



“L&T Technology Services Limited Q2 FY18 Earnings Call”

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Moderator: Ladies and gentlemen, good day and welcome to the L&T Technology Services Limited Earnings Conference Call for the Second Quarter Fiscal 2018. 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 an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan. Thank you and over to you, sir.

Pinku Pappan: Hello everyone and Welcome to L&T Technology Services Second Quarter FY'18 Earnings Conference Call. I am Pinku from the Investor Relations Team. I hope you have had a chance to go through our 'Investor Release' and 'Financial Statement.' If not, you can download them from our website, www.lnttechservices.com

On today's call, you will hear from Dr. Keshab Panda – our CEO; Mr. Amit Chadha – President, Sales and Business Development; Mr. Bhupendra Bhate – our newly appointed COO; and Mr. P. Ramakrishnan – our CFO.

The agenda for today's call is as follows: "Dr. Panda will provide an Overview of the Results and Comment on the Business Outlook"; "Amit will talk about our Sales Execution in Detail;" "PR will take you through our Financial Details and Key Operational Metrics; and then we will open the line for "Questions."

So, let me turn the call over to Dr. Panda.

Dr. Keshab Panda: Thank you, Pinku. Before I start the earnings call, first thank you for joining this call today. We are very excited, we have appointed Bhupendra Bhate – as our Chief Operating Officer; Bhate is not new to anyone; he has been with the company for long - 2003 onwards; he is a technologist, he has done multiple roles, he has done start-ups in the past and is the technology brain of the company, and operations - he understands very well. So, the board has approved and we made the announcement today. He has joined us today on the call. So Bhate is the Wholetime Director and Chief Operating Officer of L&TTS.

Let me walk you through the Q2 Results: We had a strong performance with 9.2% sequential growth in dollar terms. Growth was led by increasing traction with top-30 accounts which contributed to revenues from 64% last quarter to 66% this quarter, most of the top-30 accounts have done reasonably well. We also had ramped up large deals in Telecom space, large deals in the Transportation segment as well. The demand is healthy in most of the business segments now in Transportation and Telecom especially, and Medical is doing very well. In the quarter, we won several multi-million dollar deals across the board. Our EBITDA margin is steady at 15.3% same as the last quarter, we are working on improving the margin, various levers available to us and are very sure we will do reasonably well moving forward.

I am excited to share with you the net profit growth of 25% QoQ and a jump due to other income.

Let me now talk about five industry segments how we did in the quarter and how does it look like moving forward, what is driving the growth: Our Transportation, the two segments did very well which is Auto and Truck/Off Highways. In the Auto segment, the investment we did in defense; Safety and Security, Connected Cars and Electric Vehicles. I think some of you who were here during the 'Analyst Call' we demonstrated that and we see a lot of traction coming in this segment and this is where we are doing reasonably well. Testing of infotainment and development of infotainment is an area every customer is looking at in Auto segment, that is a growth area for us, we are doing reasonably well. The investment in Industrial segment on DC-DC Converter and the Battery Management, the Inverter investment what we did from industrial borrowing that to the Auto segment, that also is paying us dividend moving forward and that contributed to this quarter growth as well.

The Truck and Construction Equipment, the market was down last few years because of China and many other things, our western customer has had an impact. Now it is picking up, that segment is growing well.

Agriculture and Construction manufacturers are following automotive companies adopting new technology and standard in active safety, electronics control and IoT. That is the segment we are very strong in and that segment is doing very well for us. Also, as more of such vehicles are sold in emerging markets, projects for competitive benchmarking, understanding requirements, etc., in a different geography that is helping us for our growth. We expect strong growth to continue both Auto and Off-Highways.

Aerospace is a cyclic business anytime. But I am happy to share with you we signed a new client in the commercial aerospace side and we believe that is going to give us additional revenue moving forward. We are also working with the clients - there is a new area to build Hybrid Electric Aircraft. This is an area this is the new and we are actively involved in this project. This is something not only give us revenue but is also enter into new technology.

During the quarter, we won two large deals – One, involving the design of an airline, high lift system, test equipment to be done in our lab. This we manage in US as well as in India. This is again a sizeable traction for us and entry into a new area this is going to give us a different stream of business and revenue.

The second one is Development of Airline Inflight Entertainment. Even though aerospace is a cyclical business, this area will continue to remain in demand. We got a sizeable order in this area as well and this is going to help us moving forward to subsequent quarters.

We are also seeing opportunity in the aftermarket side where we do not have a big presence currently and we believe that is going to be sizeable revenue moving forward. While the growth was flattish in some of the large programs on the commercial side nearing the end of a design development phase, like A350, 380 and these areas, but there are other areas are opening up for us in this segment.

Medical: We continue to see strong growth in this vertical. Top clients are seeing good traction as we penetrate further into them. We are seeing some of the interesting opportunities in Japan... I was just there in Japan, I came back just two days ago where we are using transformational technology in the development of eye and kidney and liver support equipment. I think you should see the investment in the lab what we did in the past, I think they are staying up and the team of people are working on this area and thus I would think this is a transformational technology which is going to help us in the future quarters. There is a lot of demand for new product development in medical science and value engineering in the area of patient care and diagnostics. This area again is helping for a growth. We expect strong growth in Medical to continue for coming quarters.

Industrial Segment: As you know, industrial products, the number of patents we filed in this area I think we do very well. In this segment, the Building Automation side and Electrical Drive, these are the growth areas for the quarter, it has grown well. Incrementally, we are seeing opportunities in Lighting, Renewable Energy, and the Machinery side for Oil & Gas and Energy Storage segment. While we have grown in Q2, the growth was soft because there is one large customer which divested part of the business and that is a temporary impact this quarter, even though Industrial Products have grown it has not grown as per the expectation we have, we believe that is temporary and the growth is going to come back.

Process Industry: I have been talking about in the past, the capital investments in last two quarters because of US election and many other areas were slow. Last year we had degrowth if you see but I think growth is back now. There are two segments in Process Industry – CPG and Food & Beverage industry and Oil & Gas. CPG and Food & Beverage has shown a sign of growth and there are CAPEX spending happening now. Oil & Gas price as you know continue to grow everyday now and that also we are bullish about the growth in these two segments. Customers across the board are adopting to disruptive technologies like Artificial Intelligence to build predictive models. Process Industry is now looking at the new areas of growth, new technology segment, I think we are well positioned in this segment, not only the traditional cross Plant Engineering what we do, in addition we are taking new technology segment, I think that is something is helping us.

We are seeing demand in asset digitization as tracking of assets become a priority. Spending is also happening in OPEX optimization and debottlenecking which are some areas which I think we are seeing the growth.

Finally, the Telecom and Hi-Tech segment. We have seen 32% QoQ growth in Q2. If you recall last call I was talking about we are working on some multiple large deals and it happened a few months ago and that has given a growth and in this Q2 it has helped. In addition to the T30 growth, these large deals also contributed to growth for this quarter. The large deal with the USA technology company has given us access to new technology like Video Platform and Security Solutions which help us sign new clients. This is again I think we are very bullish about this technology expanding to new customers and deep-dive into that. I am sure that is going to be helpful.

I talked about the Esencia Technologies last time. In Esencia we have seen good growth, Esencia has done well. There is a lot of demand for high end VLSI & ASIC design skills and we have been able to increase our penetration within our existing client base and cross-sell to other clients.

Telecom industry is investing a lot in 5G and IoT. We are helping network operators, chip companies and OEMs in the deployment of 5G devices. This is a growth area. Overall, we are very positive about regarding this vertical and expect healthy growth going forward for coming quarters as well.

Let me conclude by providing the Outlook on the Business Going Forward: We are optimistic on growth. Growth is back again, healthy demand in every segment and geography, I think that is going to help us in our growth. Our deal wins, our top client traction combined with investments, we have made into our labs along with our customers, it will help us achieve a double-digit organic growth which I have been talking about in FY'18. We continue to work on improving our margins. Key margin levers I think higher bill rates, better utilization, onsite percentage increased this quarter, that is going to come down and we are working on that lever to improve our margin as well.

I am also happy to share with you that our patent portfolio has increased by 33 sequentially to 287 as of Q2. We have 287 patents and 64 of them owned by us and rest are owned by the customers. Our DNA innovation I think will continue to do well and we continue that patents and we are working on that as well.

I firmly believe that innovation is the key to our success and innovation is in our DNA and will help us command a lead in the ER&D space. Thank you very much.

I would now hand over to Amit Chadha who is President, Sales and Whole-time-Director of the company. Amit will take you through the market as well as some of the technology investment what you do the vertical strategy in different geography and multiple exciting things what he is doing and how he sees the market. Over to Amit now.

Amit Chadha:

Thank you Dr. Panda. Good Evening. As we stated in our release and earlier on the call, we continue to see growth not just last quarter, this quarter but going forward and driven by three factors – One is large deals, second is our T30 account focus and a clear drive to move clients up the pyramid. Third, Micro Vertical, Geo Focus.

Let me get into a little bit of details: On the large deals, we have created a cross vertical large deals team that reports directly into me. This team works with account relationship managers or account delivery managers to source ideas more like crowd sourcing. We prioritize them and then help, shape up propositions that are pitched to clients proactively. We do sounding board calls, meetings, etc., Given that we have built a deal pipeline that give us some closures a couple of quarters ago, last quarter, current quarter, going forward.

Let me provide three specific examples: The first one has been in the Media and Entertainment vertical. We have won a middle-of-life support deal, thereby extending the products life and freeing up clients bandwidth for the next gen product. For this product family, we will be the single source of support globally and work with the client on next-gen products as well.

We have been able to shape a second deal on the back of this one in the same domain which is pure product R&D and hopefully we will talk about this in the next quarter. The second deal that we have got going which we signed already and ramped up in this quarter has been Automotive Europe where we work with the client to allow them to launch the next version of their autonomous vehicle platform with our help about six months prior to their original schedule providing them speed to market. This deal is largely won based on the pre-existing solutions that some of you have seen in our labs that we have developed.

A third deal, large deal that we have been able to sign is in the ASIC Design Verification space working with Esencia and directly organically we won a 5G network project which will allow us to do platform development and then verification validation across the globe. On the back of this one, like the Media one that I talked about, we are very close to winning another one that we have signed this quarter that will ramp up for us and we will talk about it in the next quarter call.

We do see a continuous flow of large deals in the Telecom Hi Tech domain, Automotive and we see medium-size deals in the Plant Engineering and Industrial Products area.

Moving on from large deals to the second driver that has been behind this growth is focusing on T30 accounts. Dr. Panda talked about the T30 account growth. Our sales and delivery teams have been focused to move clients up the pyramid. Though we have retained the number of 30-plus million accounts to two, within that bracket we have grown them up in the quarter. Not just that we have also upgraded a client each in the 20 million bracket, 10 million bracket and 5 million bracket sequentially.

We will continue to see progress in this space not just in the T30 but also in the end 20-accounts which are just waiting to grow all of them up the pyramid. Two of the wins that we announced in our press release in fact, the Medical company one and the Chemical company one is both not in the T30 account category but in the next-20 category. We do see promising demand from them and a clear runway that exists to grow these accounts up the pyramid.

From a geo standpoint, the US continues to show growth for us across verticals and segments specifically in Automotive, Ground Transportation, Telecom, Hi Tech, Media and Entertainment.

Coming to Europe, we see continuous demand and we reorganized our efforts to go to Europe with the glocal focus, focusing on products and process areas separately. This has paid us good dividends and we have seen Europe grow 8% sequentially and key traction there has been Automotive, Industrial, IoT, Oil & Gas and Plant Engineering Services. For ROW, we have established a presence in Israel on the back of recent deal we have got with skills in security

solutions and media solutions. We are expecting further growth opportunities. Japan continues to be like Dr. Panda mentioned a growth area for us in Automotive and Medical segment.

Finally, coming out with the Numbers: On an organic basis, our order backlog executable in Q3 and Q4 stands at \$220 million. Our weighted pipeline that we can potentially execute in Q3 and Q4 stands at \$90 million. This gives us confidence that we will be able to deliver double digit organic guidance and continue the growth story that we have been able to put in place in the last few quarters.

With that, I will hand it back to PR.

P. Ramakrishnan:

Thank you, Amit. Good Evening to all of you. By now you must have gone through the advertisement summarizing the “Financials and the “Fact Sheets” that has been loaded on the website. For the convenience of everybody, I will go through the numbers in summary and then afterwards we can take the Q&A.

We will start with the revenue: For the year ended FY18, for September quarter, the revenue reported is Rs.9006 million as against previous quarter revenue of Rs.8226 million which shows 9.5% QoQ growth. On YoY perspective, last year for the second quarter we had a revenue number of Rs.8227 million. So, if you compare that with the current quarter of Rs.9006 million, we have YoY growth in rupee terms at 9.5%...I will cover the EBITDA, the margins and all after I summarize the call. The PAT for the quarter is reported at Rs.1227 million as against Rs.982 million for the previous quarter showing a growth of around 25% and when compared to the same quarter of the previous year the growth is around 9.6%.

The Board in its meeting today has declared an interim dividend of Rs.4 per share.

Coming from a dollar revenue perspective, the revenue for the 30th September quarter, was \$139.3 million as compared to \$127.6 million which is equivalent of the previous quarter, there again showing QoQ growth of 9.2% On YoY percentage that is compared with the second quarter of the previous year which is at 122.9, the YoY growth has been at 13.4%. Using constant currency, the Q1 growth is also at 8.7%. So, you will appreciate that the growth momentum which we saw or witnessed during the first quarter has been continued in the second quarter and as Dr. Panda and Amit summarized that the growth momentum has been seen largely in the Telecom, Hi Tech segment followed by Transportation. That you can see if you go by the revenue by vertical, the revenue as a percentage by vertical the Transportation continues to be the biggest chunk at 32%, followed by Telecom and Hi Tech at 24.3%, then coming to Industrial Products at 23.6% and Process Industry at 12.8% and closing at Medical at 7%. These are the Q2 numbers what I just now talked about now. Amit made a mention about the revenue from wherever he has seen the strength in terms of where he sees the revenue strong in terms of geography but in terms of the overall statistics, North America continues to be more than 60% of the revenue with the Q2 revenue is at 60.8%, Europe we had 16.5%, a share of revenues, rest of the world had 12.2%. As you compare with the previous quarter at 9.6%, the increase has been robust here, that is

primarily because the revenues which have been reported from Israel which was the new geography which we added during the first quarter. India continues to be around 10.5%.

Now coming to the Revenue Mix: As compared to the previous quarter, where our Onsite/Offshore revenue mix was 49:51, this quarter we have seen a reversal of its becoming 51:49 and that is largely driven by the large deals which we secured during the initial start of the year and which went into execution during the current quarter. In terms of revenue by project type, there has not been much change in the composition. We continue to have one-third in terms of fixed price contracts and two-thirds of revenues coming by time and material contracts.

Now, coming to Utilization: Our utilization for the current quarter was at 76% as compared to the previous quarter at 75%, an increase of 1%.

Now, I come back to the Margin Statistics: As I explained to you, the revenue growth where we have seen and the fact is our Onsite/Offshore revenue has seen a 2% increase as compared to the previous quarter and having the revenue growth of almost \$139 million, our margins we have maintained as per the previous quarter at 15.3. The margins could be better had the Onsite/Offshore revenue mix has come back into a more favorable form which we expect in terms of improvement on utilization and a better Onsite/Offshore, the two margin levers where we believe that we can improve margins in the quarters to come.

Coming to Employee Statistics: We had a headcount of around 11,500, almost increase of 750 people over the previous quarter and this headcount increase because of the large deals which we secured.

Coming to one more line item: Our other income you would have seen has been reported at Rs.482 million as compared to the previous quarter at Rs.262 million. Rs.482 million has a non-recurring I would say income to the extent of Rs.180 million towards sale of licenses which we got as part of the Government of India's Engineering Export Service Scheme and we secured those licenses in the quarter and we have sold some of them and that has yielded Rs.180 million. If I take post-tax impact, I would still say that our PAT whatever we are showing at Rs.1230 million would still be higher if we remove this non-recurring income by way of sale of export licenses. Our blended tax rate for the quarter is roughly around the same at 28%.

So, with this, I have tried to give you overall perspective on the volume growth and the segments where we have seen a good amount of volume growth and the margins and utilization. So, with this we conclude and we come back to the question-and-answer, so we can now take the Q&A.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai:

Just to break it down into the revenue and margin line, firstly on the revenue front, could you help me with how much was the contribution from Esencia, is it correct to assume it was around \$4 million for this quarter?

- Dr. Keshab Panda:** Yes, that is correct.
- Vishal Desai:** It would have accounted for two months or so, is that right?
- P. Ramakrishnan:** Three months. We had Esencia for the month of June in the previous quarter and Esencia is contributing full \$4 million plus in the current quarter.
- Vishal Desai:** Secondly, in terms of the margins, could you explain us the movement and given the strong growth in our revenues, we did not really see the real flow through in terms of our EBITDA margins being largely flat QoQ?
- Dr. Keshab Panda:** What happens is when you have a large deal, large deals are Onsite, it is a knowledge transfer and so on. What PR said was the Onsite/Offshore is 49:51 has changed to 51:49. That was the main impact on the margin, right. A lot of people are onsite now for knowledge transfer, hopefully coming quarters would be able to change that and gain back to 49:51. That is going to be a better lever going up, at the same time when you start large deals, I am sure there are multiple things going on, we are also looking at the utilization. When you are working on large deals with all our efforts, now the effort is to make sure that utilization goes up, make sure that high pyramid is there, make sure that come back with the original 49:51 onsite/offshore. Those are the levers to be used for coming quarters. I would say major part was on the Onsite/Offshore, that impacted the margin for the large deals.
- Vishal Desai:** Just to understand another thing in terms of H2 given that we have a strong deal pipeline, are we expecting the growth to ramp up from here on while I agree that you all have said that you are likely to clock in at double digit growth, but what kind of momentum are we seeing into H2 is if you could throw some color on that that would be helpful?
- Amit Chadha:** We do see the large deal pipeline continuing and closing and we do expect if you take the seasonality out of Q3 that you have in December and the last week of November, you take that out, we are bullish about Q3 as well as Q4 going forward, because we do see conversions happening on a regular ongoing basis.
- Vishal Desai:** I think in the last call gone, we had mentioned our tax rate to be at around 26.5% or so for the full year. Could you give some sense for us?
- P. Ramakrishnan:** In the Q1, our tax rate was around 28.6% and in the current quarter also it is around 28%. I expect it should be in the range of 27-28% for the full year.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.
- Madhu Babu:** What is the quantum of Onsite headcount addition during this quarter? Our total headcount has been strong, 700 employees we are at.

- Dr. Keshab Panda:** I would say Onsite increased by 100+.
- Madhu Babu:** Did this involve any rebadging deal which we got in this quarter in the Telecom side?
- Dr. Keshab Panda:** We do not comment on that.
- Madhu Babu:** Telecom segmental margins we disclose in the BSE release, it looks like 8% segmental margin versus 12%. So that is because of the specific deal in this quarter, right?
- Dr. Keshab Panda:** That is correct.
- Madhu Babu:** Just on the margin outlook, I think we talked about differing wage hike. What is the plan schedule for the wage hike?
- Dr. Keshab Panda:** This Q3 we have implemented wage hike. Before doing that, we worked out what are the levers available that our margin is not impacted. I think we are in good shape now.
- Moderator:** Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.
- Pankaj Kapoor:** Just a few questions; first, on the IP revenues, did we had anything in the quarter and you mentioned that we have added more to our IP portfolio, so any outlook you can share in terms of the revenue translation of that?
- Dr. Keshab Panda:** Pankaj, the innovation we talk about will continue to work on that and I am very bullish about the assets we are creating. I have no doubt about monetizing those. There are discussion going on, on those areas and the areas where we can expand the platform into a different level where we can monetize in a better way. We are still working on it. This quarter we do not have any much success, but I am seeing in the future quarters. In the engineering technology company, the DNA of innovation we cannot stop, we continue to add patents. At the same time, team is working on how do you monetize those and that process is always on and I am bullish about those portfolios and monetizing that in the coming quarters.
- Pankaj Kapoor:** Dr. Panda, this year of course is going to be a strong momentum because of the major deal wins that we had and I presume that should carry at least in the early part of next year as well. But directionally, looking at the kind of a pipeline that you have and the deals which are likely to grow going forward, any early sense in terms of how do you see the next year shaping up – do you think that the momentum that we got this year can be sustained?
- Dr. Keshab Panda:** Amit will answer that I think. He talked about some of the deals he is working on which is not only for this year, coming year as well. Amit?
- Amit Chadha:** Pankaj, the deal flow that we see, you are right, right now the visibility that we have in the next two quarters as well as early quarters of FY'19 look comfortable to us. Do we see this continuing?

The answer is yes, we are working towards it in terms of continuing to create newer proposition as well as deal that will help us. Like I said, Telecom, Hi Tech, Automotive and Transportation, these segments we know that there are large deals that we are working on that will close and there will be medium size in the Plant Engineering and Industrial Products area that we continue to see will close.

Dr. Keshab Panda: Pankaj, if we go into details, the video solutions, security solutions are what I think is a part of large deal, that the team is working on how do we mine those to the next level. This is not just one deal done and that deal what the people and knowledge and technology what we have how do we scale it up and then there is artificial intelligence, there are very exciting projects team is working on right now and scaling up to next level, that is also going to be helpful. Actually, every segment has done well. One segment which was I think an issue if you see last year the Plant Engineering, the team has done well now, we are stabilized and I think Amit talked about, we are seeing a sign of growth in Plant Engineering as well which is again a good segment to be and that is a major difference of the company. So, I think as we today, the growth is not just because of one Telecom large deals, the top-30 accounts have done well, and then every segment, different technology areas have done reasonably well. So, I think we are bullish about. As we see today I think looks quite positive moving forward next year as well.

Pankaj Kapoor: PR, just a question on the margins. So, this quarter we have implemented the wage hike. So, do you think that there could be a sequential decline in the margin this quarter or you think that we can be able to hold them steady? In 3Q obviously you also have the impact of furloughs. So, what is your view on the margin for the coming quarter as well as for the full year – where do you see the likely band residing at?

P. Ramakrishnan: Pankaj, margin levers, I discussed when I spoke that we talked about utilization at 76% today blended and the fact is the large deal which has ramped up - we have some amount of pyramid rejig we can do which is one more lever. Last but not the least, a change in the Onshore/Offshore mix is another lever where we can or we have the flexibility to ensure that margins come back on track. In select cases, we also have bill rate increases which has happened for which we expect to see the increases in terms of the overall revenue because of higher bill rates in Q4 of the current year. Also, the fact as Dr. Panda and Amit Chadha talked about in terms of the revenue visibility for Q3, Q4, while we have given the revenue visibility, we have factored the matter of furloughs coming up in some of the client accounts not necessarily all of them during December and we expect that we have margin levers to possibly see an improvement from where we are today.

Pankaj Kapoor: So, we can expect QoQ improvement in the margin going forward despite the wage hike coming in, is that a fair assumption sir?

P Ramakrishnan: I would think so, that is our objective though, yes.

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

Ravi Menon: Sir, just a follow up on Madhu asked earlier about Telecom. Segmental margins are a little lower this quarter. Is there any kind of hardware or any other element that you had to take on in the cost this quarter?

Dr. Keshab Panda: No, there is no hardware involved at all, these are only people and as we said, we increase the number of people onsite of 100+, the onsite cost because of this, the contribution margin where the people on onsite is low, that has impacted. Now, in knowledge transfer phase people are going to move back to India and offshore we are going to increase and different type of commercial model we are going to revive, there is an option in the deal to work on. So, we believe whatever the margin we have now, there will be improvement on that in the segment, that we are working on that as well. There is no hardware, there is no pass-through which has impacted the margin, that is not the case.

Moderator: Thank you. We will take the next question from the line of Deepesh Mehta from SBICAP Securities. Please go ahead.

Deepesh Mehta: Just want to understand about the order backlog which we said about 220 million because I think last quarter we indicated around 270 million executable over next three quarters, now 220 million when we say it is for next two quarters only. So broadly 50 million is what we burned during the quarter. Is my understanding correct?

Amit Chadha: So, the way we had said last time was 270 backlog and we had talked about 90 million of repeatable orders if you go through the transcript. So, we did win new deals also as well as order intake happened in the quarter as well and that is how we are saying 220 backlog for FY'18. We have not said backlog for FY'19 and beyond which does exist and we have taken some feedback from the last analyst call that we had with you and going forward in FY'19 we will start providing you rolling four quarter forecast as well, but to remain consistent this time, we are maintaining ourselves for FY'18.

Deepesh Mehta: Only question is so last quarter when we indicated 270 was executable order with us, 90 million was pipeline, this time also weighted pipeline remain 90 million broadly. So, if I want to understand from gross to net perspective, 50 million from last backlog which we burn, so net basis we burn 50 million, is it correct way to look at it or there might be some safety here and there also?

Amit Chadha: No, we have not included an additional component of repeat orders as well that is out there, Dipesh, so that is there as well.

Deepesh Mehta: This is only net new kind of thing?

Amit Chadha: Yes.

Deepesh Mehta: Second question is about the other income. PR mentioned about some license sold. So, I am not very clear. If it is IPs, it is not part of license revenue or it is something else?

P. Ramakrishnan: Deepesh, the Government of India, they have incentive scheme for engineering exports which we do from our SEZ. It is not license revenue by sale of IPs. Whatever offshore revenues we have clocked in and those revenues have been realized, we are eligible to get a percentage of such kind of realized exports. So, we had filed that claim and we had got a claim by way of licenses and in the current quarter we have sold licenses aggregating to Rs.180 million which has come into as cash in the quarter-ended 30th September and that is what, it is not sale of IPs and that is the reason it has been shown in other income.

Deepesh Mehta: Last thing is about can you help us understand in H1 what was the OCF, FCF kind of number?

P. Ramakrishnan: Let me put it like the free cash flow for the second quarter was around Rs.107 crores.

Deepesh Mehta: What was the same number for Q1?

P. Ramakrishnan: For Q1, it was in the range of around Rs.20-odd crores. That was more to do with a payable which got crystallized and that was lying in working capital. Otherwise, we come back into what I have been always mentioning that, roughly the PAT of the company should be the free cash flow for the company.

Moderator: Thank you. We will take the next question from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: First question is what is the sustainable quarterly growth rate and what do you anticipate into do a double-digit closer to a number on QoQ basis when you started 2Q?

Dr. Keshab Panda: I think we have been consistently saying that we will have a double-digit organic double-digit growth. If you do the math and look at it last quarter, our growth and this quarter what we grew and what is required in Q3, Q4, we do the math to say that we get the right quarterly growth so that we hit double-digit growth, that is where we are. When you say double digit, it is always like anyway between 10 to 20. Only thing we are saying is we will do better than what industry does, so that is for sure.

Abhishek S: My question is regarding what is the sustainable QoQ growth number that we should look at, it has been lumpy for two, three quarters and last two quarters we have seen solid QoQ growth, as a company when you look at yourself, would you be happy with something like 3-4% CAGR or the growth rate could be as lumpy as what we have seen in the past three, four quarters?

Dr. Keshab Panda: What you are talking about lumpy quarters that is last year and that is the different reason for doing that. The two segments were not doing well as we discuss our Plant Engineering and there is Telecom, we are working out large deals in Telecom, right. These are all behind us now. So, when every segment has done well, Plant Engineering is stabilized and then our segment in Transportation is doing very well and Telecom also large deals what you talked about we close. So, logical thing to do is, our aim has been to make sure that we have a double-digit growth, continue to have year-on-year and to do that whatever quarterly growth required, some segment

would do well sometimes, some segment will not do sometimes. Only last year few quarters we did not do well, but consistently we see our track record before and whatever growth we have shown I think we will maintain that.

Amit Chadha: Abhishek, if I may add, if you look back at the financials, the pictures we have made from where we came from many years ago, we have had consistent growth. Like Dr. Panda said, last year was difficult for us because a couple of segments hitting at the same time.. So, you will not have that, you will see the consistency.

Dr. Keshab Panda: Abhishek, one point if you are there before we said there are tail accounts we dropped, that had an impact last year. The decision we made a year before that we are not going to carry the accounts not scaling up. That had some impact last year and that is showing positive results. This year we believe that moving forward that positive momentum will continue.

Abhishek S: A question for PR. When we started the year, we had a margin assumption, you highlighted some of the levers that are available to you. But on YoY basis, where do you think will end the year of FY'18 Vs FY'17?

P. Ramakrishnan: The point is Abhishek, FY'17, the average exchange rate was upwards of 67 and today we see 64.5. When I explained or when we highlighted our Q1 numbers, we did talk about the exchange rate itself will have an impact, part of this impact gets supported by a hedge income which is also accrued in the current quarter, but obviously for EBITDA margin perspective, we do not take those hedge cash flows. So, at constant exchange rate, we believe that today's 15.3 which is also the Q2 EBITDA margin and from whatever we talked about a better utilization and having the onshore/offshore mix, I guess we should be able to improve the margins further but we will stay put at this stage.

Moderator: Thank you. We will take the next question from the line of Ramesh Mantri from White Oak Capital. Please go ahead.

Ramesh Mantri: I have two questions; one, on the other income. Even adjusted for the one-off license income, other income has gone up quite a bit. Can you explain whether these licenses will accrue on an ongoing basis or is it a one-off given by the Government of India?

P. Ramakrishnan: I said the word 'Non-Recurring. What we have done is some part of the licenses has been sold, we will have some more getting accrual maybe in Q3 and Q4, but I do not wish to comment on the quantum. The other part of the other income which is totally we have reported Rs.482 million or Rs.48-odd crores, so out of that, Rs.18 crores attributes to this non-recurring income, we have roughly around Rs.27 crores as income towards foreign exchange which is a combination of translation and hedge cash flows and balance Rs.3 crores is because of the treasury income arising out of the surplus investments what we have. So on a consistent basis, given the fact the dollar/rupee at 64.5 and given the fact of our whatever forward contracts we have for the balance six months, I believe that something around 19 to 20 crore is the other income for Q3, Q4 assuming exchange rates remain the same as what it is today.

- Ramesh Mantri:** Can you provide details on the hedge book levels?
- P. Ramakrishnan:** So the kind of overall hedge book, I would say that more or less for the current six months we have covered largely or substantially, would not like to disclose the quantum of the hedge book because of obvious reasons, but we can say 90% of our cash flows are hedged would say at a rate which is almost in the range of Rs.71-odd and in the next year also, we have reasonably I would say 70%-odd of our net dollar/rupee cash flows are hedged also with an exchange rate at average forward rate of around 73.
- Moderator:** Thank you. We will take the next question from the line of Shyamal Dhruv from PhillipCapital. Please go ahead.
- Shyamal Dhruv:** My question is on this Process Industry segment. This segment has declined on QoQ and YoY basis from last four, five quarters. So, when can we see that segment to stabilize or report a good growth given that in the initial comment Mr. Panda has indicated that crude price is going up and it should have CAPEX, so is there any lag effect between the CAPEX and the rise of crude price or any other correlation?
- Dr. Keshab Panda:** When I talked about, I said that the worst is behind us. Now, the Plant Engineering has now shown a sign of growth, this quarter Plant Engineering has grown from Q1 to Q2, that trend should continue for coming quarters. So, if you see there is decline in the last year, that no more decline is now and if you see Q4 to Q1 we remain flat, Q1 to Q2 we have shown growth and Q2, Q3 we will continue to grow in the segment. So, I think CPG industry and Oil & Gas is showing a sign of growth. We believe that is going to continue to grow in the coming quarters.
- Moderator:** Thank you. We will take the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.
- Apurva Prasad:** Just want to know your thoughts on the recent M&A announcements by some of large accounts, would that be an area of opportunity for us, I am referring to United Technologies and Rockwell Collins?
- Dr. Keshab Panda:** Both are our customers today; we work with Rockwell Collins and we also work with United Technologies, that is a sizeable customer for us. I think the areas we work with, these are all electronics area and the technology area. So, we believe this coming together, I do not know it is going to take at least six months to a year for them to come together and we will continue to work with both these companies till they come together. This is going to be beneficial to us moving forward. Rockwell Collins, they were here a month ago or so looking at areas where you can collaborate more and similarly UTC they know about what we do with these guys. So, I think it is a very positive move for us as a supplier.
- Apurva Prasad:** Also, just want to clarify if I got it, right Esencia revenue for the quarter would have been 6 million?

- Dr. Keshab Panda:** No, 4.5 million actually.
- Moderator:** Thank you. We will take the next question from the line of Hardik Shah from CRISIL. Please go ahead.
- Kunal:** This is actually Kunal from Merrill. Keshab, could you talk about the price increase that you are expecting in certain contracts – is that because annual adjustments or has that been driven by mix?
- Amit Chadha:** Kunal, driven by two or three factors, we always talk about very passionately about the value we create for our clients in terms of intellectual property, in terms of patents, ideas and all that. So, on the back of that, we have been able to get rate increases from some of our clients and it is an on-going process and we have got some commitments in Q2, we expect to get some more commitments in Q3 and the impact of that, you will start seeing in the subsequent quarters as you move along. So, it is based on two or three factors -- One of course, is price adjustment based on wage hikes, etc., Second has been based on the sticky factor of creating value for them and being a value creation partner being able to demand and realize a better premium from them.
- Kunal:** Have such hikes happened after a while or would you have seen something similar even last year?
- Amit Chadha:** We do this on an on-going basis; however, we pressed on the accelerator little bit more and done it with a little more rigor and gone after our clients in a much more convincing manner. If you look at quarter-on-quarter, number of patents has gone up. So, the more patents you file, the more value you create, the more you can go and request and they see the value and giving back to you. Please understand that rates are not just rates, it is all based on the value they realize, could be market share improvement for them that help them, so they pass on something could be better product penetration, etc., that helps us, etc., or geography penetration that helps them and they therefore pass it on to us as well.
- Dr. Keshab Panda:** This process is going to be more and more, right. If you are doing the transactional type of business, the rate increase is a problem because there are ten more companies must be doing similar type of works. But the areas where you do, I think Amit said what is called “Value Register” we do for customer. We deliver services to them. In addition, we also deliver number of patents to them. It is much easier. I was there in one or two customer meeting with the CEO, he said yes, there is a rate increase, I think your people have asked for, I do not mind giving it because I see lot of value in what you guys deliver. So, I think it is important. We have become smarter day-by-day as well. We have learned the trick. Number of patents we file and what we do the value register, what we care for at least a strategic customer. Easier for us then to do that rate increase. Educating the team that there is something called the rate increase, we must implement continuously and wherever possible, I think that is something we have learned the trick and the team is working on that, we will do more and more in these areas.

Moderator: Thank you very much. That was the last question. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Pinku Pappan: Thank you all for joining us today evening. If you have any questions, feel free to reach out to me. We hope to meet some of you during the quarter. Bye.

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