



Q2 FY21 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Elxsi Q2 FY'21 Earnings Conference Call. I now hand the conference over to Mr. Vaidyanathan. Thank you. And over to you, sir.

G. Vaidyanathan: Thank you. Good afternoon. I welcome all of you to the Q2 FY'21 Earnings Call. We have here with us, Mr. Manoj Raghavan, CEO & MD and Mr. Nitin Pai, CMO, and CSO.

The agenda goes like this - Mr. Manoj Raghavan will give a brief overview of the Q2 performance and results post which you can pose your questions for clarifications and answers.

Now, I hand over the call to Mr. Manoj Raghavan to take it over.

Manoj Raghavan: Thank you, GV. Good afternoon, everybody. Thank you for joining us today, and I hope you and your families are safe. I am happy to report that we have delivered a very robust Q2 FY'21, and I am sure you have seen the published metrics. It was really an all-around performance - both top line and bottom line, growth in our key divisions - the (EPD) Embedded Product Design division, and the Industrial Design and Visualization Division and also, broad-based growth across all the industry verticals and geographies. So, I think it is a very, very satisfying performance.

Our revenues from operations grew by 7.4% quarter-on-quarter and 11.5% year-on-year. This translates to a constant currency growth of 6.9% quarter-on-quarter and 4.4% year-on-year. As you can see, most of this quarter-on-quarter growth has been volume-led; more than 93% of the sequential growth in the quarter gone by was volume-led. All this data has been published in our factsheet on our 'Investor Relations' page on our website.

Now, as far as profitability goes, we grew our PBT by 17% quarter-on-quarter and 56.1% year-on-year. Again, pretty satisfying growth as far as the bottom line is concerned.

The company's growth was driven primarily by both the key businesses that are EPD and IDV. EPD, which is the company's largest division, grew by 7.1% quarter-on-quarter and 15.1% year-on-year. IDV also posted smart growth of 15.1% quarter-on-quarter with some pretty good design project wins.

Within the EPD business, Medical and Healthcare continues to grow faster than the rest of the verticals; this quarter, we grew at 14.1% quarter-on-quarter. Media and Communications delivered another quarter of steady growth at 6.7% quarter-on-quarter.

What is also satisfying is the Transportation vertical showed a smart growth of 5.6% quarter-on-quarter. So we are definitely seeing recovery in the automotive market.

And, of course, as you may have already seen, we have closed some good deals, including a multi-year deal with a European tier-1 supplier for vehicle electronics and software. We have also added a new automotive OEM as a customer.

In essence, we want to say that we are back to our pre-COVID momentum as far as growth rates are concerned, and we expect this momentum to continue into H2 this financial year. So, as we enter into the second half of the financial year, we are pretty confident with strong deal pipelines across geos and verticals and a good number of large deals that we are pursuing. Because of the performance that we have been able to generate, we are announcing salary hikes for employees with effect from October 1.

So with that, I would want to hand it over to GV for the Q&A session. Thank you, and I look forward to your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Keval Ashar, who is an individual investor. Please go ahead.

Keval Ashar: The question I have is whether the margins are sustainable and whether it can grow forward in times ahead?

Manoj Raghavan: Our focus is to ensure that we maintain our margins. And as I have just announced, we would be giving salary hikes also. But having said that, we would continue to guide in the 22% to 24% PBT margin range, and we would hope to be at the upper end of that spectrum.

Moderator: Thank you. The next question is from Kunal Shah from IKEA Mutual Fund. Please go ahead.

Kunal Shah: Just continuing the question on the margins front. You did guide about 22% to 24% PBT, just wanted to understand 3 - 4 aspects. How should one look at the other expenses going ahead, because there would be a lot of discretionary expenditure, I believe, which would have been curtailed? Our onsite-offshore mix has also tilted very much in favor of offshore from 57.4%-

odd to 65.3% in the recent quarter. How should this shape up going ahead to affect our employee costs and other expenses? Any thoughts?

Manoj Raghavan: The onsite-offshore ratio tilting towards offshore is what everyone dreams of, right. I think that it is in the right direction. And if you can move more work from onsite to offshore, our margins will only improve. So that is positive. Other expenses? See, even as we speak, 95% of our employees are working from home. So, literally, a lot of other expenses are not there. So discretionary expenses, employee celebrations, travel, a number of those expenses. At least for the one quarter till we see the opening up of the travel and so on, I think it will continue to be muted. I cannot predict when things will get back to normal but based on what people say; it looks like we will get back to normal in the next financial year only.

Kunal Shah: And how about the onsite/offshore sir, should we see this remaining same at least for the one quarter and then see how it goes ahead?

Manoj Raghavan: Yes, definitely, I think maybe for the next two quarters, again, it all depends on how countries open up and travel restrictions are removed, you have all these reinfections coming in, and western countries are now more and more cautious, right. You can safely assume at least for one quarter; these ratios will continue, maybe for two quarters.

Kunal Shah: And you did talk about the hike from October 1 for the employees. So, any quantification you would say how this would pan out in the employee expenses?

Manoj Raghavan: We are looking at 6% - 8%. Finer details are being worked out right now.

Kunal Shah: Just moving on the deal pipeline, the commentary was pretty optimistic. I just wanted to understand the scenario out there; how do you see your interactions with the clients? We see many companies trying to move towards the cloud, which seems to be very important, and then trying to spend on R&D and all those stuff. How do you see that panning out for the company in your interactions with the clients across segments?

Manoj Raghavan: Deal pipeline is looking good in all the three verticals we are operating in. The order book that we are carrying forward is also very healthy. That is why I said we are back to our pre-COVID momentum in terms of both the pipeline and the sort of large consolidation opportunities, and many opportunities that we are looking at. So I am pretty optimistic that we will recover back to our growth rate in the pre-COVID time.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: Recently, you have announced certain long-term partnerships with say INVIDI, then GEC with Schaeffler, and partnering with Google. So I just wanted to understand what kind of revenue model you will have by dealing with these kinds of opportunities?

Nitin Pai: Hi, Mr. Gala, this is Nitin here. So if you look at partnerships, I will take Schaeffler out because Schaeffler is not so much a partnership; it is a clear customer relationship. And what we announced with them is a global engineering center. So you can think of it as an offshore development center for a customer. But of course, it will be multi-skilled, multi-areas, it will be multi-year. So that is the signature of Schaeffler.

But if you look at partnerships like INVIDI or Google, they represent how we can go-to-market with somebody else. It is a joint go-to-market with somebody else to provide larger or more complete solutions to our customers. For example, if you look at OTT, Google, and the Widevine solution that we have partnered for, is really being used to protect content. The idea being that, for example, if somebody has rights over IPL, and they want to make sure that IPL video is being transmitted only to people who have subscriptions or who are legal subscribers; then you will need some way of confirming this and therefore digital rights management and the content protection that Google offers rides along with any OTT service. So how does that work for us? It is a natural complement - when we go into the market to help customers integrate OTT services; we will also take care of content protection. Similarly, if you look at INVIDI, INVIDI is one of the world's leaders in addressable ads. How do you deliver an advertisement to a subscriber based on their profiles, background, which home they are in, which geography they are in, and so on. Again, it complements our capabilities and our offerings in OTT by saying, look, we not only can help you deliver a great video OTT platform and a service, but we will also bring you opportunities to protect content and bring you opportunities to monetize content by providing better addressable ads, better-targeted ads and so on. So, partnerships are typically used to make our services more complete and improve our own value proposition.

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

Mayank Babla: My question pertains to the top client. We have seen some sort of improvement in the top client account this quarter. Going ahead, if you could give us some qualitative guidance if we can expect similar momentum or better than this in the second half?

Manoj Raghavan: It is good that we have had a good quarter as far as the top customer is concerned. We will be happy to retain at this level because outlook is definitely better than what we had seen in the previous quarters, but there are still some uncertainties. So we do not want to guide anything by saying that things are rosy, and things will be very different. We are happy with this current level.

- Moderator:** Thank you. The next question is from Dipan Mehta from Elixir Equities. Please go ahead.
- Dipan Mehta:** My one question has been answered regarding the top client. The second is that is this work from home a viable option to reduce costs, or is it a passing phase, and eventually, costs will come back to the normal levels?
- Manoj Raghavan:** Costs as far as travel and all of that is reduced, right. But IT security and related costs have gone up. So actually, if you look at it, they cancel out. And unless you start closing down your offices and trying to reduce costs in that way, you will not gain any significant cost advantage by employees working from home. So, as of now, we have not closed any offices, we continue to maintain all our offices. We will take a call based on how the entire pandemic pans out.
- Moderator:** Thank you. The next question is from Raj Rishi, who is an individual investor. Please go ahead.
- Raj Rishi:** I just want to find out what sort of possibilities there for non-linear growth?
- Nitin Pai:** If we look at the opportunities for non-linear growth, they would be similar to any company that you would see in this space, which is one, you either go significantly towards products. The logic being that you build it once then you sell it to many, unlike services, which is headcount and linear. Option two would be that you go and acquire somebody else. And therefore, inorganically, you look at accelerating revenue. We have initiatives going on both.
- Raj Rishi:** Presently, how much of it would be your IPR-based revenue as a percentage?
- Nitin Pai:** So right now, it is sub-5%, it is in the low single-digit.
- Raj Rishi:** And what is the aspiration if you can share it with us in say two, three years?
- Nitin Pai:** So, I would rather not call it so much as a product versus services aspiration. I think it is really the movement towards solutions. The idea is that as customers look at what they need to do in their own digital transformation, it is not just products that will answer it; it is solutions that couple products and certain accelerators along with services. And I think that is our aspiration, that it should strengthen our value proposition rather than become the value proposition.
- Moderator:** Thank you. The next question is from the line of Nitin Shakhder from Green Capital Single Family Office. Please go ahead.
- Nitin Shakhder:** My question pertains to the cash reserves and the cash on books. So, approximately there are about Rs.900 to 950 crores as we speak in the quarter. What is the company's plan or strategic plan to improve the return on capital employed and return percentage on the cash on the books? Is there any strategic form of payouts or buyouts or acquisitions plans?

Manoj Raghavan: Yes, as Nitin has answered in the previous question, we are definitely planning to see how we can use this cash reserve for inorganic options, right. So, yes, some discussions are going on. And this issue of capital allocation is also discussed at our Board level. So, we are working out certain options. If we are not able to use these reserves effectively, what do we do with it? So, some deliberations are happening. So, it is pretty early to come back and tell you what the allocation policy will be. However, subsequently, we will get back to you on this.

Nitin Shakhder: Thank you. I hope it is sooner than later, because last quarter also we discussed this, but assuming that the management is taking a call on that and improving ratios in that. Thank you.

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

Navin Bothra: My question is regarding the platforms business. We are having around; I think 8 - 10 platforms. So, what is our overall strategy to monetize the platform business? And how many are in the business we are using? And how many are in the development stage?

Nitin Pai: In some sense, though products look very nice, in the sense that it does look like you just have to develop it once, and you can sell it infinitely without any further cost or effort. The reality is platforms and products do require continuous investment. And in that sense, at times, they can also be more difficult than the services business because services, you will deliver when required while products you will have to keep enhancing, keep developing even if there are no active customers simply because you want to make sure that it can compete successfully in the market that it operates. So to that extent, I think what we are definitely and consciously doing is making sure that the platforms are part of the value proposition that we take to customer. For example, products like FalconEye, or an Automate, which are products meant to automate test and validation for media or automotive, are part of our service offering for test and validation services.

Similarly, if you look at OTT, even as we talk to customers about how we can help them through OTT services, TEplay becomes a platform approach. And it is not that every customer will take the platform; certain customers may only choose to take a part of what we have. Like Autonomai, while it is a fully autonomous platform, customers may choose only a single module, but what it leads to is services around that module and others.

So our hope is, and our plan is definitely to make sure that for every percentage of revenue that a product or a platform brings, we would like two, three more percentage to come from services. And that services to continue beyond the first year to become a longer tail of revenues. So that is really the goal.

Navin Bothra: Regarding how many platforms are currently in business? And how many are in the development?

Nitin Pai: So, at any point in time, we have about one or two active in every vertical. If you look at the media, we have to TEplay, FalconEye. If you look at the automotive, we have Autonomai, Automate. If you look at Medical at this time, we really do not have a full platform. We are investing in one or two in each of these verticals at this time. So there are some in development, which are not yet announced.

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

Vijay: I have two questions; one is on the new opportunities you are looking at, like to stabilize your numbers. Have you looked at space technology that has a potential of \$50 billion in our country by 2024? That is one. Number two, I think, a month back, I have seen something on the parking technology you are about to come on. Can you also throw some light onto that?

Nitin Pai: I will just take them one by one. On the space side, yes, we have examined the opportunity. We had worked in space programs before, including the Mangalyaan mission, where we delivered the telemetry unit that went on to the Mars Rover. So we were part of the Mars orbiter unit. So, we have delivered certain work for space.

We are looking at what we can do, but we also recognize that many are government-led programs. So to that extent, the conditions of working and how you deliver, etc., are quite difficult. So we are not expecting to have any large revenues out of space per se.

On the auto parking, yes, in many ways for us, that is the way we see how Autonomai will play out. Autonomai is meant to be delivering full level 5, complete autonomy. While the reality is that many of the emerging markets can never achieve full autonomy because the roads are not suited, and the infrastructure is not suited, and the signage is not suited. So we believe that many markets will actually leverage features rather than full autonomy. So, for example, auto parking valet systems are quite interesting for many automotive companies.

Similarly, traffic jam assist, where, in a traffic jam, the car moves automatically. You do not have to keep pressing the accelerator or the clutch or the brake. So certain smaller features of autonomy will become more popular. So in many ways, if you think about it, remastering Autonomai to suit features which we believe will come to market much before full autonomy. So, that is something we are actively investing in.

Moderator: Thank you. The next question is from Pranav Thakkar, who is an individual investor. Please go ahead.

Pranav Thakkar: My question is about the previous meeting wherein Nitin has updated that the software useful for the telecom industry does rightly coincides with the pandemic. One supervisor can monitor

the employees sitting at home. What is the update on this is and whether this can also be used in other industries as well?

Nitin Pai: I am not precisely clear about what you are referring to because I remember that we talked of automation of operations definitely in telecom. And when we talk of network operations automation, it is more to do with the network itself and how you can automate some of the monitoring and control of the network to make sure that subscribers do not have any disruption to their services. That continues. In fact, we are seeing fairly strong interest from quite a few operators in the solution we have developed, and we are developing, right. So in many ways, that is one of the platforms that we are investing in. Now, will it apply to other industries? Yes, not directly, but we see that the whole concept of remote monitoring and remote management is a concept that can apply to any enterprise. And we are definitely looking at how we can adapt it to some of the other industries we work in.

Moderator: Thank you. The next question is from Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Most of my questions have answered. I would like to know how many new hiring we are going to do in the current quarter.

Manoj Raghavan: We have hired about 300 fresh grads from colleges, and they have not yet been on boarded because of the pandemic. We plan to onboard them in this Q3. On top of that, we may have anywhere between 100 - 150 lateral people that we would hire. That again depends on the requirement and so on, right. That is the average that we have been hiring.

Moderator: Thank you. The next question is from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I wanted to understand your revenue. If I see the last 10 - 12 quarters, we have been in the range of Rs.380 crores to Rs.420 crores. So when do you see the next leap of growth that would be coming to us, maybe if you take a view of the next two to three years?

Manoj Raghavan: I am not sure when you say 10 quarters that we have been in the 380, I mean, 10 quarters, maybe we have been from 300 levels or 320 levels, we would have grown to the 430s and so on. So our expectation is we will be able to continue this sort of growth. There would not be any sudden jumps because sudden jumps will happen maybe if we have an inorganic option and so on. Otherwise, the accelerated growth that we have demonstrated in the quarter, we hope we will be able to maintain near around the same level. We hope about annually, constant currency basis, we should definitely grow 10 -12%.

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

Harish Kawalkar: I am just going through your customer concentrations. You have that presentation. So what is the reason the customer concentration decreases on a quarter-on-quarter basis? Could you please throw some light on that? You had added more customers, or you have less revenue from the same customers?

Manoj Raghavan: No, more or less, we are where we were in the previous quarter, right. There has not been any great change, I would say. If you look at the top 10 customers, they have been at 49 - 50% odd, right. That has been the case, in Q2, last year, we were at 50.7. In Q1, we came down to 48.6. This quarter, we came up to 49.3. So we are in and around the same. We are essentially trying to say is that the top-10 customers have also been growing and growing almost in the same ratio as the company. So I think this is a good metric to have.

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

Ashish Agarwal: Sir, most of my questions have been answered, just a couple of things. First of all, on the industrial design business, right, that business has been very volatile. And this quarter has seen good growth. And we have indicated there is a promising pipeline. So just wanted to get some sense on that business and maybe some insight into that business's profitability.

Secondly, on the offshore-onsite mix, right, obviously, there is a significant increase in offshore. Wanted to understand once things become normal, do you think this ratio could change towards onsite as there would be more travel, etc., or do you think this type of shift over a longer two to three year period is here stay?

Manoj Raghavan: Let me take the second question first. Personally, I would tend to believe that this is here to stay. It may not skew so much once the travel restrictions are relaxed. Onsite ratios may go up slightly, but it will never go to the 50:50 or 60% onsite and 40% offshore. I mean, those days are gone, I think maybe we will eventually settle down to 60:40 40 being onsite and 60 being offshore or even lower than that, right. Because customers have realized that you can achieve a lot, you need not necessarily be next to the customer; you can work remotely. So, I feel that you might more see 60:40 or 65:35 sort of a ratio eventually, right.

Now, coming to the first question on IDV, IDV has been volatile; at the beginning of last quarter, we have a management change, we have a new person who has taken over as the head of the Industrial Design business. We are rethinking the strategy, and we are aligning that business more towards the EPD verticals. We have also restructured the sales team, and a lot more EPD sales team members are now carrying IDV numbers also. So, there is a lot of cross-selling happening with existing customers. So, I would say the focus for us is definitely to be a design-led company that is a clear differentiation with respect to the competition. So, in the next two to three years, I would see IDV revenues growing much faster than EPD revenues. As an organization, we are focused on, and that is where the investments are going in. That is where

the sales team's focus is there, and I believe that the next two to three years this will be a key focus area in business for us, right.

Margins are definitely lower than EPD at this point. That is because the top line has not grown, the billability is on the lower side. But once we have this customer acquisition and so on, margins will go back. A lot of the investments on the ground in terms of people and so on have happened. There is a leg room for increasing billability. So I think margins can only go up as long as our business grows.

Moderator: Thank you. The next question is from Hiten Jain from Invesco. Please go ahead.

Hiten Jain: So, what explains the 14% sequential growth in other expenses given that a large part of it is from travel and discretionary, which should have also ideally been muted this quarter?

Manoj Raghavan: It is the H1B visa charges, that has been charged in this quarter. It is a one-time thing.

Hiten Jain: And even other income was relatively low this quarter. Was there a significant forex loss?

Manoj Raghavan: It was about Rs.1.9 crores loss. I think it is not that significant. Another thing is that the interest portions came down because we had paid out our dividends last quarter, right, so the interest-bearing deposits came down. So that is another reason why other income is down. And, of course, interest rates are also going down.

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

Rohan Advant: Sir, two quick questions. First, on medical devices. In the past, you said that it could contribute 25% revenue in three years. So, I just wanted to understand how is that vertical moving. How do you see the pipeline? And I think it is margin-accretive, so does that stand? And is this more an annuity business, or is it a typical ER&D business where project ramp up/ramp downs can give way to lumpiness, this is first and second on export incentives, there has been some notification that it has been drastically reduced going forwards. So can you quantify how much export incentives we will get, say last year, and if you heard anything on whether we will get them this year?

Manoj Raghavan: So I have maintained that in a three-year timeframe, the medical business should be about 20%, not 25%. And I think we are on our journey there. This quarter, almost 9% of our revenues came from medical business, which is definitely positive. Last year, we were about 5% or 6%, now, we have come up to 9%. So, definitely, there is a lot of focus happening on the medical side. And as I told in the previous call also, investments in terms of sales and consultants and so on, all of them have happened. So that is something that we are pretty positive of.

The medical business has multiple types of opportunities. Yes, there is an ER&D, that is a product design sort of a business that could be a contract-based business. But then we have

the entire regulatory piece that is more annuity-based, so you have a mix of both project-based as well as annuity businesses. But the good thing is that we see many long-term, multi-year contracts in this business. And as you said, margins are pretty positive there, right so from a medical business perspective, we definitely continue to be bullish.

Regarding the export incentives, the export incentive rates are still not announced by the government. And we really do not know what will the rates will be and so on. So, last year, it was about Rs.4 crores per quarter. From the previous quarter onwards, we have not shown this incentive at all,. So we are still waiting for the government to announce the rates and so on. So it is approximately Rs.4 crores a quarter, but I think we have not considered this amount in the last two quarters.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest. Advisors. Please go ahead.

Hasmukh Gala: Sir, I would like to continue my question because my line got cut off. These new deals, etc., which we are entering, how will they change our revenue profile? Are we going to get any revenue share from these partnerships, or how will it work out?

Manoj Raghavan: It all depends on a deal-by-deal basis, right. There is no one answer there. Some deals are on revenue share; some deals are the traditional time and material or fixed bid. So having said that, we are pretty open to see depending on the nature of business and the customer that we are dealing with, we are pretty okay to even go from a revenue share perspective, we have actually done such deals, and I think at least in our experience, it has been pretty good. However, it increases the risk profile, and we have to be careful while we are picking up such deals.

Hasmukh Gala: And sir, has COVID opened up some new opportunities for us?

Nitin Pai: One is, it has accelerated transformation towards anything that allows operations to continue without disruption. One of the previous investors had asked about what we are doing in the automation of operations. So if you think about that, that is being accelerated by COVID where operators and enterprises want to make sure operations are not disrupted. So can you do remote monitoring, remote management, remote subscriber service management, and so on.

The second part that is happening is that certain classes of medical devices have also seen accelerated development, for example, ventilators and so on, including reengineering of ventilators to build them for lower cost profiles, and so on. So I think we have seen projects like that.

Hasmukh Gala: And what is happening on the telemedicine? In one of the interviews, our CMD said that you look at good opportunities in telemedicine space?.

- Nitin Pai:** That is right. So we are already working with certain customers in telemedicine. So we are already supporting certain telemedicine providers in software development and platform development. However, we are also looking at what parts of a telemedicine solution we can support with ourselves.
- Hasmukh Gala:** You said that you are looking at some M&A opportunities. Can you give us a broad outline as to which are the areas we are looking at?
- Nitin Pai:** Mr. Gala, that is not publicly declared. But you can imagine that it is to accelerate our current verticals and our current capabilities.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** You just made a remark that now we are back to pre-COVID level in terms of the growth and all and still deal pipe is very strong. And if we expect to grow, say a QoQ range of 5% to 6%, which implies that annualized growth of around 20-%plus. So how do we see from three years perspective? Is it possible?
- Manoj Raghavan:** First thing I would like to say is, look, I would really want to wait for a couple of quarters more to see that this growth that we have demonstrated is sustainable – we believe it is sustainable and we are working in that direction. Of course, we have our three-year plans and our strategies around that. But if we are able to continue to grow at this growth rate, in a three-year timeframe, we will definitely be able to produce pretty good results.
- Nitin Pai:** If I can just add, I think what we are essentially saying is, we are very clear of markets based on customers, industry progress, technology, progress, and so on. If you look at COVID, that is a disruption and it has caused uncertainty both on the demand and supply sides. So that uncertainty cannot be addressed by any direct projection. I think we just have to wait a little bit. We are making sure that we cover all the other parts. Projecting where the industry will go, technology will go is our job, but we cannot tell what happens fundamentally in economics and macroeconomics.
- Moderator:** Thank you. The next question is from Naveen Bothra, who is an individual investor. Please go ahead.
- Naveen Bothra:** Just continuing from the last question. If you see the previous four quarters result, ex of JLR, we are growing by 15% to 16%, and when we see ex of JLR top 10 accounts, for the last three quarters, we are growing by 21%, 22%. So, given the commentary, how would you like to guide us because in the concall you said that we would be doing Q3 of last year, we have not only done the Q3 of last year, in this Q2, we have exceeded that by 2 - 3%. If you can guide me on

second half seeing all these ex of JLR, will we have around 18% to 20% of growth seeing the strong deal pipelines?

Manoj Raghavan: We do not give any guidance. So, that is the dilemma that we have. But you can see the management's confidence, I think, definitely H2 will be much better than H1 because we have had a poor Q1. And that is because of COVID; it is not just us, but the entire industry.

But the good thing is we have been able to bounce back faster and much more aggressively than some of our competition, including the large companies, because, of course, because of a small base. I think this sort of growth is sustainable. And we see the deal pipeline in H2. I mean, I cannot give any further commentary other than saying that we are bullish.

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

Mayank Bavla: I would just like to ask, will a second round of lockdown in Europe impact our revenues from there, if you could give your opinion or views?

Manoj Raghavan: Even now, we are considering it as lockdown only, right? We have not been able to travel. Everything is done virtually. So whether lockdown is officially announced or not, it is almost like lockdown for us. So I do not think it will matter for us.

Moderator: Thank you. The next question is from Nimish Shah from Emkay Investment Managers. Please go ahead.

Nimish Shah: Sir, the Schaeffler deal, has the revenue started flowing in? Basically, when will the revenues from that deal start flowing in?

Nitin Pai: Mr. Shah, yes, we have already started on that engagement. So we have already started off with the initial core team and we expect that to continue and grow. So there is some revenue that we have reported already in the quarter that has actually come from the Schaeffler engagement.

Moderator: Thank you. The next question is from the line of Varun Sharma from Franklin Templeton. Please go ahead.

Varun Sharma: How have our sales teams run and approach to our newer customers changed because of COVID, if you can just elaborate on that? And how are we taking up marketing activities and deal with your customers in different ways?

Manoj Raghavan: Sales, I think, the good thing is, because of COVID, what has happened is everybody is working from home, including senior people in our customers' organizations or the prospects organizations are all working from home. We believe that because of COVID, we have been

able to reach the decision-makers quickly. They are able to give time to us. So, everybody is working remotely. So, instead of going to the office and having those meetings, we are having those meetings remotely, and that is working perfectly fine. In fact, I would say better than during the pre-COVID era.

Yes, a lot of marketing is now focused on digital marketing, and so on. So, if you look at our social media presence, Tata Elxsi's social media presence has increased drastically in the last quarter, the number of releases that we are making and solutions offered, etc. So, yes, marketing is moving digital, and I think that is the way to go.

Moderator: Thank you. The next question is from the line of Senthil Manikandan from ithought Financial. Please go ahead.

Senthil Manikandan: My question is basically about the transportation vertical, like how do you see the automobile side like the OEMs or the tier-1 players. How are they giving any outlooks or deal structures over there?

Manoj Raghavan: Yes, we have shown growth in the automotive sector. What that means is demand is picking up. But has demand picked up to the extent of pre-COVID levels, I would say we are still maybe a couple of quarters more. What is happening because of COVID is that we see either OEMs and tier-1s trying options to consolidate vendors and bring down their overall costs to move away from high-cost outsourcing to low-cost countries and so on. So, we see definitely demand is better than Q1, but I would maybe wait a couple of quarters more to really see if we have touched the pre-COVID sort of demand momentum.

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

Bharat Sheth: I just wanted to understand that when we are talking about moving from, say, onsite to offshore, of course, it is better profitability, but revenue side, could there be any impact because of that?

Manoj Raghavan: Of course, there is an impact. So what is hidden in this is the sort of deals that we have won to be able to accelerate our revenues despite the onsite-offshore ratio going the other direction. I hope you are able to understand that. That is the type of deals that we have won.

Moderator: Thank you. The next question is from Vijay, who is an individual investor. Please go ahead.

Vijay: One question I have on the Tata group itself. I think the group is coming up with a 'Super App.' Is Tata Elxsi also playing some role in that?

Manoj Raghavan: No, we are also reading about it. We are talking to Tata Digital, the company that is making the app. There are some opportunities, especially from the industrial design perspective, we are

discussing with them. But right now, we are not doing anything; I mean, there are no activities that Tata Elxsi is performing on the 'Super App.' but that could change moving forward.

Moderator: Thank you. The next question is from Umang Shah from Asian Market Securities. Please go ahead.

Umang Shah: Sir, the R&D is done in auto companies for the next four to five years. I wanted to ask, or whatever R&D was done by you in, say 2015-16, how much of its on-road implementation do you see in 2019-20? And sir, connected to this, do you think that the delta innovation is declining or accelerating in the automobile itself?

Nitin Pai: So if you look at how we work with automotive companies, whether it is suppliers or OEMs, we work on programs that stretch anywhere from the next year's model year to very advanced R&D, which may be only about seven, eight years ahead where you get into advanced research, you confirm that it is production worthy and then you implement, and then you deploy. So, to that extent, I think every year we will see work that we have done in the past, partly because some of it is very near-term, it was projects done one, two years back, some of it is projects done a little longer back. So that way, you will always see a stream.

In terms of innovation and change, that delta will increase, but it will increase in certain areas. For example, OEMs will, and the automotive industry will spend a lot more on digital and software. They will spend lesser on mechanical and materials. So that is where the delta is. So the overall spend may increase or decrease, but the proportion of spend on software, electronics, and digital is what will go up.

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

Manish Bhandari: I have one question regarding the use of excess capital on your balance sheet. You did allude towards evaluating some kind of inorganic growth opportunity. So is there any thought process going on or maybe there would be a buyback or so?

Manoj Raghavan: We have discussed this at the Board level. There is nothing to report. And as and when we have certain decisions, we will get back to you. But yes, there is some thought process that is being discussed.

Moderator: Thank you. We will take the last question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: My question is on the sub-segments within transportation and media broadcast. How are they tracking, as there is a lot more focus there, and it was, I think, mid-single-digit percentage of its revenue, so how would that be tracking in the last few quarters? That will be my first one.

Nitin Pai: As far as automotive is concerned, I think what we are seeing, and we continue to see, is that connected and infotainment continues to lead and accelerate. That is very near-term, while electric follows, and ADAS comes last. In ADAS, we are definitely seeing a slowdown. But I think what we are seeing pickup in is implementation of features which are a little more immediate, rather than full autonomy, auto car parking valet or traffic jam assist, and features like that.

When it comes to media, I think we have seen almost all-round growth and similar acceleration. Within that, I think two pieces accelerate most; one is OTT, and you know that even from consumption patterns. The second is broadband and data-led services simply because that is an enabler for OTT in any case. So irrespective of who you consume media from, you definitely need broadband and data services from your operators. So that is the way I would look at it. Medical, I think, has been unaffected. So it continues.

Apurva Prasad: So Nitin, how would the size and scale of these sub-segments be currently, be it new media, OTT, or some of the adjacencies that also you are looking at within the transportation segments?

Nitin Pai: So, at this time, we are not really calling out those percentages, Apurva. Hopefully, we will mature to that in a quarter or two in terms of starting to call out the sub-segments, but I think as far as adjacencies go within transportation, I think we have mentioned that is about 4 or 5%. We are doing in rail, off-road, etc. in the single digits for us right now, as far as overall transportation business goes.

Apurva Prasad: Just finally, any scale consideration in terms of the inorganic, any ballpark numbers in terms of what is the scale of acquisitions that you are looking at?

Nitin Pai: Not at all.

Moderator: Thank you very much. I would now like to hand the conference back to Mr. Vaidyanathan for closing comments.

G. Vaidyanathan: On behalf of Tata Elxsi, thank you all for joining the concall. And I would also like to thank Nitin and Manoj for taking the queries. Hope to see you in the next concall in January. Thank you.

Moderator: Thank you very much. On behalf of Tata Elxsi Limited, that concludes this conference.

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