

Designing for growth

Tata Elxsi wants to create its own products and content

Despite the gloom cast by the economic slowdown, the mood at Tata Elxsi, the design services company and the technology arm of the Tata group, is upbeat. Its animation and visual effects division, Visual Computing Labs (VCL), has won great accolades for its work in *Roadside Romeo*, the animated feature film co-produced by Yash Raj Films and Walt Disney Pictures.

Last month, *Roadside Romeo* won FICCI's Best Animated Frames award. In the same month, VCL was also nominated by Hollywood-based Visual Effects Society for delivering 'outstanding animation work' in *Roadside Romeo*. While it did not go on to win the award, the nomination itself has been a great boost, given the big names VCL competed against.

But the Tata Elxsi team is disappointed that the movie, which was released in October 2008, did not create any great waves at the box office. "The marketing of the film was completely flawed," says Madhukar Dev, managing director, Tata Elxsi. "It was marketed as a mainstream movie and raised different expectations."

Dev is clear that in future, Tata Elxsi will look at a different business model for such projects. Unlike *Roadside Romeo*, where Tata Elxsi was only an outsourced content creation partner and did not have any say in the marketing, Dev now wants to get into engagements where the company has a stake in the commercial success of the film. "Having acquired skills that are dramatically different from others in the Indian animation industry, we now have to look at different engagement models. We cannot just be low-cost providers of animation," he says.

But why is this important for Tata Elxsi? After all, VCL, the youngest arm of the company set up six years ago, accounts for only 8 to 10 per cent of the company's revenues. VCL has one studio in Mumbai, and works primarily for the US market. The bulk of the



PHOTOS: SORAB MEHTA

Dev: adding new dimensions

company's revenues (turnover: Rs403 crore and net profit: Rs52 crore for the year ended March 2008) come from outsourced electronic product design services. This includes full service software, hardware and system design and development programmes for technology products, and accounts for close to 70 per cent of the company's revenues. The company has two other businesses: industrial design and software integration, which, along with VCL, account for the rest of the revenue.

Dev, however, sees strong potential in VCL. Three years from now, he expects VCL to account for 30 to 40 per cent of the company's revenues. "We have built strong expertise over the years and are looking at setting up five studios each in India and overseas and working on projects for different markets," he says. Dev, who has been with the company since 1991 and took over as MD in 2005, is in fact architecting a whole new design for the entire company.

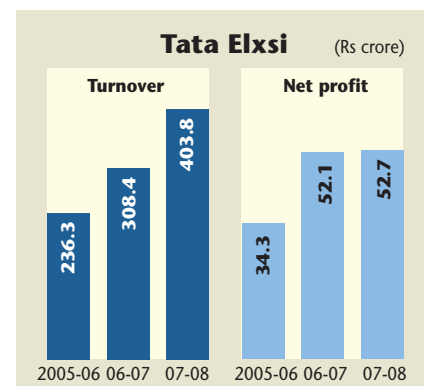
At present, Tata Elxsi, which was

set up in 1989 and currently has a team of 3,000 people, is an outsourced service provider. Dev wants to add a new dimension to the company – of creating and owning its own products and content. He aims to reach \$1 billion in revenues in the next five years. Tatas have two other software companies: the giant TCS and the relatively smaller CMC, acquired from the government. In fact, S. Ramadorai, MD, TCS, is the non-executive vice-chairman of Tata Elxsi.

According to Dev, the company has been impacted adversely by the current slowdown, because of its high presence in the automotives segment and Japan. He expects the situation to ease over the next two to three quarters. "We saw a significant appreciation of the rupee with respect to the key currencies we deal in, such as the dollar, yen, etc over FY07," says Dev, explaining Tata Elxsi's flat profit of Rs52 crore for 2008 over 2007 (see chart).

"This, coupled with our expenses in expansion, impacted the profitability." (By comparison, TCS had a turnover of Rs23,349 crore and profit of Rs5,026 crore for FY08. Even CMC's turnover stood at Rs1,077 crore and profit at Rs92 crore.) As of now, Tata Elxsi's share price is Rs80 and market capitalisation, Rs240 crore. (By comparison, TCS's m-cap stands at Rs50,868 crore and CMC's at Rs415 crore.)

"Over the years, we have been steadily moving up from delivering only product design services to



developing some bit of intellectual property (IP)," says Dev. "Right now, IP is a component that we are deploying in the customer's product content. This is an intermediate step for us. While we have no aspirations to be a product company ourselves, the direction we are moving in is to conceive products from scratch and deliver a full design," he adds.

Going to market

One such product is slated to hit the Indian market over the next three to six months. This is a portable media player that Tata Elxsi has conceptualised and designed for an Indian manufacturer. Another product is a digital video broadcasting handheld (DVB-H) receiver. This is a small gadget that can be attached to a laptop or a smart phone and has the ability to receive digital television broadcast in a DVB-H format.

Tata Elxsi's strategic direction is in line with market expectations. With increasing competition and pressure on time to market, customers are now looking at their vendors being more than just a lower cost substitute for executing designs under supervision. They expect vendors to have the ability to present concepts and deliver designs.

Christian von Reventlow, vice-president, engineering, at global telecom player Avaya, which has outsourced work to Tata Elxsi for over four years, explains why. "My team tries to minimise the use of resources in high-cost countries. Thus, as more of the project value chain gets taken up by companies such as Tata Elxsi, the better for us." Reventlow adds that most of the larger Indian outsourcing companies have limited experience in

industrial, mechanical and electrical design. Tata Elxsi's move towards conceiving and designing full products, he says, will help it to differentiate and give it a competitive advantage.

Anil Gupta, MD, India operations, ARM, a semiconductor company, which has a decade-long association with Tata Elxsi, describes it as strategic partnership. "The Tata Elxsi engineers work on key development projects and, while we conceive the products ourselves, they give valuable inputs because of their close understanding."

The main verticals that Tata Elxsi addresses in its embedded product design services (PDS) business are networking and communication, automotive electronics, consumer and multimedia, broadcast and semiconductor. According to Nitin Pai, general manager, marketing, IP revenues for this business division have doubled from 5 per cent to 10 per cent over the past three years and plans are on to scale it aggressively.

"IP is also an entry and enabling strategy for us," says Pai. He explains that for every IP that they sell, the PDS team also works at integrating it with the customer's product. This leads to a deeper understanding of the client's processes and technologies and, in turn, facilitates a deeper engagement with clients. "For every IP we sell, we expect to garner at least five times as much revenues in services over a horizon of two to three years," argues Pai.

One of the IPs expected to be released soon is a framework for

autosar (automotive open system architecture – the open and standardised automotive software architecture jointly developed by automobile manufacturers, supplier and tool developers). Currently, one of the biggest challenges that original equipment makers, Tier I suppliers and chip makers in the automotive space face is to make their products autosar-compliant.

Tata Elxsi believes that by offering an autosar framework to its automotive customers it can address a sweet spot. "Right now, autosar is being adopted only in Europe, but the whole world is moving towards this," says Pai. "While the gestation period may be long, we see great potential for this IP over the next three years."

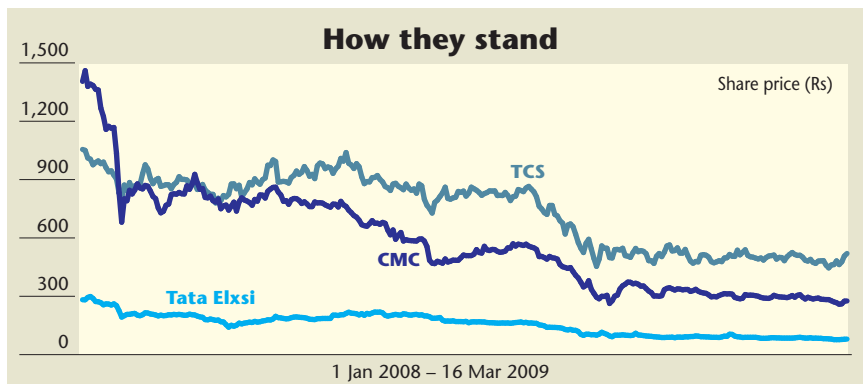
Wimax technology is another area where Tata Elxsi is making a big IP play. It began work in early 2005 with a team of 60 engineers dedicated to developing its own wimax software and currently has 14 licences across the world. Pointing out that in the wimax space, Tata Elxsi's IP revenues equal the services revenues, Pai says, "We invested in this ahead of the curve and it is an experiment that has paid off richly."

Tata Elxsi is now looking to repeat this success in LTE (long-term evolution), the fourth generation mobile broadband standard. "One of the biggest challenges for us is that with the change in pace of technology being so high, we have to place our bets and start seeding new technologies early on in their lifecycle," says Pai.

Meanwhile, Tata Elxsi is also betting big on its innovation design engineering (IDE) division, which is one of the largest design houses in India; set up around seven years ago as a logical extension of its electronic product design work. It provides end-to-end brand and product development services primarily in three key industry segments – FMCG, transportation and consumer electronics. While IDE currently accounts for 12 to 15 per cent of the company's revenues, Anil



Roadside Romeo: winning accolades





Pai: creating deeper understanding

Sondur, general manager, IDE, expects it to become big in the coming years. "As big as product design services."

Till now, the main focus of Tata Elxsi's IDE has been to help its customers bring their products to the market. IDE does this through gathering customer insights, coming up with product innovations and designs, creating the prototype and validating and testing it in the market. To do this most effectively, IDE has created its own internal innovation process called I³ (pronounced as 'I Cube') comprising three phases – investigation, innovation and implementation. The work that IDE does for its customers is patented by the customers.

IDE's client roster includes big names: GlaxoSmithKline, Unilever, Procter & Gamble, Tata Motors, ITC, etc. One of its most pathbreaking works has been for the relaunch of GSK's Junior Horlicks, for which it designed contoured packs with graphics of animal characters. This won it the World Star award for the best product design in 2007. Tata Elxsi has also worked on other GSK brands like Horlicks, Women's Horlicks and Boost.

Even as Sondur's team is working towards creating more such winning designs, like in PDS, here too, the company wants to create its own IP. In line with this, the product design for the DVB-H and portable media player from the PDS division has been done by Son-



Sondur: taking IDE to new heights

dur's team. "Along with the services that we offer, we also want to create our own product ideas, own the product and then develop a strategy to take it to market using partners. We believe that, over time, it can become a significant part of our business," says Sondur.

Sondur explains that IDE started on this track around two years ago by putting together a small team to develop ideas and products that will be patented by Tata Elxsi itself (and not by its customers). The effort has borne fruit and last year, IDE filed for its first patent for a product in the lifestyle space. Tata Elxsi is in talks with a manufacturer and this product is scheduled to hit the market soon.

Looking ahead

In line with Dev's vision for the entire company to move up the value chain, Pankaj Khandpur, creative director, VCL, is busy honing up the capabilities of his 400-strong team. "Currently, we are playing the role of vendors for our global and Indian customers and are specialists in delivery," he says. "We believe that two years from now, along with outsourced work, we will also be creating our own content. This could be for any or all of the formats like television series, direct to DVD or full length films." Jugal Hansraj, director, *Roadside Romeo*, agrees. "The VCL team has done a great job. It has tremendous

strengths and has the potential to create original content," he says.

The immediate goal for Khandpur, though, is for VCL to become the leader from India in the outsourced animation space. His focus is on achieving predictable skill sets and quality. Currently, the major project that VCL is working on full steam is its second full-length animation film *Arjun* from UTV. It is also likely to soon start work on a third Indian film and is in the process of bidding for a few international theatrical films.

Tata Elxsi is also working on another completely new business area – strategic brand consulting. Dev is in the process of putting together a team to advise firms on their brand strategies. He has a sound rationale for this. Building this capability, Dev explains, will enable Tata Elxsi to evaluate best where and how it needs to position the products it has conceived and designed. "Building this capability will not be a short walk," says Dev. "It will take time and effort. But this end-to-end capability will differentiate us from other players. We will consult to deliver and not just consult to deliver reports," he emphasises.

The key challenge for Dev, as he takes his team through this journey, is that of cultivating the right skill sets and, more importantly, the right mindset. As an outsourced service provider, Tata Elxsi has been used to following instructions. As it now looks at creating its own products and content and even consulting, it needs to become a thought leader.

It also needs to focus sharply on increasing its visibility. True, at one time, Tata Elxsi did receive direct attention from Tata group chairman Ratan Tata. But with the group having grown so large, that is no longer the case. Tata Elxsi also does not have any business relationships with the other Tata software and technology companies. "Tata Elxsi is a hidden jewel in the Tata stable," says Gupta of ARM succinctly. "In these tough times, in particular, unless you have strong visibility, getting new customers could be a huge challenge." How well Tata Elxsi succeeds in making these transitions will determine its future course.

♦ MEENU SHEKAR