am asking that is the focus on medical devices is creating this offshore and fixed price and which is why you are seeing higher other expenditure or something else, the business mix.

Nitin Pai: I don't think so. All you can derive is, the more fixed price contracts that we report, the more offshore revenues will be. Typically, fixed price is executed offshore with a smaller component of onsite.

Ritesh Rathod: And sir in automotive you mentioned growth momentum still continues because of pretty large deals. So they have partly got billed in and partly will get billed in coming quarters, is what you were hinting at?

Manoj Raghavan: Yes, definitely. It has a long tail so we will continue to milk some of those deals that we have won.

Ritesh Rathod: And sir what's your view, like, for automotive not just for the quarter but maybe for a three year, the way you are confident on the medical side that it would go 20%, 25% of your portfolio and for that number it will grow very strongly. Would automotive be a single-digit growth vertical or it can go back to double-digit, annualize number I am talking, like what's your thought given the trends which you mentioned on infotainment, connected car, autonomous and powertrain? Is it possible for us to do a double-digit kind of growth number in coming three years kind of on automotive?

Manoj Raghavan: Definitely. I think there is that positive feeling that yes, because as Nitin said, right, any disruption that happens in any of the industry verticals that we are in, is really positive for Tata Elxsi. And especially the disruption that is happening here is all around electronics and software, whether it is on the EV space, whether it's on the connected car space, whether it's on autonomous, a lot of it is software and electronics that go in and that plays to our strengths.

Ritesh Rathod: Maybe sir last question, on the depreciation number what's the guideline, and as well as on the tax rate number what's the guidance if you want to give anything going forward?

Manoj Raghavan: I just need to check with my finance team on depreciation. I don't have that detail immediately with me.

Ritesh Rathod: And tax rate?

Manoj Raghavan: Tax rate, I mean, barring any surprises that come out in the Budget, the current thought process is that we will go with whatever the government has. They have brought down the tax rate to 25%, right, so, we would be opting for it.

Ritesh Rathod: So tax rate in FY22, FY23 would be similar number or it could be (+/-2%) here and there, like 25%?

Manoj Raghavan: It could be similar numbers.

Moderator: Thank you. The next question is from the line of Nihar Dhutia from SMC Global. Please go ahead.

Nihar Dhutia: I was going through the financials and I found that the FOREX has been positive for this quarter, unlike the previous one. So, has the FOREX impacted this quarter's profitability a lot? And though almost most of the questions have been covered, but just wanted to know whether Brexit will have a major impact on the financials for the coming quarters or not?

Manoj Raghavan: So yes, we have definitely had volume growth. 6.8% is the volume growth and the remaining 2.9% is the growth due to exchange rate. So, yes, the exchange rate has been positive for us. But then you should realize that the volume growth has been much higher than the exchange rate. Regarding Brexit, I think it is wait and watch. I don't foresee any real issue because of Brexit. Of course, JLR may have some effect of Brexit and we are really trying to understand what does it mean to us. At this point of time, we are neutral, I don't see any issue

Nihar Dhutia: Okay. Sir, the thing is, I just forgot whether you mentioned this numbers regarding the salary hike for the offshore and onshore, so just could you please repeat what was the salary hike regarding offshore and onshore?

Manoj Raghavan: Offshore was about 8% and onsite between 1% and 2%., depending on the geography.

Nihar Dhutia: Okay. Sir, the cash that is lying in the books, are you looking for any major acquisition in the coming quarters?

Manoj Raghavan: We are discussing this with our Board. At this point in time we have nothing significant to report.

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

Vimal Gohil: Thank you for the follow-up. Just I was wondering, in some previous meetings we have been highlighting to expand into aerospace and such allied verticals in the auto sector. Just wanted an update on the same, whether we are still pursuing it or have the plans changed?

Nitin Pai: I think I referred to that in a previous question. We continue to build out adjacencies in each vertical, and therefore in the case of automotive, it has been the rail, the off-road and the commercial vehicle space. Simply because skills are very adjacent, skills can be transferred very easily. And we have already won customers there, so to that extent I think 4% to 5% of the revenues already in the, in what we call the automotive segment are already non-automotive from these adjacencies. And they have been growing at a healthy rate too, the aim, of course, is to see if we can accelerate that further.

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

Ipshit Naredi: Sir, my first question is, your employment benefit expenses is Rs. 242.56 crores in this quarter, and in September quarter last year it was Rs. 215.36 crores, any specific reason on this?

Manoj Raghavan: Are you talking about the salaries, because of the salary increase that we they have given?

Ipshit Naredi: Yes, right. Right. Okay, so there's a salary increase in this?

Nitin Pai: That's correct. Yes.

Ipshit Naredi: Okay. And my second question is, last year in December 2018 quarter, the company's exchange loss was Rs. 11.75 crores, and in this quarter there is exchange gain of Rs. 11.26 crores. So, can you please explain me the hedging policy of the company?

Nitin Pai: We have a conservative hedging policy, we take both forwards and options. Typically, what we do is, about 50% of the FOREX are expenses that we have to incur in the same currency. So, whatever is the outstanding amount, typically we hedge about 50% and that could be in a mixture of options and forwards. So, depending on the currency, we would take those decisions.

Ipshit Naredi: Okay. And my last question is, is there any contribution of the company in upcoming models of Tata Motors and JLR or in recently launched models for the same?

Manoj Raghavan: Yes, so Tata Elxsi has been involved specifically on the Nexon EV project of Tata Motors. We have a significant contribution there. Of course, all models of JLR, whatever is being launched, Tata Elxsi is involved in some way or the other.

Ipshit Naredi: So, like is there any like in Harrier or Gravitas, so I think there is a upcoming model also?

Manoj Raghavan: Absolutely, yes.

Ipshit Naredi: So, is there any contribution of the company?

Manoj Raghavan: Yes, Tata Elxsi has contributions.

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

Manish Bhandari: I have two questions. One, can you tell me about the total number of employee addition you wanted to do in next one year? You have done some 5% rolling basis one year.

Manoj Raghavan: Next one year we would add anywhere between 700 to 800 engineers.

Manish Bhandari: That is net of attrition?

Manoj Raghavan: Yes.

Manish Bhandari: And my second question is, on various conference calls and as well as when I met you, you had spoken about the change in the total contract value, which you would like to bring to the overall pie of the business. So, can you share that metric and how that is changing in terms of the engagement as well as total contract values?

Manoj Raghavan: Yes, we are still working on it. I don't have the data at present, but we definitely know that the total contract value has been growing significantly. What we have done is, over the last couple of quarters we have sort of changed the way we measure and monitor our sales team. Their incentives are based on the TCV booking that is done. So, we are actually pushing the sales engine to really go after large deals. And to that extent, I can definitely report that, yes, it has been successful and in part, the growth that you are seeing is because of the bookings that we have done in the last two quarters.

Manish Bhandari: So, this is happening in all the three verticals?

Manoj Raghavan: Absolutely, all the three verticals, yes.

Manish Bhandari: And Manoj, my last question is regarding the employee scheme, ESOP plan. So, is there any consideration in the Board for implementing an ESOP plan for all the senior management and whomsoever you think?

Manoj Raghavan: Right now, no, because we have looked into it a few years ago and we have gone to the Board and typically Tata Group companies have an issue in issuing ESOP. So, we have not attempted to go back. We have not attempted in the recent past. So, the situation is the same, we are not talking about ESOPs right now.

Moderator: Thank you very much. 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 joining the conference call today. I would like to thank Manoj and Nitin for answering all your queries. Thank you and have a great day.

Manoj Raghavan: 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.
