



“L&T Technology Services Limited Conference Call”

January 23, 2017



**MANAGEMENT: DR. KESHAB PANDA – CEO & MANAGING DIRECTOR,
L&T TECHNOLOGY SERVICES LIMITED**

**MR. P. RAMAKRISHNAN – CHIEF FINANCIAL OFFICER,
L&T TECHNOLOGY SERVICES LIMITED**

Moderator: Ladies and gentlemen, a very good morning and welcome to the L&T Technology Services Limited Earnings Conference Call for the Third Quarter Fiscal 2017. On the call from the company side, we have Dr. Keshab Panda – Chief Executive Officer and Managing Director; P. Ramakrishnan – Chief Financial Officer. 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. In case you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Keshab Panda. Thank you and over to you sir.

Dr. Keshab Panda: Thank you, moderator. Good morning and Happy New Year to all of you. It is a pleasure to host you on our Third Quarterly Earning Call. We grew our revenue by almost 4% from last year's base in a fundamentally uncertain situation the market is going through. In 9 months' year-on-year, constant currency revenue grew 4.5%. Net income at 1,086 million for the quarter in rupees and was steady at 13.5%; was a traditionally challenging season in the quarter. We own a number of multimillion dollar contracts from global customers across industrial products, transportation, process industry, telecom and medical devices covering all our vertical segments. In the quarter, we jointly set up an innovation lab that is in Bangalore with one of our top customers. We are very excited about this futuristic technology for innovation on multiple areas, mostly on the security side which we are going to do on the digital scenario and that we set up in this quarter.

While Q3 saw some customers deferring the decision making sequentially especially in North America, the impact of the whole has been relatively soft, thanks to our geographical spread and multi-vertical presence that helped. L&T Technology Services has a healthy pipeline of opportunities from our major customers, what we call as T30 in the industrial, medical devices and transportation. We have some difficulty in the plant engineering segment because of political situation there and we believe that is going to go away soon. We also see increased traction with existing Fortune 500 customers, global ER&D spenders.

The quarter ended December 31st also faced headwinds in form of some customers reprioritizing their planned programs and projects. Our focus on agile model combined with value engineering help us to adopt and align to challenging customer expectations this quarter. The quarter was special to us as Zinnov rated us a leadership position in 10 major verticals including two new; last year we were 8, this year 10, including semiconductors and consumer electronics and Zinnov also recognized us as an overall expansive and established player and also in embedded and mechanical services. During third quarter, two patents, as I said last quarter we filed 3 and this quarter 2 more additional patents we filed, LTTTS along with global customers got published taking the total number of patents to 176. While we may face some amount of uncertainty in the near term, from a long term perspective I am very confident in our fundamentals, our focus on cutting edge R&D technology including digital in a big way and innovation, transformation, what business transformation we do, we believe the business model is very solid and strong and it gives us much more opportunities in the future.

There are two segments, as I talked about plant engineering which required two parts, one is brownfield and greenfield. Investment in CAPEX got delayed because of uncertainty in the government in US. We believe that is behind us now and we should be able to grow that segment very well. The two segments did very well, industrial product and transportation segment is continuously doing well for last 9 months or so and we believe that the segment of plant engineering we should be able to, in future looks bright. Thank you. Now I will hand it over to our CFO – Mr. P. Ramakrishnan.

P. Ramakrishnan:

Thank you, Dr. Panda. Good morning to all of you and wishing a very Happy New Year. I will just try to summarize the financials, you must have gone through the press release and the advertisement which has been filed and also the factsheets which we have uploaded on our website.

Just to summarize and take out from what Dr. Panda communicated, I will talk about the rupee's crore revenue first and then we will try to explain the dollar revenue and the margin stuff. Our revenue for the quarter ended 31st December 2016 was Rs. 8,104 million as against the Y-on-Y December 15 numbers of Rs. 7,802 million with a growth of roughly around 3.9% on a year-on-year basis. Our nine months revenue for the period ended 31st December 2016 at Rs. 24,360 million, grew around 7.6% as compared to the December 2015, 9-month revenue of Rs. 22,648 million. In dollar terms, our Q3 topline was \$120 million when compared to the same period of December 2015, it was a \$118.4 million thereby registering a growth of roughly around 1.5%. On 9 months dollar revenues, we grew 9 months at roughly around 3.9% in US dollar terms. On a constant currency basis, our increase in topline on a 9 months' basis has been at 4.5% and for the quarter it has been an increase of 1.4%. But when we compare it on a sequential quarter, our last quarter Q2, September 2016 our revenues were \$122.9 million and there is a drop of roughly around 2.2% just compared to on a sequential quarter basis, both on reported revenue and also in constant currency basis.

Our EBITDA for the quarter ended December 2016 is at Rs. 1,457 million with a margin of roughly around 18% and our profits after tax is at Rs. 1,086 million for the quarter steady at 13.5%. You may have observed in the current year across all the 3 quarters, Q1, Q2, Q3, our net margin levels have been hovering around 13.5% to 13.6%.

Now coming to the overall segment performance, the segment performance in terms of the structure, we have broadly 5 segments; transportation, industrial products, telecom, process and medical. The transportation segment continues to be as per the past trend as well the segment having the maximum share of revenues. For the quarter ended December 2016, the transportation segment contributed to 34% revenues. The next one, industrial products was at 26.6%, telecom and hi-tech at 17.2, process at 15.5 and the last segment medical devices contributing to 6.7% of the revenue. Also structurally from a segment perspective, the segment share of the total overall revenues remains largely unchanged from that of the earlier quarters. From a geography perspective, the split up of revenues across geography also remains more or less the same with North America contributing to 63% of revenues, Europe 19%, rest of the world excluding India 10% and India at the last 8%. So there has not been a major change. In

terms of our overall revenue mix as what we had in the Q2 our onsite-offshore mix in terms of revenue was 48:52. For the quarter ended December, the onsite-offshore continues to be in the same range at 47.5:52.5. In terms of the bids for contracts, structurally LTTS has been with a time and material contracts of roughly 70% and fixed price jobs attributing to the balance 30%-31%.

Now coming back to the explanation, in terms of the traction out of top 10 or top 5 clients, if you see the top 5 clients, they have for the quarter contributed almost 23% of our revenues and top 20 exceeding almost 50% of our total overall revenue, thereby confirming our position as that we have a set of clients which contribute a major part of revenues and at the same point of time, we are not dependent on any particular client for a big portion of our topline. In terms of utilization, our December utilization for the 9 months was cumulative around 75%, a drop of roughly around 3% with that of the quarter two of September. The reason obviously is as we had told in the last quarter earnings as well, that is in the Q3, in terms of we will see a higher amount of furloughs and forced vacations across most of our geographies and hence the utilization partly has come down by around 3%. In terms of the overall headcount, LTTS has crossed 10,000 during this quarter. In September, our headcount was around 9,600 and we have crossed 10,000 in the current quarter. Our operating margin of 18% for the quarter vis-à-vis our Q2 operating margin was around 19.0%, the drop in the operating margin is primarily because of the lower IP related revenues which did not happen much in the Q3 and the rest is slight drop in utilization, but we still continue to have 18% operating margin. So with this, I have tried to give you a flavor of our performance and now we are free to take questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Ananda Iyer from Canara Robeco. Please go ahead.

Ananda Iyer: Could you throw some more light on your telecom and hi-tech vertical which has seen a sharp degrowth this quarter both on a sequential as well as on a year-on-year basis?

Dr. Keshab Panda: I think telecom and hi-tech, some of the large projects got delayed. This is a segment we are working on few large deals and we have seen lot more opportunity in the segment, I agree with that, but there is a delay in the decision making. With the segment, we are very bullish about it. So still that segment is going to do well. There is no doubt about that. Some of the decision making got delayed, that is why we see a degrowth in this quarter.

Ananda Iyer: But in terms of visibility for the next 1 or 2 quarters or next couple of quarters, do you think the traction will remain muted or do you see a good pickup kind of next couple of quarters?

Dr. Keshab Panda: I would not say about the next quarter, but I am very positive about the segment doing well. If you take couple of quarters from today, I am sure it will do well because there are multiple areas, in telecom and hi-tech there are multiple areas we are focusing on and sizeable deals we are working on right now. So hopefully we will be able to close. So what happens is the segment, we thought we are going to close this quarter got delayed because of holidays and so

on. And hopefully you are going to, this is a decisions customer have to make, so hopefully you will be able to do that. But I am very positive about couple of quarters that segments should do well.

Ananda Iyer: And in terms of the size of deals, means whenever the deal closes or you get those deals, then the growth traction would also be equally big in terms of the growth that would happen or it would be small deals that would be chasing?

Dr. Keshab Panda: I think there are two components to it. In telecom you see we have two series of IPs which we own. One is on the USB side, other one is called MIPI, it is called mobile interface processor interface what we call. These two IPs we own and we sell the IPs to the companies who are doing cameras and which is called digital technology, what they are doing it. So last quarter, we have been successful in selling some IPs which is I think added to our revenue as well, what you see compared last quarter and this quarter and then IP because of holiday season in quarter three and that got delayed. So I think we are very bullish about the series of two IPs, MIPI and USB IP and that is going to add to our revenue in coming quarters as well. So I think that these two together has what you see now in quarter three numbers.

Ananda Iyer: And even in transportation, there seems to be some deceleration in growth. So this is purely because of furloughs or here also there are some decisions that have got delayed?

Dr. Keshab Panda: Transportation I do not think it has taken, it almost remains flat and I would say transportation because of holidays in US, number of working days was less. It has nothing to do with customer decision or anything like that and that user, the transportation segment, the manufacturing segment, they close the factory for two weeks and they go for vacation for a long time. So, that decision making, transportation nothing to do with any other point because of number of working days.

Ananda Iyer: And even on Top 5 clients on a sequential basis, it seems there is some amount of degrowth, so that is attributable to any particular reason per se or this is again more of a seasonal impact?

Dr. Keshab Panda: I would say it is a seasonal impact. If you see our top 5 customers, it covers some of the segments. We talk about transportation or telecom or hi-tech in the segment and the segment I think it is more on the seasonal than anything else.

Ananda Iyer: And in terms of utilization, you expect the utilization to climb back in Q4 to your earlier levels or it would take some time to scale up?

Dr. Keshab Panda: See, I am not too much worried, I think we are doing Engineering and Technology innovation we do, 75-78 is a good, I am very happy with 75.5 whatever we have in quarter three or maximum I push people to 78 what we had in quarter two. It is not going to be in our favor if we push too hard on, this is not IT, this is Engineering and Technology and innovations, I think when we work on the technology innovation takes time, I would not go too hard on the utilization very much, I will push more on the innovation when you talk about, maybe some

room for pyramid which we look at it and I will look at how to use multiple IPs, for information we have one IP which we created which is called iBEMS, with trademark called iBEMS, this is a smart building management system. The iBEMS, now we have started selling the license to customers in Asia and Europe, we have been successful. I will push that hard, that is going to be much more opportunities than looking at the utilization more and more.

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

Priyankar Sarkar: Sir just wanted to figure out number of active clients is 217 and as per your strategy, you are supposed to be doing customer pruning. So by when can we expect that to reduce to your strategy as outlined before?

Dr. Keshab Panda: We keep doing that. Last year before IPO we made sure that our focus would be on per se when I say T30 and A3, our focus continued to be T30 A3 that is we will continue to focus. We have instructed if you see today, the customers we add new customer only in A3. I hope you understand T30, our top 30 customers, A3 is adjacent 3 customer. So the adjacent 3 customer, all the sales people have been communicated that you are not going to add anything beyond that A3 customers. So you will see addition here only for A3 customers and transition phase, every quarter we draw few customers for sure. In the long run if you really want to do innovative technology and engineering work, we need to focus on few and my goal is to bring down once to a number, every quarter we are not going to at a time going to impact the total revenue point of view but we are slowly, this is a process going on, we continue to do that.

Priyankar Sarkar: Right sir, thanks. Sir, just another question. What would be the contribution of IP led revenue to the overall revenue?

Dr. Keshab Panda: See, we continue to add there, that is how differentiator we believe and the IP revenue what we, the two series of IP I talked about, the MIPI and USB that anyway there and this quarter we added only 0.5 million, but next quarter I am pretty sure we will do more than that because it is a holiday season quarter three, we could not do that, quarter four will be more than that. See, as in the selling IP and getting revenue and then finally continue to add number of IPs we have that is the goal. Like iBEMS I talked about, it is a platform, we own the trademark and I would focus more aggressively on i-BEM in addition to two IPs we have been selling now. So I think this is a growth area, I would not be able to tell you exact number, but I can tell you that, because of quarter three came down to 0.5. The last quarter, Q2 was more than Q3 and Q4 will be more than Q3 for sure.

Priyankar Sarkar: Right sir and just another clarification. In the transportation segment, which is the highest growing vertical over there within transportation?

Dr. Keshab Panda: See, I think if you see transportation, it is very interesting today if you go to telecom company they talk about automotive more than telecom, right? And automotive segment is crazy thing happening today. What was core to the OEMs last two years or three years, it is no more core

to them. They are now giving it and they are looking at core and the electronics. Now the car is like a computer, right? That is how they do. So I think in all the transporting segments, auto has continued to be big and aerospace is always, it is a cyclic business, it remains for some time and goes down. We do not have too much exposure over there. We have exposure not to that level. We can maintain that and we focus on aerospace on air traffic management system. We believe that is the area where we are good at and that is the area depending on, even though A380, 350 and Dreamliner of program over, this is going to be in the air traffic management is not going to be over, that is the software what which we do that is our IP and we continue to do and that is going to be the focus area. Off highway if you see, now off highway industry and we have also taken some beating there. See off highway, if you see the who are there AGCO, Caterpillar, Komatsu, and John Deere in these segments you know what is happening in the market right now because of uncertainty in the world in the construction industry and I think last few weeks or so, there is a positive signal from the market that this industry is going to do well and we believe I think we are going to get benefited because of that.

Priyankar Sarkar: And sir overall how do you see the pricing in the engineering space, is there a severe pressure out there?

Dr. Keshab Panda: There is no pricing pressure. Engineering is divided into 2 components. Number one is skill based engineering and the design engineering, consulting engineering. If you are doing more and more in the upper half of the pyramid and then there is entry barrier for people to get into that. So I think you get value. Some of the work we do in industrial segment for example, lot of companies cannot do it. So I think it is for us to see how well we position and do that. But nobody has come so far to tell us that reduce your cost. And the bottom part of the pyramid is more on the skill based engineering or the annuity type of engineering that is where the automation and all this comes in. It is all how smart you are to maintain your margin in this segment. So I think to answer your question customers have not come back to us anytime last quarter or so to tell us that reduce your price, so that is not the case. It will be a issue if you are doing me to, if that type of work we do, there are many players there in the field who can take challenge you can come under. So far we have not seen that.

Priyankar Sarkar: And sir last question from my end. How many people do you have onsite and what is the component of local employees versus one on H1B and what would be impact of visa regulation changes?

Dr. Keshab Panda: I think we are watching very carefully, as I live in US for last 18 years and we do that every time when we are there. When you look at 65% of our people are mostly on H1 visa and rest of all are all US citizens, Green Card holders and so on. So I think today if you see green card and citizens, fortunately for us we acquired Dell Engineering, we have 200 plus engineers who are there, who are local engineers plus we have engineers who have been, we are hiring locally there altogether. So I would say again it would come down by 50:50 soon, our goal is by March this year will bring down to 50:50. My Head of HR is planning next week to US. He is going to be there two weeks and talking to the regulators, there are lot of speculations going on

what really is going to happen and whether it is going to be 80,000 – 100,000. There are two customer areas where onsite is high, one is telecom, other one is transportation. Now industrial product is very well positioned and plant engineering also very well positioned. The issue is now there we have been also in dialogue with customers. Customers do not know, there are customers asking about can you do more offshore and we are looking at every lever available to us. We are also looking at it, I think my HR head is going to be there two weeks going round, talking to multiple customers, he is going to talk to our employees, he is going to talk to the legal attorneys there, in Washington DC and elsewhere, we are conscious about this and we are working very closely and I think I am sure we will find a solution to that.

Priyankar Sarkar: Fair enough sir and what would be the average salary of H1B workers for your company in the US?

Dr. Keshab Panda: I think that is a regulation, right? It is there, 60,000 is what I think is the number and overall I think today if you see our average is around 75,000 – 80,000, that is where we are right now. Today if they come to 80,000, not 100,000 is not an issue. I think we will be able to, therefore no impact at all. I do not think it is going to go from 60 to 100 at the same time and balancing out the US citizen to non-US citizen, plus the average what we have. I do not think it is going to be a major issue I would say.

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

Pankaj Kapoor: Dr. Panda, at the time of the IPO and I think in the last call also, you were quite confident of getting a double digit growth this year, but given that 9 months we have done just about 4%-4.5%. Do you also think that is a realistic target for us?

Dr. Keshab Panda: Pankaj, I think there are two things happened now. As we talked about in FY17, there are few quarters of cleanup we did earlier has impacted the beginning. Now if you see the CAPEX investment in the plant engineering because of global uncertainty in terms of US election and so on, if you see plant engineering growth which was there before and that slowed down a little bit. Customers were little careful about the investment which they do and that is the growth area I think that has impacted to some extent we believe now. With lot of manufacturing and the plant uncertainties behind us, hopefully so with the US President in place and that I think should pick up I would think in FY18 and the number two is, I think the manufacturing work going to US, that is the area we do whether to expand the existing facility to brownfield project or that is where the greenfield new investment is going to happen because of its focus in US, whatever plants they were building in Mexico, that was never giving us any business. Mexico we cannot go and do an engineering work in the plant engineering. But we believe now I think things are behind us, FY18 looks pretty good in my view. There are two segments what we predicted did reasonably well. Pankaj, the transportation and industrial I do not think in terms of parameter, they did reasonably well. Only there are two things. This quarter number of holidays and all that we know that is seasonal impact, but I think the telecom decision making getting delayed and plant engineering investment, customer uncertainty, the global uncertainty

has impacted, but we believe we will be able to come back. In quarter four, we will do much better than quarter three and in the past 9 months and FY 18 looks quite positive and again we are also building a different stream of revenue. Say one is the IP revenue we did last quarter, to IP revenue this quarter and what we intend to do next quarter and there are some investments in terms of what we did. Some good engineers to pull out and innovation lab I talked about, we set up in Bangalore for one of our top 5 customers, working on security problem which is on the digital area and using different technologies with WiFi, Bluetooth, Ultrasound, Infrared Devices and so on., we believe those are cutting edge technology that also is going to take some time in technology area, but I think nothing has changed from what I talked earlier and what is happening now.

Pankaj Kapoor: Sure sir. That was quite comprehensive. So you think that on the fourth quarter we should be able to recover the growth well. But still I mean, do you think that closer to double digit kind of a growth is something what we should now aspire for '18?

Dr. Keshab Panda: Pankaj, I will not be able to, 2018 I can tell you, yes, but we will do much better than quarter three. That much I can tell you. What finally adds up to numbers too, I will not be able to comment on that, but I can tell you the future looks very good.

Pankaj Kapoor: I understand. So sir, what is then giving us this confidence for '18, is it just a hope of recovery the client spend is picking up in the US or you think that the TCV of the deals which we have won because I realize that you have highlighted specifically, fairly good order booking in this quarter. So can you give some quantification in terms of the deal wins in the quarter or YTD which is giving us this confidence?

Dr. Keshab Panda: There are couple of things which are very close to finalizing. Let me give an example there is one deal, almost 50 million we should have closed in this quarter three and the customer almost before the final signature they said because what happened to Carrier Corporation and UTC and what happened in Ford and Toyota that statement came and that deal required 100 people US job to go out and it is a sizeable deal and customer delayed that deal saying let Donald Trump take over as President and we will discuss that. We believe that is a deal which required lot more effort to get into that level and technology required, investment required and it has gone to that level, we believe that is going to be cleared soon because whatever you do in election time before sitting in the chair and after sitting in the chair, there is a difference that is one. One vertical segment there are multiple things going on right now and we believe we are quite positive, I can tell you two deals which is going to close in January-February that itself is going to take care of lot more pressure on the growth in FY'18, then we won a deal just a week ago or two weeks ago on the iBEMS, what you call intelligent building management system and iBEMS all the global players were there, everybody were there and that project we own and that is going to add to the revenue again in the coming quarters. Looking at every segment and the pipeline what we have, it is like this. There is one customer in oil and gas, they selected us only as engineering player and in contractually it is there that they are going to do annually contractual in the sense what we signed with them, they are going to do x million dollar, let us say \$25 million per year and engineering reality when you go and do it and

contract remains senior level of commitment, we had a meeting with the president of the company, I am sure you would know in oil and gas segment and the new CEO is now in the government. So we did discuss that and now today, when we start working on it, do the pilot and sales getting delayed. We won a customer in Germany and again going through 11 companies were invited in India, we were the winner and that customer again we are supposed to have 100 people and getting again go to engineering level, do the pilot and this one go up. So the customer base we have and what we have won gives me a confidence that I think we should do better in coming quarters, Pankaj.

Pankaj Kapoor:

Sure sir. And given that we are targeting now to bring down the H1B visa employee percentage in the US from 65 to 50, does this alter the margin picture going forward in terms of availability to maintain that 19% band, do you think that there could be some medium-term pressure on that?

Dr. Keshab Panda:

No, I think 19%, nothing to do with 50-65, we did last quarter. It is a simple math, right? Even if you maintain the utilization what is there today is not we maintain the same onsite level of concentration. If your revenue adds up to 3 more million, then it will give you 19%, so it is a simple maths, right? So number of working days would have been same as operations nothing has changed now. If you see last quarter, we did 19%, getting back to 19% this quarter would have got only revenue this number really. So I think that calculation we do not know today it is going to go, \$80,000 or it is going to go \$100,000 and how do we take that business forward and what percentage of that work, some work which I wrote 20 emails on Sunday to customers saying that can we look at it to address this problem, can you do more work offshore than onsite, this could be problem for you and problem for us as well. So I think multiple factors, I do not think PR will be able to predict right now what is that impact going to be on the EBITDA.

Moderator:

Thank you. We have the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta:

I just wanted to get some sense about our major clients and how we see takes in because if I look our top 20 clients even Y-o-Y the growth rate remains very muted kind of thing. So if you can help us understand top 20 and their outlook and how you see those opportunities? Second related question is about our strategy of top 30 A3, so if you can put all these things into perspective and give us some outlook because seems to be top 20 growth is not that encouraging at least in 9 months perspective?

Dr. Keshab Panda:

If you see, earlier we got T30 and A3 which we have been saying about, what has happened is that two segment continues to do well, Industrial and then Transportation doing well for us and as I said Telecom getting delayed and Plant Engineering onsite investment I think that has impacted us. If you look at top 30 accounts, 22 accounts have grown. Okay, 22 of top 30 has done well. Okay, in last 9 months if you see growing quarter-on-quarter, eight accounts have pulled down the revenue. What you see, you see the combined number, right? It is not that the accounts are not doing well, two segments had done well, they have grown and the other two

segments, one is getting delayed and what happens is when you work on the large deal, if you have 200 people or 300 engineers working for them, it is going to be, the 200-300 engineers their focus growth in this area, it does not happen, which was happening earlier quarter-on-quarter, we are looking at bigger picture. So I do not think there is an issue in terms of top accounts. 22 of them have grown, 8 of them have now degrown and if you add this, the million added and million subtracted that is how what picture you see there. But that is not that all top 20 or top 30 has not done well that time.

Dipesh Mehta:

And in terms of gaining more share kind of thing because our (+10) million client if I look at it, even this plus and minuses, but there we are not seeing structural increase. So if you can help us how we are looking, gaining more and more mining kind of thing?

Dr. Keshab Panda:

Structurally what we did is we announced the organization, we said every top 30 accounts, I have been here for last 2 weeks and talking to the ADMs, the delivery managers for top 30 and personally talking to them one by one about how we reorganize ourselves for coming quarters and coming years. So I think today if you see the ADMs and ARMs, relationship managers and delivery managers failing them and there are some decisions we take, when account goes to 10 million to beyond 10 million requires a different type of people, either the same ADM scale up or same ARM scale up or you need to sense that and do right changes. So issue today is not the focus, if you ask me today, if I leave everything, if T30 account has a meeting I would go there and that is true to all my management team, they have been instructed that every meeting when customer comes in T30 that is a priority number one, that is the focus and not only we say that we also communicate to customer and tell them that you are one of the T30 customers and you are important for us to remain in T30 and your revenue has to be in this and you are the top 10 customer, you are top 20 customer, you are top 15 customers. So I think it is not that we say, this has been communicated to the customers as well. So I think it is up very clear in that sense. We are doing everything possible to focus on these areas.

Dipesh Mehta:

Sure sir and last question is M&A was our overall integral part of growth strategies, so if you can provide any color which you can provide because that is also is not till now getting reflected, if you can provide any color that would be helpful?

Dr. Keshab Panda:

One thing I did clarify I think every time I talk, one is we are not going to do M&A to add revenue that is absolutely clear. We are not going to do M&A which is too big, which is not easy to manage because there are M&As as you say, 80%-90% M&A does not work. But today to answer your question, there is one M&A which are advanced stage, hopefully by end of January-February close next time when I have a call, then I would have closed by that time and in the initial stage all that done, I did present to the Board and all approval is there in place. The team is working on right now and hopefully this is the technology which we do not have, which I can integrate, which is going to grow my top 10 accounts so with that technology we go into a new area which I do not have long time to build. There is a team working on it and I spent a lot more time talking about that and I made a very detailed presentation to the Board and we are at advanced stage, hopefully next time we will be able to.

Moderator: Thank you. We have the next question from the line of Lalit Kumar from MCA Management. Please go ahead.

Lalit Kumar: Majority of them have asked on the business side of it, just wanted to understand what is the hedging policy of the company, is it naturally hedged and if so, then what is the FOREX gain or loss, I could not get the breakup of it?

P. Ramakrishnan: Only thing is what we have been following as consistent hedging policy is 70% of our revenues are denominated in dollars and what we do consistently which we have been doing is that, we have a rolling sort of a 36 months kind of a program in which what we do is that at any point of time we tried to ensure that a major portion, almost say 60%-90% of rolling 12 months net revenues in dollar terms are hedged and then from month 13 to month 24, roughly around I would say 40%-60% and from month 25 to month 36, something around the balance 25% to 40%-odd. So this is the program which we have been continuously adopting and that hopefully has ensured that we do not have quarter-on-quarter kind of a major fluctuations in our other income. Having said this if you see in other income essentially comprises of the two aspects, the hedging unwind of the cash flows of those contracts which have been taken for that quarter and adjusted for transaction translation differences for our payables and receivables for that particular quarter. So the major part of the other income is essentially on account of hedging and translation and transaction gains.

Moderator: Thank you. We have the next question from the line of Abhishek Shindadkar from Equirus Securities. Please go ahead.

Abhishek Shindadkar: Sir the first question is regarding process industry, so can we call out that the weakness in process is done, would be done by '17 and that '18 the growth could be in line with the company average?

Dr. Keshab Panda: That is the intent. There are few things when I talked to customers around and that is the view I get. There are two parts in this Plant Engineering – one is called sustenance engineering which is I think has to continue and that part is protected and that gives you regular revenue. The next one is the Brownfield and Greenfield which was adding lot more value that got delayed that is the CAPEX investment required, right? We believe now and with Donald Trump taking over and lot more plans being, hopefully he is talking about that at least and customers believe that is going to be the case and if that is the case, then I think we will have much more, I think next quarter we know because he has just taken over few days ago and we will have some time to figure it out and we are very bullish about it that I think should come back and grow at the same level as other verticals.

Abhishek Shindadkar: Okay, that is helpful. And the second is on the decision-making delay that you talked about in US where there was takeout of 100 people. Can you kind of quantify or can you throw some light around, which vertical or revenue segment the deal was and also whether this is an isolated event that you saw or it is more frequent event that is happening in the market? And

sub-question to that is sir can you quantify when we say active customer, is it that the revenue we have generated in the past 12 months, how can you define your active customer.

Dr. Keshab Panda:

There are two things – one is when you have a deal of that size I talked about, sometimes it happens that multi-vertical segment helps. Sometimes what happens is because the customer I am talking about it is not just one vertical, there are component of industrial, component of life science or medical and component of transportation as well. So the deal, this is the one, I have at least faced myself and where I think everything was done and that question came up whether we can delay it. But they are willing to do that. Can they do it overall point of view, can the delay this forever, no they cannot because you have to be competitive in the market, you have to do it, find a way to do it. The question is, people were worried about the event which happened in Carrier Indiana Plant going to Mexico and the way he made statement of a Ford 1.6 billion investment in Mexico that he stopped again and the NAFTA statement which came and he did talk to Toyota about the same thing very bluntly, so they were worried about. I think they do not want to take a hit. It is a big sized company. I think it comes in our top 7 customers I would say and they did not want for a wrong reason come in the front-page newspaper. So it got delayed and I do not think that is the case. The people who are doing it when a job involved, see sometimes if you are doing a bigger deal in Engineering segment unlike IT when you do engineering field, there are engineers who work in that area and they design the product, or they are maintaining the product or maintaining the plant or doing all those and then either you take them as employee. If you take them as an employee being in US, you cannot give benefit to customer. Major part of it has to come here and some part of it you have to automate to get values. So, it requires either way whatever you do, some excess employees they have to take action on that. So it is not that many regular growth what you do with customer, with those there is no issue. I do not see customers coming back and saying anything else, but when you are working on a bigger deal, then visibility is there and some of the state in Midwest area and where I think is very closely, he is watching that and the question about we have to find a way, whether he is going to go aggressively on that, we will find a mid-point where how we can do it taking our interest and customer interest in the mind, so I think that is where it is. Active customers when I talked about, I think we always say, active customers revenue for customers in this quarter, coming from this quarter and our own definition of customers are when you sign a customer, in 12 months you must do a million dollar. If you sign a new customer, all sort it out. So that I think I review this every time and my Engineering team reviews that very clearly and that is absolutely clear to all sales people we have communicated to them very clearly.

Abhishek Shindadkar:

Sir just a sub-question to the answer you gave, my question was pertaining to the events that you are seeing especially in the US. It is not specific to your customer base, but are you seeing that more often people are delaying their spend patterns and waiting for the commentary from the President. That was any sense on whether such events are happening in the market that is what I meant when I asked the question.

Dr. Keshab Panda:

No. I think US is a democratic country and President has some power and not all the powers. I think we will have to see again and this is not the issue it is happening anywhere, I have not

heard this at all, I think it is not the case, but anything happens that people watch it and again you cannot combine because your Q3 number of working days less, plough this together, lot of people in Western world I think people go on vacation for two weeks, a month and all that happens right? So it is combined effect now, but I have not heard at least anybody talking about no, I think this is not going to be the case because you have to be competent, you have to do more. I would put it in a positive spin, if really he is doing what he is going to do, he is going to bring back the manufacturing from China, he is talking about Mexico, he is talking about NAFTA, he is talking something like that plant engineering, manufacturing engineering subsystem and that should add more opportunity for company like us in the technology segment.

Moderator: Thank you. We have the next question from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Just a small clarification, sure if I got the number right. So you mentioned that average salary for employees in US is \$75,000 – \$80,000. So is that your overall US workforce or is it for employees who are on visas in US?

Dr. Keshab Panda: Overall. When we say 75-80 is overall.

Jay Doshi: So that all visas would be very different or little lower or broadly in same range?

Dr. Keshab Panda: It is all same, it is all on the grade. We do not see when you send somebody because he is an Indian or American citizen or a Canadian citizen, we do not see that. We have a grade base depending on the whole role he plays, he is a project leader, module leader, project manager based on that we fix the salary, right? I think the major part of this, there is no great difference between the citizenship there and the Indians go on H1 visa, there is no difference there.

Moderator: Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Just a couple of bookkeeping questions. You mentioned the constant currency decline in this quarter was 2.2%.

Dr. Keshab Panda: Correct.

Vibhor Singhal: So what was that number in constant currency terms sir?

P. Ramakrishnan: In constant currency terms, the revenue was 120.2.

Vibhor Singhal: Fair enough sir. And also sir, just wanted to understand, you mentioned that the telecom and hi-tech vertical which has been basically seeing a significant down weakness, so which part of that would you be attributing it to, your telecom or the hi-tech vertical?

- Dr. Keshab Panda:** It is more on the hi-tech side. I do not say weakness is deferred quarter three, some of the decision would have made in quarter three got delayed because that is the impact, not any weakness in the market, that is not the case.
- Vibhor Singhal:** It is not a weakness in the market, but maybe client specific issues that you have.
- Dr. Keshab Panda:** Not client specific issue, the dangerous thing to say because we were not delivering well, that is not the case. Some of the decision making got delayed. Customer wants to do this in a bigger scale. I think you can do adding 10 people doing a project that is okay, customer does not have an issue. If they are doing 200 people, I have to add it and work on the project and that requires a little more study taking everybody together. So those are getting delayed if you see the growth last 2-3 years if you see, last 10 quarters-8 quarters, same account was doing it and we can do that. Now we have sizeable accounts, we have all top 10 customers you see. Those customers when you do it and decision making got delayed. There is nothing on weakness, nothing on delivery issue, or the employee issue that is not the case.
- Vibhor Singhal:** Fair enough. And sir just to come back on the constant currency number, so what I wanted was that, there was a 2.2% decline Q-on-Q in reported numbers, what was the decline in constant currency terms on Q-on-Q basis?
- P. Ramakrishnan:** See, our reported revenue for Q2 was 122.9 and 120.2 is our Q3 revenue. So in the reported revenue, it has been a drop of 2.2%, in constant currency also it is at the same level.
- Vibhor Singhal:** Wouldn't that mean that we had no cross currency impact in this quarter?
- P. Ramakrishnan:** Let me put it clarify, when I say constant currency drop over Q3 means we have used the Q2 currency rates to take the Q3 numbers and we have done that and it is the same number, 2.2% on Q-on-Q for reported and constant currency is the same. But the reason for that is because the USD appreciation against the Euro and the Yen has partly offset the USD appreciation against the rupee.
- Vibhor Singhal:** Sir but the 30% of our revenue coming from non-US geographies and those currencies actually seeing significant volatility against US dollars. I assume there would be some cross currency impact which would lead to some difference between the reported and the constant currency growth. I will probably take that offline. Not a problem sir.
- Moderator:** Thank you. We have the next question from the line of Ajay Khandelwal from BOI AXA Mutual Fund. Please go ahead.
- Ajay Khandelwal:** Sir my question is about this broad trends in outsourcing of ER&D, for example the global R&D increased by 7%-8%, whereas third party service providers were gaining market share. First I want to know your thoughts on that?

Dr. Keshab Panda: Can you repeat the question again, third party outsourcing ER&D, you were saying third party is growing, like service provider like ourselves?

Ajay Khandelwal: Yes sir. So they are growing faster than the in-house centers, right?

Dr. Keshab Panda: Last year if you see, it was all same. Both service provider and captive center grew in the same rate. CAGR if you see that, it is almost same.

Ajay Khandelwal: Okay. So sir, how do you see the landscape right now?

Dr. Keshab Panda: No, I think if you look at the overall, all the captive centers, see some of the captive centers they do not want to do it and they are looking at the service provider like as you take over. Whether you can take over and maintain that, it is every company is different. I would think this trend will continue. Service provider growth and captive center because this is unlike IT services, it last for 20 years – 25 years is going on, engineering started late. They started doing it now, at least I would say next 10 years, it should continue the same way provided you are relevant in the market. Your technology innovation engine is there, so that you are relevant in the market, you continue to get the market share and continue to grow. Our difference at pure play engineering and innovation, I think that is making investment in creating the IPs and creating the patents what we do, we believe that we are going to be relevant in the market and continue to have the right percentage the way it is right now.

Ajay Khandelwal: Sir in that case, if I look at the other ER&D players, they are growing in double digits, even last 2-3 quarters also, for example if I take Altran they have been growing at 10%-12%, so where do you think apart from the thing that you just spoken, what are the areas where actually, we can do better to improve our run rate?

Dr. Keshab Panda: You know, there are two things. We need the business model, it is different from what we do. If you see all parameters when you look at it, there are areas where I do not want to do it to increase my topline because it is going to impact my margin. So I think I am very careful about that. So the very reason I think the Indian players I think are doing well in terms of maintaining the margin or growing the margin, I think that is a focus area as well. So I do not think and then taking over a big deal where in France or Germany, it is going to grow your topline, but it will take couple of quarters to clean that up. So I know that business model is different, double digit growth whatever they do Altran I have not seen their numbers yet recently, but I know who they are. I know them reasonably well. But I think the business model for those guys and ours is different. The only thing is maintaining our margin, how we grow faster and make sure that every opportunity do not lose and I think that is our goal and the innovation like I talked all the patents and I also talked of the IP revenue what we did last quarter to this quarter there is a degrowth because of holidays and can we pick this up because if you do that well, that adds up to your margins, not too much on the revenue, but it is going to help your margins. So it is a balanced different model I would say.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments. Thank you and over to you.

Dr. Keshab Panda: I would like to on behalf of L&T Technology Services and Management, all my 10,000 employees I want to thank you for joining the call and I can only tell you that we added two patents again and the number has continued to grow. We are trying to do that. Our customers are very excited about the innovation journey what we do. And one more thing I will tell you there is something called Techgium we are doing it, March 17 we are doing the grand finale where 5000 engineering students and 170 engineering colleges including IIT, NIIT, they are all participating, students and professors. We believe that is going to be a good effort for us as an engineering company or technology company not only building brand, but also getting bright talent hiring to this, getting bright ideas in today's world the young kids along with the professors participating, grand finale is going to be on 17th of March in Bangalore in our center and we also are building a big lab there, multiple areas, not just digital we talk about. Beyond Digital, there are multiple labs there, huge facility we have created where I think if you guys happen to be there, we would be happy to have a look at that. So we are excited about the investment and innovation engine which we have created we want this to continue. Thank you again.

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