# "L&T Technologies Services Limited Q4 FY'18 Earnings Conference Call"

**May 22, 2018**

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**Moderator:** Ladies and Gentlemen, Good day. And welcome to the L&T Technology Services Limited Q4 Fiscal 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now hand the conference over Mr. Pinku Pappan – Head of Investor Relations. Thank you and over to you sir.

**Pinku Pappan**: Hello everyone and welcome to the Q4 and full year FY18 Earning Conference Call of LTTS. I am Pinku from Investor Relations Team. I hope you have had a chance to go through our investor release and financial statements. If not, you can download them from our website www.lnttechservices.com. This quarter we have made a few additional disclosures in the investor release which we hope will provide greater detail about our performance.

On today's call, you will hear from Keshab Panda – CEO, Amit Chadha – President (Sales & Business Development), Bhupendra Bhate – COO and P Ramakrishnan – CFO. The agenda for today's call is as follows:

Dr. Panda will provide a brief highlight of our performance and comment on the business outlook. Amit will talk about the demand trends across our verticals and geos and on our deal wins. Bhate Ji will comment on the margin outlook going forward and PR will walk you through the financial statements. We will then open the lines for questions.

Let me now turn the call over to Dr. Panda.

**Dr. Keshab Panda:** Thank you, Pinku. Good evening to all of you. We had a very strong quarter as well as strong year FY18. I am very pleased to announce that to all of you. At the start of FY18, I have been saying that we are going to grow double-digit and we closed the year at 580 million in revenue which is a growth of 20% year-on-year. The quarter we closed with revenue of 162.4 million USD which is a growth of 34% year-on-year. I think both on quarter as well as year we have done reasonably well. A few years ago in 2009 when I came on board and when I looked at it overall total revenue of 50 million to 55 million then we were saying how do you take it to a billion dollar revenue. I think we are able to see the path right now. Overall, the 50 million to 60 million in FY09 to 162 million in the quarter I think great achievement team has delivered.

We always talked about when we started - what should be the differentiator of LTTS. One is engineering heritage we talked about, we also said our DNA is innovation and the third point we talked about multi-vertical segment. The technologies can be borrowed from one segment to other segment - I think that has given us good return. Today if you look at it we have 240 plus patents along with the customers and our own 83 LTTS patents.

So the innovation we talked about - it has created platform and solution for patent all three together that is outcome of innovation. And we have been able to get 48 of the top 100 ER&D spenders globally - who spend upwards of USD1bn annually - that is a great achievement again.

New technologies investment, we did in terms of Lab and training people - not only digital - both smart product and manufacturing areas, we also invested in 39 labs around the world not just India, but outside and in the areas of embedded artificial intelligence, we did work on NB-IoT, 5G stack, multiple areas investment what we did is paying us big return.

We worked extensively on IoT fixed module which is I think today's world if you go to auto medical and any areas this is so important that how well you can do for end-to-end chip design that also helped us in a big way. We have 26% revenue from digital and new age technology against almost double the revenue from the same space in last year.

When I talk about new age technology the area I talked about NBIoT, machine learning or embedded artificial intelligence, 5G and so on. So we are very excited about this growth.

One thing we see now on the IoT side, the areas which has growth if you see optimize manufacturing operations - there are multiple areas we are working on and we believe that is going to scale up that also helped this quarter and will help in subsequent quarters.

Predictive analytics for AMS – this is the area again - understand the manufacturing products and this has helped us to where we are. The year FY18 HFS recognized LTTS for a strong manufacturing and engineering practice along with over 300 IoT engagement across multiple-verticals in multiple geography that is again we are very happy about that.

Like every year in FY18 too, we are in Zinnov's overall leadership zone for 10 verticals in Product Engineering Services. In FY18 we got the 'Prestigious Innovation Award' from CII which we announced a few months ago. So these are the three awards. In addition to that we also got the award for IoT from HFS recently - we have been awarded again in leadership zone.

Let me briefly cover our key achievements in FY18 which includes acquiring Esencia Technology that has helped us in high-end VLSI and ASIC design and this not just for the earlier what we are doing for the Telecom, this is beyond Telecom, automotive segment and so on. We are doing exciting work - end-to-end high-end VLSI ASIC design this is again a big differentiator which has helped in FY18.

Any of the platform we have, the solution we do security is an important component of that. So, we have a strong team in Israel contributing to the security layer they are working on it and this is also a positive addition for us both revenue and competency side.

Large deals - we did form a team earlier to work on large deals and multiple aspect of large deal commercial model, competency requirement different geography supporting that - also has helped us in a big way.

On margin, Q4 margin is 16.1% we did, which is an improvement from Q3 to Q4 we closed FY18 at 15.5%. We work on areas like the large deals where you got the more onsite that has impacted to some extent. But I can tell you I am very confident that the growth - few basis points quarter-on-quarter I see the visibility and Bhupendra Bhate is going to talk more details when it comes to him later.

Medium term outlook: Looking ahead what is happening today ER&D spend is increasing now. Lot of customers are willing to do more than what they are doing today. Our top 30 customer revenues has grown - we will continue to grow and it will grow not only just traditional engineering design what we are doing or the manufacturing we are doing it, more growth in new age technologies I think that there is more opportunity there that is the reason we are able to see a growth next year. And if you see overall, we did ask many of our customers now I think top 30 customers about their digital journey, if you see last year to this year the customers who were on the Strategy stage, some of them have gone to Impact & ROI stage in multiple areas in IoT, going through the Strategy phase to Pilot stage, to Implementation stage to Impact and ROI, we see that moving in the right direction in our existing customers and we are a party to their journey as well.

This gives lot of confidence that digital engineering and new age technology and what we have been able to do, we will be able to deliver a top line growth of 16% at least for the coming year FY19 we should be able to deliver 16% top line growth. We also debated and looked at it - we have a target for achieving $1 billion in FY21. This $1 billion includes 120 million of M&A, inorganic growth, organic is going to go to 880 plus 120 million inorganic growth as I see today. To achieve 880 million, we need a 15% CAGR which we are confident that we should be able to do that. Now 120 as I am sitting today that 120 could come down to 94 million or maybe 100 million can take us through this. As I see today I think this is something we are very, very seriously working out and we will hit that billion dollar in FY21. We also expect the revenue growth over the next three years to be accompanied by margin improvement from FY18 levels.

Let me now hand over to Amit Chadha who will take you through the vertical and geographies situation.

**Amit Chadha**: Good evening all. Thanks Dr. Panda and Pinku. I am going to provide you an outlook and some details on how we see demand across verticals, geos, our deal wins in the quarter and our deal pipeline.

Starting with verticals as you are aware, we operate in five verticals Transportation, Telecom & Hi-Tech, Process Sector, Industrial Products and Medical Devices. Our **Transportation** segment grew 15% annually and 24% in Q4 year-on-year. In line with our strategy to focus on micro verticals allow me to provide some color. Automotive continues to be on a fast path of growth across US, Europe and Japan given increased levels of investments in autonomous driving and passenger assistance system and higher levels of autonomous driving.

The electric vehicles in areas of battery and form factor management, infotainment systems, integrating various devices and applications, additive manufacturing is becoming another clear area of proof of concepts - like Dr. Panda spoke about with some traction in the US.

All-in-all we see speed-to-launch rather than cost arbitrage as becoming critical to winning new and sustaining old business for us in this subvertical. Trucks, buses and off-highway equipment is a second subvertical which is showing growth in areas of Product Variant Development, Value Engineering, Remanufacturing with Construction Equipment leading the way.

In the Aerospace segment, we are seeing demand in obsolescence management and testing and have had some wins in the previous quarter as we have announced and continue to ramp-up incremental wins in air traffic management system, in-flight entertainment systems and avionics.

The FY19 growth, therefore, for our transportation vertical is expected to continue for us in line with performance in FY18.

Moving on to **Telecom & Hi-tech**: this vertical grew substantially for us in FY18 on the back of large deals we won in Media & Entertainment, Semiconductor design development, 5G network development roll out. We expect continued demand in the semiconductor space driven by more needs in the smart home, healthcare, automotive, artificial intelligence and big data areas. Telecom infra equipment driven again by IoT connectivity, NBIoT and 5G on the two sides, consumer electronics, wearables, adaptables driven by artificial intelligence trends and Media and Entertainment driven deals, we have talked earlier in the year about transaction we signed and those continue to help us to sign newer deal in the areas of OTT, augmenting set-top boxes as well VR applications and home gateway deployment.

All-in-all we see robust growth continuing in the segment for FY19 and beyond.

The third sector **Process Industry** we have shown modest growth in the area in the first half of FY18, but demand has picked up in the last two quarters with quarter 4 itself growing at 16.9% year-on-year. The key trends that we are harnessing here are plant design and upgrades and modification activities driven by MNCs and India Inc in CPG/Chemicals/Tyre in India and Asia. Second chemical industry continues to expand, upgrade plants in US and Europe giving us plant redesign opportunities and oil & gas – this sector has decisively moved with scale and digitization of assets to improve data calculations of proven reserves as well as expanding reliability and standardization.

We have won two large deals recently with Covestro and ExxonMobil that we have announced earlier in this calendar year. Both deals and other wins have ramped up already and will start showing results in FY19. We therefore expect that the vertical will grow at a pace faster than FY18 and in line with the growth witnessed in Q4.

Moving on to **Industrial Products**: we have maintained our market leadership in this area and grown incrementally in building automation, electric drives and power generation. We have got a lot of projects in IoT connectivity & applications, value engineering in FY18. We have also won 2 i-BEMS installations - our own product - installations in Asia and Middle East giving further traction to our product portfolio. We do see spends being conservative, but we see potential for scaling up some of our smaller accounts and we expect to do better in FY19 targeting double digit growth.

Our last sector **Medical devices** - we are witnessing a swing in demand because of patient care at home, overall lower cost of healthcare and decision-making insights for patients as well as hospitals. We see this in the US and Japan and we expect to continue growth in FY19.

**From a Geo standpoint**, we have grown US by 15% in FY18, Europe by 9% and rest of the world by 39%. In terms of demand in US and Europe we see traction in new product launches, IoT application development, smart manufacturing like Dr. Panda talked about. In Europe, some of the investments we made in FY18 are starting to pay off and we expect the growth trend to continue.

In case of Japan because of the Olympics there, we do see additional spend and traction. We have also increased our footprint geographically into Singapore, Australia and are exploring South Africa and Israel as newer markets.

**Our deal pipeline**: Some of our large deals and T30 have continued to be a focus. Some of the wins that you must have seen in the release that we have done for a Japanese OEM expanding the work in variant, model development involving mechanical, hydraulic and embedded work. It is a multi-year deal. Exxon, Covestro we have already talked about.

And in the Hi-tech segment we have won a 5G-related product development deployment and testing contract for a US networking.

All-in-all, if we were to look at our deal pipeline we do see further closures in automotive, industrial products, process industries and telecom. Our T30 accounts continue to grow and you can see year-on-year, we have two additional clients in 40 million bucket and 3 additional in the 10 million buckets.

So overall to reiterate the guidance Dr. Panda gave we are confident of at least 16% organic revenue growth in FY19 and we expect more broad-based growth with Transportation, Telecom & Hi-tech and Process leading the way and Industrial products doing better in FY19 as opposed to FY18. With that I will hand it over to our Chief Operating Officer Mr. Bhupendra Bhate.

**Bhupendra Bhate**: Thank you Amit and Good evening to all of you. I would like to provide an update on the margin outlook for FY19. Like Dr. Panda mentioned, we have initiated several actions in FY18 to improve our margins. Some of the engagements that we signed in FY18 especially in the transportation and telecom sector have been onsite-heavy, but we have done this with a very clear intention to expand our technology foot print. For example, in the large deal in telecom it has given us expertise in video security and analytics. And you all are aware the security is becoming very important in almost every devices as well as the online platform and today we are well equipped with this skill.

Similarly, in transportation we have taken up some engagements which initially are onsite-heavy but that has led us entry into autonomous driving and it has helped us building up the competency in this crucial area. We expect that as we increase the traction with clients we will be able to move this engagement to offshore and improve our margins.

The second lever that we see is that our clients are comfortable in engaging us on a managed service model. With this managed service model, we have more opportunity to increase our offshore pie. In fact, one of our recent large deal wins was in a managed service model where the client has also benefitted from the consolidation of vendors by working along with us.

The third lever that we have, and the most important lever is the employee pyramid. In FY19 our fresher intake will be higher than the previous years and you will start seeing the same in the hiring number from Q1 onwards. As we increase the scale with our top clients, we can reduce the average C&B cost using freshers.

The fourth important lever that we are exercising is on the bill rate improvement and this is an on-going exercise. We have made some good progress in FY18 and we expect this trend to continue.

Lastly, our SG&A cost - this particular lever we expect this to also benefit us because with our top line growth, we do not expect the same amount of growth with our sales cost and as a result we will get overall improvement in this area itself.

So, with this five important levers, we do see that we will have a good margin improvement in the coming quarters. Thank you. Over to PR.

**P Ramakrishnan**: Thank you Mr. Bhate and good evening to all of you and thanks for taking this call. You must have gone through the Investor Factsheet. I will try to sum it up and try to convey some of the salient features for the quarter and the year ended 31st March 2018.

The rupee revenue: we closed the year with a rupee revenue of 37471 million for the year with a growth of almost 15.4% and on a quarter basis we had a revenue of 10548 million with a growth of 8.8% quarter-on-quarter. In dollar terms, we touched 580 million for the year upwards of the initial guidance whatever we have provided with an industry leading growth of almost 20% for the year. And for the quarter, our revenue was 162.4 million having 7.6% Q-on-Q growth. In constant currency terms for the full year we grew at 18.2%.

Coming to EBITDA: our full year EBITDA margin has been at 15.5% as you may be aware for the first three quarters we were having a EBITDA margin of almost 15.3% same and during Q4 our margins crossed 16% thereby to touch 15.5% for the full year. The PAT or the net income for the year has been at Rs. 5060 million which is higher by almost 19%.

Coming to the P&L statement in detail: Just to give a perspective, I talked about the EBITDA margin for the year at 15.5% and for the quarter at 16.1%. As you may observe from the segment operating profit and also from the other factsheet whatever we have talked about. The margin improvement has been attributed to sale of IP in one of the segments under Telecom Hi-tech partly offset by an increase in variable pay for the delivery and for the entire people in the organization during Q4. And secondly margins also offset by a lower margin in the Transportation segment as Bhateji talked about that over the period last year we have been consciously investing in these engagements as an investment and we believe that this margin will improve over the next year.

Now coming to some specific points which I want to highlight on the P&L: I talked about the EBITDA margin after that you will have one line-item talks about change in contingent consideration which is reflected in the Q4 number of Rs.55 million. This relates to the changes in the fair value of the conditional payout which is facilitated under the SPA whatever we executed for acquiring Esencia. With this change of 55 we have closed out the conditional payout under the Esencia SPA, so we will not get anything further on this regard.

Depreciation and amortization: There has been an increase during Q4 we have kept a number of Rs. 452 million. This is partly on account of two elements – One is we had a one-time obsolescence charge of certain software to almost Rs. 50 million and the balance increase attributed to we have changed our accounting estimate with regards to customer key contracts whichever is attributed by pursuant of acquisition. So earlier we had a policy of expensing or amortizing them over a period of 7 years we have changed it to 4 years in line with underlying assumptions.

Coming to the income tax: Our provision for tax for the year stood up to net inclusive of deferred tax at Rs. 1712 million as against Rs. 1542 million for the previous year. Having said that, our income tax provision for the quarter at 344 million is dropped when you compare with the previous quarter that is primarily on account of creation of deferred tax assets on account of the notes whatever we have written in the Factsheet.

Coming to a breakup of other income: Our total other income for the year was at Rs. 1910 million and for Q4 it was at Rs. 747 million. The Rs. 1910 million for the other income for the full year can be broadly taken as foreign exchange gain and loss contributing to Rs.1147 million and the Others at Rs. 693 million. A major part of Others comprises of some part of licenses which we had sold during Q3 and some of the licenses getting valued during Q4 - these are export licenses.

Coming to overall balance sheet: From a total assets perspective, today LTTS total assets is at Rs. 27051 million as compared to previous year of Rs. 22329 million, an increase of almost Rs. 500 crores is can be attributed to the intangible assets which arose because of acquisition of Esencia and increase in account receivable majorly for the balance primarily driven by higher revenues.

From a cash flow perspective, our free cash flow for the year has been reported or is at Rs. 3619 million as against Rs. 3425 million. We believe an improvement in DSO and a better management on overall other assets, will ensure that we have a better cash flow in the subsequent year.

Coming to the other operational metrics: Some of that my colleague, Amit Chadha, has covered, but nevertheless for the sake of clarity - our transportation vertical continues to remain a vertical which is having the major size of our revenues, almost 32% of our revenues accrued in transportation followed by industrial products at 23%. Our Telecom & Hi-tech have seen a huge jump in the current year - its share in the total revenue stack is almost 26%, plant engineering at 13% and medical devices at 7%.

In terms of revenue by geography: As has always been that a major part of our revenues continues to accrue from North America that is roughly around 60% and Europe contributes to 17%. We have seen an uptick in revenues from India partly driven by one or two engagements and the rest of the world at 11.7%.

The revenue by project type - we have been always maintaining traditionally our revenue by project type always been fixed price to T&M at 35-65. I think that continues. Dr. Panda did talk about our key accounts and also Amit Chadha covered that. Just to tell you that during the current year, we have moved two clients into the $40 million bucket and similarly the clients in $30 million buckets which enforces our continued emphasis on the T30 strategy.

In terms of client contribution to revenue: The top 5 client they are at around 27% as against 23% and that is primarily because of that earlier statement which I made that the top $40 million clients and the $30 million clients getting added up there.

In terms of employee statistics - during the quarter, we had around 350-odd additions and as of March our headcount is around 12,300.

The board today declared a final dividend of Rs. 12 per equity share. Thereby, making the aggregate at 16 for the full year. We had an interim dividend of Rs. 4 per share. So the dividend payout has been increased or shown to 40% to only reinforce that if we have cash which is beyond the immediate requirements we expect to give it to the stakeholders.

With this, I have tried to summarize the performance for the company for the year and for the quarter and we take a pause and we are free to take questions.

**Moderator**: Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Ankur Rudra from CLSA. Please go ahead.

**Ankur Rudra**: I have a question on the guidance your exit rate from FY18 performance is very strong is about 12%. Guidance appears to imply something like 1.6% CQGR for the next 4 quarters. This seems to be at odds with the very strong commentary where I think almost every vertical you are talking about stronger growth next year. So I am just trying to understand this is a bit better are you taking in some kind of a decline in maybe some of the onsite based projects from last year or are you just being conservative?

**Dr. Keshab Panda**: I think I said 16% growth revenue growth FY18 to FY9 that is a minimum what I talked about and this is always when you do a large deal the onsite we are going to reduce as well because I think if we are to get a margin improvement the percentage of onsite-offshore also parameter we are going to do that. All combined together the order booking we have and what we are sure about right now what I see 16% growth top line which is going to happen. Earlier, I was talking about double digit growth and we wanted to be more specific this time making sure that the visibility we have.

**Ankur Rudra**: The commentary also it was that the momentum should stay. So this probably we would say this is the lower-end of your guidance and you do something stronger than this for sure?

**Dr. Keshab Panda**: Maybe next quarter we will talk beyond this. All the time I am saying double-digit, double-digit could be any number. So to be more specific so we said 16% what I see today maybe next quarter when we talk about maybe we will have a better number than this.

**Ankur Rudra**: Sounds good and also helpful to see the three-year outlook as well. Just a question on the Esencia transaction, could you elaborate on the nature of this transaction, the assets that are being sold and how this impacts the remaining part of the business that stays with you.

**P Ramakrishnan:** We have covered that in the Factsheet, so we acquired Esencia on the 1st of June, 2017 and as part of the engagement with one of its very important clients, we had a transaction which happened in Q4 where we sold an IP and also transferred some of the people. The milestone which related to primarily related to sale of IP happened in Q4 and thereby Esencia got a money of 3.5 million dollars out of which 2.9 has been allocated towards the value of IP shown on the revenue and the balance 0.6 million has been taken the other income.

In the current quarter that is Q1 of FY19 as part of the engagement, as part of the transaction with our key client, we have received already 12 million dollars from that client and that will be shown or reflected in the current year under the other income because it primarily relates to waiver of non-compete and other stuff relating to transfer of resources. So with this what we have done we have taken this as you may be aware when we acquired Esencia we had disclosed that. There was an upfront consideration of $15 million which we paid to acquire 100% of the equity and there was the conditional payout which over a period of 3 years.

Now because of this what we have done we have covered the conditional payout and we have foreclosed the SPA itself and that is why you will find a one-time separate line item in the P&L which talks about the Rs 55 million charge which is change in the fair value of that conditional payout so that has also been closed.

**Ankur Rudra**: I understand the financial details you have been quite helpful in the disclosure there I was trying to understand qualitatively, what are the nature of resources you are selling out and you know why sell out something so soon after buying such an attractive acquisition?

**Dr. Keshab Panda:** There is one customer where we transferred some of the resources to be specific 14 number of employees. Esencia had 127 employees out of that 14 employees we transferred. Reason we transferred - the company where we transferred I think they were getting more into engineering and they did not have too many people in engineering and technology area as well. We transferred them. This helps us to grow our business in those customers that you know the customer where we transferred our run rate has increased now quarter-on-quarter is increasing maybe we will close 10 million this year.

The potential for the customers - we did calculation about the long-term plan for doing this and we believe that these are the following names I think Facebook, Google, Apple, and Microsoft, Amazon these guys the investment and the areas where they are going to and as a engineering technology company it is important that they should be our customer moving forward. So looking at overall point of view these resources the engineers who have gone there they have a lead in this different groups the project group of engineering and that is helping us to scale up. We strongly believe the relations we have, and they know what L&T Technology Services can do along with Esencia together and that is already paying us dividend for doing this.

So business point of view it is a great opportunity for us and again the work we are doing in semiconductor area which we are working on chip design ASIC design high end work what you are doing it. We had 127 people out of that 14 people are gone. So I think it is not a big impact in terms of what we have really got. I am very excited about Esencia. I think that is a great people the quality of engineers are very high, and we still have the people we continue to deliver and the revenue point of view still continue to do well. So our focus on Esencia is still there. It will continue to be there. They are a big component of our strategy and big component of our business and only thing is in addition to Esencia based customers we have we got into something else where I think there is a great opportunity for our group.

**Moderator**: We take the next question from the line of Pankaj Kapoor from JM Financial. Please go ahead.

**Pankaj Kapoor**: My first question is on the guidance; do you also like on the revenue side do you also have a similar target margin band and if you could share that?

**Dr. Keshab Panda:** Maybe I think next quarter when we come back only thing I said is quarter-on-quarter few basis points we are going to increase. Maybe little bit more visibility we will have like top line guidance last year we were only saying double digit we have some clarity on top line. Bottom line, there are various initiatives we have taken in FY17 and 18 and that is going to pay us in FY19. So we are only saying that few basis points quarter-on-quarter increase we will show and exact number maybe next quarter we will have more clarity and one or two quarter from today we will be able to give you absolute number in terms of what it is going to be.

**Pankaj Kapoor**: On the cost side, do we have the wage hike following the regular cycle this year? So should we expect something coming in for the first quarter?

**Dr. Keshab Panda:** We are looking at various models to do that, but one thing I can tell you though very clearly overall I do not see too much impact of this. Pankaj in Q1 there is no impact there is no salary increase. We are working out Q2 onwards the impact what is going to happen, but we have come to the innovative model. I think the employees like earlier business model of adding number of employees and increasing revenue those days have gone. Similarly, employees earning capacity should depend on the performance of the employees or the performance of the group. So I believe I think the impact the way it was before and now I think there is a difference that is the reason we are working out. Q1 we will have more clarity and we will be able to tell you little more on that time.

**Pankaj Kapoor**: Lastly one clarification on the Esencia transaction, so will that have any revenue impact for us in terms of any revenue loss, was this sale that we have done of the IP, was that IP generating any revenue over the last few quarters?

**Dr. Keshab Panda:** Not really. They would not be major revenue impact because of this deal. We did work out that there is no top line growth impact. On the license earning revenue that was not the case because this is after we acquired Esencia - LTTS and Esencia together build on that – which is the IP which we transferred. So this is not just Esencia, this is Esencia and the LTTS engineers together they created, given shape to the IP which we have been able to sell it. So there is no impact whatever we are getting in the past quarter - future there is no impact.

**Pankaj Kapoor**: Two quick questions on the other income side, any outlook you can share on the SEIS income in the FY19 and second on the tax rate that you expect for the FY19?

**P Ramakrishnan**: Let me tell like this. In the next year that is 18-19 we have hedge contracts which are around 71 on the dollar rupee side. So as you may be aware that if the dollar rupee at 65 the other income will be higher if the dollar rupee at 68 obviously that part of the depreciation will obviously positively impact the EBITDA for the current year to that extent the other income portion will obviously come down. As far as the SEIS is concerned it is slightly too early because will be filing the claim for 17-18 maybe after Q1 is over so it would be too early to say when the licenses will be procured, but I believe sometime maybe end of Q2 or early Q3.

**Pankaj Kapoor**: On the tax rate if you can give a color on that?

**P Ramakrishnan:** So tax rate because of this Q4 adjustment which I talked about in terms of credits under provisions for deferred tax for which we have put an explanation in the Analyst Factsheet otherwise in the current year our tax rates will come back to possibly around anyway between 26.5 to 27.5.

**Moderator**: The next question is from the line of Nikunk Mandowra from Edelweiss. Please go ahead.

**Sandip Agarwal:** I have two questions. First on the revenue side, so I just wanted to understand if you see all the global agencies are predicting a very strong outlook for the whole engineering space where we have specialization in fact you know some of the agencies are quoting that the industry growth rate will be maybe double of the IT services growth rate and we are being specialist in this area our growth rate probably would be higher than the industry rate by a significant margin. So my question is that is this 16% which you are guiding and I appreciate the fact that you people have come out with a very specific number, does this build a very, very significant amount of under guidance or conservatism in your number, one. Number two, which are the areas where you are seeing very significant change in the way deals are getting awarded or deals are coming is there any significant change in any segment which you are seeing.

**Dr. Keshab Panda:** You know if you see engineering outsourced to India other than captive the CAGR is around 12.5%. So I think opportunity point of view 16% what I am saying am I conservative on that this time I would not say beyond this. Maybe I think you will have more visibility in quarter one and if you recall last year quarter one we are talking about only double digit and this question was asked whether we can do 12% or 14% or 15%. Now we achieved 20%. So only thing I can tell you is opportunity is there and this our top customers have more demand they lift more and more. There is no reason with the investment in new technology and digital work we are in the leadership zone with all this together engineering DNA we have there is no reason why we cannot do better than anybody else. If you see IT industry whatever guidance they have given you see NASSCOM guidance is what they have given. I think this 16 is a quite reasonable growth in my view at this time, but I think we are not leaving - if you have to hit a billion dollar we need to do better every year-on-year so that we can meet that.

And growth point of view whether which area is going to grow, which segment is going to grow we always look at it which segment is today if you see the ER&D spend addressable market. There are two areas which is high. One is telecom semiconductor consumer electronic and the second one is automotive segment. The ER&D spend is high. But we look at more and more but balancing out overall together I am not even talking about today one business segment. I am only talking about horizontal which technology which I have which is going to grow, which is going to add to multiple customers. So I think that is where we look at it and one area which our biggest differentiator is plant engineering if you see in the past plant engineering we have gone through the difficult growth area.

Now plant engineering is doing very, very well. It has grown this year it will continue to grow; the order booking is reasonably good. So one point I will tell you when you talk about digital - lot of reports about digital twin, but we have been working on digital twin for a long time. On the digital side, whether digital smart product design or smart manufacturing design - we have multiple platforms, we have multiple solutions. Now we did a survey we went to our top 30 customers and asked them where are they on the digital side. If you see today they have moved from Strategic stage to more on the Impact & ROI stage now. The percentage of Strategy stage which was were there in FY17 – in FY18 they are more and more and the opportunities are more in optimized manufacturing operation, operations agility, digital predictive analytics for AMS and so on. So I think these areas combined with the top 30 customers the assets what we have created that is going to drive the growth in every segment. I am not even looking at segment. Plant engineering it is going to do well, off-highway you will see this segment was slow and that has opened up very well. They want to use new technology what automotive does - off-highway would like to more and more follow what automotive segment does. So I think the way market is - not just one segment to other segment, what technology we have which we can take from one to other that is the biggest thing in the future.

**Moderator**: We take the next question from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

**Mayank Babla**: I just had one query it was regarding Rs. 259 million amortization charge, I just wanted to understand the accounting entry as far as this customer contract is concerned because I was not understanding is it capitalized before or can you explain it to me please?

**P Ramakrishnan**: See when you do an acquisition especially for services company obviously what is you have you acquire certain assets and you pay some consideration. The excess of the consideration paid over the fair value of assets is taken as into two parts. One is, what are the other intangible assets by way of that acquisition which you are acquiring. So in most of the cases in services company some part of this excess consideration which is paid is allocated to what we call that the acquired company has some key clients to which you will have stickiness of revenues. Some value is attributed to that and any other residual value is finally taken as goodwill. Now historically or ever since as LTTS we are amortizing that portion which has been allocated for key client accounts over a period of 7 years. So, in the current year as part of a change in accounting estimate instead of expensing or amortizing it over 7 years we have taken it over a 4-year period.

**Moderator**: We take the next question from the line of Abhishekh S from Equirus Securities. Please go ahead.

**Abhishekh S**: This could be a repeat on the Esencia transaction, but could you help us understand what is the value of the Esencia today because you bought Esencia I think for $25, $27 million and you are selling 14 or 16 employees if I heard it right and an IP transaction with getting around $16 million, so how should we look at the value of Esencia today and the second question is what happens to the founders of Esencia where are they moving along with this transaction?

**P Ramakrishnan:** First and foremost, I wish to tell you I think Dr. Panda covered that in great detail is that in no way that this particular transaction has any sort of an immediate or any adverse impact on the company. First and foremost, Esencia was acquired in the first of June 2017, and now as far as ASIC and VLSI practice is concerned that entire business we are in the process of getting it completely integrated with that of LTTS and that is one of the reasons that we completely foreclosed – with this one-off transaction we foreclose the SPA itself. Secondly, there are two other founders which are part of the Esencia driving the integration process into a next scale. Thirdly, we are also actively pursuing opportunities in terms of further beefing up further competency in this particular segment, but it is too premature for us to comment anything on a clear basis. So Dr. Panda.

**Dr. Keshab Panda:** It is difficult to answer what is the value of Esencia. Esencia is no more independent now. There are lot of things we do like we talk about IP - LTTS and Esencia together has been working on this to monetize that. So I think today as you rightly said $27 is valuation what we did part we had paid and part is on the earning which was there. We closed the SPA now and the next course of the action is the two of the partners still there, the CEO is there the next person is there, so they are still part of the Esencia and LTTS. We are looking at long-term point of view. As you know semiconductor is a big practice for us as well, but they do the higher-end of VLSI ASIC design and then the bottom portion is what we have been doing, and again the hardware part of that there is a team in Israel. So what we are trying to do is now how to integrate the Israel team to the San Jose team, to the Bangalore team together integrating to a single team which can not only do that in a semiconductor area, they can also beyond the semiconductor, to automotive, medical there are couple of new wins and which we have been successful in doing that.

**Moderator**: We take the next question from the line of Ravi Menon from Elara Securities. Please go ahead**.**

**Ravi Menon**: But if I hear the comments correctly it seems like that whatever was the drag or the slightly lagging parts of the business that is also poised to kick into gear in FY19, process industry we are talking about very strong order book over there. So I know that communication you would not have the benefit of a large deal that you did over this year, but still it seems your guidance does seem more conservative given that there are really no drags in the business or are there any parts of the business you expect to be slightly softer?

**Dr. Keshab Panda:** I think this is not correct to say that we are not working on large deals. In FY19 there is a stream of people working a large deals area. This is a continuous process, this will continue to be there and the only thing is which segment the large deal is coming and how much it is going to add. Then we are drawing a plan for one billion dollar which we said we are hitting by FY21. Next year 16% or beyond whatever number we are going to deliver this is also we have to look at FY20, FY21 to hit the number. So I think large deals focus continues to be there. We will do much more aggressively than what we have done and the commercial model what we have learned from the large deals we did so far – the lessons learnt - we will do a better job in subsequent deals we are going to do. I think overall we are in the right track. I would ask Amit to add.

**Amit Chadha:** Number one, Dr. Panda like he had said a couple of times now in this call. We had said double digit and then we have given 16% at least organic this year. If you look at it large deals we have talked about we started talking about large deals since January and since then quarter-on-quarter we have reported to the market on the deals which we have won, and they have been broad-based not just telecom hi-tech, but in automotive as well as in the areas of plant engineering. Having said that, there is a clear focus and pursuit in the large deal area and value creation for the client and ourselves. So there is middle-of-life support, NPD (new product design) factory models, there is digital IoT both product and plant. There is vendor consolidation deals and upscaling and managed services deals. So we actually gone a step deeper than just saying large deals to breaking it up into four categories internally and working it at a pace that will help us in this year.

**Ravi Menon**: You are still looking at horizontal based approach and you talked about how you want to take that in and used the same capability across multiple verticals that part of your strategy, can you give us an example or a couple of examples for that?

**Dr. Keshab Panda:** I always talked about one which is last few quarter we have been talking about the screwdriver we did the screwdriver design and you will see how do you take learning from telecom and implement that in screwdriver and then you look at it. We are working on which is called electric vehicle or hybrid vehicle in automotive - taking DC-DC converter and doing the stackable inverter which we did in Industrial we have taken that to automotive. There is a concept we did on energy management we did at the beginning that we have taken to the smart campus management. It includes lot more technology than what we did before and not only we did that we have been able to successful sell in Australia, we sold in Israel, we are right now discussing with customer in Singapore. So I think vertical domain is essential. I would say 25% should be vertical domain, 75% we should be on the technology and in line with the vertical. I think if this is the integration possible I think which we have demonstrated this year we believe we will continue to do that for coming years as well.

**Moderator**: We take the next question from the line of Shyamal Dhruve from PhillipCapital. Please go ahead.

**Shyamal Dhruve**: So my question is regarding the aspiration or guidance you have given for FY21, so in your opening remarks you have said that out of this one billion dollars of revenue you are targeting around 120 from inorganic route and 880 from organic route. So regarding this 120 whether we have finalized any vertical or geographies where we want to do any acquisition or whether it would be acquiring new clients like what would be our strategy for the acquisition?

**Dr. Keshab Panda:** I think we are not going to get a business segment. Whatever acquisition we are going to do, this is on the technology driven mostly technology driven. If you see around the world there are not too many companies that are more than 50 million in this segment. So when you acquire a company we are looking at either it should be customer specific - a customer where that particular white space we need to have that space to get into double the revenue with the customer or revenue growth so we buy those types of companies. Now today I am saying if 15% CAGR we grow from today to FY21 we go to 880 million and 120 million and next quarter when I come back I say maybe 120 we don’t need we want 100 million but trust me there are not too many companies. These are all technologies company not too many technology company are there in the world who are more than 50 million. So I think we will do multiple M&As. From this year I think we are very close to doing one hopefully we will do that next quarter and we will announce that. We are closing one, and at the same time we have a team of 7 people working or looking at M&A hunting. So whitespaces we do every year. When you do a strategy, what are the gap we have in the company and how that gap we can fill it up if that gap we are going to fill up hiring people or we are going to acquire a company. So that is given to the M&A team. M&A team with the business leaders whether vertical horizontal technology leaders they work with them and go through the process and then the opportunity we believe that is important we take it forward.

As far as geography I think we are open to wherever we do a M&A we can manage workforce then we are open to that. If the geography where we acquire a company, there are lot of employee related issues or union related issue we are little careful about acquiring company that we cannot manage. We can acquire a company announce and celebrate but later on it could be a dragging factor for us, so we do not do that. It is not necessarily one geography or other, but we always look at it how do we manage it how do we integrate it before we acquire a company.

**Shyamal Dhruve**: Just a small clarification this 16% guidance you are giving for FY19 - it is organic growth guidance is that correct?

**Dr. Keshab Panda:** That is correct.

**Moderator**: We take the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad**: My question is on the margin, so we talked about the levers there, but how should we look at it more directionally, can we see that going to FY17 sort of levels next couple of years?

**Dr. Keshab Panda:** Yes of course I think we are saying few basis points improvement quarter-on-quarter I think we are looking at every lever available in engineering. See utilization we have more or less I think come close. There are multiple levers available for us to get into this. So the only thing I can tell you is few basis points quarter-on-quarter we are committing that now. We will have more visibility on what level FY17 level, FY16 level or beyond that I think will have more clarity in a quarter or two.

**Apurva Prasad**: If you can just give some idea in terms of how should we look at the depreciation and amortization line item going forward?

**P Ramakrishnan:** You can take around roughly around 20 crore per quarter.

**Moderator**: We take the next question from the line of Achal Phade from Wealth Managers. Please go ahead.

**Achal Phade:** My first question was if I could have a breakup of the other income for the current quarter?

**P Ramakrishnan:** I think it is there in the Factsheet if you can, but we have Rs. 376 million has accrued on account of foreign exchange and major part of Others comprises of the value of licenses which we secured during the quarter for the year ended 31st, March.

**Achal Phade**: On the Esencia transaction like the cost of acquisition included a payment of 12 million over the next four years and now what I read is there will be no further consideration payable to the seller of Esencia, a bit like at the cost of repetition if you can just give a clarity on why exactly this will happen, and secondly does it also mean that $12 million will be included in other income in the next quarter like FY19?

**P Ramakrishnan:** Yes that is what I have communicated that what has come will be recorded as an income in this current quarter 30th June.

**Achal Phade**: The current 15 million payments done to the seller of Esencia is the only payment that will be made no further payment to be made?

**Dr. Keshab Panda:** That has already been made. 15 million was the outflow from LTTS when we acquired the company and there are no further outflows.

**Moderator**: Thank you. Ladies and Gentlemen that was the last question. I would now like to hand the conference over to Mr. Pinku Pappan – Head of Investor Relations for closing comments.

**Pinku Pappan**: Thank you all for joining us on the call today. We hope we were able to answer most of your questions. If you have any queries, please feel free to reach out to me and I will help you in them and wish you a good day.

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