



Q4 FY19 Earnings Conference Call

April 30, 2019, 15:00 hrs IST

Moderator: Ladies and gentlemen, good day. Welcome to the Tata Elxsi Limited Q4 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr Vaidyanathan. Thank you, and over to you, sir.

G. Vaidyanathan: Thank you. Good day and welcome you all to the Tata Elxsi Q4 FY19 Conference call. We have with us in Bangalore the management team, Mr Madhukar Dev – CEO & Managing Director; and Mr Nitin Pai – Senior Vice President, Marketing. Please restrict to one question each for giving a chance to others. If we have time, you can come back for other questions if you have any. I would now hand over to Mr Madhukar Dev to give the overview of the results.

Madhukar Dev: Thank you. Hello and welcome to the call, the final call for FY19. The quarter was quite satisfactory and enabled us to end the year on a fairly positive note. We delivered growth, both in terms of revenue and profits, in line with our expectation. But, what gives more satisfaction is the fact that underlying the numbers that you see for Q4, are a whole

set of actions that we initiated to counter the challenges that came up in the quarter, some expected and some unexpected. And the fact that most of those actions bore fruit within the quarter itself and enabled us to deliver the numbers that we have, gives us a lot of satisfaction and confidence that even as we see challenges and uncertainties in some of the key markets that we address, the company is in a good position to counter those. We will see challenges as we go along, but we have been able to tackle them quite well, and we have a strategy in place that will take care of our interest in the long term.

With that, I would request Nitin to give an overview of our main division in the company. After which we will open it for questions.

Nitin Pai:

Thank you, Madhukar. Good afternoon, everybody. A quick update on EPD, Embedded Product Design, which is where we deliver electronics and software services. So, as you are aware, we have three key verticals that we operate in: automotive is the first one which is the largest. Also, in line with what Madhukar was mentioning, we do see a certain softening of the passenger car market especially. And what we have done over the past few quarters and a lot of that delivered in the last quarter particularly was to look at markets and adjacencies outside of the mainstream passenger car market, which is on one hand the rail industry which we see as a very stable, sustained market, even if it is smaller than the automotive market. Also, the other segments of the automotive market itself which include commercial vehicles, off-road vehicles and so on. So we have seen very satisfactory progress there. We won some new customers, some good sustained deals, and we believe that will continue.

Broadcast and communications continue to see good progress. With the advent of digitization, with the transformation that most of the TELCOs are undertaking, the continued move towards OTT, Android, I

think these are all positive signs for us, these are places that we have invested in, we have built capabilities and credentials for, and we continue to see growth there.

The success story I think, and which something that is starting to now come into fore is our medical / healthcare segment. So while it has been relatively small compared to the scale and size of both the automotive and broadcast & communication business, we have seen very-very healthy growth, and, we have won some new customers, so we have added to the portfolio of customers that we have in the medical and healthcare segment.

More importantly, I think we have gone well beyond new product development and R&D to actually supporting them downstream into their entire regulatory support. Now the scale here is much larger; the scale is much more sustained, programs are larger and longer. So I think that is a very healthy sign of, one, the ability to scale with existing customers, build wallet share but also move into adjacent areas of service and expand the overall wallet share itself or the pie of the market itself. So that way, I think medical has been a very satisfactory segment for us this year.

Beyond the verticals, there are two things that we look at, which are towards the future. One is what we are doing with IP and solutions. And while we have much bigger ambitions, of course, for what we want to do with IP, but if we look at the last year, we have been clocking about 3.5% to about 5% every quarter in terms of revenues.

Last quarter was exceptionally good for IP. We won deals both with IP in the automotive sector as well as what we have in the broadcast segment, including FalconEye, which is our leading product for automation and quality of experience, especially relevant to players

who are launching OTT platforms and OTT services. So we have seen some very good deals there, and that rounded off the year for IP on a high note.

The second piece is digital - we have been very clear about the fact that we want to align digital to our domain competency. So to that extent, we are focused on how digital will transform the industry that we are in, which is automotive, broadcast & communications and medical. Moreover, we have been very clear about how we want to support digital initiatives for our customers within these segments.

Two good highlights there. One was the OEM program that we won in the last quarter to enable their connected car services. Now, this is a very important milestone for us because this represents the complete verticalized capability to work with customers in the automotive industry - right from sensors in the car to the telematics units that deliver the connectivity for the car, to the cloud platform, to the analytics on top. This allows us to provide full connected car service, whether it's for fleet management, whether it's for shared services, whether it's for just value-added services from OEMs. So I think this is a significant milestone for us in that journey.

Equally, as I move from automotive to broadcast and communications segment, I am sure you will find in the public domain, we announced a deal with a leading operator in Portugal called NOS for whom we have built out a complete digital operation transformation framework. Now, this is interesting simply because we believe that as we go forward with digital, what it's going to do is that it's going to allow operations, whether you are a telco or an enterprise, it's going to allow your operations to transform whereby there is an impact on two things;

One is the impact on the overall size of the teams. You do not need the scale and size of operations teams that you traditionally had as a non-digital economy. The second part is the agility of your service which is the more important piece, the ability for operations teams to launch new services, to deploy new services, to maintain new services. All of this can be done in a fraction of the time. We are not talking of a 2x or a 4x reduction we are talking of a magnitude of 10x to 20x reduction in terms of launch times and scale. So that was a very, very important milestone for us.

So in that sense, I think it's a very good footprint that we now have both in the automotive sector as well as in the broadcast and communications sector with digital, and, this kind of ties into what we did with Panasonic earlier, which was to work with them in AI and robotics that we announced some time back. So you now have three segments where we have a fairly well-established capabilities and credentials.

On the design side, of course, satisfactory quarter. If you recall, we won the contract some time back with the Airports Authority of India to work on the passenger experience for 10 airports under their care. and, these include the major airports such as Chennai, Kolkata and so on. We are very pleased with our work starting with the Kolkata Airport. The work that we did there to provide for passenger experience, signage design and so on has been extremely well received, and, we are talking of public recognition of the work. So that's very satisfying.

We continue to build our brand. So CES is one event that we participate every year in Las Vegas. So CES 2019 was a fairly big show for us, where we showcased the full portfolio of intelligent connected devices and services for multiple industries: automotive, medical, broadcast and communications.

Equally, we are also looking at emerging markets. So the other big event that we did in the quarter was the Appliance & Electronics World Expo in Shanghai. It is one of the world's leading events for consumer electronics and smart appliances. So we are starting to see some good traction in the far east, including China and Korea. Also, I think some of these brand-leading events are only helping strengthen our position in those markets.

So with that, I will end the quick overview of the main businesses.

G. Vaidyanathan: Now we will start the Q&A session.

Moderator: Thank you. Ladies & gentlemen, we will now begin the question-and-answer session. The first question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Congratulations on a good set of numbers. Sir, we are really very happy with the commentary which Nitin gave about the company. Now going ahead, do you think that any of our verticals will face certain major challenges going ahead? Because overall, it appears that the growth is declining, not maybe for our company but overall in the IT sector spending because of a lot of economic uncertainties and this trade war and all that. So what is your feeling about that?

Madhukar Dev: Certainly, we are living in times which are fairly uncertain. At the same time, one of the key markets that we address is connected to the passenger car business, which is going through a fairly difficult time for most carmakers and therefore their suppliers and everybody else. But, given the skills that we have acquired out of working with the passenger car market, we think we can address the other markets in the transportation industry, which are more stable and are not as prone to the vagaries of economic downturns and upturns as much as the passenger car, which is really a consumer product.

- HR Gala:** Which could be those segments, sir, other than primary...
- Madhukar Dev:** Primarily railroad and commercial vehicles.
- HR Gala:** Commercial vehicles and...
- Madhukar Dev:** Railroad.
- Nitin Pai:** Rail covering both long-distance trains, metros and related projects.
- HR Gala:** Right. Okay. So that's one part of the auto. What about the other segments?
- Madhukar Dev:** The other major segment for us is broadcast. We are actually seeing more opportunities in that business as more and more streaming services take off. Not all the streaming services will survive, there will be consolidation and all that. But nonetheless, the overall spending in streaming services, quality of streaming service monitoring, scaling, etc., all give us great opportunities for work there. So we are not seeing any great softness in that market.
- HR Gala:** Okay. Great. So with all these things, do you think that we will be able to achieve about 20% type of CAGR in revenue that we are aspiring and maintaining EBITDA margin at around 25% - 26%?
- Madhukar Dev:** I will answer the two questions separately considering that it was a fairly difficult year on many counts and yet we did grow at 15% given that it should be possible to maintain at least 15%, if not 20%. Also, with our EBITDA margins, we feel lucky at times. We have been very cost conscious for most of the year, and, I would say an EBITDA margin of between 22% and 25% is what we should be able to deliver.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

- Ravi Naredi:** Sir, any plan to utilize this Rs. 500 crores bank balance and cash balance we are having?
- Madhukar Dev:** Yes. We have plans, both in terms of investments through M&A kind of activity as well as investments in technologies that we think are promising, which may not be invented in Tata Elxsi but we think are relevant to our markets. We would like to use some of this money to acquire those technologies and scale them up and take them to market. So we have plans in place.
- Ravi Naredi:** So for the current financial year, we will be able to utilize this fund?
- Madhukar Dev:** We wouldn't like to wipe out the full fund, but we have plans to utilize a substantial portion of it, and we should be able to do that.
- Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.
- Vimal Gohil:** I just wanted some figures on FY19 basis. Sir, what will be our contribution to the automotive segment for FY19 and communication segment as a percentage of total revenues?
- Madhukar Dev:** Auto was close to 60%. Communication and broadcast, we now look upon as a single vertical and almost 30% to 34% was the combined revenue for broadcast and communications.
- Vimal Gohil:** Okay. Okay. Also, so how much was JLR as a percentage of revenues this year?
- Madhukar Dev:** For the year, it was 21%. For the quarter, it was 18%.
- Vimal Gohil:** Okay. Sir, and what is the outlook here in JLR? What are they saying now? Because clearly, there are some challenges for the company going ahead, and so what should we expect for this particular account going

forward? Also, I remember in the last call; you had said that the non-JLR piece is growing extremely well for us. So that should be able to offset the growth in this particular...

Madhukar Dev: That's what happened in the quarter that's ended, and that's what we continue to work on. At the same time, we are delighted to grow the JLR business if the opportunity comes our way. However, the whole idea is to de-risk the company from excessive dependence on JLR, and all our actions are aimed at that.

Vimal Gohil: Okay. Sir, my second question is on the industrial design piece. We have ended the year with a 1.7% decline in revenues, and this is the second successive year of decline. I do understand that the work is project-specific work, but two straight years of decline, what explains this? Also, what is the outlook there?

Madhukar Dev: Yes. We have to recraft our strategy for this business. What worked to bring us to this point is not working to help us scale up our revenues further, and this is not surprising. If you look at the design business, typically it tends to stagnate even at a level much lower than where we are. So we have to look at a number of different options of scaling up the design business, and this is work that's in progress. However, we also recognize that if we continue to do things as we are doing, it's not working and it will not help us to grow this business to 1.5x or 2x in a few years.

Vimal Gohil: Okay. And sir, last question from my end. One of your parent companies Tata Technologies is in a similar kind of business that we do on the automotive side. How do we make sure that there is no overlap between the two?

Madhukar Dev: Tata Technologies is primarily in the mechanical engineering area, and in mechanical engineering, they are specializing in certain areas and we

normally stay away from mechanical engineering. We do a bit of mechanical engineering to support our industrial design, but our focus is really electronics and electrical work.

Vimal Gohil: All right, sir. Right. And sir, just some near-term outlook, I know you have highlighted this before in the call, but again, sorry for harping on JLR, but any near-term outlook that you would have got from the management there in terms of growth outlook or how could FY20 pan out for JLR for us? Because clearly, the spending over there and for the overall auto industry, while it continues to remain challenging, the spending on electronics has continued to remain robust. So do you think that in FY20, we will see some sort of the change in fortunes for us as far as the JLR account is concerned?

Madhukar Dev: There will certainly be a change in fortune. I can't say for sure whether it would be positive or negative, but it will certainly be very different from what went by in the last year.

Vimal Gohil: Yes. Okay. So you think it can go either way?

Madhukar Dev: Yes, yes, absolutely.

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

Nirmal Bari: My first question is on JLR on the previous participant's comments. With JLR, in the previous calls also, you had said that the scope of work for us is not reducing, but work is coming offshore. So I need to understand, when this work is coming offshore, what would be the impact that would be there on our revenues and our margins?

Madhukar Dev: When you do offshore work, you typically do at approximately 50% the rate that you charge for on-site work. So the impact on revenue is very

obvious. There is not much of an impact on margins. There is a very fractional difference in margins between on-site and offshore. So I don't expect to see a negative impact on margins. However, certainly on revenue, there will be a negative impact if work shifts from on-site to offshore.

Nirmal Bari: And can you give us an idea on how much of work has shifted offshore? In the past year, as in 1 year back in Q4 FY18, the percentage of JLR revenue is about 24%, 25%, while it has dropped to 18%. So just in this 24% revenue, what was the composition of onshore, offsite vs 18%?

Madhukar Dev: Yes. You see in a situation like JLR; I won't go by the quarter's number. It's a dynamic situation where certain programs are being put on hold, and certain programs are moving offshore. So what shows up as a number for the quarter is not necessarily an accurate depiction of what is to follow. Therefore, if you compare last year to this year and based on that, look at what will happen in the next few quarters, it may lead to an erroneous results. I am hesitating to give any projection of what JLR will be because of the extreme uncertainty with which we are working currently, and that is the reason why our strategies to de-risk JLR are far more important than our being able to maintain the JLR revenue.

Nirmal Bari: Okay. Secondly, you said that we are looking at the automotive space outside of passenger cars like the railroad and all. So if you can provide some brief examples of what kind of work we are doing for railroads or airlines that will be helpful for us in understanding which areas are being utilized?

Madhukar Dev: It would be very similar kind of electronics work. It would have to do with areas of passenger entertainment as well as vehicle propulsion,

safety, connectivity. Very similar kind of work to what happens in the car in a different context.

Nirmal Bari:

Okay. And the final question is on healthcare and medical businesses. So we had won a project in the first quarter of this year. So the growth that we are seeing in revenues, is it coming from that particular project, Is it widespread? And secondly, what is the kind of work again that we are seeing over there, is it more related to medical devices, or is it more in the health care segment?

Nitin Pai:

So a quick view on that. So if you look at the medical business, one, we continue to scale the set of customers that we had for the last year, and we had more than one. So to that extent, it is not just the deal that we won in the beginning of the year, it's both scaling of existing customers and addition of a set of four or five new customers that we have done over the year that's contributed to the growth. So that's part one.

Part two is in terms of the nature of services, the largest part remains medical devices because again, that is where our core capability comes from, the fact that we have worked both on the design side as well as the electronics side for devices, and now these devices could be different. they could be to do with therapeutic care. They could be to do with diagnostics, with imaging and so on, but they ultimately are devices that play out in a hospital.

If you look at where we have expanded - we have expanded in two directions. One is moving towards more of the home care segment where we start to have IoT-enabled home care devices, sensors and so on. The second is healthcare itself where we have applications that allow better operations of healthcare, whether it is telemedicine, whether it's telecare, whether it is hospital management and so on. but,

that is still a smaller percentage. the bulk of the work still remains with medical devices. I hope that answers your question.

Nirmal Bari: So in the medical devices segment, we are focusing more on home care? Or is it equal between both of these?

Nitin Pai: No. So the bulk of the work is with mainstream medical devices. I am just telling you that some of the interesting extensions and they are much smaller, of course, is in terms of applications in the home-care and applications in healthcare management, including telemedicine and telecare.

Nirmal Bari: Okay. And finally, one data-driven question. If you can give us the number of clients that were added in the current year and the breakup between auto and broadcasting and medical between these new clients.

Madhukar Dev: I don't have the breakup between them, but the number of new clients we added is just over 50 in the year.

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

Vijay Vemuri: Congratulations on excellent set of numbers over the last few years. Also, it's been a great journey with you, been a long term investor in your company, and I congratulate you and wish you all the very best post your retirement. I have one question on the design and development of automated infusion system that we have developed sometime back, when will that product be monetized?

Nitin Pai: Dr Vemuri, obviously, I am speaking to a qualified doctor, so I am not taking too many risks here, but if you look at the prototype that we have built, it is a demonstration unit. So we have not necessarily put it

through clinical trials or any kind of regulatory approval process. The idea was to be able to demonstrate how you can innovate a low-cost infusion system, and the system is prototyped to the extent that we can confirm that all functional capabilities of the prototype as it would behave in actual operations. However, we do not want to take it any further simply because we have no intent of branding or marketing such a product. The idea is to be able to take this device and this prototype to customers who build products in the segments and be able to either license the technology or use it as a demonstrator to incite them to develop low-cost devices for emerging markets because we see the huge opportunity there. So it has served that purpose very well.

Vijay Vemuri: Okay. It is already in the market?

Nitin Pai: No. So like I said, we have no intent of getting the device ever in the market. So we have never taken it downstream into any kind of clinical trials or regulatory processes. So we have stopped short at the prototype stage. We have been taking this prototype to customers in the medical devices space and the goal is to get them to license and produce.

Vijay Vemuri: Yes. I am asking about that. Where are we at that? So when is this going to be monetized?

Nitin Pai: No. So we are in discussion with certain customers. We definitely won a project on the basis of this capability but not necessarily a licensing deal. They decided to contract us to build out their own low-cost innovation for emerging markets but they did not want to license the version that we had built. But we are in discussion with others. So we see that it is working both ways.

Vijay Vemuri: Yes. This can be a scalable product. That's one. And the other part is about mammography. I think we have invested in one of the startups

wherein we support them in the software at a low-cost mammography device.

Nitin Pai: That's right, Niramai. So they have been part of our incubator program. So as you may be aware, we decided to scale down the incubator program. It was a good program. We ran it for a few years, and, over the last year, we ramped it down completely, because the idea was to pick up very early-stage startups and help them scale their business and build out their business case for the first 18 months or so. So all the startups that we had in the portfolio have now completed that period, and we have not added any new ones further. But we are very happy with the progress Niramai has made. I think they are truly onto something innovative.

Vijay Vemuri: Yes. So finally, I want to talk about an issue where Mr Chandrasekaran said that he's going to have a consolidation in the Tata Group. Also, then in IT, TCS and Tata Elxsi are named in one bucket. As an investor, I think it's going to add significant value for Tata Elxsi if TCS and Tata Elxsi works together. Can you throw some colour onto this, sir?

Madhukar Dev: Well, we have no idea of what is planned and what we know is what we do is interesting stuff whether we do it as a standalone company or a part of a larger company. I think the fact that we do an interesting mix of work will remain the key strength of the people who work in this team. From the Tata's point of view and their perspective, I won't be able to comment at all.

Moderator: Thank you. We will move on to the next question. That is from the line of Pritesh Chedda from Lucky Investment Managers.

Pritesh Chedda: Small observation that since the beginning of the year, we have seen a deceleration in growth from the first quarter to the fourth quarter and whatever we are hearing on the auto side. I just wanted to understand

from the auto, if there any changes in client budget or spending that you are experiencing? Also, what makes you believe that the growth for FY20 can be more than 15%, which was the growth for FY19 where you have seen a continuous deceleration in growth from quarter one to quarter four?

Madhukar Dev: Yes. in a year where we have seen continuous deceleration, we have still managed to deliver 15% year-on-year growth. That is what gives us the confidence. As far as the auto market is concerned, without a doubt, there are very big challenges at the moment, but there are also very big opportunities. So the stability of the business is going to be affected, not the overall possibilities in that market. We may have to do completely different services. We may have to have different engagement models. We also want to expand in other areas of transport, not confine ourselves to passenger cars. Those are the things that some of them have worked already in the quarter that's gone by, and others have to be actioned, and we should see results in the coming quarters.

Pritesh Chedda: And on the margin side, do you have any more levers?

Madhukar Dev: No, none at all.

Pritesh Chedda: None at all. And the margin expansion that we see between this year and last year has a lot to do with the IP revenue share increasing?

Madhukar Dev: A little bit due to IP, a lot more due to very tight cost control, which we have relaxed on, in order to enable growth. We have invested in a larger sales team overseas, and all those are actions that will bring results with a certain gestation period. So immediately, you may see a contraction in margins. But eventually, you will see growth coming out of everything that we are doing.

Pritesh Chedda: Sir, I missed these last comments of yours. You said initially you would see margin contraction?

Madhukar Dev: Whenever you expand, you invest in either the sales team or more delivery capability or whatever. You don't see revenues kicking in immediately. There is a phased lag, so it is possible that you may see margin contraction in a quarter or two. But, eventually, when growth picks up, we should be able to maintain margins where I said earlier in the call where we want to be.

Pritesh Chedda: The auto client spending side, are you already experiencing some...

Madhukar Dev: Yes, we are very much, yes.

Pritesh Chedda: Slowdown and pushback?

Madhukar Dev: Yes. Yes. We are seeing programs being put on hold. We are seeing programs being ramped down. We are seeing decisions being deferred by two, three months at a time what would get decided in 7 to 10 days. So we are seeing all that, without a doubt.

Pritesh Chedda: So despite that, you think that the growth in excess of 15% is possible because of different work engagement with the auto?

Madhukar Dev: Yes.

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

Dipan Mehta: I understand that. What exactly is happening in the auto industry? Are there some structural changes taking place over there, which is impacting the business per se? Because the kind of opportunities and projects you were doing, they were generally something which the auto industry desperately required for new products or for new trends which

are taking place within the sector to stay ahead of the competition. So what exactly has changed in the auto industry last year?

Madhukar Dev: You are absolutely right. The work that we do is the lifeblood of the auto industry, and they need this work. What is going wrong currently are two things. One is diesel becoming a bad word, and therefore, all the companies that have made big investments in diesel technology are financially challenged. The other is thanks to the buying change and buying behaviour; almost all the car companies are seeing a reduction in the number of cars that they are selling. That necessarily means that scope for investment and expenditure in new technologies and new cars is under stress. That is what is wrong with the industry.

Dipan Mehta: That means there is a structural change. Therefore, going forward also, there will be considerable stress as far as this particular vertical is concerned.

Madhukar Dev: If people stop buying cars, the industry won't exist.

Dipan Mehta: But if there is such a structural slowdown, then going forward, the opportunities also will diminish for Tata Elxsi, sir.

Madhukar Dev: What happens is when there is a very dramatic change in the market dynamics, the impact is very high in the beginning, and, then the system figures out how to cope with it, and then you get on and start working on new technologies and new models. So what we have seen is the first impact of the negative wave. So I am quite convinced that in a quarter or two, we will see an equilibrium being attained with investment in new models, new technologies again picking up.

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

- Rohan Advait:** Most of my questions have been answered. Sir, quarter-on-quarter, what was our constant currency growth for Q4 FY19 as well as for the full year FY19 in constant currency terms?
- Madhukar Dev:** Yes. Quarter four versus quarter four last year, year-on-year was 5%. And for the full year, it was 9% in constant currency.
- Rohan Advant:** Sir, and quarter four versus quarter three?
- Madhukar Dev:** It was minus 0.5%
- Moderator:** Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** Sir, I just observed that our other income has increased to 40 crores from 28.7 crores last year. So what does it comprise of, sir?
- Madhukar Dev:** One component of it is the Forex gain or loss, which for the year ended last year was a gain of 14.5 crores, and the year ended March 31, 2019, it was a gain of 3.5 crores. The other elements of that income are things like export incentives, R&D credits, and interest on income.
- HR Gala:** Okay. Is 14.5 crores is what you said?
- Madhukar Dev:** Forex gain. That was in 2018. That came down to 3.5 crores in 2019.
- HR Gala:** Yes. No, that is the exchange. Any case you are showing separately. Even after separating it, the other income and other operating income both booked together gave you Rs. 40 crores versus Rs. 29 crores.
- Madhukar Dev:** Right. So that differential is due to the increase in export incentive, R&D credits, and interest income.
- HR Gala:** Okay. Okay. So nothing one-off?

- Madhukar Dev:** No, nothing one-off.
- Moderator:** Thank you. The next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.
- Gautam Gupta:** Sir, you were talking about new engagement models previously. We have been seeing models where companies such as yours, peers such as yours have been working on engagement models where they co-develop products with the OEs and then there's the SaaS pay per use kind of pricing,.Are those kinds of models being pursued by Elxsi as well, sir?
- Madhukar Dev:** I won't be able to comment on precisely what the terms of their engagements are and what we are trying to pursue. We don't take very great risks. We are fairly risk-averse. So what we are trying to do is a hybrid of models where possibly the IP is co-owned or it's owned by us and licensed to them one time, and the other kind of model that we are pursuing is where we have a stake in their success. Those are essentially the unusual modes for us that we are trying to get rid of.
- Gautam Gupta:** If you could indulge me with one quick question also. Do we have some sort of sense of the addressable market size? We have been working on new services, adjacent domains both in auto and medical and even to some extent in appliances. So anything you would help us with in terms of where do you see this market going? And this has also to do with the fact that there's a total R&D spend and there's a percentage of which, which is in-house and a percentage which is outsourced. So how do you see those trends moving?
- Madhukar Dev:** Still, it is a fact that the bulk of the R&D spend is done in-house, and what is outsourced is again outsourced within the same country or territory, and a smaller fraction is outsourced to other countries. What is propelling a change in this pattern is the fact that there's a shortage

of resources in most of the countries where the cars are made predominantly. Therefore, there is a need for all of them to outsource and outsource to distant lands where there is abundance of talent, not just a cost advantage but a scale advantage. They are early trends right now, but we think this will pick up, and there will come a time within the next few years where a bigger share of the outsourced spend will be spent on companies like those from India rather than companies local to their country.

Gautam Gupta: Okay. Do you have any market size number that you track that you could share with us?

Madhukar Dev: Yes, we do. We track the market size numbers. We don't have them here with us readily.

Moderator: Thank you. The next question is from the line of Kunal Shah from Omniscient Capital. Please go ahead.

Kunal Shah: Congratulations in the first place for a good set of numbers, sir. I just wanted to understand that you seem to be pretty confident of 15% growth year-on-year going ahead. So I just wanted to understand, the confidence comes from an increase in the engagement periods that we have with the clients because there was a plan to increase the engagement periods that we have with the clients.

Madhukar Dev: The confidence comes from a mix of strategies and actions, and one key element of that is engagements of longer duration. However, that's not the only thing that gives us the confidence to aim at a 15% increase. There are a number of other things, including our IP strategy, which is maturing and which gives us the confidence to invest a lot more in IPs and maybe even do co-owned IPs, as long as it's scalable and not confined to one of the customers.

Kunal Shah: Okay. So if you could throw some light about the increase in the engagement periods in comparison to the previous year if there has been any or if you have been mapping what would be the average engagement period with the clients that we have in the last year versus this year.

Madhukar Dev: Yes. I would say by 2018; I don't think we had any engagement that was more than 12 months. And, in FY19, we have at least 5% of our engagements which are going for two years and more.

Kunal Shah: Okay. And sir, going forward, do you see any change in the total sharing pattern between the sector? So automotive contributes 60% right now in the current year. So any change you foresee in the next year? The first question. And the second part of the question, other than these existing verticals, do we kind of see entering into any other verticals either through acquisition or addition in the team members in the new verticals?

Madhukar Dev: Yes. So to answer your second part of your question first, yes, we are looking at getting into new areas, and some have been also tested out. Some are looking promising. And we should be able to talk to you about these in the quarters to follow. In terms of the auto and 60%, given the fact that the auto segment probably will not grow very rapidly for the next few quarters, that percentage is likely to come down for a short period. But, as I said earlier, I expect things to stabilize and business to pick up again in the auto business in the second half of the new financial year.

Kunal Shah: Okay. And just one last question if I can squeeze it in. Any addition to the team members at the senior level? Or anything you would want to throw light in terms of the addition of employees or team members at the senior level.

- Madhukar Dev:** In the last year, we brought in a new person to head our America business. He joined us towards the end of the last calendar year and he has settled in. And before that, we have gotten a person to head our European business. I don't see any major new additions happening immediately. Rest of the team is fairly mature and stable. I don't think we would see any major change. The roles of people within the company may change, but other than that, nothing.
- Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.
- Ravi Menon:** Sir, how much is your revenue proportion from new clients for this quarter and for the full year?
- Madhukar Dev:** New business from new clients is about 6% to 7%, and the rest is from existing customers.
- Ravi Menon:** All right, sir. And that's for both the quarter and for the full year?
- Madhukar Dev:** That's for the year. I don't have the number for the quarter.
- Ravi Menon:** All right. And so you talked about some new verticals that you might enter. Any hint about what those might be and whether this will also be primarily in North America? Or are you also looking at Europe?
- Madhukar Dev:** We look at the entire world, wherever we have operations. We wouldn't confine a new business initiative to one territory.
- Moderator:** Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.
- Apurva Prasad:** Sir, if you can give me growth numbers FY19 for automotive and media and broadcast segments, how has that been for FY19?

- Madhukar Dev:** You want the breakup of the growth for each segment?
- Apurva Prasad:** Yes.
- Madhukar Dev:** I am sorry, I don't have it with me readily. But from what I recall, they are not very dramatically different.
- Apurva Prasad:** So it would have contributed similar 60% and 35% in FY18?
- Madhukar Dev:** Yes.
- Apurva Prasad:** Okay. And would it be fair to assume that this current 8 million pound quarterly rate for JLR, I mean is this closer to the bottom? Or do we see more downside to the current rate?
- Madhukar Dev:** I wish I knew. But realistically, I think we will see a lot of turbulence in JLR revenues for at least two more quarters. The dynamics that prevail right now are that we are talking to a person for one month, and the next month he is not there. So in that situation, it's very hard to predict what things will play out in the immediate future. But one knows for sure that in the medium term, things will settle down and the business will pick up.
- Apurva Prasad:** So what you are saying is based on the current order book, you still see the next couple of quarters to be challenging for JLR and eventually...
- Madhukar Dev:** It has little to do with the order books. For example, we had an excellent JLR order book in the middle of the year, and we saw a slight change in Q3 and nothing very significant. During Q4, existing orders were put on hold, and they were ramped down without much of a notice.
- Apurva Prasad:** Right. And if you can just give me a couple of other metrics, the headcount number and the utilization for the quarter, please.

- Madhukar Dev:** Yes. The headcount number continues to be the same as of the end of Q3, about 6,100. And utilization was about 72% at the end of Q4.
- Apurva Prasad:** And can that be a lever going forward considering we have operated at 80-plus percentage earlier?
- Madhukar Dev:** Yes, it can be. And it all depends on if we get projects which are in areas that we have existing expertise, we are able to push up the utilization. If they are somewhat different from what you have experienced, then you have to put in buffers, training and all those things and that pulls it down a bit. So it's really dictated more by market than by internal processes. Nonetheless, we monitor it very closely and are not happy with the current utilization.
- Apurva Prasad:** Sure. And just lastly, on the on-site, offshore, would that be again similar 40-60 split for the quarter?
- Madhukar Dev:** Yes. That's not changed. And in fact, it continues to be 60-40 rather, offshore 60.
- Moderator:** Thank you. The next question is from the line of Tushar Bohra from MK Ventures.
- Tushar Bohra:** A couple of questions. First, sir, very quickly, if you could help us with the JLR numbers standalone. Are they in line with the overall growth rates or much lower? Or how is it for the quarter and for the year?
- Madhukar Dev:** They are not in line with the overall growth rate, no. As I mentioned at the beginning, we took a certain set of actions which have borne fruit and which have enabled us to deliver fairly satisfactory numbers. And those were all necessitated because not just JLR, a number of the other auto industry customers had stagnant or declining numbers.

- Tushar Bohra:** Okay. So JLR, would it be safe to assume that there may not have been growth also for this year compared to 2018?
- Madhukar Dev:** Yes.
- Tushar Bohra:** Okay. Fair enough. Sir, in quarter two, in the con call, you had mentioned that overall, we are looking at, let's say, close to double-digit QoQ kind of growth we want to reach there in a few quarters. I do understand that there's a slowdown in automotive and that you are trying other initiatives, but is that still something that we should look forward to over the medium term as a target for the company?
- Madhukar Dev:** Yes, that's our first target internally. We have to get into double-digit quarter-on-quarter growth. Once we are able to sustain that for 2-3 quarters, we'd like to accelerate that even further.
- Tushar Bohra:** And you think that we should probably look at something closer to that some time in FY20? Do you think that we expect automotive to stabilize?
- Madhukar Dev:** Yes, I do. Certainly, in the second half of FY20, I think we should see a lot more stability and higher growth.
- Tushar Bohra:** Okay. Sir, in terms of acquisitions, any specific areas that we have earmarked? We may or may not, but is there any particular areas that you can highlight that we are looking at?
- Madhukar Dev:** I won't be able to tell you the areas. We have identified areas, but till we actually do an acquisition or an investment in an existing company and are ready to announce, I am not in a position to disclose anything.
- Tushar Bohra:** But would it again be safe to assume that we may be having active conversations in these areas? Or is it something that's just on intent and we haven't done concrete steps?

Madhukar Dev: At the moment, it is a bit more on the intent side. but, a few months ago, there were active conversations, and we hope to restart those.

Tushar Bohra: Okay. Sir, very quickly, I wanted to understand your outlook on some of the key initiatives that were started and progressing in the earlier years like the strategy with Panasonic and consumer electronics and the self-driving car initiative and relatedly the AUTONOMAI platform. If you can just help us as to what the status of these initiatives and whether these panned out as how we had expected them to be? Or what can we expect, let's say, going forward in these?

Madhukar Dev: A lot of the positive expectations that I have on the auto industry in the second half of FY20 is based on our strong credentials that we have built because of the initiative of AUTONOMAI, which gives us capabilities where car companies will definitely be spending. And the other big investment initiative we had was in the connected car and the V2X simulation technology, which also are the ones, irrespective of the power train, car companies will need this, so those are things that give me the confidence that we will see better revenue growth in the second half.

Tushar Bohra: Sir, I specifically wanted to check on your self-driving car initiatives, whether you have any...

Madhukar Dev: That's what I am trying to tell you, that initiative has enhanced our presence in the market, our credibility in the market to do advanced engineering for car companies, and that will translate into revenues. We don't expect to license the AUTONOMAI solution completely to anybody, but components of AUTONOMAI are being licensed as we speak, and we will continue to do so. But more than that, it has enhanced our credibility to be able to do advanced engineering.

Tushar Bohra: And on the consumer electronics side, sir, the Panasonic initiative?

Madhukar Dev: Very similar story. Smart appliances are becoming a reality, and the fact that we got into that area with Panasonic early on makes us a strong contender for opportunities in other appliance companies.

Tushar Bohra: But the initiative with Panasonic itself, has it...

Madhukar Dev: It is continuing according to our expectation, we may feel a slight uptick in the year. But by and large, I don't expect a very dramatic change in our investment with Panasonic.

Tushar Bohra: Okay. It's more like a steady state business?

Madhukar Dev: Yes, exactly. When we got into it, we knew that's how it will play out, and it's going more or less according to plan.

Madhukar Dev: All right. So thank you very much. I am sorry we are not able to have everybody coming around asking the third and fourth questions, but thank you so much for having joined the call, and we look forward to speaking to you again next quarter.

Moderator: Thank you. Ladies & gentlemen, on behalf of Tata Elxsi Limited, that concludes today's conference. Thank you for joining us. And you may now disconnect your lines. Thank you.

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