"L&T Technology Services Limited Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and Welcome to the L&T Technology Services Limited Q1 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 call, please signal an operator by pressing '*' and 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: Hello everyone and welcome to the first quarter FY19 Earnings Conference call of LTTS. I am Pinku from the Investor Relations team. I hope you all had a chance to go through our Financial Statements and Investor Release. If not, you can download them from our website www.lnttechservices.com.

On today's call, you will hear from Keshab Panda – CEO, Bhupendra Bhate – COO and P. Ramakrishnan – CFO. We will begin with Dr. Panda providing an overview of the results and a commentary of the business outlook. Bhate-ji will provide an update on the margin performance and operational levers. PR will walk you through the financial statements. We will then open the line for questions. Let me now turn the call over to Dr. Panda.

Dr. Keshab Panda: Thank you, Pinku. And thank you all for joining the call today and good evening to all of you. First, let me walk you through the highlights of Q1.

In terms of revenue we had a strong Q1 with 5.6% quarter-on-quarter revenue growth in constant currency. Growth was all round and we won five multi-million deals across four of our segments. We have scaled two clients to USD50 million plus in annual billing, our top 30 clients continued to do well with revenue share at 66%.

In terms of profitability, our EBITDA margin improved to 17% in quarter one. We continue to drive operational margin improvement and the initiatives we started are on track. Our net profit in Q1 doubled year-on-year because of a better EBITDA margin and higher other income.

Let me now talk about our five industry segments:

Transportation - we had a good growth of 4.3% quarter-on-quarter in transportation which was led by Auto and Trucks, while aerospace had a flattish growth. On the auto side we are seeing demand primarily in three areas – ADAS, electric vehicle and body electronics. In ADAS, we are developing autonomous middleware; in Electric vehicles we are working with clients in areas like battery management and power electronics; and in Body electronics, we are working on newer technology like model-based design.

Let me also talk about one of the big deals we announced: A smart manufacturing deal for a US Auto OEM. Here we are developing a system that will continuously monitor failures using video monitoring and self-learning algorithms developed by us. This deal was won because of our strength in small manufacturing, equally important was the long-term relationship we enjoy with this customer and good understanding of the processes and and pain points of the customer.

Within Trucks and Off-highway, growth is in areas like benchmarking and digitization which involves IoT-enablement of equipments. We opened a dedicated ODC with a Japanese major in the off-highway segment in our Chennai office. Ours is the only design center outside of Japan for this customer and we will work on design, validation, benchmarking of products for emerging market as well as the smart product design.

In aerospace segment, the large in-flight entertainment deal we won with the European aero major has started ramping up now and will reflect in growth numbers from next quarter onwards. We are seeing a good pipeline in avionics, MES (manufacturing engineered services), and air traffic management in aerospace segment. Even though the growth was soft in Q1, we expect in Q2 this segment to do reasonably well.

Coming to **Medical**: Medical grew 2% quarter-on-quarter. Growth was led by some of our mid-sized accounts which are showing a lot of promise. I would like to highlight our work in medical segment where we are transforming healthcare using automated image processing algorithms to accelerate patient diagnostic. This is an innovative work, I think this is paying us results for our investments in earlier quarters.

Pharma is a new area we have ventured into. We are creating mobile apps for drug monitoring and patient support, similarly design and development of smart inhalers, this is also bringing traction in the market.

The pipeline is encouraging. We are seeing opportunity in value engineering, product design and validation and reliability support. In medical devices, IoT related work is also increasing. This is quite encouraging for us.

Industrial Products: In industrial products we grew sequentially, although not at the pace we would have liked. We are seeing some conservatism in spend, although the outlook is promising in segments like renewable energy. We expect growth to pickup after the next quarter.

On building side, our iBEMS platform is giving us good visibility and is opening inroads into new areas with some of our traditional clients. We expanded the scope of this iBEMS platform into experience management for campuses, this is again exciting news for us. IoT and sensor-ization is a priority as customers are investing in predictive maintenance.

In machinery, we are seeing good traction with all oil and gas equipment manufacturers, and this segment is growing for us in industrial products.

On the power side – again, demand is in IoT as customers are trying to improve serviceability of machines and so on. Solar energy capacity addition is growing fast, and we are working with clients to increase efficiency of panels and on energy storage and power electronics, this is again a growth area in this industry segment which we believe after a quarter or so will give us a significant growth.

Process Industry: Process industry has come back as a growth engine for us with 14% quarter-on-quarter growth in Q1. This is a major differential for us, we are excited about that. We are seeing encouraging signs in the CAPEX cycle globally. What works for us is that we are preferred partners for so many customers in CPG industry, oil & gas and specialty chemical. Within the three sub-segments, demand is strong in specialty chemical and oil & gas which we are seeing this quarter and we will see that in subsequent quarters as well.

In Europe and India, a few quarters back we did some fine tuning to our operating model to capture bigger opportunities, using a low-cost partner ecosystem and forming a team of experts which has helped us. In Europe, in the oil & gas space, we were earlier participating in downstream projects largely, we are now entering upstream and midstream areas as well, which is I think the growth area for us moving forward. In India, we are participating in new Greenfield investment projects by tyre manufacturers and chemical companies. This is again a growth area for us.

As you know, we have a strong end-to-end presence in the engineering value chain - detailed engineering work, EPC services, plant operations & maintenance and smart plant designs, this is making a difference.

The ramp-up of the two large deals we did last year, the German chemical company Covestro and ExxonMobil, which is a US company has started now, we expect to scale up over the next two quarters these two projects.

In terms of investment, we had started competency building in Lean IPD, or Integrated Project Delivery and we have been awarded our first project in quarter one. Overall, the pipeline in process industry is looking very healthy and we expect the growth momentums to continue.

Telecom and Hi-Tech: On the semiconductor side we are participating in the development and validation of 5G devices. This is again going to be a differentiator for us in long-term. Building 5G IoT solutions is a priority for many customers as machine-to-machine communication is going to exponentially increase once 5G is rolled-out. The connectively platform deal that we won with a large chipset manufacturer has ramped up very well. As part of this deal we had setup labs at offshore, for design and validation. We won an extension to this deal with the customer adding one more product line to the program. We have started an engagement with a large US based phone manufacturer on the connectivity side. With phone manufacturers designing their own chip-sets, we see an opportunity to leverage our semiconductor skill sets. Overall, in semiconductor while the pipeline is good, we might see some consolidation in near-term revenue as some of the large projects enter steady state.

In media and Entertainment, we have leveraged our engineers in Israel and Bangalore to win a deal with a broadcasting and media solutions client. And here we will setup labs at offshore to support the existing broadcasting platform of the client. We are in conversations with multiple clients to develop OTT applications for both smart TV and set-top boxes. This space will see a lot of action as manufacturers look to standardize set-top boxes using the Android platform.

As you know, Media & Entertainment is one of our newer verticals which is a part of Telecom and Hi-tech. We have now been recognized by Zinnov - in their 2018 Media & Entertainment report we were placed in the leadership zone and in a short time I think we have been able to achieve that.

Platform and solution update: We continue to build competencies in emerging technologies and invest in the creation of new labs. We have grouped our platform and solution efforts under the leadership of our Chief Technology Officer. The team under him is today focusing on new areas like autonomous vehicle middleware, smart building and campuses using iBEMS, OTT frameworks, artificial intelligence framework for industrial sector and product development in 5G networking space. This is a dedicated focus for the Chief Technology Officer's organization.

As an update, we recently launched AIKno™ which is an AI framework for industrial engineering, data analytics and process. It is our own framework. Also, last month we launched our NBIot protocol stack called nBon which can be used for smart meters, fleet and waste management.

Let me conclude by providing the outlook on the business going forward:

The common trend across all segments is that businesses are prioritizing digital engineering spend and new technologies to be more competitive by getting products and services faster to the market. The combination of embedded and artificial intelligence where we are strong is making a difference. Digital and leading-edge technologies are 31% of our portfolio today and this grew nearly 80% year-on-year.

Based on the deal wins and pipeline that we see, FY19 growth is likely to be more balanced across all the segment. Our efforts have been to boost growth in high margin business like Industrial product and Process industry. While Process industry has done well, we are trying to take Industrial products growth to double-digit this year. Telecom and High-tech growth will moderate this year versus last year on account of the high base achieved last year. Overall, the demand pipeline is healthy and our positioning in all the industry segments is strong.

As I have said earlier, our bigger asset is our top customers - the top 50 customers that each spend more than $1 billion plus annually. We believe a lot more opportunity exists to mine these customers, and we continue to focus on our top customers to grow our revenue.

In quarter four we gave a guidance of at least 16% organic growth in FY19. Based on backlog and pipeline we believe we can do better than 16% in FY19 compared to FY18.

Thank you. And I will now hand over to Bhupendra Bhate – our Chief Operating Officer.

Bhupendra Bhate: Thank you, Dr. Panda. On the operational front, we have executed reasonably well. Our Q1 EBITDA margin is 17% which is improvement of 90 basis points quarter-on-quarter. Let me take you through margin improvement from quarter-to-quarter.

The tailwinds for the margins were, the better offshore revenue mix which has increased to 50.6% in Q1 versus 50% in Q2. Secondly, the improvement in the business mix, as our higher margin businesses like Process industry grew faster in Q1. Currency depreciation benefit which gave us 120bps benefit on the EBITDA margin. Some of these gains were offset by higher fresher intake in Q1 which led to our utilization dipping by almost 200 basis points quarter-on-quarter. Additionally, Visa costs had an impact of around 60bps on the EBITDA margin. Also, in Q1 we did not have any significant revenue from sale of IP, whereas in Q4 we had the sale of a platform.

In terms of margin outlook:

The offshore revenue mix can improve further, and we are working on that. Also, our fresher intake will increase in FY19 versus last year. The bill rate improvement is a continuous exercise which is going on. In Q2 we will have the wage hikes which will be covering the large part of our workforce. We hope to mitigate the impact of the same through operational improvements.

Overall, we believe that we are on track with respect to our operational margin initiatives. I hand over now to PR.

P. Ramakrishnan: Thank you, Mr. Bhate. Good evening to all of you. I will summarize this call from the management's portion by giving you an overall highlight of the financial performance for the quarter.

As you may have seen, our revenue numbers reported at Rs. 1152 crores for the quarter, which is a 9.2% growth quarter-on-quarter and a 40% plus YonY growth. In dollar terms, the revenue in constant currency in dollar terms has grown at 5.6% Q-on-Q and 33.2% YonY.

The Q4 EBITDA margin was 16.1% and today we have closed Q1 at 17% EBITDA. As Mr. Bhate talked about, the improvement in EBITDA to the extent that exchange rate has helped us almost by 1% to 1.2%.

Coming to net income:

Our profit PAT for the quarter, first quarter is Rs. 198 crores, almost double that of the previous quarter of Q1 FY2018. I will explain to you the improvement in PAT how it has happened. The first improvement in PAT is because of absolute improvement in EBITDA itself, the growth in EBITDA. And then if you see the other income schedule which is a major increase, last year first quarter we had other income of roughly Rs. 26-odd crores, and this quarter in the current year we have increased it to around Rs. 98 crores. And just to take the point, this we had also communicated during our May, i.e. annual FY18 earnings call, there was one transaction which is a non-recurring other income which has attributed to almost $12 million, which in rupee terms roughly translates to around Rs. 78 crores have been recorded into other income. So request that this be factored while people see the numbers.

Coming to the asset side: I would say that our balance sheet continues at a net worth of around Rs. 2,000 crores plus. And what is more important to convey is that we had a very healthy cash flow conversion in the current quarter. The operational free-cash-flow has been around Rs. 240 crores as compared to Rs. 362 crores of the full year FY18. Having said that, this Rs. 240 crores includes the 12 million other income which was accrued during the current quarter. And so the free-cash-flow to net income has almost crossed 100%.

Coming to the vertical mix, transportation continues to be the major share of the verticals with 31% of our quarterly revenues, followed by telecom, high-tech at 29%, then industrial products at 20%, process industry at 14% and the remaining accruing to medical.

In terms of revenue by geography, the mix has largely remained unchanged with 56% to 57% coming through North America, 19% in Europe and India and rest of the world contributing to the balance 24% odd.

Mr. Bhate covered about onsite offshore revenue mix, we have seen a slight improvement in our revenue mix to offshore now going by almost 0.6%, so the onsite to offshore ratio is at 49.4% to 50.6%. In terms of the fixed price and time and material contract, we have this quarter a higher proportion of revenues coming through some of the fixed price contract, and hence it has touched around 40% plus. We expect that in the quarters to come we will come back to the 35:65 mix range.

We have 235 active clients. And as Dr. Panda talked about, this year on a trailing 12 months basis we have two clients who have crossed the $50 million run rate.

Just to communicate our overall spread of clients, we have top five clients contributing to around 28% of our revenue and the top 30 clients contribute to 66% of our revenue. The utilization has been a shade lower when compared to Q4, that is largely because of intake of trainees, so there will be some amount of utilization drop which will be seen. So the overall utilization stands to around 78.6% for the quarter.

Headcount: Our total headcount previous quarter as of March was 12,300 plus, now we are at 13,000 plus, so roughly round 700 people added into the company's employee head count.

Exchange rate: Our realized exchange rate is 68:21 as compared to 64:94 for the previous quarter.

We do have a proposal of wage hike going into Q2, that will be impacting to some extent and we believe that increased volume of business will partially mitigate the wage hike.

And before I conclude, we are proposing an analyst or investor day in Mumbai on 30th of August 2018. The details will be intimated shortly on our website.

So, with this, from our side we conclude the earnings call. And now it is over to you for question-and-answers.

Moderator: Sure. 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: Two parts of my question, first on the outlook for the year, you said you are looking at doing something better than 16%. Would you be able to quantify how much better, because the current momentum seems to be very strong? So, if you can give some base to what kind of outlook that you are looking for the full year revenue growth?

Dr. Keshab Panda: Pankaj, only thing I can say is that we see a momentum in every segment, it will continue to grow, same trend will continue. Only thing I am not able to give you a number right now, but definitely better than 16% is what I am talking about. Maybe next quarter we will have more clarity and we will be able to give, because I do not want to give a number which I myself am not clear. One thing for sure though, every quarter we have a strong pipeline and every quarter we will continue to do well. So that much I can tell you. But numbers I think maybe next quarter we will be able to quantify.

Pankaj Kapoor: So anything, Dr. Panda, to you which is of a concern, which is a reason why you are holding back on this, is this something on a macro side which is something of a concern?

Dr. Keshab Panda: No, there is no concern with the number, I wanted to make sure that number I give I must definitely exceed that number. Is that going to be 20%, it is going to be 22%, or it is going to be 19% or 18%, that number I am still working on right now. Maybe half year when it comes then there will be more clarity. If you see last year also, first quarter I did not give the number, second quarter I did not give the number, then we gave the number. So, I wanted to make sure and I can tell you that there is nothing to worry about it, I can tell you that much, not to worry about that something is going to go down or that is something we do not see now. Only the exact number of the percentage growth which I have to give, I need to work on this that is we are holding, there is no concern at all.

Pankaj Kapoor: And just on a macro side do you see any risk from the tariff related confrontations which are going on. I understand it maybe too early but any client conversation you had, or you see any client holding on to their new product launches or having a review of that because of these tariff confrontation which are happening globally?

Dr. Keshab Panda: I think, Pankaj, this is something just two days ago the Finance Minister meeting was there, he talked about tariff and the struggle goes through America, Europe and same thing in China. But I think a company like ours, I would say if they want to rollout a product anywhere in any geography, I think we should be able to deliver from that geography. We are not specific to one particular geography we should be worried about. So far there is no indication of customer coming back to us and saying that because of this tariff I think we are going to cancel this or we are not going to rollout a product in this geography, that has not happened. And I would think it is very unlikely to go to the level of impacting our business at this time.

Pankaj Kapoor: Sure. And on the margins side do you have any quantification of the wage hike that we are proposing and what kind of impact it can have in the second quarter numbers?

P. Ramakrishnan: Pankaj, it will be in the range of around 1.5%, that could be the implication on the margins. But as I indicated earlier, we are working hard enough to ensure that the volume growth in the Q2 will partially offset this wage hike.

Pankaj Kapoor: And the fresher intake that you mentioned we had in the first quarter, you think some more fresher joinees are likely to come over the next two, three quarters?

Bhupendra Bhate: As I mentioned, our intake of the freshers compared to last year we have significantly improved and increased. With that, obviously, our pyramid will improve and some part of the impact of the compensation cost will also get mitigated by the freshers.

Dr. Keshab Panda: There are two things we are doing, Pankaj, number one is adding freshers in India, we are also adding freshers in US where some of the experienced engineers can be changed and we are recruiting the local under-grad and grad students. So that initiative we have taken very aggressively first time and that is giving us dividend. We believe that is going to be, a lot of engineers who are there for long-term can be replaced by the engineers if they can be in some areas where these guys can be released for working on large deals, working on new customers and so on, that is a lever we are very aggressively looking at it. And one thing remember though this quarter one we also had a visa cost, in spite of visa cost we have shown the growth in EBITDA, that is again 0.6% almost there. So, looking at 0.6% this quarter we have been able to do that and show the EBITDA growth. And 1.5% in quarter two what we are going do, we have levers to work towards that and that is our goal today.

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

Apoorva Prasad: Sir, my first question is pertaining to telecom high-tech vertical. If you can talk about, based on the pipeline that you said and the steady state of some of the projects that we are getting into, is it fair to assume a flattish sort of a growth sequentially from the current rate for the telecom high-tech vertical?

Dr. Keshab Panda: Not really. The only thing is, last year we got few large deals, the percentage of growth what we saw those have to stabilize. But telecom high-tech there are three components - consumer electronics, semi-conductor and telecom. So we are very aggressive on the semi-conductor side. As you see now as of today we have made huge investment in creating competency in terms of usage of the semiconductor chip design for the IoT application. And earlier we were working on hardware design and software design in a limited sense, now we are capable of doing end-to-end after Esencia acquisition what we did, integrating with our own team in LTTS. So, I think when we say telecom high-tech, the percentage of growth only thing what I try to communicate is, the percentage of growth what we saw last year because of large deal, the same percentage may not happen, but it is not going to be flat, it is going to grow, that is what we said. But the consumer is doing well, semi-conductor continues to do well, and telecom could remain. And media and entertainment is a new area which I talked about, that is an area there are few customers we won, new customers I talked about, Israel team winning a new customer in media and entertainment. And this is an area we are building more and more, investing on this, this is a growth engine for us in this particular segment.

Apoorva Prasad: Just to clarify on there, so you expect flattish to at least growth in the quarterly rate?

Dr. Keshab Panda: Can you repeat your question again?

Apoorva Prasad: I meant in the telecom and high-tech vertical are you trying to say that we can still expect growth on a sequential basis from the current quarterly rate?

Dr. Keshab Panda: We will continue to grow sequentially, there is no doubt about that, that is absolutely clear, there is no doubt about that.

Apoorva Prasad: And finally, on the margins with the wage headwinds what sort of tailwinds, what sort of levers you can talk about that?

Dr. Keshab Panda: There is no headwind, though.

P. Ramakrishnan: When I talked about wage hike increase, as Dr. Panda collaborated to answering to the earlier question that on Q1 the margin of 17% has been reported taking in to account almost a 60 basis point on account of that one time impact of the visa charge, which should not clock in Q2. So to that extent that is one more, I mean if you take on a like-to-like basis. Second is, as Mr. Bhate talked about, we believe that the percentage revenue share from offshore work will be slightly more as we have started demonstrating more and more offshore revenue coming in. And last but not the least, we expect that the type of revenue that should accrue in Q2 from the other verticals like process industry or industrial products which will be more to overall offset or mitigate the impact of the wage hike. So, revenue mix across verticals which we have already demonstrated in the current quarter and some part of the revenues coming more from the process industry, so balance revenue mix plus absence of the one-time visa cost which we talked about and taking fresher intake and conversion of more offshore revenue opportunities are the margin levers which we expect to accrue during Q2 and subsequent quarters.

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

Abhishek S: Just wanted to understand, one of your top customer has change in the management. Now, does that worry you in terms of the spend patterns getting altered for FY19? Thank you.

Dr. Keshab Panda: No, we do not comment on specific customers. I can tell you that when we do a business we don't do with one person, I don't think that is an issue at all. A company of $52 billion we work in every business unit and every geography of the customer, I do not think that matters a lot

Abhishek S: And second, PR, if you could just update us about what is your thought on FY19 guidance in terms of margin versus FY18?

P. Ramakrishnan: Abhishek, I think last quarter also when we talked this question came up, and we have clearly indicated that, we gave a guidance of 16% minimum top-line growth. And we have talked about the levers which will facilitate the margin expansion. So, some part of that we have seen it in Q1, I just now talked about the cost structure which will come and what mitigants we will have. So, at this stage we believe that we have the levers to improve the margins or sustain the margins at this current exchange rate.

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

Ravi Menon: Sir, just want some color on your top six to ten customers. If I look at it, taking out a LTM revenue for last four quarters and looking at just this quarter's revenue numbers, it seems like there is a slight decline QoQ. So is it just some sort of projects coming to an end and then we just wait and hold, should we worry about this a little bit more?

Dr. Keshab Panda: I don't think, I think this is something when you say this is not IT in engineering what happens is there are some customers in that particular range. I can only tell you that every customer, every region has done reasonably well and this particular customer range now, it is a temporary thing and is going to again come back there. So I do not think anything to worry about that.

Ravi Menon: And just a clarification on the last deal that you won in India, should we expect that this is in line with company average margins?

Dr. Keshab Panda: We do not take business for our top-line growth, if it is not profitable in the same level as company what it expects, we do not want to take a job which is going to drag our margins. So, it is in the same level. But one thing remember though, the work we do for India also most of the time are for global customers. So, we have a bill rate already there, many of the work even though in India we do we still do in dollar billing, so that should be clear for the global customers. And Indian customers rupee billing we do very minimum, it is not that something to worry about in terms of margins.

Ravi Menon: Great. I just wanted to check that this is not really investment to bill credentials in particular area or something of that sort for strategic reasons you might have taken on a deal.

Dr. Keshab Panda: No, not really. This regular work which we are executing. There is no investment required from our side for this particular customer.

Ravi Menon: Any sub-verticals where you think you do need to build credentials a little bit more where you see some sort of investments necessary, whether it be platforms, or it be in some sort of strategic deals?

Dr. Keshab Panda: I think some of the exciting things we have been able to win this time are smart manufacturing for a auto OEM, that is again this is going to grow, a customer which is globally present. And we are doing now in US, for one factory, it can roll out to 25 factories around the globe. So, this is again a growth area. And media and entertainment area is what we did, 5G investment what we did, NBIot what we did. So, these areas are very-very important component of growth in smart manufacturing work what we do. So, I think overall point of view if you see different segment, different sub-vertical focus, even when you look at transportation in addition to auto segment where our investment in autonomous vehicle, electric vehicle, ADAS, what we do, off-highway is doing very well. The growth in off-highway taking the electronics from auto to off-highway that is doing well. So, I would think aerospace which we did not do well last quarter remains flattish and again showing growth next quarter, quarter two they will do well. So, it is a segmental, but I think most of the segments when you say media and entertainment will continue to do well, we also have few customers who are going to do well. Semiconductor, the investment we did in semiconductor we believe future is all on the chips, whether we do a medical devices or we take it in automotive or in renewal space. So, I think when you look at technology companies they are building their own chips now, if they are my customer can I work with them, do I have the high level of VLSI design, can I take them from design to software to hardware to production, can I be a part of that journey along with them, do I understand the application engineering then I can quote application engineering so that end-to-end I can deliver. So these are these are the areas where we are making investment, we believe that is the future. And on the energy, battery management, battery storage, that is an area which is again a growth area for us. So that is something which we are investing, we create our own solution which is going to grow. One platform area iBEMs which is a platform we started with HVAC control and lighting control we expanded to smart campus management, that is the growth area. There are multiple areas, I think we got a contract from Australia that is under progress. The smart campus we do in Israel and last quarter we got an order for a campus in Bangalore in India and for a customer which is US based headquarter customer. And as we speak there are two big orders which we are disusing about, rolling of that platform for two different countries. So, that is something which is a big differentiator for us. And 5G this is something we started now and 5G is going to make a big difference in IoT world or what we intend to do for the communication world. That is again a big area which we believe whatever investment we did, created an engineering world that is going to make a difference. So there are multiple areas and on the medical side for example there some innovative work we do for a Japanese customer, revenue numbers could be small now, but I think if we are successful doing those innovative work I believe that is going to be biggest differentiator in terms of revenue moving forward.

Ravi Menon: And one last question on the attrition, that seems to be up about 200 – 210 basis point compared to last year. So, would you any specific area or any specific country or something like that, or just…?

Dr. Keshab Panda: Actually, if you look at it, attrition happens in this particular quarter for any company because this is the time where some of the employees go for higher studies, this is the time where they do changes in school. I think attrition, even though numbers what you see is overall LTTS Number, but attrition in different locations like Mysore is less, Baroda is less, Bangalore is high, and Mumbai is reasonably medium level. So, I think this is a trend we see every quarter, we do not believe this to continue in next quarter or is there any reason for higher attrition, or that is not the case. But you see this is the case for every company in this particular quarter, Q1 usually, and it comes down in quarter two onwards. So we hope we are going to do the same thing as well. And we analyze the data, attrition data when we do our HR organization looks at it along with the business leaders, looks at its every competency, the people we want them to stay are they leaving. So that dashboard we create, and we analyze internally among ourselves that something I believe is under control.

Moderator: Thank you. Our next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Just two questions, first is, can you help us understand about higher depreciation run-rate which we are seeing this quarter? Last quarter there were some one off, but how one should look, whether it has some one off or now this is the normal run-rate? And second question is, can you help us understand about IP revenue, how we expect it to grow, because that is one of the area where we were very positive. So if you can help us understand what is the progress we made on IP revenue stream? Thank you.

P. Ramakrishnan: If you see the numbers, depreciation at overall level, first quarter previous year was around Rs. 15 crores and then we had Q4 at around Rs. 45 crores and then current year we had Rs. 26 crores or so. As I explained in the earnings call when we concluded the year, some part of the increase in depreciation rate was because of the change in the accounting estimate which we did with respect to wherever we acquire intangible assets as part of our overall mergers and acquisitions portfolio. We did a change in the policy by which the intangible assets which are taken and which we used to amortize over a period of seven years we reduced it to four years. And in the current year with respect to purchase of software, generally we have been amortizing over a period of six years, we have changed the policy in line with the requirements to five years. So this has resulted into increased charge of roughly around Rs. 26-odd crores, because it takes into account a onetime correction for the existing one. Going forward we expect that the depreciation should be in the range, and also there has been a lot of increase in CAPEX during Q4 of last year, so some impact of that will flow. So our expectation is that at steady state we will be probably in the range of 20 to 25 every quarter in the current year. So, I will request Dr. Panda to answer the question on IP.

Dr. Keshab Panda: IP, we have created a good traction now. Last year IP we did close to 0.5 million or so. See, there are two things that happen, IP then we have service revenue along with IP, if you do not have IP you do not get service component. Last year even though whatever small IP we sold that has given a service component of 3.5 million or so. This year in quarter one we did reasonably well, some component we started selling it. We believe at least we will do better than what we did last year on IP sales and we will give you an equivalent of five times of IP sales from the services side. So, IP sales is in good traction now, some of the platform is doing well, NBIoT 5G stack we sold, we sold a stack in iBEM which is doing very well. So we believe a good FY19 on the IP sales.

Dipesh Mehta: Because earlier I think we sometime indicated it would be one of the growth area where we are looking for raking in couple of years double-digit kind of run-rate. So we are broadly expecting that to play out in next couple of years.

Dr. Keshab Panda: See, double-digit growth will not come from IP, double-digit growth is a different thing, growth in the revenue.

Dipesh Mehta: I am talking about double-digit absolute number.

Dr. Keshab Panda: Double-digit absolute number in a year, that is possible to do that. I think this year we will remain at single-digit only, it is not going to be double-digit. If I do better than what I did in FY18, that is possible, that is for sure. But is that going to be double-digit this year, it may not be, so that may not happen, it might take some more time. Because what happens in a platform whatever you do you sell it, and this platform you have two functionality, three more to be added. It takes time to mature the platform. We are happy that we have been able to sell the platform and as long as quarter-on-quarter we continue to add those revenue growth quarter-on-quarter I think we should be able to do that.

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

Shyamal Dhruve: So, just a small clarification. In opening comments Dr. Panda had mentioned about the softness in aerospace, so is what I heard is correct?

Dr. Keshab Panda: Yes, it is correct in this quarter, only this Q1 I said, and we said Q2 will be better than Q1 in aerospace because the new deal we won last quarter is ramping up now, is going to give us revenue in subsequent quarters, that is what I said.

Shyamal Dhruve: And on the top five, ten and 20 clients, we had some reclassification in this quarter, so it is more of a change in client in this quarter or it is something other than that?

Pinku Pappan: We have restated the client buckets as well as the percentage of revenue contribution to LTM basis, this is just keeping in line with the industry standard.

Shyamal Dhruve: And in presentation we had mentioned that we won five large multi-million dollar deals, so can we get the idea about how large? I am not asking for the exact numbers, but it is like ExxonMobil type of deals or it is less compared to that, any quantitative idea?

Dr. Keshab Panda: I think there are some deals like phase one and phase two and so on. The range of these deals is 5 million to 20 million.

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

Priyank Sarkar: Sir, I just wanted a broad split between the mechanical and the embedded part of it, what would be at the overall level? And second is, what is the qualification of this freshers that you are hiring, I mean are they mechanical engineers or are they software engineers, I mean how do you get the talent at a fresher level?

Dr. Keshab Panda: See, percentage is changing now, mechanical I think is reducing and embedded and software is increasing now. We have 60:40, 40% mechanical and 60% in embedded and software, electronics side. Now, the engineers we hired in multiple areas, when you talk about working on IoT, algorithm development and engineering, we need good engineers with good software skills. So those engineers, like recently we hired engineers from IIT a few of them, and they will be working on futuristic technology under CTO organization full time on some of the platform development, new technology development they will be working full time. We recently did an event called TECHgium where 62 engineers, who are bright engineers around all across India, they came from different engineering schools from IIT to NIT to other engineering colleges, we made effort to 62 of them and these 62 of them are working on new technology only. So, I think there are different tranche of hiring process, we hire engineers, mechanical, electrical, civil, production engineering, electronics, every engineering we talk about. But the percentage of mechanical is going down and percentage of electronics is going up. For example, if you see Off highway, earlier our main differentiator of Off-highway because our earlier Komatsu joint ventures we understood hydraulic engineering, we worked with John Deere and so on. Now in addition to hydraulics now we need engineers more on electronics side, they are investing more on the IoT front, they are getting into more electronics. So those areas in addition to mechanical we have more electronic engineers working in those areas. So, I think our goal is going to be more and more on the embedded specific, which we are strong, already we have been doing it, we continue to build on that. And when you are looking at a software it does not matter whatever engineering degree you have got, concept of engineering with strong programming knowledge you have got in engineering side and embedded programming, we take those engineers as well.

Moderator: Thank you. Our next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Can you guide me about the CAPEX numbers for FY19?

P. Ramakrishnan: It would be in the range of almost Rs. 20 crores to Rs. 25 crores per quarter from Q2 onwards.

Keyur Shah: You said there will be growth that you would see in aerospace segment of your business, so what kind of growth, any ballpark quantum you can give us or any percentage?

Dr. Keshab Panda: I did talk about last quarter, I said minimum 16% growth we are going to do. This quarter I extended that, I said we are going to be better than 16%, only thing number we have not said. You have to recognize one thing, we have five business segment, every segment has done well this quarter, we do not see anything slowing down. They are going to grow in subsequent quarters as well. The indicating number what really is going to be, that number hopefully next quarter we will be able to indicate. But I think there is nothing to worry about it. We will do better than 16% growth is what I said. And that is where we leave it at this time.

Moderator: Thank you. Our next question is from the line of Sangam Iyer from Shubkam Ventures. Please go ahead.

Sangam Iyer: Sir, three questions. One, just a clarification on the large deals that we won this quarter, what would be the duration of the deal?

Dr. Keshab Panda: This 5 million to 20 million some deals to be delivered this year itself, next 12 months, there are some deals to be delivered in next 24 months. So between 12 to 24 months needs to be delivered.

Sangam Iyer: Sir, as you alluded to the fact that the backbone for development on IoT would be 5G, and since you are present both on handset side as well as the operator side, what is the status in terms of the discussion with your customers here in terms of rollout as well as the adoption of the new technologies? Where do you think are we positioned currently in terms of speed, in terms of priority rollout or in terms of the CAPEX that we might be doing for the rollout. Could you give us some clarity on that?

Dr. Keshab Panda: I think we have to come out of this, 5G is not just for telephone or for the desktop, it has gone much beyond that. When you talk about IoT, application of 5G in areas like energy management, areas like factory of future, process control automation, areas like e-Health, media entertainment, this 5G application has gone beyond the telecom what we talked earlier, traditional telecom and desktop area, it is much beyond that. We are talking about communicating with systems to systems, from device to device and the speed at which we communicate. So, I think it is not just the telecom and limited to this, it is much beyond that, that is what we are talking about.

Sangam Iyer: So, in terms of this particular domain, given that now kind of an umbrella for the next generation of technology to develop, where do you think in terms of the ordering that could start coming in for us in terms of product development for us across various domains that you mentioned? When do you think that it will start getting reflected in terms of orders or in terms of new projects coming in?

Dr. Keshab Panda: We already got the orders. See, what happens is this has started from 2018 onwards, it is a survival issue, 5G implementation has to happen. And you can imagine 4G LTE to 5G differences, 1 gigabit per second going to 10 to 20 gigabits per second. It is a big transformation we are talking about. And imagine where it will be used in factory application, it will be used in e-health application, it will be used in every application, it is connecting device to device. So, I think we have to have right stack, understanding how well we connect it, what is that we need to create in terms of testing or in terms of creating our own platform, I think that is the difference. We already did that, there are already some customers where we we sold it, it is not a big one, we did this for a customer and in addition to this look at this, NBIot this is part of again the same thing, NBIot and 5G transformation into IoT platform, this is going to be much more important and we are building towards that, we are not looking at the telecom Hitech segment, we are looking for lot more than that. For example, we are doing 5G simulator and automation test bed for verification of 5G service functionality, this is something we have created. This is something we sold to a customer now and this customer we are doing POC, we delivered to them, their readiness on 5G, there are multiple things going on. Once you transform it is going to the next level and next level. So, this is a survival issue, one has to know this. Now, NBIot using in a factory scenario connecting devices to device using NBIot this is something we have demonstrated.

Sangam Iyer: And sir lastly, where is the timeline by when the promoters have to bring down the stake to 75%?

Dr. Keshab Panda: I think September 2019, it is up to promoters to do that, that is something you have to talk to L&T CFO, he will give you more information on when they do it. But as per rule September 2019 I think is the date before which they should do that.

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

Madhu Babu: Sir, what is the time for the freshers to go into billing, what is the gestation time for that?

Dr. Keshab Panda: It varies from three months to six months, depending on the type of project they do. When we hire freshers, we give them training on our processes, we talk to them about engineering concept what they know and we take them to all the factories like Larson Toubro, our parent company, we show them our labs, give them orientation about this, we also tell them about our customer base, type of work we do. And depending on their interest level and what they are good at, I can tell you there are some engineers who come they are productive in four weeks itself, immediately after training they are billable. There are engineers depending on the type of work they do, they take anywhere between three months to six months, there are cases it takes six months as well depending on type of training they have to go through. So, anywhere I would say from one month to six months is the period where they go through this training.

Madhu Babu: Sir, and if rupee remains at Rs. 68 the captives might pass on the benefit to the parent, so would that put any pricing pressure for us?

P. Ramakrishnan: Are you referring to the exchange rate?

Madhu Babu: Yes, if the rupee remains like this at 68, I mean lot of the engineering companies have captives in India, so maybe captives might pass on the benefits to the parent. So, similarly, would that exert any pricing pressure on us?

P. Ramakrishnan: Till now, Madhu, there has not been a single instance that we have heard from any client asking us to reduce rates. As Bhate-ji conveyed in his speech that we are also pursuing bill rate increases in some of our accounts as part of our overall improving operating margin, so despite the dollar rupee going to this side we have not had any such cases so far.

Dr. Keshab Panda: Unlike in IT when we were doing ADMS, Infra, the pressure on that goes through, I think there is a question about customers coming back and asking for depending on dollar-rupee. In this case if you are creating value, innovation and product design what we do, last year for example we have been able to get rate increases. And there are some customers we continue to pursue them, if you are creating value then the billing rate has to increase. It has not become an issue so far and I do not think there is going to be major challenge this year, at least.

Moderator: Thank you. Our next question is from the line of Akshay Goswami from SBICAP Securities. Please go ahead.

Akshay Goswami: Can you give the reconciliation of the margin difference of 90 bps between Q4 and Q1 once again?

Bhupendra Bhate: In terms of margin I already mentioned this, we had a better offshore revenue mix, so from 50.6% we had in Q1 versus 50% that we had earlier. Then there has been a change in the business mix, for example, our process industry grew faster and that also added to the margin. Around 120 bps we had benefit due to the currency depreciation, but on the other side some of these gains were also offset. For instance, our utilization dropped by 200 bps primarily because of the fresher intake. Secondly, we had a visa cost impact of around 60 bps. And also, from a sale of IP revenue, Q1 we did not have any significant revenue as compared to Q4. So, this is where somewhere we gain, somewhere we also had the impact from a margin perspective.

Moderator: Thank you very much. That was the last question in the queue. I would now like to hand the conference call over to Mr. Pinku Pappan for closing comments.

Pinku Pappan: Thank you all for joining us on the call today. If you have any further questions, please feel free email me. Again, to remind you, we look forward to seeing you all on August 30th on our second investor day. Goodbye and wish you a great evening.

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