“L&T Technology Services Limited Q2 FY19 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the L&T Technology Services Q2 FY19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Pinku Pappan, Head of Investor Relations. Thank you and over to you, sir.

Pinku Pappan: Hello everyone and welcome to the Second Quarter FY19 earnings conference call of LTTS. I am Pinku from the Investor Relations team. I hope you have had a chance to go through our investor release and financial statements. If not, you can download them from our website www.lnttechservices.com.

On today's call you will hear from Keshab Panda – CEO; Amit Chadha – President - Sales & Business Development; Bhupendra Bhate – COO and P. Ramakrishnan – CFO.

We will begin with Dr. Panda providing an overview of the results and a commentary on the business outlook. Amit will provide an update on the large deals and geo-wise trends. PR will walk you through the financial statements. We will then open the line for questions. Let me now turn over the call to Dr. Panda.

Dr. Keshab Panda: Thank you, Pinku and thank you all for joining us on the call today and good evening to all of you. First let me walk you through the highlights of Q2. We had a strong Q2 with 5.5% Quarter-on-Quarter revenue growth in constant currency. Growth was broad based and all five of our industry segments grew in double digits on a YoY basis, with Industrial products also turning around this quarter. We won 5 multi-million deals across three of our segments. We executed well on the operational front with EBITDA margin improving to 18.1% in Q2 despite wage hikes. Our net profit in Q2 is up by 56% YoY driven by higher EBITDA margin and Other income.

Let me now talk about our 5 industry verticals. Number one is **Transportation**. We had a strong growth of 8.5% QoQ in Transportation which is the strongest QoQ growth we have experienced in last three years. I am encouraged to see the growth being driven in equal measure by each of our 3 sub-segments which are Auto, Trucks and Off-highway and Aero.

Auto and Trucks and Off-highway - In Auto, we are seeing a trend of higher spend towards improving customer experience using new technologies, complying with the new regulations and adapting the supply chains. Whereas, in Trucks and Off-highway we are seeing customers mirroring the technology features used in the Auto segment – especially around Autonomous and Electrification. So there is more demand for embedded and software skillsets as against what used to be hydraulic and mechanical earlier.

Some of the deals we won in Q2 are: for an Off-highway customer we are helping them with value engineering to make their existing products more competitive in the new market place and using high-end acoustic engineering to reduce noise levels for a generator set. For an American Tier 1, we are developing active sound modules to enhance user experience in this segment. So, you see adoption of new technologies is opening up a lot of opportunities for us. And the reality is that, there is a shortage of talent especially in leading-edge technologies and we see tremendous demand still to be tapped given our positioning and the broad client base we have. So despite the news flow around trade tariffs, demand continues to be robust and we are very optimistic on our growth for coming quarters as well.

In Aero we had a strong quarter led by ramp-up of the large deal we won earlier which we communicated in the past quarter. We are finding good traction in our strength areas like Air traffic management and Avionics. We are also in conversation with customers in Digital engineering as the market is opening up in the After-market segment and Manufacturing Engineering space. This quarter we started work in newer areas like Aero Engine work and Airborne optronics.

Moving on to **Industrial Products**, we had an issue with growth in FY18 and during the Analyst day in August, we committed to increasing the growth to double-digits. Happy to report that in Q2, Industrial Products grew by 6% QoQ and touched 11% in YoY growth. We are seeing customers trying to improve product service-ability and customer experience by infusing digital into physical. At the same time, they are also focusing investments into new age technologies without increasing their staff strength and the availability of those staff is always an issue globally. The long-term relationship we have with our customers put us in a right position to fulfill both these requirements.

In Q2 we won a deal to assist a customer in their digital marketing and sales, using our engineering expertise to provide them a competitive wage. We also won a large deal in Europe which we announced in September and Amit will talk more about this later on.

We are seeing good traction in iBEMS – which is our smart campus management platform, IoT enabled devices and Re-engineering to reduce cost of devices. Overall our pipeline in Industrial Products has improved from a year back and is looking good and we believe we will be able to sustain the double-digit growth trajectory this year.

Coming to **Telecom & Hi-tech,** Q2 was a soft quarter for us. A couple of large programs in the semiconductor space entered steady state accompanied by a shift of work from onsite to offshore. Our competitive positioning continues to improve. We delivered an end-to-end turnkey chip design project with next generation features like facial recognition, artificial intelligence and so on. Such chips have multiple applications across the industry and our success in this area will help us win more such end-to-end chip design projects. This success was aided by the acquisition of Esencia and our recent acquisition of Graphene will strengthen LTTS' footprint in SOC design, VLSI chip design and Embedded software and will improve our positioning in the semiconductor space globally.

In the media side we won a large deal with a European telecom and networking company where we will be working on audio-video compression software to develop a video processing platform.

A notable win in Q2 has been the start of engagement with a large Asian OEM in the field of consumer electronics. LTTS will be providing the complete software support, from firmware all the way to Android programming. So on the whole, the pipeline in Telecom and Hi-tech is robust and we will see both topline and margin improvement in Q3.

Moving on to **Process Industry** or Plant engineering, we had a 10% QoQ growth in Q2 on the back of 14% sequential growth in Q1. In Plant engineering, starting from mid of FY18 we are seeing both topline and bottom-line growth. This growth has been on the back of large deals that have ramped up as per schedule and good demand across Chemical, O&G and CPG industry.

In Q2 we won an EPCM project with a European chemical major. We are seeing lots of plant investments happening in Europe now and we are looking to capitalize on the existing client relationships as well as few promising new client additions. We are seeing good opportunities in the pipeline and we expect the growth to continue in Plant engineering in the coming quarters.

Now moving on to **Medical** - In Medical devises we were able to pick the momentum up in Q2 with 6.5% QoQ growth and 18% YoY growth. Demand continues in product design and value engineering type of work with customers looking to engage with us on making devices IoT compliant and enable digital patient healthcare and so on. Some of the deals we won in this quarter include: with a Japanese client to reengineer their products, we are starting with 40 products on the surgical side which will expand to other areas going forward. With a US manufacturer we are working on reliability support on devices in the optical side. So we remained focused on the accelerating growth in this segments in the coming quarters as well.

Platform and Solution update - on the Platform and Solution side in Q2 we have seen progress with the sale of our NB-IoT protocol stack called nBon, i-BEMS platform and Mcare solution. So there were three platforms we have been able to sell in Q2. The solutions leveraging our nBon - which is basically NB-IoT, are finding applications in smart meters, smart lighting and fleet tracking systems. The success of the innovation within the company is helping drive more effort towards solutions and platforms.

Let me conclude by providing the outlook on the business going forward. Overall, we continue to see our customers investing in new technology areas to transform their business and stay competitive. Our strong positioning across industry segments along with the investments we are making into the focus areas we identified such as Edge computing, Smart manufacturing, IoT, Electric and Autonomous vehicles is helping us gain market and grow ahead of the industry.

This focus is reflecting in our revenue from digital and leading-edge technologies which increased to 33% in Q2 and grew 66% YoY. The industry recognitions we secured this quarter that show us in leadership positions in surveys by Everest, ISG, HfS further validates our confidence in being well positioned to partner our customers.

We had an issue with growth at Plant engineering and Industrial products both of which were laggards in FY18 - that is behind us now. The steps we had taken in last four quarters has helped us to fix it with Plant engineering rebounding from mid-FY18 and Industrial products touching double-digit growth in Q2.

Coming to guidance - the pipeline and the demand outlook at our top customers is healthy. We now expect to grow organically by at least 21% in FY19. We remain committed to the roadmaps and the competency building for each of our verticals that will help us reach the targets we have set.

One of the initiatives on the talent side we started, is hiring fresh engineers in US which we started last quarter onwards – these engineers are already engaged with our existing customers which we will expand shortly in Germany and Israel as well. For the first time we hired young engineers in Israel and that process will continue. This we feel is a necessary step towards becoming a more global company with global talent, hiring global engineers, and providing the right solution for our customers.

I now handover to Amit.

Amit Chadha: Good evening and thank you, Pinku and Dr. Panda. I will be covering three areas - Large deal wins, deal pipeline and T30 outlook and the Geo outlook.

From a Large deal's standpoint, we continue to see traction and closures driven largely by two streams - proactive proposals and RFPs for dedicated development centers for sustenance engineering and digital services. Let me briefly highlight three large deal wins in this quarter to bring out the differentiated work that we do.

One is the $40 million deal we won with a leading products company - we will be enhancing User interaction and experience on a wide range of office and personal products that are used globally by consumers. We have ramped up a team with UI/UX and ICM capabilities globally as well as in India. We will be leveraging a platform that we have built internally for this function. The work has already commenced and will show positive impact in Q3.

Second, with a specialty chemicals company we have won a plant engineering design job in Germany where we will leverage our unique onsite-offshore design centers to deliver over the next 18 months. We won this job because of our differentiated offerings in lean design principles which basically reduces wastage at construction and buildup. The work again has already started and will continue to show positive impact in the coming quarters.

Third, in the Auto sector in Europe for electric vehicle battery operations and charging we have been awarded a software development and upgrade engagement. We are working in an offshore development center model here and are leveraging our strength in power electronics and again this work has already ramped up and will continue to deliver.

Moving on to the second part which is deal pipeline and T30 outlook. We continue to have traction and are working to close some deals in the Hi-tech sector in specific with a US storage major and another ODC proposal with a Media major. We are also seeing continued traction in Industrial products where we are pursuing to close a global development and sustenance center with an electrical and automation major.

In Auto and Aero both, we have opportunities we are pursuing in EV (electric vehicles), autonomous driving as well as Avionics and Signaling for Aero. All of this in the software area which is a sweet spot for us and we are hopeful to get closures in this quarter. We therefore continue to see a healthy deal pipeline. From a client pyramid standpoint as Dr. Panda already talked about we have increased revenue across most of our T30 accounts. Sequentially we have added one client into the $30 million plus category; two additionally in the $10 million plus category; one in the $5 million plus category and added five in the $1 million plus category. As you can see our growth and movement is broad-based across the pyramid.

Finally, Geo outlook. For the US, with the recent trade tariff announcements we see an enhanced opportunity for us to engage and deliver. In fact we are seeing that the industry is experiencing a bigger gap in the skill sets as opposed to earlier. A clear trend here is engineering being done for planning phase for factory upgrades and relocations from China to other Asian countries as well as back to the US. In addition, there is also smart manufacturing for existing plants. We are seeing volumes and discussions for new product launches, digitalization and 5G across all our sectors. In Europe we see a healthy pipeline in demand for Automotive, Aerospace and Industrial products. In ROW we clearly see Plant engineering demand with MNC's building more plants in India and Asia.

Our strong focus on client intimacy and value creation coupled with the successes in large deal pursuits has helped establish a sense of credibility amongst our clients which we are sure will help us going forward on our journey to our goal.

I would now handover to PR for comments.

P. Ramakrishnan: Thank you, Amit. And good evening to all who have joined this call. I hope you would have gone through our fact sheet and also our advertisement where we have shown the numbers. You have heard Dr. Panda talking about revenue numbers so I would not like to repeat again. But just to start the conversation, our Q2 reported dollar revenue was at $177.2 million as compared to Q1 at $168.9 million showing a growth of around 4.9% sequential revenue and on constant currency terms it is around 5.5%.

Now coming to EBITDA for the quarter is at 18.1% as compared to the previous quarter at 17%. So there is an increase of around 1.1% between the two quarters. The breakup or the bridge on this increase of 1.1% I would like to give a high level summary. One is exchange rate has definitely helped us to improve the EBITDA of around 1.5%. This was completely offset by 1.5% impact due to the wage hikes which we also communicated when we gave our Q1 earnings call. So we had a major part of the wage hike happening in Q2. That impacted our numbers by 1.5%.

Then we had a saving of 0.4% because in Q1 we took the visa charge so that was hardly there in Q2 so that gives a benefit of plus 0.4% and then because of operational efficiency if you see in the fact sheet you would have seen our utilization numbers at 80% odd so that has given us a clear 0.75% to 0.8% improvement followed by a revenue mix our onsite-offshore revenue mix today for Q2 is what we believe is an optimal 48:52 so that has given us a further improvement in EBITDA of 0.4%.

We had IP led revenues of around 600K during this quarter that also give us a benefit of 0.4%. So all these positives was partially negated by an increase in subcontracting expenses because of the nature of engagements which happened or which went in to invoicing during Q2. That impacted subcontracting expenses for the quarter was higher and that is around 1% adverse on the EBITDA.

So this is how our EBITDA movement from 17% to 18.1% has been. Coming to other income. In Q1 our other income was Rs. 978 million to which we had clearly stated that there was a onetime non-recurring other income of Rs. 786 million arising of a particular transaction with a very leading client. In Q2 we have roughly around Rs. 152 million arising out of foreign exchange differences - which is net of Hedge cash flows along with translation and transaction differences. Others largely comprise accrual of our export licenses for the quarter.

So coming to depreciation and amortization. We have reported a depreciation and amortization charge of Rs. 270 million. I just want to say that it has a onetime obsolescence charge of almost Rs. 50 million on account of write off of some old assets.

In terms of income tax rate, our income tax rate continues to be in the range of 25-26% and I think going forward that is how it is most likely to going to end the year around 26%. So net income has been reported at Rs. 1,910 million as against Q1 reported of Rs. 1,975 million. Just to reiterate again the Q1 net income had a onetime non-recurring other income of Rs. 786 million.

Just to give a summary of our segments. All the segments have shown growth barring for Telecom & Hi-tech there was some marginal degrowth as compared to the previous quarter to which Dr. Panda did explain that there was a shift of one of the segments shifting from onsite to offshore and when you shift from onsite to offshore also had an impact in the margin because there was some transition cost which is onetime and we expect that the margin for Telecom & Hi-tech in subsequent quarters to improve from what it is today.

Coming to operating margin segment wise. All the segments have shown an improvement - the three major segments which is Transportation - the operating margin jumped from 12.8% to 16.3%. Industrial products from 23.5% to 25.6%; Process industry or Plant engineering from 22.7% to 24.9%; Medical devices from 21.5% to 24.8% and a drop in Telecom & Hi-tech from 15% to 13%. So that summarizes our segment performance.

Coming to the balance sheet, one I think the important point here is our DSO for the quarter has gone up. We have reported at 86 days as compared to the previous quarter 79 days. We expect the rebound to happen. We will improve in the subsequent quarters. Otherwise no major change from a balance sheet perspective.

Out CAPEX cash outflow for the quarter was Rs. 220 million as compared to Rs. 110 million for the previous quarter. So there are other metrics it is already there in the fact sheet. So I have tried to give you an opening overall summary of the way the P&L has and the margins have come during this quarter.

Now I am requesting to probably transfer this call for any queries on the performance. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.

We have the first question from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: My first question is on the execution environment in the US especially. Are you seeing any impact of slow grant of H1B visas or delays in renewals affecting your execution engine over there?

Dr. Keshab Panda: Not really but the only thing for sure the visa process takes longer than what used to happen before. There is more paperwork required today than what used to be in the past. So this is happening but we have prepared ourselves well. This time in Q2 we had 40 young engineers from the Engineering schools in the US and out of 40, 29 are already in the customer locations. So the young engineers training them as you know we have a center in Illinois, one in Iowa and one in California through the company we acquired in California. So these engineers when you hire from local engineering colleges they are distributed in different locations and they have gone through training and immediately they are on the customer locations.

So I think risk mitigation point of view we have done that. So far we have not had the situation of any project getting delayed because of not getting visa. But I think we are preparing ourselves to make sure that there is no delay; we should have engineers who are ready to take up work from a local center itself so that there is no issue so far.

Pankaj Kapoor: And just related to that how should I then look at the margin picture panning out in the remaining part of the year given that the kind of expansion that we have in some of the headwinds which are now behind? What is your view in terms of the investment of that currency gain and do you see the subcon expenses increase that we have seen - is it something which can be a potential headwind even going forward? So net-net what kind of a margin outlook we should be looking at to end the year with?

Dr. Keshab Panda: Pankaj, if you see PR talked about some of the segmental margin. If you see Industrial, Medical, Plant engineering it is somewhere around 25 already at this time. So the segment where we have lot more opportunity to improve margin is Telecom Hi-tech - there is an improvement plan and that is going to happen in the coming quarters and same thing if you see Transportation segment, there are three components; Aerospace, Auto and Trucks and Off-highway so in a sub-segment like Trucks and Off-highway the margin is high.

So I think we are looking at more than anything else, segmental improvement and also if you see engineering - the skill based engineering which is at the bottom of the pyramid we can use automation for every segment. So every segment automation there are rooms for improving margin. So we believe that the current margin what we have, we will continue to improve on that.

Pankaj Kapoor: So essentially any currency benefit do you plan to reinvest back in the business or you will let it flow in to the reported margins?

Dr. Keshab Panda: No, I think business point of view anytime we look at it we need some M&A and we have a CTO organization that is focusing heavily on the platform development. If you are not focusing on new technology, new platform you are not going to be relevant in the market place. So the investment is we have a team of 200 people working full time which was not the case earlier.

The investment in new technologies and what we are doing there that will continue. In addition to that we made an M&A announcement only a month ago and we are always looking at what is the technology gap which takes long time to build and we acquire that. So this process will continue and whatever extra money we said 35% to 40% of net income is what we pay as dividend and rest I think we are making sure that we do the right investment so that we get the right ROI.

Pankaj Kapoor: Sir, just last question. PR, how should I look at the Forex part of the hedge impact going forward? I know you do not share the hedge position but how should we look at the hedge gain or losses in the coming quarters?

P. Ramakrishnan: Pankaj, I think we closed September with a realized rate of 71.5 or so and now we are seeing may be around 73.5. So the fact is obviously the hedge book will be further negative. But it will be partly offset by transaction, translation gains but that all happens how the rupee when we are doing the billing and when we are collecting. So we expect that in Q3 and Q4 this part of the book will be more or less I would say muted at this point of time.

Moderator: Thank you. The next question is from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: Amit made a comment about strong demand in automotive especially in Europe. Now we have already heard three of the largest European automotive calling out for a profit warning in the last two weeks. So could you help us understand where the demand is, how should we relate their commentary with what you are seeing on the ground?

Amit Chadha: Not just Europe but also the US as well as in Japan there are clearly three areas that Automotive companies and partially Truck and Off-highway companies are investing in. That is electric vehicle, hybrid vehicle technologies - so right from charging mechanisms to being able to elongate the life of the battery etc. Second being Autonomous in various levels. Most of them are already at level zero, level one they are operating in; between level one and two trying to get up to level three. So that is the second one and they are working on model years if I may 21, 22.

And the third is infotainment where most of the work is in security area because infotainment part was already completed so now it is more to do with securing the car etc. as well as the vehicle. So in all these three areas we are seeing enhanced interest, traction and continued interest not just from OEMs but also from Tier 1's. Also in the UX area because with these deals that we have signed - the $40 million deal that we have talked about the UX capabilities that we are getting, are higher-end capabilities and therefore we are seeing that. That is one part. That is all future.

Also the part that you brought out about profit warnings etc. so there is a constant demand for them to reduce their costs and therefore a shift towards moving some of the work that we are doing or they are doing with others to offshore. So therefore from our standpoint we remain fairly certain that we will see an upswing for ourselves.

Abhishek S: The second from a data perspective PR called out the subcon cost and Dr. Panda talked about hiring of engineers in the US. So is that data point related or that is captured in the employee cost?

P. Ramakrishnan: No, it is not related. I think what Dr. Panda talked about is to partially negate the effects of any visa related issues. We have consciously as a company started increasing intake of local fresh engineer trainees in other parts of the world mainly US. They will be taken as employees and they will be trained and put in local engagements. Whereas subcontract cost depending on the nature of job Abhishek, as you are aware besides services we do sometime fixed price engagements that leads to lot of certification work and getting work done through other outside parties including purchase of components.

So that can happen depending on how the job progresses. So just to answer to your question the engineer intake and subcontract expense is different. Subcontract relates more towards material and components subcontracts and in some engagements where a portion of the work gets subcontracted to a specialized agency because instead of taking that kind of skill sets on rolls, we get it sub-contracted to a specialized party. This is in alignment to fulfillment the larger job.

Dr. Keshab Panda: Abhishek, I think the local hiring what we are doing today – we look at all the customers where onsite engineers are there and what is their cost and type of work they do - can it be done by local engineers? We are not hiring experienced engineers who are expensive. If you hire these young engineers from colleges, we will train them for three months or two months or whatever time required, and they will do the job what the experienced engineer from India was doing. So we move the experienced engineer out to a better engagement, use these young engineers to do that job on the skill based engineering that is how I think is working out. That is a long term plan again.

Abhishek S: Just last from my side. Dr. Panda the engine seems to be firing brilliantly. Do you foresee or what could be the top 3 risk at the top of your mind which can impact our growth?

Dr. Keshab Panda: We look at it every time and wake up and see what are the new technologies coming in, do we know this and number two the size of the company as now we have 13,000 plus employees, are we as dynamic as what we were before. And third is availability of talent and training them on the new technology so that they continue to fire the engine. What new technology we did last quarter is different from what we are going to do this quarter, this year.

And then risk point of view - look at global scenario today, the global economy is doing well but this visa issue and what is happening with America and China, America and Russia and all those - we always watch that very carefully. Every day morning we wake up and make sure that all the leadership team is aware of what is going on globally and whether that could impact us. We always watch it and as we see at this point of time I do not see too much risk. But I think we always look at it and see what could happen tomorrow.

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

Priyankar Sarkar: Sir, I just wanted to understand the new project that Amit mentioned. What is the duration of that project especially in process engineering, are they also short term oriented or they tend to be more than a year? If you can kindly give us some granular view on the duration of these projects?

Amit Chadha: So for the deals that I spoke, are you asking specific to the one that I spoke about or you generally asking the question?

Priyankar Sarkar: Well, I wanted more granular one in terms of the deals which you won in auto compared to an industrial process engineering that way?

Amit Chadha: So the $40 million deal that we talked about - leading Products Company that is an annuity deal that will go on and on. It is a 5 year deal and I am assuming that it will continue on. These do not go away because once you get into a design support and you continue to provide the user experience these continue. The second one was the specialty chemical company - that is an 18-month job that will finish but we have an MSA with this particular specialty chemical company and we have already won another job with them at another site in Europe. So we have become like a partner to them and it becomes like a cycle. But that particular job that I talked about was 18 months.

Third the auto sector is an ongoing ODC, so we will be continuing to work on various parts of battery management with them and therefore is a long term relationship. So therefore each of these is longer term so the first one and the third one is annuity long term. The second one is a project but there are multiple projects coming up from the same customer and therefore long-term relationships.

Priyankar Sarkar: And sir, if I can just squeeze another one. In the specialty chemicals who were the other competitors because I understand there are not many other offshore players from India who compete in the space with us. So who are the global guys who were competing for this deal?

Amit Chadha: So from an India standpoint you are absolutely right we do not see competition coming in but we do have people internationally companies like Jacobs and others that we do see in the marketplace and what has helped us here is our Lean design principles which again we can get on a separate call and explain what Lean design principles are, but this is actually helping them save 'x' percentage while they get into construction and that is how we won this job and that is particular to us given our heritage.

Moderator: Thank you. The next question is from the line of Shyamal Dhruve from PhillipCapital. Please go ahead.

Shyamal Dhruve: Sir, my first question is on the decline in Europe. So is this decline is due to the muted performance in telecom or it is largely due to the cross currency impact?

Amit Chadha: So the decline in Europe is because, like Dr. Panda spoke about that particular project that has moved offshore and we had shadow resources - so it is just because of that one reason that you are seeing that decline there.

Shyamal Dhruve: And my second question is on the Aero side. So in your opening remarks you mentioned that you are seeing good deal flow from the Aero side and couple of our Indian competitors have a very good presence in that particular segment. So what type of differentiating services we are providing and hence getting large deals?

Dr. Keshab Panda: I think there are two areas I talked about – In-flight entertainment and Air traffic management, and if you see last year we announced large deals and that is helping. Avionics is another area we are focusing on. So we have focused on areas which we believe is not crowded and that has given us the growth. We also do system design - like system design for an electrical system for aircraft for running the motor and many other things. So I think there are not many players in those areas. The traditional Aerospace areas we do not pay attention to, and I think our initial strategy of getting into areas where we can make a difference is working for us.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: You have really good growth considering the offshore shift that has happened. This was actually I think we have almost a lowest line that we have ever been offshore. So should we start now seeing little bit of move back onsite and how should we think about margins from that standpoint?

Dr. Keshab Panda: You are asking about more onsite and less offshore? No, we have to look at how you can do better, faster and cheaper for a customer. I think all three parameters have to be balanced. So what we are trying to do is - our business model is onsite-offshore but the one point we are very clear is we are looking at a global workforce to make sure we balance it out well. In terms of the political situation whatever is going in US right now and we try to protect our model. So onsite to offshore we have improved now.

I would say logical number is 47:53 at this time but it could change from different segment to different segment. Like areas where the new technology is involved, it may require more onsite initially and then later offshore. So we cannot generalize that at this time.

Ravi Menon: And on utilization again we are close to the highest we are operating at so what do you think will be the kind of talent in take and do you expect it to be more fresh hiring in which case your utilization continue at this level for a couple of quarters before it comes down?

Dr. Keshab Panda: Yeah, I think fresh hiring we believe that young engineers come with new ideas, new technologies and we should be able to give a platform to use them effectively which we have done well now and maybe today one business needs them better than other businesses in terms of hiring locals.

So as a company we are going to all the premier engineering schools and talking to people about what type of work we do and type of technology we are into. And we have hired a lot from premier engineering schools and those engineers are working on new technologies. Entry level engineer hiring if you do not do, then I do not think we will be able to get into new technology. So I think overall our hiring process from the campus will increase not only in India we will do that globally.

Ravi Menon: And one last thing on the offshore shift. Can we correlate it to the slight revenue decline in telecom and high-tech?

P. Ramakrishnan: No, not necessary, Ravi. So you cannot put in to conclusion that way.

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

Madhu Babu: Sir, in terms of the guidance you said that 21% growth so that will require only 1% CQGR over next two quarters. So is there any furlough impact or it is just conservatism kind of?

Dr. Keshab Panda: Listen I think last quarter same question came - why you are 16% and if you look at Q1 number you should be doing more than this. We are making sure 100% that we do this. We are saying at least 21% organic growth we are going to do. In Quarter 3 when we come back, we will talk more about and let us see how it goes. We are not seeing something going down - that is not the case. That is not what we see today.

Madhu Babu: And sir, second question just on the semiconductor apart from automotive that is one area where you are seeing strong technology shifts. So how do we see the opportunity on the semiconductor especially from the two, three large players over there?

Dr. Keshab Panda: If you look at semiconductor, we did one M&A in California, one in India recently and I did talk in my opening remarks about designing chips that have now been delivered. See one thing remember though, this is no more semiconductor but how do you use your domain knowledge in Automotive, Medical and design a chip and be a part of end-to-end design. That is the game we are playing now. So the one we delivered now which is end-to-end and we have two more coming on in different areas - the application of that chip in different areas. We will stabilize now - acquiring these two companies and the competence that we have. We do not intent to acquire a company in this segment immediately. So we look at the other areas we need to do that.

Madhu Babu: Sir, last one on ADAS. I mean ADAS itself we are reading the report that lot of R&D purchase for the automotive companies are going in that side. So last quarter you said that the clients are asking us to send employees onsite for these ADAS kind of work. So how do we see the potential just on ADAS alone over the next two, three years?

Dr. Keshab Panda: I think we are bullish about it; our CTO organization is now working on interfacing with the customer. Some of the OEMs and Tier 1s we have, we are working with them very closely. What I cannot give you right now is what is the opportunity size and what percentage we are going to grow. I can only tell you that we have invested there, and in terms of people, in terms of technology I think we are doing very well.

Moderator: Thank you. The next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.

Arjun Ashar: Would a tighter interest rate environment in the west would it translate it to some reluctance for our potential clients to invest in captives and work with firms like us?

Dr. Keshab Panda: We are not seeing that. I think captives is always there in Engineering. We work with them very well and all our top customers if you see, they have a captive. But one thing remember though – we have made investments in labs and new technology and we continue to grow.

The West when they look at captive - I do not think that their thinking is going to change whether you do work in India or we do in Eastern Europe or we do in Israel – as far as they are concerned when it goes out of the geography, it goes out of the geography whether you do in captive or you do in our center I don't think it makes a difference. So far, we have not seen any action from anybody saying that we will focus more on captive only. That has not happened so far.

P. Ramakrishnan: In fact just to add to what Dr. Panda just now communicated, I also wanted to say that the decision of an overseas client to invest in a captive is just not a capital investment decision or anything to do with a better rupee exchange rate or a change in the US interest rate. I think it is a pure business decision which they do and also wish to tell you that most of our clients have a very active captive center in India. So we do work with them, we do work with the clients directly.

Arjun Ashar: And sir, for Q2 and Q1 what would be the organic constant currency dollar revenue growth?

Dr. Keshab Panda: For Q1 to Q2, 5.5% in constant currency. This is QoQ, yes.

Arjun Ashar: YoY do we have the figures?

Dr. Keshab Panda: Yeah, it is 29.5%.

Arjun Ashar: But this is just the organic?

Dr. Keshab Panda: Yeah, inorganic we do not have. There is no inorganic there in that.

Arjun Ashar: Since you are guiding 21% for the whole year what would you attribute the surge in H1 to because it implies a softer H2?

Dr. Keshab Panda: No, I just said that at least 21% organic. In last quarter I was saying at least 16% we will do. Now we revised it to at least 21% we will do.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: I just wanted to get a sense of our business used to be a lot more project oriented earlier but in the last 1.5 years you seemed to have signed a lot of deals which has probably a bit more of annuity component. Has there been a change in the mix and a follow up is on the pipeline side. Do you see any changes on the pipeline some more project-based kind of businesses in verticals like transportation, high-tech and telecom?

Dr. Keshab Panda: Ankur, I think the pipeline I would request Amit to talk about it. But one thing I can tell you that our investment in focusing on large deals, you know if you recall two years back we said that we will drop the tail accounts and pull out some of the engineers and senior leaders and ask them to focus on proactive proposals to the customer and that has paid us results.

So when you go to a customer we are not saying that we will do one project for you for a million or half million. When you go, you say this is what I am going to do for you using new technology or your old product or cost take-out or anything we talk about we will package together and say this is a project mode we are going to deliver these for next five years or next three years. I think that strategy worked reasonably well for us.

So I think that decision we made two years ago saying that large deals we have to grow. Now we have gone one step beyond this, we said large deals not at the company level but large deals at the vertical level - every business segment should have vertical level large deals group and we measure them depending on how many deals they win in addition to what business they do today there.

So this has become a part of the DNA now, like the patent filing which business segments compete with each other - how many patents they have filed, how many new ideas they got. I think this has become part of the DNA and that has helped.

Amit Chadha: So Ankur, there are five things that have helped us in terms of the better outlook and the results that we have had. The first of that is like Dr. Panda talked about our focus on T30 accounts, building more client intimacy and getting higher wallet share and mind share from the client. So that is one. The second one is when these large deals and he just alluded to being proactive in nature as well as being reactive in some cases has helped us.

Third is that anywhere where we have gotten in to a project our goal is not to just complete the project but actually delight the client, create value there and convert that into an MSA. Again, whenever a client talks to us, first we will do the MSA and then get into projects because our whole goal is to get to a factory model - so churning out projects and products one after another. The other thing is we are seeing a shift in some of our clients - they say you pick up our sustenance engineering, pick up our defend engineering and do a variant engineering for us and that is where we have seen stuff growing annually.

Last thing is, New technologies - we have been able to take them across verticals. So Hi-tech technology - somebody asked the question about Semcon, so Semcon is not just for Semcon, actually Semcon is being used for IoT, User experience and 5G - all three. And that goes into segments from Healthcare to Industrial products to Automotive.

So becoming a true technology partner so if I have to put it in a nutshell, you are seeing us mature from an engineering services company to a technology services and solutions company and that is where you are seeing this growth coming from.

Ankur Rudra: Just wanted a bit more color on some of the verticals where maybe the macro is beginning to weaken a bit around autos, transportation, semis and such. The project-based businesses where you keep winning there, have you seen any change to your pipeline on that side?

Amit Chadha: So we have not seen any reduction in interest in any geography or any sector that we have been working on as of yet. And we are in fact having a lot of conversations - two things also are happening additionally as you talk about these trade wars etc. There are people calling us in and discussing – 'Suppose I want to do a little bit of local sourcing of components'; Medical companies are calling us and saying 'I want to move my supply chain suppliers from China to say Taiwan or Malaysia can you help me do that' and that is not just shifting a factory but actually the supply base and recertifying them etc. Automotive companies are saying 'Can I do castings in the US, can you help me'. Europe is talking about 'Let us say I will start doing final assembly here, what we do?'. So we are seeing a lot of conversations happening with them which is all positive news for us because this is where we start building up.

Dr. Keshab Panda: Ankur, I think if I look at eight quarters ago and today how many customers we have in the $20 million plus or $10 million plus category, when we deliver to these number of customers at this size, it builds confidence with our customers. When we started in the beginning, we learned ourselves and worked with the customer for quite some time and then our customers also saw the scalability what we have been able to do.

Customers who would not have trusted us two years ago, trust us today. So I think the scale also matters as well as the maturity in processes, technology and investment in labs. I guarantee you any customer who comes to India goes through our labs - we have 42 labs now and they go and look at what innovation we do in these labs. I think that gives them a confidence that we can do not just one project, but like Amit talked about a factory model – working on multiple products.

There are multiple models possible and we sometimes work on an innovation model where there is no clear definition of what these engineers will do. The customer says let us work together and innovate something new. So we work on the new areas depending on their product line.

Our Top 30 customers' annual ER&D spend is as high $75 billion. So if they spend $75 billion, internally we are always looking at what is that you get, what technology they use, what is the geographical spread they have, which are the product lines they work, who are their competition, what are the challenges they go through?

I think we have become little bit more matured in understanding that and how we approach them in a systematic way from the balance sheet, to the technology, to their competition and so on. That I think is helping us to grow the size of the project and size of the order.

Moderator: Thank you very much. That was the last question in queue. As there are no further questions, I would like to hand the conference back to the management for closing comments.

Pinku Pappan: Thank you everyone for joining us on the call today. We look forward to interacting with you during the course of the quarter. Let me wish you all a very great evening. Thank you.

Moderator: Thank you very much. On behalf of L&T Technology Services Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.