L&T Technology Services Limited Q3 FY19 Earnings Conference Call

January 17, 2019, 18:30 hrs IST

MANAGEMENT: **DR. KESHAB PANDA – CEO,**
MR. AMIT CHADHA – PRESIDENT, SALES AND BUSINESS DEVELOPMENT,
MR. BHUPENDRA BHATE – CHIEF OPERATING OFFICER,
MR. P. RAMAKRISHNAN – CHIEF FINANCIAL OFFICER,
MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS

Disclaimer: *Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve number of risks, and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. L&T Technology Services Limited (LTTS) does not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.*

Moderator: Ladies and gentlemen, good day. And welcome to the L&T Technology Services Limited Q3 FY19 Earnings Conference Call. As a reminder, all participant 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 this 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, Investor Relations. Thank you and over to you, sir.

Pinku Pappan: Thank you, Rio. Hello, everyone. And welcome to the Third Quarter 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 and Business Development; Bhupendra Bhate – COO; and P. Ramakrishnan – CFO. We will begin with Dr. Panda providing an overview of the company performance and a commentary of the business outlook. Amit will provide an update on the large deal wins and the deal pipeline. PR will walk you through the financial statements. And we will then open the line for questions. Let me now turn the call over to Dr. Panda.

Keshab Panda: Thank you, Pinku. And thank you all for joining us on this call today. I wish you all a very Happy New Year. First, let me walk you through the highlights of the quarter three. We delivered a strong Q3 with 4.8% quarter-on-quarter revenue growth. We sustained the double-digit growth trajectory across all the industry segments. Our revenue from digital and leading-edge technologies has gone up from 33% to 34% this quarter.

The large deal momentum across verticals and geos continues to gain strength. In Q3, we won eight multi-million dollar deals across all our industry segments from various geographies as well. Operationally, we executed well, with EBITDA margin improving to 18.4% in Q3, despite the partial wage hike impact that was there in Q3.

Let me now take you through the five industry verticals that we have.

Transportation - We had a strong growth of 4% quarter-on-quarter in Transportation, led by Auto, Trucks & Off-highway and Aerospace. In Auto, we are seeing demand from customers in the areas of autonomous driving platforms, active safety development and supply chain optimization. We won a few large deals in Auto in Q3, and Amit will talk about that in greater details. Based on the pipeline, we are building competencies in digital cockpit and autonomous architectural design as well.

In Trucks and Off-highway, we are seeing demand in both value engineering and new product design. For example, we redesigned the seating and steering controls to enhance riding comfort for a Truck manufacturer. We are seeing more and more demand in Trucks and Off-highway in the electronics and embedded software areas.

In Aero, we continued the momentum that we gained in quarter two. We are working on areas like: actuation systems where we have gained good expertise during last two years, Industry 4.0 for the shop floor of an Aero manufacturer, Power drives and Battery management systems for a US based customer in the military space for which we are leveraging our US workforce which includes US citizens as well. Overall, the pipeline in Transportation is good, with discussions happening on setting up ODC's for OEMs and Tier-1's for multiple geographies.

Industrial products - In Industrial products, we were able to sustain the growth momentum with 2.8% quarter-on-quarter growth in Q3. We are finding good traction with customers in three areas: Firstly, intelligent building, smart city related work…our iBEMS platform and our knowledge and skillsets in this domain is getting acknowledged around the world. We are leveraging our iBEM solution in the deal we won with a US customer for enhancing User experience in a smart campus, where a lot of cutting-edge technology like Artificial Intelligence, AR, VR etc are being used.

On the energy side, we started working with renewable energy companies in defining their digital roadmap and strategies for product life cycle management. Lastly, in Electrical products and automation, we have expanded our work for low-voltage products, making them smart and doing system design by leveraging our experience in this segment.

In the pipeline, in addition to the above areas we are seeing a lot of opportunity in the digital space as customers look to improve Manufacturing operations and implement Predictable machine diagnostics using Artificial Intelligence. Overall, we feel confident that we can sustain the growth trajectory.

Telecom & Hi-tech - Coming to Telecom & Hi-tech, performance rebounded with 6% quarter-on-quarter growth in Q3. Growth was led by our Telecom, Semiconductor and Consumer electronics segment. With a network equipment OEM, we are assisting in the 5G rollout operations, for which we are designing tools for automated Radio Access Network configuration. With a Silicon Valley company, we have started working on the security testing of a cloud platform. We started the engagement with a leading set-top box manufacturer where we are taking ownership of support and enhancement. We have a few large deals in pipeline in the Semiconductor area in advanced chip design space, which provides us good growth visibility for the future.

Process industry – Plant engineering had a good quarter, again one more good quarter with 6.1% quarter-on-quarter growth, driven by the ramp-up of deals won in previous quarters and good demand across Chemicals, O&G and CPG.

In Q3 we won a deal with a US based O&G EPC major to provide engineering support from offshore. The first phase of this project has started, and we are using high-end 3D plant design and modeling to support their engineering teams. Cybersecurity, for a plant data protection is a new area where we recently executed a project at one location for a US based Food and Beverage company. This project is to be rolled out across the globe with 300-plus plants worldwide. We are seeing a good pipeline for Plant engineering in the US and Europe, especially in Chemical and O&G area. And we expect growth to continue for coming quarters as well.

Medical devices had strong growth with 8% quarter-on-quarter growth in Q3. Growth was driven by ramp-up of some of the recent engagements won. There are two major trends that are helping us drive demand - firstly, change in regulations in Europe that medical device companies need to comply with, starting 2020. And this requires a significant redesign of product features and materials. Secondly, healthcare is moving to self-care, home care and remote care, this means lot more device miniaturization, easy usage and connectivity.

Some of the deals we won include - New product development for a US healthcare company to develop high-tech patient wearable devices…there is a lot of demand in this, we believe that's a growth area again. Another one is device changes to comply with regulation for a large US device manufacturer. Overall, we are seeing a good pipeline of opportunities - digital health monitoring, high-end patient care equipment enhancement and benchmarking and regulatory certification.

Platform and Solutions update - On the platform and solutions side, in Q3 we had license sales of about USD 0.5 million. We sold our condition-based maintenance solution called Integrated MCare to an O&G customer. The solution will monitor the behavior of critical equipment like boiler and generator and use machine learning algorithms to asses remaining useful life and reduce downtime of a plant.

Let me conclude by providing the **outlook of business going forward**: We have a well-oiled Sales and Delivery engine that is executing very well - both in sourcing deals and converting them and executing them. This execution has led us to winning deals consistently over past six to eight quarters and bringing stability to our revenue growth, which has been averaging around 5% per quarter. The deal pipeline for FY20 looks promising, and we expect our conversion rate to be better than earlier quarters.

We don’t see a headwind in any of our verticals or geographies, barring one account where the ownership has changed hands. The new owner is rethinking their outsourcing strategy and wants to take over one of our current engagements. We are still working out the details with the new owner, but we feel that it is important to give you a heads-up that the change to the engagement is likely to take effect from March 2019. As things stand today, we see this change having an impact of around 4% on our growth rate for the next fiscal year, i.e. FY20.

When we report our Q4, we will provide a more granular update on the FY20 guidance. We are confident that excluding this account, the business is geared to grow in the high-teens for the next year. As I mentioned earlier, we feel good about the large deal pipeline and some of the large deals are in the final stages of discussion, which can help us mitigate the impact from this one particular account. Amit will cover the large deal pipeline in more details.

We are raising our FY19 USD revenue growth guidance to 24%, from 21%. This guidance factors a one-month impact from the account that we discussed which is baked in our Q4 implied guidance.

I now hand over to Amit. Amit?

Amit Chadha: Thank you, Dr. Panda. Good evening, all. I will be covering three areas: Large deal wins, Deal pipeline and the Geo outlook.

From a **Large deal** standpoint, we have continued our journey and continue to win deals across geos and segments. Let me briefly highlight six of the large deal wins this quarter to bring out the differentiated work that we do.

One, for an Automotive Tier-I, we have been awarded an incremental $20 million deal and exclusive partner status to work on their entire active safety product line, developing new products that are set to launch in the next 18 to 24 months. Our team will be largely based offshore and the work will start ramping up in Q4 of this year.

Two, for a European OEM, we won an incremental $15 million deal to support their autonomous driving program. With this deal we will be the sole supplier to support the client globally as they work to improve autonomous driving features, patterns and recognition. The team is ramping up as we speak and will be fully operational in the next two months.

Third, for a semcon chip manufacturer, a new client this time around for us, we have been engaged to ramp up to deliver a gaming chip, providing end-to-end functionality and user experience improvement with our work. This $12 million deal has been won, given our Physical Design expertise from the Graphene acquisition.

Four, for an All-Terrain Vehicle (ATV) manufacturer, with the US/China tariff discussions as a backdrop, we have worked with them to redefine the entire supply chain. This $10 million incremental win will see us helping the client with engineering design, manufacturing optimization for their new ATV product lines.

Next, for an industrial conglomerate headquartered in the US, we have been chosen as the IoT platform development and deployment partner. Our UBIQWeise platform will also feature in this work. We have started the work in the new calendar year, and we will ramp up in the current and next quarter. We expect this deal to give us an incremental $10 million value.

Finally, the medical sector has given us three digital deals in the last quarter with cumulative value in excess of $10 million, coming from one existing and two new clients. In these wins - in one case we will develop a mobile platform for diabetes therapy which will facilitate data collection and sharing between patients and doctors. In the second case, we are helping a surgical equipment major to connect their equipment in the operation theater.

In summary, these six deals alone will give us a TCV value of nearly $80 million of incremental revenue over the next two to three years.

Moving on to **Deal pipeline**. As Dr. Panda spoke about, and we have always discussed, a part of our pipeline is always proactively built. We have just concluded account planning for our most promising top 18 accounts and we are now working on the rest. The concluded plans give us confidence that there is sizable opportunity for us in our existing client base across regions and verticals.

Some of the large incremental deals we are working on are –

- There are four deals in the Automotive area across OEMs and Tier-1's in autonomous driving, electric vehicle and the infotainment space
- There are two ODC proposals awaiting decision with a diversified semcon major
- There is one ODC being discussed with an electronics and mobile company
- One digitalization deal for an O&G major in line with what we won last year
- A couple of Engineering value center discussions are in various stages with two petrochemical companies.

Having said that, let me quickly give a **Geo outlook**. We see a robust demand across the US, Continental Europe, Japan and MNCs in India for our services and solutions. Our customers continue to spend on key initiatives and we are an integral part in a number of these conversations. We continue to also see upward movement in our client pyramid. Sequentially you would have seen, we have added two clients in the $20-plus million category, two additions in the $10-plus million category, five in the $5-plus million category, and four in the $1-plus million category. To sum up, we continue to win large deals across verticals and geos, the large-deal engine that works directly with me continues to make progress both in pipeline value and conversions. We remain upbeat about the next quarter and next financial year.

With this, I will hand over to PR now.

P. Ramakrishnan: Thank you, Amit. And good evening to all. You must have all seen the fact sheets and the performance of the company for the quarter ended December 2018. I will give you an overall summary of the financial performance. The revenue for the quarter was reported at Rs. 13,169 million, and showing a growth of 4% quarter-on-quarter. In dollar terms, our revenue numbers was around $185.7 million, posting a growth of 4.8% sequentially. Using constant currency methodology, our revenue growth for the quarter has been reported at 4.6%.

Coming to margins, our EBITDA margins for the quarter is reported at 18.4%, a growth of around 30 basis points as compared to the previous quarter, where we reported 18.1%. If you see from the fact sheet, you will see that the gross margins for the quarter ended December 31, 2018, is at 29.6%, whereas for the previous quarter it was 31%, a drop of 140 basis points. This is primarily due to two major reasons, we had a partial wage hike impact during this quarter and this was communicated when we did the earnings call for the September quarter earnings release. And also, expenses on computer software and miscellaneous other expenses have gone up. But we were able to demonstrate a saving and EBITDA margin improvement was largely on account of SG&A leverage, driven by strong revenue growth.

Coming to segment numbers. Our segment as you see, transportation continues a robust growth that has the highest share in the overall revenue pie, almost around 32%; followed by Telecom Hi-tech at 27%, industrial products at 20%, process industry at 14%, and the residual 7% comprises of medical devices.

Coming to the EBITDA margin performance of the five segments. There has been an EBITDA margin increase in Transportation and in Telecom Hi-tech, as compared to Q2, while the margin in industrial products has been constant in Q3 as compared to Q2. There has been around 2% dip in the EBITDA margin for Process industry. This is in line with our internal expectations for the quarter as the revenue composition tilted towards higher on-site, and a little amount of higher subcontracting cost which was related to some pass-through revenue engagements.

In terms of revenue share by geography, we do not see a major difference as we have seen in LTTS in earlier quarters as well. North America continues to take the major share at 58%, Europe at 16%. There has been an increase of around 1.5% in the revenue share from India, which is largely account because of some of the engagements which converted to rupee billing and also addition of revenue numbers arising from the acquisition of Graphene.

Coming to Other income, you might have seen in the fact sheet we have given the overall breakup of other income. The previous quarter, Q2 FY19, we reported other income of almost Rs. 55 crore and as against that the current quarter is Rs. 35 crore. The drop is primarily because we had accrued the export licenses during Q2 when we had filed the claim, this quarter we do not have any increase on this account. The other breakup of exchange difference has been put in the fact sheet.

Coming to the last point, in terms our cash conversion ratio - in this quarter has been fairly good. So for the nine months for FY19, our total free cash flow, operational free cash flow, that is EBITDA adjusted for working capital and CAPEX is around Rs. 430 crores, out of which, in Q3, Rs. 216 crores was the free cash flow. And that is primarily because of better account working capital management, we were able to improve the DSO almost by three to four days from that of the previous quarter.

In terms of balance sheet, we are having currently overall investments around Rs. 450-odd crores. That contributes to the liquid investments plus cash and bank balances. And just before I conclude the call, wish to tell you that when we talked about the revenue number at $185.7 million, that includes the recent acquisition of Graphene, which contributed to almost $2 million to the top line. While we talked about this acquisition, I also wish to tell you that we are having some active acquisition opportunities in the pipeline, in areas like Transportation and automotive sector, medical devices and also some plant engineering opportunities.

With this, I have tried to give you the overall flavor of our financial performance. And we are now free to answer any questions that you may have.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shyamal Dhruve from PhillipCapital. Please go ahead.

Shyamal Dhruve: Sir, my first question is on the European geography front. So it has been three to four quarters wherein we are seeing the European revenue at almost similar level of $30 million to $31 million. So, partly that would be due to the currency, but are there any other headwinds which we are seeing on the European side?

Keshab Panda: I think you can't take the Europe as a number, because the way we report, our customers are global and so work will be spread across geographies. So there is no drop in revenue per se, and from FY18 to FY19 we see a good growth in clients from Europe itself. So, there is no problem in Europe as a geography. Only thing the way we account it for a global customer that could be a difference. There is nothing to worry about it.

Shyamal Dhruve: And my second question is on our business on specialty chemicals, FMCG and oil and gas. So, in recent past we have seen quite a bit of fluctuation on the crude oil prices. Though it takes around two to three quarters of lag effect on the client spending part, but are we seeing any early signs of oil and gas clients holding their CAPEX on the IT front or the business is going as usual?

Keshab Panda: No, I think we have not seen that yet. If you see oil and gas segment now, oil prices fluctuation happening $50, $60, now around $60 or so, we don't see any problem there. I think the reason some of the oil and gas companies started outsourcing Engineering and Technology because they don’t have too much money. So I think that process will continue. Oil price going down, more investment comes in Specialty chemical area. So we have not seen Europe or US, anywhere we do specialty chemical area - we don't see any drop in customer demand, at least till today.

Shyamal Dhruve: And just last one question, bookkeeping question. So, in this quarter we have seen the GBP and Euro depreciation against USD. So there should be some negative cross-currency impact, but we have reported 20 basis point positive impact. So is there any change in currency mix or...

P. Ramakrishnan: Yes, okay. Just to tell here, our realization rate has been slightly lower. So there has been no material impact because of the cross-currency headwinds. Because whatever depreciation which

Euro and the other currencies have had against the dollar has been partly compensated by way of the dollar/rupee in terms of lower realization rate.

Shyamal Dhruve: Okay, but my question is more related on the USD revenue. So we have reported USD revenue growth of 4.8 percentage and CC growth of 4.6 percentage, so plus 20 basis points positive impact, but compared to that all of our peers have reported negative CC impact. So just wanted to have some idea like why we have positive impact despite GBP and Euro depreciating against USD?

P. Ramakrishnan: Okay. Actually if you see, during this quarter when we saw September-October, the dollar/rupee went right up to Rs. 74, then it came back to Rs. 69 before finally closing at Rs. 69.5. So what has happened is, in terms of our billing which has happened across these months, that is one of the reasons that I am talking about that the realized rate in rupee is lower than what it was in the previous quarter. And that is one of the reasons that in constant currency we have at 4.6% as against reported billing at 4.8%. It is more to do with the volatility of the USD/INR during this quarter that has added to this particular, I would say, dichotomy.

Moderator: Thank you. The next question is from the line of Sandip Agarwal with Edelweiss. Please go ahead.

Sandip Agarwal: So, Dr. Panda, I have couple of questions, first on the industrial products side. So what are you seeing there? What is your view for next one year on that segment? I am not asking for a guidance, but I am just trying to understand what is driving growth there, and how is our pipeline and what is your sense on that segment? And second, on the transportation vertical as well, similar question, what is your sense, what is driving growth there? How will be the upcoming time? Other than these two questions, I just wanted to know how is the IoT theme playing out for us? Is it in line with what we expected better than that?

Keshab Panda: Absolutely. I think the IoT is doing very well. You can see that our new technology and digital portfolio, it has grown its contribution to 34% from 33% last quarter. So that growth trajectory will continue. There is lot more demand coming on Industry 4.0, more on the smart product, more on the connected device web system and so on. What makes a difference is our investment in creating those platforms what we did. This is applicable for every industry. For example, our **iBEMS** platform is firing everywhere, every geography now, starting from Australia to America to Europe to India. So I think that's a great move I would say. Similarly, when you look at it, our Transportation quarter-on-quarter has grown 4%. And Amit talked about some of the opportunity in these areas, and the large deals we won. This is going to give us, again, the growth in the coming quarters. You have to remember the type of opportunities in the market in Transportation now - autonomous vehicle, safety system, infotainment and electric vehicle. See, are there going to be a number of gas stations 25 years from today? It’s not going to be there. Those gas stations, I don't know what business they are going to do. So the fact is the world is changing and our investment in battery management system for electrical vehicle, our investment in autonomous vehicle, safety system, infotainment and transportation, that is making a difference. Industrial products, again, I think we have grown this quarter with Q2 to

Q3, IP has grown 2.8% quarter-on-quarter, and we believe some of the areas we are focusing on like smart campus management, energy management, and the areas like designing products and making the smart products, these areas are going to grow. So we don't see any problem so far in Industrial products. But I think in Transportation, it has grown 4% quarter-on-quarter and Industrial this quarter has grown 2.8%, and we believe that is going to continue. See, the areas we need to focus, Industrial, again, what we are doing is Condition Based Monitoring. The **MCare** platform we have, that is helping us. Go Green is one different area on the Industrial side that is again helping for growth. So, I think multiple areas, electrical system, then building management, campus management, and Go Green all put together, we see a great opportunity moving forward. Did I answer your question?

Moderator: Yes, there seems to be no response from the line of Mr. Sandip Agarwal. We move to the next question. The next question is from the line of Pratik Lambe from ARM Research. Please go ahead.

Pratik Lambe: I had just one question regarding our Indian business. I see that for the past two quarters we have delivered YoY growth of more than 50%. Just wanted to know from you, I would appreciate if you just throw some granular view on what sectors or what are the verticals driving this India growth?

Keshab Panda: See, I think India growth, we are not selling to Indian customers. That's not the strategy we have. Global customers, we will do projects for them, that is one. And the second thing is, when you see the revenue growth, we acquired a company in India that's rupee building, right, Graphene is rupee building, that also added up into these numbers. So the growth point of view, our strategy has not changed. We continue to support our global customers in India. So that will continue to be there. Do I see, again in 2019 to 2020 same trend to continue, absolutely not, that is not going to be the case.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Dr. Panda, just a clarification on the client specific issue that you mentioned. So, if you can give some sense, which geography, which vertical would that be in? And if I understand you right, you mentioned that this will have an impact of 4% on FY20 growth, which we expect to be in high teens. So just to clarify that number?

Keshab Panda: Pankaj, I think discussion is on, still we have not concluded. This is going to be not only one geography, it's going to be multiple geographies. So it is distributed across multiple geographies that will have an impact. And is that going to be, we have given a rough number, in maximum we will have 4% impact, that is what we see now. But still we have not concluded that. One piece of business, the existing customer has sold it to a different party. And that new owner, he believes that he is going to do it on his own than outsourcing to us. So there are multiple things we are discussing with him. What he is going to do on his own, what we are going to continue to service them? So this part is still not clear. A lot of work is still to be done. Maybe a part of it he is going to do on his own and a part of it we are going to do. So we have analyzed that maximum impact is going to be 4%, that's what we have communicated.

Pankaj Kapoor: Got it. So this is a more conservative outlook, which is factoring in probably a worst case scenario. Okay. And the other thing, maybe you or, the whole point which I wanted to understand is the impact of the recent trade conflicts or some of the macro concerns which are coming in. So, any sense if that is having any impact on the conversations that you are having on the client? So it may not yet have an impact on the business flow, but is this something which is coming up in client conversation and how do you see the outlook of the ER&D spend that the clients are planning as they get into the new year budget cycle?

Keshab Panda: I think we have not heard about this yet from any customer. The trade issue going on with China and US - is that going to have an impact on ER&D budget? No, because I think we have not heard that. But we are watching very carefully. Most of the global customers, we service them around the world, we do in US, we do for example, for China, the centers they have, Engineering R&D is done out of India, that will continue there. So I think any of the industry, any geography we have not heard about impact of the trade tariff. It is not clear yet. At least, I see FY20, is that going to have an impact? We don't know at this time.

Pankaj Kapoor: Sure. And so, I mean, of course, this year we had a very strong growth momentum. So if I want to just understand as you get into, probably the next year planning cycles and all. Do you think that you probably would like the growth to be a bit more moderate so that you think you can use that to maybe increase the robustness of the organization, or make some investment that you are planning? Or you think that the momentum is very strong and you would rather participate in that momentum?

Keshab Panda: Pankaj, we always look at the business we run, it has to grow, top-line has to grow, bottom-line has to, obviously do well. Our innovation engine, when we started we had 99 patents we had filed, now we have filed on our own 99 patents. The platform business we have, we are now working very aggressively, having setup a team that is working on that investment we did. There are a few hundred people working full-time on how to realign this platform to take it to the next level, so that we can compete, not only getting contract, but selling those licenses aggressively. So I think there are multiple things going on. Investment is a non-issue, provided we know the proper ROI is there. So this is not an issue at all. On the guidance for FY20, when we you talk about, Pankaj, I think you have seen us in the last eight quarters, seven quarters we have been able to grow. We are very careful about it, we want to make sure that we know before we tell you what is that going to be. We have given high teens, now, what we are going to see. And at the same time we are also working on the impact of the one customer issue, which is there, how do you nullify that with some of the large deals you are working, how quickly we can close and how we take this forward? That's something we are working on.

Pankaj Kapoor: Got it. And just lastly, PR, one small question on the incentive income. Do you see that flowing into next year based on the filings that you may have done for the previous year? Or whatever we have will get exhausted this year itself?

P. Ramakrishnan: Pankaj, when we had filed the applications in Q2, we had taken based on what we take it as the estimate of how much of licenses we will get. So that licenses have not been granted yet in Q3, we believe in this quarter we should be getting those. So you may expect some amount of credits accruals coming in, in Q4. And as far as the current year licenses is concerned, we believe that we may accrue some part of it, but at this stage, I would not like to give any comments on.

Pankaj Kapoor: Sure. And just on the hedge book that you are running with, at the current spot rate what kind of hedge gain or loss do you expect next year?

P. Ramakrishnan: At this stage, Pankaj, our total hedge book would be in the range of, we are covered probably around $600 million dollar-rupee over the next, as we have talked that we have this rolling 36 months. And average, I think hedge rate would be in the range of 73, 72 to 73 over the next three years. So probably I think we will be able to communicate that when we close the books as to how much of this, it also depends, as I told you earlier into response to one of the other queries which has come that the dollar-rupee is having a lot of volatility over the last six months, I would say. And most volatile in the quarter we just went passed by. So as far as, yes, as far as the hedge book is concerned, we are reasonably covered into 2019- 2020 in terms of overall hedges. And I would say it would be in the range of 72 as the forward rate.

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

Priyankar Sarkar: Just wanted to figure out like some of our IT peers are talking about building an on-site pyramid because of the regulation change in terms of visas. Do we also see any need of building a pyramid structure on-site base? That's one. And the second one I had another question related to the global macro. So I wanted to understand that one, there's a global slowdown, in case that happens the first to cut is the ER&D spend before even the IT services are cut in terms of budget. So if that were to happen, because there is some noise on that front, which of the industries or which of the verticals would be effected the most, would that be transportation, industrial, process, if you can give us some color in that hypothetical situation that I am talking about?

Keshab Panda: On the question about the workforce globally. Last time, I talked about we hired 50 engineers in US from engineering colleges. And trust me, the cost management when you do it right, some of the Indian workforce going from here to do their job, the work can be done by engineers with 1 year experience is going to much cheaper than having engineers from India going there and doing that. So, that portfolio analysis in the US, we have done that. And one thing positive for us as an engineering company, the company we acquired earlier, we have few hundred people already there who are American citizens. So they are already in US and they are acting as the program managers, and they are acting as the SME and so on. So I think overall point of view, the pyramid what IT companies are talking about, that pyramid is a non-issue for us as an engineering company. On the global slowdown, yes, we see that. At least we see the news what is going on. The US economy, the GDP growth, what happened in 2018 may not happen in 2019. And so calendar year 2019, if US economy goes down from 3% to 2.3% or 2.4%, what is the impact on that and which industry is going to go? We analyzed that. So you cannot generalize this. What happens is, investment now happening in plant engineering, in specialty chemical, oil and gas, they are building it, there is money flowing to US. US economy, as a whole, is doing reasonably well. At least we have not seen employment rates going down. So we have, at least, in industry, the customer base we have, we are going around the customer and talking to them, we have not heard about any slowdown because of global economy. However, if you see lately, yesterday's news about the profit guidance for lot more companies, that is much more in retail segment, that is much more in other segment, not in engineering side yet. And if the economy doesn't do well, not necessarily the ER&D budget will be first to go, because ER&D, you have to look at it differently. Like for examples, ER&D there are two components, they may not come with a new product, but they do the product cost take-out, then making the product smart, making the product reliable and going to new geographies. Also once you are with the customer , unlike IT, engineering, they don't have too many suppliers. They have either one supplier or you have a maximum of two, depending on the size of the company. And dependency, you are like an external arm for them and when the economy goes down, they would hire less number of their own employees than working with a company like us. We know their processes, we know their standards, we know their product and we know the technology what they use. So I think it is not going to be the issue as we see today. We have more data, then next quarter maybe when you come back, we will give you more update that time.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from AMBIT Capital. Please go ahead.

Sudheer Guntupalli: My first question is, I think, growth in the top 5 and top 10 accounts and even top 20 as well, looks slightly softer than company average. So, if you can give some more color on that, that would be really helpful?

Keshab Panda: All the numbers, if you see top 5. Our top 5 customers, when you say, that has grown 2018 to 2019, If I look at it overall, it has grown 26.8%. So there is no slowing down there, top 5 customers. If I take top 15 customers, the growth from FY18 to FY19, almost grown by 45% plus. We always look at three parts: top 30, next 20 and next 30. So, total 80 customers, where the ER&D spend is close to $1.6 trillion or so, so we always track it down how the top 30 doing, next 20 doing and next 30 doing it. All 80 customers, if I look at it FY18 to FY19, close to 20-plus percent growth has happened. So I don't see top 5 customers going down.

Sudheer Guntupalli: No sir, I am not saying it is going down, I am just asking the reason for softer than a company average performance in this quarter as of compared to the previous quarter?

Keshab Panda: If you ask as the numbers point of view, if you want to ask PR.

P. Ramakrishnan: Okay, just to answer this, please note the way we have reported the revenue share is on last 12 month basis, okay, the data which is in our fact sheet. So, for example, just to give you a perspective, our top client on quarter-on-quarter has almost grown 7% and a year-on-year the same client is almost 21%, okay. So it is a question of… and if you see the top 5 clients, just as a number maybe there is a drop of 1% or so, but there is structurally, as far as the top 30 accounts are concerned, I wish to tell you they still on aggregate contribute to 65% of our revenues, which has been our almost, I would say, a steady state kind of a share, over the past, I would say, 8 to 10 quarters. So, sometimes it could be possible that quarter-on-quarter there can be a minor change here and there, but it is important and we have been talking this consistently that what we aim is, what is the share of our top 30 accounts in terms of our overall growth strategy? So as we have grown and as Dr. Panda talked about that we will close the year with almost 24% growth as that of previous year, our belief is that these top 30 accounts will continue to have the 64% to 66% share. And I think that would be a more important metric that we would like to concentrate upon.

Keshab Panda: It is a fair thing to see, in top accounts we need to see annual basis than quarterly basis. I think that is how it is always. So we track down our top 30 accounts very closely. As PR was saying, what percentage of this contribute to annual basis and that is something we track very closely.

Sudheer Guntupalli: Sure sir, thanks. And my second question is in terms of your FY20 commentary. We are talking about the client specific issues, which can potentially impact our revenue growth by around 4 percentage points. And despite that, you are talking about high teens kind of revenue growth for FY20 over FY19. The commentary sounds pretty strong compared to any other, let's say, ER&D company or IT company out there in the market. So I am just trying to understand, apart from, I mean you have already spoken about the deal pipeline and all, apart from that what are the factors which are giving you this confidence? And just if I were to assess a downside scenario here or a bear case scenario here, how would that high-teens number look like? Let us assume that everything doesn't go as per our expectations in terms of macro. So what would be the bear-case scenario look like? Maybe that high-teens number, will it be low teens or high single-digits, how would that look like?

Keshab Panda: I think we have been very careful about last seven, eight quarters. If you see the guidance for FY19 we started with 16, we raised it to 21, now we are saying we will deliver 24. At this time, what we see, the question you are asking about FY20 economy what happens with the economy and all, there are a lot of questions to be answered. As of today, the pipeline we have, the order on hand we have, with that, we believe this is what we are going to deliver, right? And we will update you more in the next quarter when you come back, we will have more details and we are going to update you more.

Sudheer Guntupalli: Sure, sir. And just one clarification, so this high-teens number you are talking about, obviously includes the incremental revenue that's going to come from Graphene over the next year, right? Just that organic number.

Amit Chadha: So just want to clarify this point, that look, one, we talked about our deal pipeline, we talked about our wins, etc. So with that, if this one client blip was not there we were very confident of high-teens growth. Now we have this blip that has appeared, we still are negotiating our way through it. We don't know where it will end up. But the worst case scenario at this stage is, if you take the high teens, you shave off 4% from that. So you end up logically in mid-teens, is where you end up. This is where we see the market, everything else holding at this stage. And we are fairly confident with what we are seeing here. Like Dr. Panda talked about, we don't want to go overtly optimistic, we want to be clear on what we see right now, we are sharing with you.

Sudheer Guntupalli: Okay, sir. So essentially, you mean to say, without factoring in that 4% impact, it is high teens. And then if you factor that in, obviously, it will be in mid-teens. And it is including your inorganic component coming in from Graphene?

Keshab Panda: Yes.

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

Ashish Aggarwal: Sir, just wanted to understand, what will be our levers for margins going forward? And looking at that, our margins are already 18%-plus, how much more margin increase can we have going into FY20?

P. Ramakrishnan: Okay, first and foremost, I wish to state here, whenever we talk about margin increase or drop they are subject to the fact that we are talking at constant dollar-rupee. Assuming that dollar-rupee is wherever it is at Rs. 71. In terms of margin levers, as we have seen our utilization at around 80%-odd, so don't expect any further improvement in utilization. Secondly, the fact is the more important thing which I would like to convey is, over the last one or two quarters we have seen margin improvements in our traditionally slightly margin dilutive segments like Transportation, so we expect by better productivity and a better mix of on-site offshore that some amount of margin expansion is likely. Secondly, Industrial products, if this segment grows, that will obviously result into a better margin trajectory for the company. And last but not the least, as we are demonstrating growth, we believe that we have the SG&A leverage to ensure that this particular margin expansion, we can demonstrate some, which we have shown in the current quarter. And in terms of this our Chief Operating Officer also talked about in the last quarter, we do believe that there is still some more margin, I would say, expansion in the form of revisiting our employee pyramid, that exercise is ongoing. And we do expect some more improvements happening on this account. Last but not the least, we have also, and I still maintain that we are talking to clients, wherever low-margin clients in terms of traction, getting higher bill rates in terms of ensuring that the margins are protected or if not improved.

Keshab Panda: One of the important, if you will look at the portfolio we have, how do we manage the portfolio well. The Industrial, Plant engineering, Medical, that is one part, operational is second part and third part is the investment we did in new technology when you do the project with the customer the levers available there. So all the levers we are firing.

Moderator: Thank you. We seem to have lost the line for Ashish. We will move to the next question. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Just wanted to understand a little bit more on how the ramp down in that one specific client that you have talked about, should we expect to see this ramp down all at once, starting with Q4 and then going into Q1? Because that would imply probably 8%, 9% negative growth QoQ for first quarter FY20?

Keshab Panda: It is not true. So what is going to happen, starting from March it will take some time to complete that. The 4% is the maximum impact that we see; the contract is not concluded yet, so if you look at the total revenue impact, it will be 4% - that is how we should take it. It is going to be over, let us say we conclude by January end or February we conclude, March we start, it can flow for some time in quarter one itself.

Amit Chadha: And with the wins that we have talked about as well, the wins that we have talked about and the ramp up that we are talking about, we don't expect a decline quarter-on-quarter.

Keshab Panda: And listen, I think I also made a statement there, because the large deal pipeline we are working on and we are also negotiating with the new owner, the part we are losing or going to lose. And we are also negotiating with the new owner - which components we are going to keep, which part he is going to be owning it. So we will have more clarity next quarter. Maximum this is the impact going to be in FY20, that is what we said.

Ravi Menon: All right sir. And any color on how much of the margin impact do you expect from them?

Keshab Panda: Not really, there is no margin impact there. Not going to be impacted.

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

Madhu Babu: Sir, firstly, I mean, will the employees will be coming off, in the ramp down and will they be immediately be able to deploy into other projects? And second is, if I am calculating this right, it's almost $28 million of annual revenue. So is it in the top client where this issue has come up?

Keshab Panda: Today, employees coming out being non-billable, that is not an issue. I do have requirement in every vertical, number of engineers requirement right now. The pipeline is very strong. So I don't think employees coming out, and I would not give you more details about how many numbers come, what is really going to happen? That's the reason I have said this is not going to have any impact on the margin, this deal losing.

Madhu Babu: Sir, the revenue impact is almost $28 million annual when you said 4%?

Keshab Panda: I would think so, yes. Roughly, that's correct. You are right.

Madhu Babu: Okay. And just on the acquisition strategy, I think last year we have got, both of the acquisitions have been on the semiconductor side. So, anything on the automotive side where you are looking for on the acquisition front?

Keshab Panda: I thought PR talked about that, one is, he talked about Automotive, he also talked about Medical. There are few candidates right now we are looking at very seriously. And those, I think, if it goes well, maybe, I think we will give you news next quarter. So we are very seriously looking at these area. Automotive is one and the Medical side is the other one. So there are two areas we are very aggressively looking at it.

Moderator: Thank you. Due to time constraints we will be able to take one last question. Last question is from the line of Mihir Manohar from CapGrow Capital. Please go ahead.

Mihir Manohar: Just wanted to get some more granular details on what has led to this 10% decline in the SG&A cost? As to what has exactly led to this decline? If you can give some color on this, that will be really, really helpful?

P. Ramakrishnan: Okay. As I talked about, when we talked about SG&A, it is a combination of four major elements, which is sales, marketing and general establishment expenses, and other corporate expenses comprising of enabling functions. The major saving which has happened is because of the higher increase in run rate, the sales and marketing cost has seen a substantial saving, and we expect that with the revenue uptick happening this is something, which we expect, and as I talked about this is one thing which we feel that there is something more we can do provided the revenue run rate, the uptick continues.

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

Apurva Prasad: If you can elaborate on what size of acquisition that you are looking at, we are nearing in the medical devices and transportation? Would it be similar scale to our previous acquisitions?

Keshab Panda: Apurva, if you will look at around the globe, there are not too many companies out there, $100 million, $50 million companies, not available even if you want to acquire, right? Always a technology company, if you are not looking at getting top-line, we are very selective that way. So we want to acquire a company which is getting us technology, which is giving us access to a large customer or grow our large customer or some technology that can be used for multiple verticals. So I think that is our strategy. So you will never see a big M&A which we are going to do. I think it is fair to assume the similar size, the one we did Esencia similar size, I would think that is a right assumption.

Apurva Prasad: Right. And just one more if I can add. How would you see the residual part of the business? You talked about the 4% impact from the large account, how is the visibility on the residual business from that account?

Keshab Panda: I think that is what we said, high teen, and impact of that, right, we talked about that. So today, as we see, I think we have not concluded the contract yet. The part of business sold by our customer today to a new owner and new owner believes that some part of the business he should own it than outsourcing it. That happened only with one customer, and that customer we are still negotiating. We thought it is fair, we already know that's going to happen, it has not happened yet. We thought it is fair for us to inform you immediately on what is going out there. So I think that's what we see.

Apurva Prasad: I just wanted to check on that account, the residual business from that particular account and not the overall residual?

Amit Chadha: Yes. So the residual business from that account is still being worked out. There will be a part of business that will continue with us for that client and a part of that they will take back and do it themselves. And like, Dr. Panda talked about, the exact mechanics of which one, how long, et cetera, is being worked out. They have confirmed to us at all levels that they see us as a strategic partner going forward…actually the sole strategic partner going forward and they will be working with us. So please wait for that announcement. We will be making a formal announcement on that, joint announcement if possible in the next few months or weeks.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for any closing comments.

Pinku Pappan: Thank you all for joining us on the call today. I hope we were able to answer most of your questions. We look forward to meeting you during the course of this quarter, and let me wish you all a very good evening. Thank you. Bye.

P. Ramakrishnan: 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

Note: This transcript has been edited for clarity and accuracy.