



“L&T Technology Services Ltd. 4th Quarter Fiscal FY 2017 Earnings Conference Call”

May 4, 2017



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Moderator: Good day, Ladies and Gentlemen, and welcome to the L&T Technology Services Ltd. Earnings Conference Call for the Fourth Quarter Fiscal Year 2017. We have with us today from the management, Dr. Keshab Panda, – Chief Executive Officer and Managing Director; Mr. P. Ramakrishnan – Chief Financial Officer; and Mr. Amit Chadha – President (Sales & Business Development) and Member of the Board.

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 the conference call, please signal the 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 Dr. Keshab Panda. Thank you and over to you, Sir.

Keshab Panda: Good morning to all of you and warm welcome to you for the call. It is a pleasure to host you on our financial year ending earnings call. We ended the year with a positive note on an annualized basis with a 12.6% jump in EBITDA. EBITDA, we closed at 18% this financial year. Revenue growth of almost 6% from the last financial year, FY17 net income is at 13.1% at growth of 1.5% from FY16 to FY17. Quarterly revenue grew 2% year-on-year to \$121 million. The growth in dollar term would have been more, but was impacted by the steep appreciation of rupee versus the dollar which happened in the last quarter. For the fourth quarter, net income for the period came to Rs. 965 million. Our digital engineering revenue as a proportion of overall revenue had jumped 25% in FY17, now comprises of 12.5% of global revenue for the year FY17. The growth in digital business was on account of maturing of the company’s intellectual property and platform solutions such as UBIQWeise, iBEMS, WAGES, UBIQ Data and so on for business analytics and our next generation wireless protocol solution which we have been working on for some time.

We also have a formidable patent portfolio. As of March 31st, our patent count stood at 254, 57 of them are owned by LTTS and 197 of them have been co-authored by global customers. We are constantly developing exciting R&D solutions for the market for our customers. For example, our engineers have worked on a light control system with artificial intelligence, a magnetic particle break control valve arrangement and we also have developed an intellectual pod for the drone. In the medical domain, we are currently developing a real time optical sensor for broad analysis during major surgery, this we are working at Bangalore. This quarter, we received the prestigious Golden Peacock National Award for the quality. Quality is so important for the service industry we are very pleased that this has been awarded to us. We also ramped up one of our existing customer account into 30 plus million and we continue to grow that account as well, 30 plus million account this year. We saw significant wins in transportation, industrial product, and also experience in the Telecom and Hi-Tech segment as well.

Our increased focus on major customers have shown good traction. I would request my colleague, Mr. Amit Chadha, who is President Sales and Marketing, who is also whole-time director, L&TTS, to talk more about the recent wins we had and the traction we created in the market place. Over to Amit.

Amit Chadha:

Thank you so much Dr. Panda. Good morning, good afternoon, so our focus on ideation and accelerator is starting to pay off. We have won some deals in the last few weeks and we have a fairly significant healthy pipeline. I will take three examples of these. One, we entered into an exclusive agreement with a US-based technology leader to maintain their vantage middle ware stack for all their MSOs worldwide and we are the sole authorized partner for future upgrades, maintenance, etc. This will add 8 million in the first year alone. Over a three-year period, we see this at least adding a \$24 million to us in our top line. Second, and you must have read about this is the smart campus deal in Israel that we have co-won with Microsoft for one of the world's smartest office buildings for a US-based company work being done in Israel. The work has already started and it will add to our top line in this and the next few quarters. Third, we are happy to share that we have been awarded a significant deal which is in the final stages of contractual closure that we should close within the next few weeks that will help us assure us our level of growth for the next financial year. I will pause here and hand over to Dr. Panda.

Keshab Panda:

Thank you Amit. I am also happy to announce that we have signed definitive agreement to acquire Esencia Technologies we just closed few days ago. This company is a provider of design services from specification to final product in digital signal processing for communication, video, security, and networking. This company also works on perceptual computing in a big way. This is on Hi-Tech area. We believe that is a great move for us and will continue to deliver value for the company, our existing customers and new customers. The proposed acquisition will develop LTTS offering to a global customer particularly in perceptual computing, advanced silicon, and wireless networking technologies with smart design tools and libraries for digital signal processing and security. The proposed acquisition augurs well with allied technologies is long-term strategy to strengthen its footprint in ASIC design, VLSI, embedded design services and so on. We continue to invest in our R&D capabilities. We recently launched an engineering center of excellence in our Bangalore campus for the US medical device maker that is in Bangalore. As part of the image to implant process that delivers customers need in plants. We also expanded our network of centers for a leading German original OEM with the launch of center of excellence in Munich, Germany.

The highlight of the quarter was TECHgium, for which the final is going to be the tomorrow, TECHgium innovation fest, which received a very robust response from across the country. TECHgium is our nationwide initiative to co-invent, attract the best-of-the-class engineers from India's top engineering colleges to solve technology challenges across global industries. TECHgium got off to a flying start with more than 7000 students from 160 institutes participating in the challenges. Some of the entries include vehicle assistance using artificial intelligence and Heads-Up Display Integrated Interactive helmet. The grand finale is going to be held tomorrow in Bangalore.

In conclusion, I remain confident in our fundamentals and our focus in R&D technology including digital transformation in a big way. Our business model is solid and will reap, benefit and mid to long terms. Before I hand over, I just want to tell you that recent wins what Amit talked about, gives us the confidence that for the current financial year, FY18, we are confident that we should be able to get a double-digit growth which is possible in this current order booking we have and recent wins we have. Thank you, now I will hand over to our CFO, Mr. P. Ramakrishnan.

P. Ramakrishnan:

Thank you Dr. Panda. Good morning to all of you and thanks for taking this call. I will go through the numbers as per whatever we have shown in the advertisement. Revenue from operations, we closed the year at Rs. 32,483 million as against Rs. 30,662 million for FY16, a growth of around 5.9% on a year-on-year basis. Our profit after tax was reported at Rs. 4250 million as against Rs. 4186 million for the previous period. Now coming to the segment revenues, if you have seen in the advertisement, you would have observed that the transportation segment, the industrial product segment, and the medical industry segment have shown really robust increase in terms of the yearly revenues, transportation grew about around 15%, industrial products 8%, and medical devices grew around 11%. There was degrowth in the process industry and the telecom revenues was muted, and this attributed to an overall increase at the company revenues of 5.9%.

Now, coming to the quarter-on-quarter revenues, our revenues for the quarter was Rs. 8123 million as compared to the December previous quarter of Rs. 8104 million and the profit after tax was Rs. 965 million as compared to Rs. 1086 million. The drop-in profits in the current quarter from that of the previous quarter is attributed to the exchange rate and also the fact of a lower other income. Having said this, we talk about for the year, last year, for the year FY16, our EBITDA margin was around 17% and for FY17, we have improved the EBITDA margin on a year-on-year basis by 100 basis points to 18%. That is one thing which we have a significant improvement there, having said this, our total EBITDA margin dropped to 16.5% for the quarter as against 18% for the previous quarter. The 1.5% drop in EBITDA margin is attributed to, we increased the head count during Q3-Q4 and this headcount increase is largely on account of recruitment of billable resources which will all get into deployment in the subsequent quarters, but the overall increase in the employee cost has been roughly attributed to an EBITDA margin fall of around 20 basis points for the quarter and then we had a subcontracting cost increase which also contributed to another 0.2% EBITDA margin drop and sales administration and other expenses is around 40 basis points. In our opinion, this is something which is not going to recur and the balance around 70-80 basis points is attributed to the dollar-rupee appreciation.

Having said this, the dollar-rupee appreciation you would have observed that Jan and Feb, the dollar rupee was obviously the rupee was appreciating, but the maximum drop happened in the month of March and since our March billings were significant in the quarter, that has impacted the EBITDA margin to that extent, so with this, I come to the point of utilization and other data matrix. The Board of Directors have proposed a final dividend of Rs. 4 per share that has been recommended by the board and this will be cleared by the share holders in the AGM. Then coming to the revenue by verticals, our share of FY17, the transportation share continues to hold 33% of our revenues, industrial products 26%, telecom 18.7%, process industry 15.3%, medical devices 6.8%. This is the overall constitution of the segment wise revenues to the total yearly revenues.

In terms of revenue by geography, we still continue to focus 63% of our revenues accrues from North America, Europe 19%, India is around 8%, and the rest of the world 10%. Now, coming to the revenue mix, this has been normally of all the quarters, we have always observed that the on-site revenue mix is roughly around 49% that has been maintained. Last year, it was 53, there has been a decrease to 49, but as I have told in the earlier calls, onsite off-shore revenue mix will be around 50-50 take plus or minus 1% on a quarterly basis. In terms of the revenue by project, time

and material contracts constitute 70% of our revenues whereas around 30% balance constitutes the fixed price contracts. We had around 220 odd active clients during the year and one important thing is one of the client has moved into the 30 million bracket that is something we have done for the first time and we have around eight clients who are between the 10 to 30 million brackets and 21 clients in the 5 million plus bracket.

Now, coming to the client concentration as far as the revenue is concerned, our top five clients contribute to 23% of a yearly FY17 revenues and the top 10 clients constitute around 36%, so when I talk about top 10 clients constituting 36%, wish to confirm that the client composition in this 36% is, we have three clients from industrial products, two from process, two from telecom, two from transportation and one from medical devices. This reinforces our fact is that our spread of clients in the top 10 clients is almost well balanced across the reporting segments. In terms of the other operating metric, in terms of utilization, our yearly utilization closed at 76% as against 71% for the previous year. In terms of employee head count, I explained to you that in the last quarter we have had increase of around 400 resources which will all go into billing in subsequent quarters. Our closing headcount was 10,463 as compared to 9406 of the previous year roughly an increase of around 1000 resources out of which if you really see the entire increase in head count has been on the billable category. The billable resources are 9537 as compared to 8578, so with this I have tried to summarize the financial performance of the company for FY17, the segment analysis and also the overall profitability and with this I would like to conclude from our side and we are ready for question and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: The top five and top 10, the growth has not been that good over year-on-year basis, so what is the outlook in the top accounts?

Keshab Panda: Top accounts have grown reasonably okay because as we are saying one account has gone to 30 plus million which was not the case earlier, and you will see next year, we hope that our at least two to three clients will cross even 40 million, so we are focusing on the top five clients for sure and top 30 customers, so there are some cases if you see in totality, there are three customers have done very well. I would think of the pipeline what Amit Chadha talked about were the deal we won, it comes again in top five itself, so it is not right to say that it has not done well, but top customers have done reasonably well and that is why we are able to grow against (+30) million customers now.

Madhu Babu: I was seeing together the top 20 accounts give 64 million as on 4Q last year and now it is around 62.3, so is there any leakage in those accounts?

Keshab Panda: There is no leakage. What happened is there is one segment which we did not do well, you can see the Plant Engineering segment and one-two customer if he puts down, then total does not look good. They are two things happened. This one customer I did say last time, there is an impact on, they decided to come out of the business, there is some impact plus Plant Engineering together, so

out of 30 customers, I would say three customers had some impact and these three customers when you add all the number for 30 or top 20, this is what the number looks like, otherwise, all other customers look reasonably good and overall growth I think is good.

Madhu Babu: Sir, just on Esencia, what is the kind of skill set and what is the revenue per employee and what is the total revenue of the company?

Keshab Panda: Revenue is 20 million and the EBITDA is at the same level as our EBITDA and there are 100 employees. They are working on multiple areas, they work in the new age technology, they are working on areas like ASIC design for semiconductor segment and so on, so these 100 engineers are all in California. Everybody is in San Jose because we believe that if you want to work in R&D and technology areas, we have no choice but to be present in that area, whether any segment Medical, Automotive, Semiconductor any Hi-Tech area you talk about, they are all in California. Strategically, we decided this technology is going to be useful to us, it is going to add the value to our portfolio for existing customers as well as the new customers in areas of semiconductor, in areas of new age technology as well, new age customers as well, so both together, so there are 100 engineers all together.

Madhu Babu: Sir, when we say excluding this acquisition, we are comfortable now that last year we had this trimming some of the portfolio, so next year are we comfortable with 12% kind of growth on the core business alone?

Keshab Panda: I would say double digit growth whatever order we own now, we see there is a positive at least on order pipeline and what we own already orders in hand, double digit growth are sure. We should be able to achieve.

Madhu Babu: That would require a good momentum right from 1Q on?

Keshab Panda: It is like the order which Amit Chadha talked about, one order he said is he is just trying and close, and the second order signature, it will happen in next one week or two weeks, so already one month is over and this is second month in May, whether we are going to start in end of May or end of June, it may have some, how much of revenue we are going to get from that order in this quarter that we need to see, but I am pretty sure Quarter-2 onwards, because already everything 99% work has been done of the contract and 1% is pending. That 1% depends on whether we are going to next two weeks or next four weeks, that is the only difference.

Madhu Babu: Last question from my side, the margins have been very slippery and now we have rupee at around 64.5, so how would be the 1x margin, what to look at?

Keshab Panda: Margin, we have for the year FY17 if you see, we did grow 12.5% growth from FY16 to 17 and operationally, we are strong. We did reasonably well. There is no issue about that. PAT has some impact, net margin had some impact, as PR explained about the dollar to rupee, the other income and so on, but I do not think operational point of view, there is anything to worry about. It could be 64, it is okay, but it so happened that this quarter suddenly 68 came down to 64 in March as we

have explained, and at the end of quarter always there are lot of milestone billing and what happens, we had a huge billing in the month of March where the dollar-to-rupee rate was low, so that had some impact, but we are prepared to that. It becomes 64 and what is the impact going to be, I do not think if it remains 64, I do not think we have surprises. It goes to 55, we have surprises, so 64 is not an issue, with 64, 63 I think should be okay.

Madhu Babu: Wage hike is when Sir, 1Q or 2Q?

Keshab Panda: It is in October.

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

Pankaj Kapoor: Dr. Panda on these large deals which you mentioned which you are expecting to sign, can you give some color of the scale of this like the one which Amit told of earlier where we are looking at about 24 million of revenues over a three-year period, can you give a comparable quantification of the size of this deal?

Keshab Panda: Pankaj, the 24 Amit talked about for three years that is the deal already signed, he has signed and he talked about the deal type of work we are going to do. The second one legally unless you put a signature, I am not supposed to talk about that. The size of the deal is much bigger than this, much, much bigger than this, that much I can tell you that gives me confidence to say double digit growth we are going to show in FY18, I think that is what we can derive. Hopefully, next time when we talk about, we will talk more on this deal.

Pankaj Kapoor: Sir, does this deal in some which way give some impact on the margin outlook because like what we had in this quarter, do you expect that margins could come under pressure because of these deals either related to one-time cost or related to transitions, so what would be the outlook for the margins for FY18?

Keshab Panda: One question I was always debating with my team whether we maintain a 19% EBITDA or 20% EBITDA or 18% EBITDA or 17, what is that I am going to balance it out so that growth has happened, so is that going to impact in a big way is not sure. It is going to impact 0.7% or 0.8% on that. I think there are other levers available to us, so one thing for sure the growth is going down is that going to impact in a big way margin, no, it is not.

Pankaj Kapoor: Sir, sorry to persist on this, but given that we have some visa headwind coming in the first quarter, I think the visa cost will come for you and you are also trying to scale up the on-site capacity ostensibly to counter the whole visa-related issues, and of course, we have these one-off cost coming in, plus the wage hike in the October, so I am just trying to figure out with the rupee at 64 and 64.5, what kind of a margin outlook one should build in, should it be comparable to our fourth quarter margin rate or you think that we can go back to 18% kind of a margin?

Keshab Panda: We are doing our best, I think it is important always we have been consistently saying that margin is much more important that is what we did. Visa cost is there, yes, you are right, in Quarter-1, I think it is around 10 to 12 crores impact is going to be in terms of visa cost, that is what is impacting in Q1, but at the same time, 10 to 12 crores balancing out is non-issue from an operational point of view. Are we going to do this same level as Quarter-4, I do not know, I have not calculated yet, overall, but I can only tell you that it is not going to be too bad. It is on the high revenue, revenue goes up then it helps also in the margin point of view. What I do in Quarter-4 to Quarter-1 revenue goes up, we are not going to add that number of employees again, the C&B cost remains same and then your sales expenses, other expenses remain same as well, so it is a balance between both, so it is difficult to say this 12 crores, how much is going to impact but our goal is I am not going to predict right now what the margin is going to be, but it is not going to be too bad.

Pankaj Kapoor: Given that there is some increase in the onsite headcounts and probably some increase in the onsite delivery as well, you think that the utilization rate can probably flatten out here or there could be some scope for improvement on the utilization?

Keshab Panda: Utilization improvement we did 76, 76 we did now and I would think I did say last time as well Pankaj you know well, it is for an engineering and technology business, you cannot expect anything more than 76 to 78, otherwise, it is going to a disaster. The innovation we talk, the technology we talk about, it is not going to work. I would not focus too much on the utilization point of view, and onsite, you can imagine the onsite part of it, the labor law changing, what is going on, we are doing that. At the same time, the onsite now if utilization onsite does not happen at the level of 98, 97 that number then I think it is not profitable. We recognize that. Any onsite increase we do in terms of head count, we make sure that utilization at that level then we get a blended utilization of the number what I talked about.

Pankaj Kapoor: Dr. Panda, last year also we started with a fairly healthy pipeline, but I guess some of this client-specific issues pulled the overall numbers a bit down, so now with as you move into 18 do you think all those customer-specific issues are behind and we have a good momentum picking up as these deals ramp up or do you think that there are some client-specific issues which can still be a dampener on the growth?

Keshab Panda: Pankaj, a couple of things happened last year. In #16 to #17, number one, we decided to drop the tail account, 49th account, 14.2 million we lost and imagine this tail account would have continued without doing anything, this 14 would have been 22 million or 24 million, so that is one part of it. Number two, I do not regret taking that decision, that is a decision we have taken strategically, I believe that is the result the recent win which Amit talked about because of that. Our focus was on looking at the large deals that helped. Number two, in terms of the oil price going to level what they happened, the areas like what are the segment if you see, that did not do well. If you see segment, agriculture, construction machinery, look at Caterpillar, John Deere and these guys, they have almost come to the bottom level. I do not think they see, now I see a positive growth there. What happened last year in FY17, now Quarter-4 onwards, I see a positive upward trend in this customer.

One more thing happened last year. If you recall last two calls, I have been talking about, Telecom some of the Hi-Tech and Transportation in these areas some of the large deals we are working on some of them we are signing or we will be signing this year, there are lot of product proactive deal, Amit and his team are working on it, I think this is going, I do not see any surprises like what happened in the area I talked about Samsung deal earlier, we talked about, they decided to come out of that particular segment. Is that something is visible right now, I do not think so.

Pankaj Kapoor: Just a couple of clarifications, Esencia when do you think you will be integrating, will it happen in the first quarter itself?

Keshab Panda: Yes, I think it should take place June 1st onwards, PR you want to add anything.

P. Ramakrishnan: Pankaj, the definitive agreement has been executed as typically you know in all these acquisitions from the time we execute and before we close, closing is the event where you know we exchange the shares and the consideration, so the definitive agreement having been executed recently, we expect the closure of this acquisition to happen over the next one month and hopefully by June this quarter, Esencia should be formally in.

Pankaj Kapoor: Lastly, Sir, any color on the dividend policy which we have formalized?

Keshab Panda: We did say during the IPO time and we also have been saying that 35% dividend policy which we said we are going to do, I think we have come close to that. We have done exactly same thing. What we were doing previous years were relative was 100% of shareholders that is what we have been paying and that is exactly we did, we announced the dividend this quarter for Rs. 4 per share and there are two options we have. We have money to pay dividend, we have to that or I would invest in to create more value for the investors. The Esencia we acquired now, we should have money in our bank, so that tomorrow we look at there are few areas the new technology we want to acquire a company again 10 million, 20 million, 30 million, we should be able to do that than going to bank and borrowing it, so I think we have done a balance between how much money should have in account, how much we should give it, 35% we committed and we followed that.

Pankaj Kapoor: Lastly, PR can you give some sense of the cash flow generation in the quarter or through the year and how much was the operating cash flow or free cash flow and the conversion ratios?

P. Ramakrishnan: The total operating cash flow was around Rs. 3841 million from operating activities. I am not talking about investing and financing activities, as compared to last year, it was 5275. The drop has essentially because of we had an increase from a forward contracts which was where the hedging result has become positive, Pankaj, this time because of the dollar-rupee appreciation, whatever hedges we have had in the balance sheet, they are all shown as for forward contract receivable and plus there is an increase in the unbilled WIP, so these are the two events which has dropped the operating cash flow, but we expect with the improved thrust on the collections and all, this operating cash flow should cross 400 average, on a structural speaking my operating cash flow I always been maintaining will be around 400 crores or 4000 million, so the operating cash flow this year has been 3841.

- Moderator:** Thank you. The next question is from the line of Mudit Painuly from Max Life Insurance. Please go ahead.
- Mudit Painuly:** A few things, this acquisition what exactly is the area of expertise of this company?
- Keshab Panda:** We talk about different areas, when you say semiconductor industry they have been working on and they are also working on the perceptual computing that is the area which they work and wireless area, security area, they have been working on. This 100 engineers I would say on semiconductor segment, 50% of them on the semiconductor, other 50% work on the new age technology, so that is how we received that.
- Mudit Painuly:** This is \$20 million revenue?
- Keshab Panda:** That is correct.
- Mudit Painuly:** How much did you pay for this?
- Keshab Panda:** Deal size is 27 million, we are paying 15 million in beginning, another 12 million on their performance in four years.
- Mudit Painuly:** When you say a double-digit growth, does it include this 20 million basically, three quarters of 20 million?
- Keshab Panda:** I am not taking that number into double digit growth, this is outside of that.
- Mudit Painuly:** Sir, could you just give a sense of the order book or pipeline that you have, this year versus last year let us say 12 months, do we have that sort of a number with you?
- Keshab Panda:** We do have that. The pipeline when you look at in engineering unlike IT, it is a different game altogether. Any particular time when you do it, there are three types of engineering we do. Again, let me clear this when you say quarterly for engineering and technology company, it is different from an IT company. I would think given the choice, I would like to do annually than quarterly for any engineering and technology companies because it is a different business altogether, so order book when you say that three components of engineering, skill-based engineering, design engineering or the consulting engineering when you see, these skill-based engineering is always an annuity business. There is a pipeline and all that. I would request my colleague, Amit Chadha, to add few points here, pipeline and what he is doing on this.
- Amit Chadha:** Thank you Dr. Panda. As we look at it today, for just FY18, we have got an order backlog of \$303 million. In addition to that, we have reoccurring order that continue to get renewed to the pace of about \$80 million and then we have got the order backlog that is for 19 and beyond also some of which we will try and execute in FY18. In addition to that, we have got a healthy pipeline. Our pipeline is at this stage that we think can realize in FY18, on weighted stands at about upwards of about \$350 million and then there is FY19 and beyond because we believe in TCV, so you can add that up. We are fairly confident as we stand the stage today.

Mudit Painuly: Sir, one more thing, any more such acquisitions you see going forward in next year do you think?

Keshab Panda: I think I would not rule out but one thing is very clear that we are not acquiring a company for revenue, that is absolute in my mind. We are acquiring a company is to be on the technology or competency which we do not have, takes long time to build. We do analysis always and again, such companies where it is a technology company and the areas the gap I am talking about, there is not too many in the world. The companies are very small, 100 people, 200 people, 50 people, that type of company. We are not going to acquire a company to get revenue. I think that is something we have always do not believe in that, but are we going to do that next quarter, may not be, but are we going to do that two quarters from today, absolutely, there is no doubt about that. I have a team of people working on this looking at the gap analysis, which area, and what is available in the market and first thing my focus is going to be this company which we acquired now has continued to remain independent. The CEO and the management team will continue with the company and then we will have a board, we will do that advising the company to run it successfully and grow. Once you establish in a quarter or so, if we start in June, may be three to four months we will take to stabilize that. Next one when you take again and look at it I think after three to four months' time.

Mudit Painuly: Sir, just coming back to your double-digit growth thinking, that holds as of the currency which is now, 64.5?

P. Ramakrishnan: This is on dollar terms he is talking about.

Mudit Painuly: The other thing is your fixed price contracts have slightly come down basically from 32 to 30% from FY16 to FY17, is it sort of an aberration, would you like to push it up, what is your thinking there?

Keshab Panda: What happens is, this all depend on the industry. When you talk about technology in the auto industry or transportation segment when you talk, that is going to be more and more even though it is not necessary that this body shopping, it is like we do it, the scope of the project is not clear. When you do a large deal or you work on a new technology always customer gives a project but we are not sure the statement of work, I cannot scope the project, you start a T&M so that is how we start. T&M again, once you come to a stage it is always when the digital we talk about, the new technology we talk about, it is always this time and material but it is in our camp location, we manage that, all that we do. That is where, I will not say read anything from here, I would say this is more and more new technology areas we are venturing into and that changes the ratio, but there is nothing to read too much from this.

Moderator: Thank you. We will move to our next question which is from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: Sir, heartening to know we are looking at a double digit growth next year, just wanted to understand and we have highlighted the deals which are backing up that growth, just wanted to understand what is the top one or two risk that you anticipate given that you know we started FY17

also anticipating a good growth for the year and obviously there were client-specific issues, so anything at this juncture you want to highlight which could be top one or two risk to the guidance that we are giving?

Keshab Panda:

No, I do not see a risk. There are two things happening. As I explained earlier as well, one is the tail account we dropped that would have grown to a number would have looked very healthy growth in terms of percentage, but that is a decision we have taken, one. The order which Amit Chadha talked about winning the order, order is in hand already. What happens tomorrow, everybody decides Europe, America, Japan, Singapore everybody said no Indians are allowed or we need to do that or dollar-rupee goes down to 45 or 55, so I do not think that really is going to happen, so I do not see too much about, but one thing for sure though, FY16-FY17 when we talked about our portfolio of customers and the size of the customer, we predicted that is going to happen the growth what we said, but we never said double digit growth though. Our track record of four years, we have taken a decision that we focus approach we are going to take as a company, we are going to invest more on the technology differentiator platform. If you see some of the areas of platform UBIQWeise, iBEMS, we are working on imaging all that we did and this one point, the smart campus design which Amit Chadha talked about, this is something we got a deal along with Microsoft in Israel. Now, go to market with Microsoft we are going today, this is not just like that it does not happen, when you create a platform, it takes time and we created that and we believe that is going to be major differentiator in terms of technology and engineering. Couple of things happened last year, 16 to 17, if again this is going to be the construction machinery, agriculture machinery companies, if you see Caterpillar, their own revenue has gone down by 18% and same thing with John Deere, same thing happened with other customers in similar industry so is that going to be still going down this year, I do not think so, because that season I was explaining, this segment we are looking upward now because there is some work we are doing it in Quarter-4 onwards and there are requests coming up, can you do a little more on them what we have been doing, so I think I am very bullish about the two segment if you see, Industry, Transportation, Medical three segment reasonably continue to grow last whole year, every quarter. The two segments which we have challenge with Telecom, Hi-Tech and Plant Engineering, so telecom and Hi-Tech as I was saying earlier, this is temporary which is already behind us now, I do not see any problem going into FY18, and the only segment is again the Plant Engineering. Plant Engineering has hit the bottom now. The CAPEX investment which got delayed and which I explained last time, but I see again a positive movement there, but is that a very significant positive, I think we need to wait and see because I am still hopefully next quarter when I talk, I will talk more about that segment, but other four segment I think we see a very positive growth, that positive traction with the existing customer, so looking at that I believe that is how we predicted a double-digit growth.

Abhishek S:

Just a follow up Sir, now given that I think on the process engineering side, CPG and both Oil and Gas seem to be, at least the commentary seems to be better, do you think by end of FY18, we will have good traction especially on the process side?

Keshab Panda:

Absolutely, I did talk about it last time. We have taken 18 months to sign a MSA and MSA said we should do 25 million, but I think we made progress, so couple of projects we have delivered

and that is going to continue to grow. Are we going to 25 million in FY18 or we going to 5 million in FY18, but I know we will do better than what we did in FY17, that is number one. Oil and Gas, for example, Shell, Chevron, there are our customers again, and we see a positive traction there, but Plant Engineering the way we talk about brown field, Greenfield and sustenance engineering and so on, that is also evolving. We have a platform called WAGES for energy audit and that is where money is, that is where the technology we can add as a company with domain and technologies. There is one customer we signed recently working on, there they have 83 plants around the world, we are doing the energy audit, we are giving recommendation to them, we are coming out with monitoring their energy requirement or energy leakage, so this is a platform we call WAGES and that platform we created. Now we started selling license of that platform, so I think there are multiple things happening in this area and I think Plant Engineering the way you looked at earlier, Plant Engineering the way we are doing today, we see a positive traction.

Amit Chadha:

Just to add one thing to that, on the Plant Engineering, Abhishek, Plant Engineering segment across the sector as you are aware we focus on CPG, food and beverages, and personal and homecare, and chemicals and oil and gas, so we have made some traction in the chemical sector. On the CPG sector itself, we are seeing that lot of companies coming towards and talking to us about virtual reality, augmented reality work that we can do for them for training as well as for augmenting their operations. We are looking at people talking to us about doing work around digitizing the plant, so that is the work that is going on right now and we are in discussion phase, so this gives us a lot of confidence. The other thing on Oil and Gas is that we have in fact a couple of oil majors that are talking to us about digitizing a lot of well data that they have and we have started Proof of Concepts on those parts with them, so we do hope that will pick up as well. Like Dr. Panda said, I guess at the end of FY18, when we talk, we should be in a much better place in Plant Engineering as we stand today.

Moderator:

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

Priyankar Sarkar:

Just wanted to figure out now that we have got 254 patents filed, what is the revenue which we are generating from that and where do you see that going three years down the line?

Keshab Panda:

The number keeps increasing and the people who innovate, they do not understand what is the ROI for the patents, and we learn this in a hard way. Number of patents what we have today, we have identified four of them, when patented you cannot sell it directly. We looked at a solution for industry around the patent that is in process right now, can I take this idea what I filed as a patentable idea, we own 57 of them. Out of 57 to start with, four of them we identified and we are building solution now. That solution is for a specific industry where you have to go and sell to the industry, and this is a process in a way by itself it takes long time to monitor it. There are very few companies in India or outside who understand this, monetize this other than the class of companies like Intel, Cisco, these guys, so I think we have put our mind there. Now we have people who are advising us to look at it and we will see a traction coming on that. I will not be able to predict this, but it definitely is on my priority. This is the major differentiator, we will continue to add because you see the number every quarter, last quarter three, this quarter we added again four, so we

continue to add this patent that DNA of the company, that culture of the company should remain, that we will always do that.

Amit Chadha: Just to add two more points to that. Number one, you have seen our digital revenue increase and that has been backed on the intellectual property sale that we have been able to do from these patents that we have got, so from last year to this year, there has been increase there. Number two is at we do improve client stickiness on the patents that we co-file with them and can I say that adds X percent or Y percent, I really cannot, but I can say is improved clients stickiness and helps us in terms of retention. Third is that Dr. Panda already revealed to this is the employee morale and differentiates us as a product technology company.

Priyankar Sarkar: Just a couple of follow up questions, how is the scenario on the pricing front?

Keshab Panda: I think you cannot generalize pricing. There are different class of work we do. The areas are new technology, new product with different type of pricing. The areas we do consulting in different pricing again and then skill-based engineering when you talk about, again a different pricing. As you know, one thing to note though, we have a strong team working on automation right now. How do you do the, if you are doing five people today, can we get the work done with two people or two-and-a-half people and increase your margin, I think that is much more relevant in this case then saying the billing rate. Again, when you are creating value, and there are cases we have gone to customer and talked about, do not pay me for work but pay me depending on what I deliver. I will take the risk on this and risk and reward model in a more and more. It is a tough job to do, we have to be very careful about what we do, we started doing at least now and that is what I think is much more important than the billing rate.

Priyankar Sarkar: Last question, what would be the split between fresher and laterals in that 423 people that have been added in this quarter?

P. Ramakrishnan: The net additions were 423 in Q4 out of which we had lateral additions of 629 and fresher of 195 and the rest were attrition adjusted accordingly.

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

Ashish Agarwal: Most of my questions have been answered, just couple of things, first of all, last quarter we talked about a large deal which got postponed because it involved people take over and there was concern around the new administration in US, has that deal come through again or if you can elaborate, and secondly just a clarification on the rupee thing, when we spoke that since a lot of billing happened in March where the conversion rate was 64 odd rupees, but if you look at your numbers then the conversion rate comes out to be 67 to a dollar, so just wanted some clarification around that.

Keshab Panda: First one let me address and second one I will ask PR to address that. The first one in terms of large deals, I talked on multiple large deals. A customer, I do not know which one you are referring

to, in multiple segments, every customer you have, we go with a proactive proposal and any particular time, Amit and his team is working on at least 10 proposals there, but some of them happen, some of them could happen maybe next quarter, but the very reason this process takes long time, only thing I can tell you is these multiple deals I talked about at least some of them happened already, and some of them is still in the pipeline.

P. Ramakrishnan:

Ashish, the second question answer is our total reported revenue in dollar terms was 121.25 for Q4, but if you see the movement in the dollar rupee between Jan, Feb, March, as I told earlier in the call, that our March revenues were significant because of billings and it is the dollar-rupee which has fallen the maximum whereas in the table when we talk about the average rate and period closing rate, these are tables for the sake of reference but the fact is that my realized rates is the day I raise the invoice and the day's exchange rate, so when I have reported a revenue of 8123 for the quarter, it is on the realized rate basis and that is one of the reasons that when I talked about the impact of dollar-rupee in my operating margin is around 0.9% is because a major part of our billings did happen in March and the reason is that Jan was okay, February was a shorter month, but the March month obviously completion of milestones and completing all the invoicing that had impact.

Moderator:

Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad:

Sir, you mentioned about 14 million impact on tail account rationalization, so I am presuming this would have largely been in the process industry vertical, do we expect this to continue going forward?

Keshab Panda:

No, I think what I said is this was done last year not in FY17, it was done in FY16. This is something which I did say during the listing and I said these two brings focus to this system, we announced that T30A3, the top 30 accounts we are going to focus on, adjacent three accounts we are going to focus on, so that strategy, at that time we decided in FY16 we lost 29 customers in all segment, not only process, in all the segment. Definition is if a customer is not going to scale up to a million dollars in 12 months, do not walk with them, because you cannot even recover your sales cost and travel cost, so that is behind us. The process we have put in place now, I was saying this 14 million, let us say I would have kept the 14.2 million FY16, in FY17 that would have become maybe 22 million or 25 million, the reason is a customer is doing 300,000 or 400,000, I decided to drop that account and the 400,000 would have become 600,000 this year in FY17, to outside world it would have added 20 million more than what it added in FY17, the percentage growth would have looked good, but I still believe that is the strategic decision of the company we have taken in FY16 that impact in 17, but you see the positive side of it, because we decided to do that some of the deals which Amit Chadha talked about, we were able to focus there, multiple proactive proposal, working on different segment, not one segment alone, that helped us in those areas as well, so now it is not going to be, we have put a process in place. We are not going to again wait for two more years or one year to clean the tail, clean process is all on now. Every sales people have been told it comes to the final and Amit and his team and along with the delivery leaders, the chief delivery officers who are there, so they discuss about whether to take this order

or not, and that is a process it is currently on. I do not think anymore tail account issue is going to be in FY18.

Apurva Prasad: Just a follow up while you mentioned about double digit organic growth guidance for FY18, do you expect to hold on to margins for the next year?

Keshab Panda: I think that is something which I would not comment on this. We always focus on that to maintain margin and grow margin. There are different parameters we look at it. My licenses sell which I was talking about goes to margin and adding to the margin, focus is going to be that and how much of license I am going to sell next year in last financial year to what we did in FY17, that places it all there. These last deals when you do it or sizeable deals we do it, initially there could be some impact but overall point of view, I think I am not calculative or predict it right now to say what would be the margin, but I do not think it is going to be bad I would say.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sir, you talked about some of the large deal wins, were there proactive deals or where they were competition along with you on those deals and if at all, they were competition then, who did you find as the key competitors in each of the deals?

Keshab Panda: When you say proactive deal unlike, one thing we need to remember though, in IT when you say large deals, infrastructure deal, ERP, ADMS when people talk about you see in two days or one week to two weeks, they switch over change from one supplier to other supplier. Engineering, it does not happen because it takes long time to sign, because it requires lot more investment from customer side as well as supplier side, both partners have to invest, so when you do a proactive deal and when you go to customer and say I can deliver, I will tell you why I can do this, and this is the idea. This technology you can, this geography I can do combined together, I can deliver this, there is procurement process and you cannot straightly go to give it to one supplier and we have to go through the process, but you have always an advantage. You should start doing it, you do the RFP, writing the request for proposal and go through do a study and POC you create, you are always in a better position than your competitors, so I would not say that there are no competitors, I would not say there is a single name. The competitors are different in different vertical segment. A competitor is not everybody we see in very segment, in medical we see different companies there, we see industrial different companies, we see transportation different competitors again, so you cannot generalize one particular company as a competitor, but we see multiple companies always.

Gaurav Rateria: Sir, are there some of the larger vendors of IT services also focusing in some of the segments and you are seeing them as competition or these are the different set of competition altogether?

Keshab Panda: Our differentiator as the pure play engineering services because we believe that we understand domain well and we understand engineering and manufacturing better than other IT companies, so if that DNA with the technology and the speed at which we respond that makes the difference, so

do we see them, of course, I will not say that everybody is keeping quiet and we are the only smartest people in the world, that is not true, but the fact is the advantage we have as an engineering company and our DNF engineering always plays well compared to many other IT companies there in the customer place.

Gaurav Rateria: Sir, last question, one of the peers in your space have acquired capabilities around electronic manufacturing services, do you think, there could be a possibility you would also look forward to having such capability in the future or your strategy is going to be much more aligned to creating IPs only?

Keshab Panda: My view is everybody has different strategy and this is something I think last time I was trying to explain this as well, we are a services company, we are a technology company. I can go up to prototyping, not beyond prototyping. Prototyping I can have multiple suppliers working with me for doing prototyping, manufacturing is a different job altogether. If you see today L&T can do, lot of my engineers who have come from Larsen and Toubro transport, the 1500 engineers in 2009 and 10 and those engineers people who came there, they understand the manufacturing, they have done the design, so we have no aspiration to get into manufacturing absolutely not. We are not going to do that. I would rather more invest on the technology, I would more focus on IT, more patent filing and monetizing that. I would invest more on the automation, robotics, machine learning and areas and combine these two what we have there, that is what I think our focus should be and we are not going to getting into the manufacturing area.

Moderator: Thank you. We will take the last question from the line of Dipesh from SBI Securities. Please go ahead.

Dipesh: Sir, just two-three things, can you give us IP revenue which we booked this year FY17, second question is about acquisition, so on Esencia can you help us understand their margin profile and last couple of years' revenue growth trajectory and margin trajectory and how linear that equation or how different it is and on the same acquisition side, can you help us provide some data about client concentration as well as their exposure to different industries?

Keshab Panda: On the EBITDA point, I talked about we are at the same range of EBITDA what we do and the company we acquired. On the IP side, we did 4 million this year. In FY17 4 million we did this year, our always goal is to do better than what we did in FY17. FY16 we did 1 million, FY17 4 million and FY18 we believe we will do better than 17, so that is our goal and we are working towards that. On the revenue point of view, I did say that Esencia revenue is 20 million, currently the run rate is around 20 million right now, and last year they did around 18 to 20 million, and there is projection there. We have business plan for next two years and three years, but one thing remember though when you acquire small companies, they do not have the muscle power to grow. They cannot work with the customer and make it 40 million, 30 million which we have been able to do, so they work in two areas. One is the semiconductor area which I said 50%, other 50% they work on the new technology companies in California area. They work on drone, they work on cameras, they work on wireless, they work on security and these are the areas which our muscle power and our presence in west coast and across the 32 countries around the world, how do you

combine one plus one what they have their and our competition what they build, which will make it bigger. The growth percentage, there are two things. The Esencia is a company as it is going to grow at certain percentage. The second part is there is a synergy revenue because we are coming together and can we grow this faster than what we have been doing it, I strongly believe some of the technologies they have, we would have taken a long time for us to build and those technologies, these engineers are in California, they have 10 years to 15 years experienced engineers, so we believe that it is going to be very valuable for us for existing customers as well as some of the customers they have.

Dipesh:

I just wanted about the last three-year CAGR, so you said this year margin is likely to be in-line with industry, so if you look last three years, margin remained more or less same or with revenue growth trajectory margin is showing some non-linearity that is what I am trying to understand, and second thing about their client concentration and their exposure to different industries?

Keshab Panda:

There are two industries I talked about, one is semiconductor industry, 50% of their business comes from semiconductor industry, graphic design, the PSA and all that we talk about that is what they do, so this is 50%. Other 50% of the revenue comes from new technology areas, I think you can guess the companies who are working on the new technology areas in California area, that is the number two. Areas also I talked about they work on security, the cameras, and they work on some of the chips design for the data center and many other things they do, so these are two segment extensively. You have to remember though when you talk about technology cases, this can be applied to many verticals, not necessarily one segment. It can be used in multiple segments, but the revenue growth, I do not know whether you are asking about Esencia's revenue for last few years or L&T. Esencia if you see, they did 11 million, 11 million came to 16 million, then it came to 20 million and then we will grow beyond that, so as a company they are two million or four million, that is not my interest. My interest is how synergy we can take, technology you take they have to my bigger broader audience, customer base I have can I take it and grow faster. A customer which I am doing 25 million. I will give you an example, there is one customer where we worked today, they are 52 billion or so revenue, we do good amount of business there, but we service only 12 billion of that 50 billion of the company. Now what happened to other areas, the other areas, the same customer requires different technologies and different skill set to get into those areas, so we believe we are joining together, those technologies will help us and tomorrow 500 engineers are required, we can do that. We hired 6000, 7000 engineers in last five years, we can do that hiring whatever required and can go aggressively investing or the 31 lab we have, we can make use of that, and we need to look at, I am not too worried about their revenue growth, 2 million they add or 4 million they add, of course we need to focus on that, I am more looking at the bigger picture of joining this together to grow synergy revenue.

Amit Chadha:

Dipesh just to add what Dr. Panda talked about just to give a color of this transaction is that whereas our intent is to buyout 100% and we are aiming a \$50 million over a period of one year, but the more important part is that some part of the consideration is dependent on their own performance in terms of top line and profitability that is over a period of four years, maximum sum of another \$12 million odd will be paid. Having said this, the way we as Dr. Panda rightly mentioned or elaborated that it is just not their revenues. The objective is that they have the skill set, if we need

to grow them organically, it will take a much more longer time. They have the skill set in that space which our marketing organization will enable them to grow on their own site, at the same time, LTTS will also leverage their skill sets to push across through our clients so that is the synergy part which I would like to add.

Dipesh: Esencia is profit making entity at net level?

Keshab Panda: Yes. I did say I do not know whether you missed that point, there margin is same level as our margin.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Dr. Keshab Panda for closing comments.

Keshab Panda: Thank you all for joining. I think this is the third one I am doing now this conference. It is great talking to you, there is lot of learning. Only thing I can tell you, I am very bullish about the assets what we have and our differentiator as an engineering company plus the technology what we build, we are the TECHgium, I do not know whether you got the point. TECHgium, if some of you are in Bangalore, I welcome to join tomorrow, that is going to be few professors and we have directors of IIT, ISRO chairman, ex-chairman, there are very big guys are all going to be there, and there are few companies, POC they created is wonderful, so I think lot more action is happening today. They are exciting the engineering community, technology community, our contribution to the society there, and in turn we get return on some of the POC they create, we get return on the investment we do. Again, one more point is this is not the LTTS doing it, we are doing this event in partnership with our customer, nine of our customers are partner in this event and the problem definition what we did has come from the customer, lot of customers are very excited about it and lot of value we can create. Thank you again and great talking to you.

Moderator: Thank you. On behalf of L&T Technologies Services Ltd. that concludes this conference. Thank you for joining us and you may now disconnect your lines.