Q1 FY19 Earnings Conference Call

July 27, 2018, 15:00 hrs IST

Moderator: Good day ladies and gentlemen, and a very warm welcome to the Q1 FY19 Earnings Conference Call of Tata Elxsi. As a reminder, all participants' 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: Good evening, all the participants. Welcome to the Tata Elxsi Q1 FY19 Earnings Conference Call. We have with us here, Mr. Madhukar Dev – CEO & MD of Tata Elxsi; Manoj Raghavan, – EVP & Head (EPD) and Mr. Nitin Pai – Senior VP (Marketing).

The conference will go like this. Mr. Madhukar Dev will give a brief of our performance for Q1 and thereafter, we will be taking questions. We would request each of the participants to restrict to one question for giving a chance to others. If time permits you can come back again for other queries.

Thank you. Over to Mr. Madhukar Dev.

Madhukar Dev: Thank you and welcome to this conference call. It has been another steady quarter for the company. Nothing spectacular but overall a satisfying quarter. Those of you who have been following this company will know that the Q1 has historically been a weak quarter for us and we worked over the years to make sure that we do not have a dip in Q1 on any parameter and I am happy that our operating revenue grew by 2% as compared to the previous quarter and 18% as compared to the same quarter last year. And so also our bottom-line.

On all counts it has been satisfactory in that we have got significant new wins in the quarter; we have a pipeline which is reasonably encouraging for the time to come. And what we will do over the course of this call is have my colleagues share the highlights of the respective businesses and thereafter we will take questions. So, first Manoj to share the highlights of our biggest business, the EPD division.

Manoj Raghavan: Good afternoon, this is Manoj here. I head the Embedded Product Design business for Tata Elxsi. We have four verticals that we focus on in EPD namely the automotive, media & broadcast, communications and medical. As Madhukar said, in Q1 we did have a steady quarter. If you look at the automotive business, the automotive business primarily focusses on three main pillars which is connected cars, autonomous cars and electrification. And in each of these areas, we have seen significant opportunities generated and a few closures. So, our business continues to grow.

And in the media and communication space, we primarily work with operators which is both MSOs as well as the telecom operators, and CPE vendors which is the set top box makers and gateway makers and so on. So, again we definitely had a pretty decent quarter there. A lot opportunities that we see are now in the Android space. We won some good deals in Android space and also the OTT space is another area where we are investing and we have seen some decent traction there.

In the communications space, our business is primarily focused around our Cloud and SDN initiatives. SDN as a technology is catching up with lot of the telecom operators and all of them are now talking of digital transformation and what it means to them to bring in operational efficiencies. So, I am happy to tell you that we have focused on the SDN area for the last 18 months and we are in a good position vis-à-vis our competitors. We have won deals in the last quarter and we see a good traction in this space again in the coming quarters.

The last business that we have is the medical business. And as many of you know, we have been investing in this business for the last 4 years. I am happy to tell you that we have won a significant deal in the last quarter and that is a pretty large deal over the next three years and that will bring in good revenues for us. So, I can tell you finally that our efforts to grow the medical business is yielding results and I am sure in the coming quarters, it will be a growth engine for us.

We do focus on the digital side that is IOT, AI and Robotics across these market verticals. We have invested in the technologies over the last 12 months and we are now engaging with customers actually delivering solutions in these areas. So, this would continue and would be the future growth engine for us as we take these solutions to the market. I think these are the brief sort of status that I had to tell. I hand it over to Nitin from here.

Nitin Pai: Thanks, Manoj. Good afternoon. Quick update on the design side and going beyond that at the corporate level. So, I think design has continued to grow in line with the EPD business. In many ways I think, we have starting to see the synergies between design and technology play out as we go forward. We have seen synergies in the automotive space where you talk of multimodal interfaces, you talk of human machine interface and so on.

It is starting to play out in the broadcast industry where we are talking of user experience and user interfaces for the new OTT services as these are all digital first services. So, I think in all very satisfactory from the design side, while there are standalone wins that we have and standalone customers that we have in various industries including retail and FMCG and appliances, what is satisfying to us is to see the increasing synergy between how design creates that differentiation for Tata Elxsi and how design creates that complementary capability to deliver a little more complete and integrated offering to customers.

To that extent some great wins for us from the design side for automotive HMI and it is rather satisfying for us to note that the work that we are delivering is being accepted by the absolute best in the world, in terms of brands.

Going beyond design, what we have also been looking at is markets and expanding markets beyond what we currently address in Asia. So, as you are aware there is reasonable revenue for us both from Japan as well as India when it comes to Asia as a continent. We have not done too much outside of these even though we continue to have customers in China and elsewhere.

So, we have spent some time trying to see how we can develop these markets for ourselves. So, you would note that we participated in Computex in Taiwan at the beginning of the quarter. That is the most important show as far as consumer electronics and devices go for the Taiwanese industry. We followed that up with a booth and significant keynote presentations at the Broadcast Asia Conference in Singapore and that is very focused on the entire operator and OTT space.

Early days, but I think what we definitely see is, there is business to be done. Trends are global in that context so whether it is automotive, whether it is broadcast, we see the same trends playing out there and the same needs emerging from these regions too. So, we are quite hopeful that we will add more customers from this region in the days to come.

With that I think, we are done with the overview. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Apoorva Prasad from HDFC Securities. Please go ahead.

Apoorva Prasad: So, first wanted to understand on the industrial design side of the business that has been rather flat last year and even this quarter does not seem to be that great. So, what is your outlook within that and I will come up with my follow up.

Madhukar Dev: The outlook is still fairly positive and encouraging. What we have been trying to do over the last six to nine months is, look at how we can integrate the industrial design part of our business with the technology part of our offerings. And while you do not see it in numbers, yet we have achieved significant synergy in our offering there. As a standalone thing, over the last several quarters we have been trying to move more into service and experience design rather than product design.

Towards that, our investment in developing our HMI capability is now beginning to pay off. Some of the best and most demanding customers in the world are recognizing our HMI capability and are trusting us to help them design it. So, the positive outlook continues. Yes, nothing spectacular has been achieved so far.

Apoorva Prasad: Is it more on the automotive or media broadcast side, the synergies that you talked about or?

Madhukar Dev: On both. In fact, in the medical devices too as well as the auto as well as the smart home broadcast business.

Apoorva Prasad: And you had earlier talked about the overall company level growth rate of 20% plus. I mean how is that sort of an outlook how do you see that now and on the margins if you can also provide an outlook there?

Madhukar Dev: Yes, we are pursuing an average growth of 20% Year-on-Year and in this quarter itself we managed to clock close to 18%. So, I do not think 20% is an objective that is very hard to reach. We are working towards that and we will continue to sustain that focus.

Apoorva Prasad: Okay so this is in rupee terms and not constant currency, the 20% plus that you said?

Madhukar Dev: Yes.

Apoorva Prasad: And lastly just a data point, if you can mention the headcount number and the top account for the quarter?

Madhukar Dev: The top account revenue for the quarter was 24% odd and the headcount at the close of the quarter was 5,400 something, about 5,500.

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

Naveen Bothra: I would like to request how much is the revenue from the IPR and patents in this quarter sir, if you can tell us?

Nitin Pai: So Mr. Bothra, that is around 3 – 3.5%.

Naveen Bothra: So, we are well on target to achieve more than 10% from the IPR and patents?

Nitin Pai: The way I see it is Mr. Bothra, that is really a journey. So, the objective that we have set is that, over quarters and over years, we have to be able to drive greater and greater revenue from IP and subsequently from IP enabled revenues. So, to that extent if you ask me how was it one year back, I would said that it was less than a percent in the same quarter. So, when I look at it from that perspective, yes we have made significant improvements in how much we are driving as IP standalone revenues on a quarterly basis. I think that is the encouragement that we read out of the whole trend of revenues.

Naveen Bothra: So, I was in the AGM two days ago, so we were told that around 68 IPR patents in the process of getting approvals or filing and all these things. Out of that, you have got two or three approvals patents you have got. So, would you like to tell us about the medical electronics pen, injection type of pen what will be the case in terms of that one?

Nitin Pai: Yes, I will just clarify so that it is clear to everybody else. At the AGM, there was a question about the patents that we have filed. So, we have filed for about 68 patents to date and we have been granted about two in the last quarter. But as such there is no connection between patents and IP revenues because patents do not get monetized directly, patents help to protect and may be monetized in the future but at this time, our revenue from IP is not really from patents. Just to clarify. That is part one.

The second is regarding drug delivery pen - yes, it is a very, very interesting device innovation that we have made. That is completely done in-house as an in-house R&D that has its own patents filed at this time, not yet granted simply because it is a very, very new filing. But however, we are already in discussions with certain companies to see if we can license the design.

So in this particular case, there is no intention from Tata Elxsi to manufacture the pen. But because it represents a fundamental innovation in how drug delivery can be done and two, we see an increasing level of interest from pharma companies in using fixed dose or variable dose pens to be able to deliver their drugs. So, we believe that, we will derive some revenues out of this kind of an innovation.

Naveen Bothra: So, it will take some time for the deal?

Nitin Pai: Yes, so we are in discussion for a deal but not concluded.

Moderator: Thank you. The next question is from the line of Ketan Chaphalkar from Zephyr Financial. Please go ahead.

Ketan Chaphalkar: My question is more on this business mix side. Like how do you see the business mix actually going down the line? Software development and services actually are improving year-on-year and Quarter-on-Quarter and then system integration and support services actually are declining both on Quarter-on-Quarter and on Year-on-Year. So, how do you see it is going down the line?

Madhukar Dev: This is a trend continuing and this is an outcome of a very deliberate set of actions by us where we have more or less eliminated the resale component of our system integration and support services and have boosted the support services component. So, we see that continuing and there may be an odd quarter where a key customer insists on us buying something and supplying to him and we may do it more out of the longstanding relationship with the customer. But strategically, we are exiting the resale business.

Ketan Chaphalkar: Okay so you see both of these two segments in the same proportion or you see any particular segment doing well particularly than the other one?

Madhukar Dev: I see the software development and services business growing and the system integration and support services being flattish.

Moderator: Thank you. The next question is from the line of Utkarsh Katkoria from DHFL Pramerica. Please go ahead.

Utkarsh Katkoria: Actually just wanted to understand what could be the impact on revenues and growth because of Brexit or any hard landing there and also what could be the impact on revenues going forward because of a slowdown in our top account?

Madhukar Dev: There are two, three things. First, I believe that well-run businesses spend more on R&D when they see headwinds in the market. I therefore would not worry too much about the short-term blips that any of our key customers feels in his business segment. Because a lot of the work that we do gets in to products several years down the road. So, in that sense, there is some element of insulation.

As far as Brexit is concerned, no matter how it is or if it actually happens or does not happen, it is not as if we service our European customers out of UK or vice versa. All that will mean for us is a separate presence on the continent from the UK and we currently have about five offices in the continent and two in the UK. And our key customers in UK are from the automobile and the broadcast business. I do not see either of them being hugely impacted by whatever happens in Brexit and the European business should be stable and growing.

So, I do not worry too much about it. My worry regarding Brexit is on the exchange rates and if we see some, even it is for a short term, but something very dramatic that happens to the GBP INR rate or something, then we may suffer temporarily.

Moderator: Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: First of all, let me congratulate for a very, very nice set of numbers for Q1. And as you have said that it remains the weak quarter during the whole year, so I am sure like others we are going to make up in the coming quarters. I just wanted to know that there were some comments made that on the medical devices finally now your investments are paying off and you see a very good growth, this seems to be a growth engine for the coming quarters. Can you give us some more idea or some guidance as to what kind of a top line are we looking from this medical device business and what kind of margins are possible?

Madhukar Dev: See, the comments that Manoj made about our investments in the medical business beginning to pay off is really a description of the fact that we are occupying a much stronger position in the market. We are in the run for significant deals and we are winning large deals. So, we have gone past the phase where we had to establish our credentials.

In terms of targets and margins, it is still a small part of our business and my guess is that it will take us another two years to bring it to a point where it is comparable to any of our major segments. And margin wise, it is not any different from anything that we do.

Moderator: Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities Limited. Please go ahead.

Sagar Lele: Sir, margins in the quarter were quite strong. I remember, you talking about a comfort level of somewhere around 25% on the EBITDA level, but you have exceeded that meaningfully. So, one is what moved margins in this quarter and second, how do you view the margins given that you have tailwinds in the form of probably more IP or scaling up of the medical business versus the constant need to probably invest back into the business to drive capabilities and further growth?

Madhukar Dev: See all our internal actions are aimed at maintaining margins at about 24% - 25%. Some of these actions in some quarters yield an outcome which is better than what we aim and sometimes marginally worse. So, I would not get too bullish on the fact that our margins in this quarter ended up being better than what we try. But by and large I think we are on course and we will be happy to maintain the margin at this level that is around 24% - 25%.

Sagar Lele: So, on that one could you probably specify a few areas that you would like to invest in once you start benefitting from scaling up the medical business or selling more IP and the natural tailwinds that you get , any three, four areas that you will be focusing on to invest further?

Madhukar Dev: We first want to get there before we look at what areas we would like to get in to. Primarily because the opportunities in our business are very time bound and time contextual so what may look very promising today, 12 months from now may not look that attractive. So, also even in our existing businesses, the play that we have today is very different from what we were doing in the same verticals 24 months ago.

So, it is a very rapidly evolving scenario and it is best to tell you what we are doing when we are doing it, rather than trying to project what we will be doing 12 months down the road.

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 mainly the Augmented Reality and Virtual Reality segment. I wanted to if you could elaborate more on our scope of work and kind of progress that we are making just to gain an insight in to it and what can we expect going ahead?

Nitin Pai: This is Nitin here. Maybe I will take that. If you look at AR and VR the most immediate implications for AR and VR are in enabling customer experience, especially at the point of sale. So, to that extent whether it is custom events where we are using AR or VR as a means to provide customers with an experience of what they would otherwise find difficult to experience physically, whether it is in sales showrooms and so on is the first point of entry for AR and VR. And starting with Tata Motors in the Geneva Motor Show, I think we have done fairly well to work with various customers on marketing brands and customer experience side.

We now see that extending to other areas within the operations of companies. So, for example the ability to use AR and VR for training, especially for new additions whether it is in manufacturing or otherwise, the ability to use AR and VR for simulation and visualization when it comes to R&D and design. I think these are applications that we expect to grow into. We are already seeing ourselves actually work with customers in these areas.

So, I think the journey for us is really more to see how do we engage with customers in our existing businesses whether it is automotive, broadcast, medical and so on and augment their method and methodology for marketing, brand and operations.

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

Madhu Babu: Sir, the wage cost when it will come in, wage hikes?

Madhukar Dev: For most of our employees I would say 90% of them, effective July 1st.

Madhu Babu: And just within the topline, can you say how is the eco-system, I mean what is our market share, what are the other vendors who are there in our top account?

Madhukar Dev: Ours is a very small share of the market.

Madhu Babu: What are the other guys are like European engineering providers or Indian vendors in the JLR account?

Madhukar Dev: Amongst the Indian vendors we would be, say out of the 4 key Indian vendors, we will be the second or third in terms of market share. In terms of international service providers, we would be in the top 10.

But you know the good thing about that is, even if there is a slowdown in spending, there is an opportunity for us to increase our share, because what we offer is a very good value addition for the money that they spend. So, it is a good position to be in, not to be having the largest share of their spend.

Madhu Babu: And just one last thing. Within the three segments I mean automotive as well as media and all, what is the scalability which are the two, three verticals where you see faster growth in the next one year?

Madhukar Dev: We still think auto will be the one that will be growing, auto and transportation will be growing faster than everything else. Though we are seeing an uptake in the broadcast market, thanks to our IP led solutioning, though we do not expect too significant a change.

Moderator: Thank you. The next question is from the line of Niketh Shah from Motilal Oswal Asset Management. Please go ahead.

Niketh Shah: Few bookkeeping questions. I do not know if that has got answered earlier. If you can just give me some numbers on T&M versus Fixed and offshore versus onsite?

Madhukar Dev: T&M versus fixed I think is about 55:45, it may not be precise numbers. And offshore versus onsite is 60:40.

Niketh Shah: And do you expect these ratios to change meaningfully or it is broadly going to be remain in the same range?

Madhukar Dev: Yes, it has largely remained the same over the last many quarters. We do not see them changing dramatically in the near future.

Niketh Shah: And what would be your geographical wise breakup now?

Madhukar Dev: Europe around 50%, US 30%, and rest of the world is 20%.

Niketh Shah: And how much would be JLR now as a percentage of our revenues?

Madhukar Dev: It is about 24%.

Niketh Shah: Would this 24% for automotive revenues or the consolidated revenue?

Madhukar Dev: Total revenues. I am clubbing all the JLR revenues not just electronics - including the design, visualization everything so therefore 24% of our total.

Niketh Shah: But within auto, it will be a very large portion right?

Madhukar Dev: It would be, my guess is about 35%.

Niketh Shah: And my final question is there is always this question that your margins are always in the range of 25% to 27% plus or minus 1% or 2% at least in the last 1.5 years to 2 years. But if you look at the existing competition in the listed space, they are not anywhere close to your margins. So, how should one really look at it, is it client specific that the competition works with certain clients which are lower margin or there is aggressive bidding there versus something whereas something in the case of Tata Elxsi, where you do not have that kind of aggressive bidding, or it is a direct relationship with client and hence the order directly comes without rolling out an RFP. So, how does it really work and if you can just help us understand why the difference between margins between the two or three players?

Madhukar Dev: I do not know much about what the other companies do and how they are do it. I can only tell you about us and there are two, three things that we do. We sometimes excessively so, are terribly cost obsessed. So, the extent of cost control that we exercise is probably much higher than everybody else. Secondly, the minute we see any of our offering getting commoditized, we try and exit that and we get into an area where the value-add is significant and therefore the premium that we can command does not get diluted.

Third is the relationship with our customers is generally very strong and it has been built over many years and many engagements and therefore the fact that we are completely transparent and meticulous in our bookkeeping and billing, is very highly valued by somebody who is sitting halfway across the globe and working with companies very far away.

So, all those things do give us the premium of one or two percentage points.

Niketh Shah: And does all of the project work that we take from each of our clients is through an RFP mode or sometimes it is more of a relationship based and there is no need of rolling out an RFP or something like that?

Madhukar Dev: Most of the times it is RFP based. There are occasions with customers especially the small companies and some other just in the startup mode - there it is just that the decision based on confidence and comfort.

Niketh Shah: And one final question, how much would be your CC growth and dollar growth this quarter?

Madhukar Dev: The CC growth I think is just about 1% as compared to the last quarter. And as compared to the quarter a year ago about 14%.

Niketh Shah: On dollar?

Madhukar Dev: It would be the same we do not track dollar separately because dollar is not the biggest currency that we get revenues in.

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

Manish Bhandari: I have a few questions on the business. If I look at your last year, the total incremental growth was close to Rs. 150 crores and Europe as a geography grew by Rs. 70 crores. So, is it fair to assume most of the growth has come from JLR?

Madhukar Dev: Of course not.

Manish Bhandari: So, it will be well distributed between the other European clients?

Madhukar Dev: Yes, exactly.

Manish Bhandari: Sir, you have spoken about that you want to do reinvestment in the future but what I see in the balance sheet on the annual report is that your sales cost has remained constant at Rs. 77 crores for two years and about Rs. 69 crores a year prior to that. So, where this reinvestment is growing and going in and why the sales cost has not gone up?

Madhukar Dev: You are talking of what head of expenditure?

Manish Bhandari: Sales cost Rs. 77 crores?

Madhukar Dev: This is the cost that we incur in buying things or subcontracting work, which we need to do to fulfill our customer's requirements. So, that is not an investment.

Manish Bhandari: You mean to say this is for the projects you would hire the outsourcing people?

Madhukar Dev: Either that or some tools that have to be acquired, some equipment that is required which we customize and supply back to the customer and things like that.

Manish Bhandari: Now my question is regarding the Panasonic, so is there any further development on the relationship what you have with Panasonic and how far it has progressed?

Madhukar Dev: Manoj, would you like to answer that?

Manoj Raghavan: Yes, so some time ago we have announced that we have setup an ODC with them and that ODC is going on pretty well. We have ramped up to the team size that was expected. We were engaged with a couple of divisions of Panasonic, now we have expanded into other divisions. We have set up a test center for them for their home appliances including Refrigerators and ACs and so on. So, we should see some good developments around that and hopefully some products that are rolled out for India by 2020 or so.

Manish Bhandari: But this encompasses beyond India, am I right?

Madhukar Dev: Yes, it is primarily India and the South East Asian market and of course, depending on the product category to markets in the western world also. But a lot of their focus is going to be on India because I think only about 2% of their overall revenues come from India right now and from the Panasonic CEO's perspective, there is a great focus on India to push that numbers to a larger number.

Manish Bhandari: Sir, you did this year in your annual report, you spoke about an association you have done with Unity Technology on AR and VR. So, if you could give us some highlight that what is the nature of this association and how the revenue implication should be there, your thought about on these?

Nitin Pai: So, this is Nitin here. Very quickly Manish, Unity Technologies is a game engine provider. So, they are among the world's leading game engine providers. But what is interesting is that the game engine has now been re-targeted for Virtual Reality. Virtual Reality also demands the same kind of real time behavior and physics behavior and so on as typical video games. So, in many ways, Unity becomes the backbone of how you would build experiences for Virtual Reality and Augmented Reality, in the sense that you have assets inside, you have environments inside these now need to interact with the real world, they need to move, they need to do certain things, you use the engine behind it.

So, Unity provides that engine and what we bring is a deep understanding of the engine and the ability to now target that engine to relate to the application that has been developed. So, therefore if I were to work with a car company to say how can I augment your sales experience, we would then take the models of the car, bring it into the virtual world, we will get that models to run over various environments, we will get them to behave in certain ways. All these requires one - the ability to create assets which are realistic enough and two - the ability to use these game engines inside to be able to drive the behavior that you want. So in that sense, great virtual reality experiences are driven by both - content as well as the technology that is actually driving the experience.

For us the partnership is really to be able to go jointly with Unity to select markets including automotive and others. So the idea is not to go to the gaming market because that is very, very well covered. But beyond gaming, are there applications in vertical industries like broadcast and automotive and others where the combination of technology plus content actually makes the difference to what you do and how you sell?

We are jointly going to market with Unity, we also have a Centre Of Excellence that we have started in Bangalore that brings together some of the best developers for AR and VR that use Unity engines. I think it is going well.

Manish Bhandari: So, sir, you also spoke about these licensing of your proprietary software to the autonomous vehicle. So, if you could throw some light that what kind of revenues one could expect out of this kind of monetization of the IP?

Nitin Pai: So, very quickly, I mean, I think in response to a previous question, I have already responded that our revenues for the quarter from IP were somewhere in the range of about 3%. So, you get a sense of the impact. Equally, you would also have to remember that driverless cars software deals are not something that repeat very, very often - simply because there are limited number of OEMs across the world and these are strategic decisions that they have to make. Many of them are still in the process of making these decisions because it is still not an imperative.

So, for many, many OEMs across the world, autonomous is not yet an imperative while for some it is. So to that extent, I think we have done very well by gaining those early customer wins including the global top 5 OEMs that we won. We are starting to see a lot of traction for Autonomai and Autonomai is a brand that we have created around the Driverless Car Software. But equally we also do recognize that there is emerging competition from the likes of Baidu and Google and everybody else.

So, we have to be cognizant of the fact that customers have a choice of going and working with one of these technology companies. They equally have an option to work with us and therefore gain much more control and ownership of what they are doing. So, I think it is something that we need to see how it plays out.

Manish Bhandari: Sir, my last question is regarding the yo-yo what happens on the FOREX income side. So, how one should read it? How would you like to us to read through the FOREX income changes which could happen in our annual report?

Nitin Pai: So, are you referring to the FOREX gains and losses?

Manish Bhandari: Yes exactly the swings what happened in the FOREX gains and the losses so how I as an analyst should read through this and what should I prepare myself with?

Madhukar Dev: See, it all depends on what kind of hedging policies the company has. In our case, we have very simple hedging and conservative hedging policy which has served us well and we will continue with the same policy. We are not changing anything.

Manish Bhandari: So, could you please repeat the hedging policy for my knowledge?

Madhukar Dev: That is not something that we would like to share with anybody.

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

Naveen Bothra: My next question is regarding the overall total revenues how much percentage we are getting from including JLR, Tata Group related party companies?

Madhukar Dev: The big component is the JLR TML component which I have already mentioned is about 24 to 24.5%. The rest of the Tata Group, we get very little revenues and varies from Quarter-to-Quarter sometimes 1%, sometimes 1.5% to 2%. Very insignificant from the rest of the Tata Group.

Naveen Bothra: Okay not from any our competitors TCS, Tata Tech we are not doing any outsourcing work because they are also competing against us?

Madhukar Dev: Very small value. They keep changing from quarter to quarter. The significant one is Jaguar Tata Motors.

Naveen Bothra: One last question is regarding the Panasonic deal. Syngene is a pharma company; Bangalore based is working along with the pharma companies like we are working for Panasonic deal. So, how would you define the model vis-à-vis Syngene where they are adopting for Panasonic deal?

Madhukar Dev: Actually, we do not know anything about this Pharma Company.

Naveen Bothra: They are building centers to do research and development for the pharma companies' captive research and all these things just outsourcing model so we are also doing Panasonic type of deal we are setting up the infrastructure and all these things I think, we are investing in this thing?

Madhukar Dev: Yes, it is not just infrastructure, we are actually doing the innovation.

Naveen Bothra: Innovation?

Madhukar Dev: Yes, we are doing it in discussions and with approval from Panasonic. We have brain-storming workshops where both teams participate, we select ideas to take forward and we execute those. So, it is not that we are renting space or renting engineers.

Nitin Pai: Mr. Bothra, if I may understand your question correctly, what is happening in the pharma industry is a little different. Because typically molecular research and molecular R&D was not being outsourced and now there is slowly a trend for that being outsourced. But in our case our industry and the work that we do in terms of design and product engineering has been fundamentally based on outsourcing of R&D. So in that sense, our trend continues. It is just that in the pharma space, there may be an emerging trend for outsourcing pharma molecular research.

Naveen Bothra: Because Syngene has moved from that model to manufacturing, also so I wanted to understand will we also go into product manufacturing in the Panasonic and all these things going forward as an outsourcing model not for ourselves?

Madhukar Dev: No, we will only make prototypes or get them made. We will not get into manufacturing because we do not have those skills to manage supply chains and plant efficiencies, inventory, logistics and that is too much of a digression from our core area. So, we will not manufacture.

Moderator: Thank you. The next question is from the line of Nikhil Kothari from Tamohara Investment Managers. Please go ahead.

Nikhil Kothari: Sir, as you discussed about the Asian market, I know Europe and US has been large, but you talked about the Asian market. Could you please help us to understand what kind of opportunity, what kind of space in specific that you are looking, and could it be sizeable in next three to four, five years period?

Manoj Raghavan: Yes, I think in the Asian market, primarily our focus would be on the media and broadcast space. Like India, there are a number of countries having multiple channels and broadcasters in the Asian and South Asian markets. So, the entire capabilities that we have built on OTT and so on could be applicable and replicable in each of these markets. So, the participation that we did in Broadcast Asia in Singapore, we actually showcased some of our OTT capabilities there. So, that is clearly one area that we would focus on in Asia.

Nikhil Kothari: And the OTT that we are talking about or the broadcasting space, the same learning that we have from Europe, I mean is it the Europe and US has also a potential market for this services and how has been our experience in that?

Manoj Raghavan: Absolutely US and Europe are big markets. We have done a number of projects for Indian companies, Indian broadcasters and channels. So, that is how we built our capability. Now we are using that capability and going out to both US and Europe. Again, whether we participate in IBC in Europe or in CES in the US, we are showing some of these capabilities and we are running specific campaigns both in Europe and US for the OTT space.

So, yes, that continues, but because we have developed applications for the Indian market, the South Asian and South East Asian markets would be similar to the Indian market and we can replicate our learnings and our capabilities in these markets quickly.

Nikhil Kothari: And sir, my last question is as we have seen pretty good experience in traction in automotive so what would be our next promising space that you see or potentially?

Madhukar Dev: There is no single space but to just add to what Manoj was saying, we see broadcast morphing into smart home technologies so we will naturally have a play in every element of the technologies that enable a smart home. And in the transportation space, we are rightly or wrongly seeing major shift towards electric vehicles all over the world so, electrification, battery management, electric power trains, packaging of electric vehicles etc. are the immediate trends that we see.

Nikhil Kothari: So, sir, just to confirmation these are the two things that you see as a potential driver could be or large potential, you see promising?

Madhukar Dev: Yes.

Moderator: Thank you. The next question is from the line of Apoorva Prasad from HDFC Securities. Please go ahead.

Apoorva Prasad: Sir, can you split the EPD into how much would be coming in from automotive and broadcast?

Madhukar Dev: Just an estimate I would say about 60% from transport which would be auto, railroad and aerospace. About 25% from broadcast and the rest would be communication and medical. Again, these are off-the-cuff estimates I am giving you. I do not have the numbers in front of me.

Apoorva Prasad: So, these do not seem to have changed significantly over the last few quarters?

Madhukar Dev: No, this has not seen too much of a change

Apoorva Prasad: And if you can also help me with the utilization number and the top 5, top 10?

Madhukar Dev: The top 5 gave us 40 odd percent, the top 10 - 55%. And the utilization stands at 81% for the quarter.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to Mr. Vaidyanathan for closing comments.

G. Vaidyanathan: Thank you all the participants for participating in the conference. With this, we come to the end of the conference call. Thank you all once again.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Tata Elxsi, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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