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Exchange Plaza, Bandra-Kurla Complex
Bandra (E), Mumbai- 400 051
NSE Symbol: LTI

The BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001
BSE Scrip Code: 540005

Dear Sirs,

Subject: Transcripts of Earning Conference call for Larsen & Toubro Infotech Limited ('LTI') for quarter ended on December 31, 2019.

Please find attached the transcripts of Earnings Conference Call organised by the Company on January 15, 2020 for the quarter ended on December 31, 2019 for your information and records.

Thanking You,

Yours sincerely,

For Larsen & Toubro Infotech Limited

Manoj Koul

Company Secretary & Compliance Officer



Encl: As above

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A Larsen & Toubro
Group Company



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**“Larsen & Toubro Infotech Limited Q3 FY2020
Earnings Conference Call”**

January 15, 2020

**MANAGEMENT: MR. SANJAY JALONA – CHIEF EXECUTIVE OFFICER &
MANAGING DIRECTOR
MR. SUDHIR CHATURVEDI – PRESIDENT (SALES)
MR. ASHOK SONTHALIA – CHIEF FINANCIAL OFFICER
MR. NACHIKET DESHPANDE – CHIEF OPERATING OFFICER
MR. NITIN MOHTA – HEAD, INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to LTI Q3 FY20 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 this conference, 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. Nitin Mohta – Head, Investor Relations. Thank you and over to you, sir.

Nitin Mohta: Thank you, Stanford. Hello, everyone. Thanks for joining us today to discuss LTI's Financial Results for the Third Quarter of Fiscal 2020. The financial statements, press release and quarterly fact sheet are available in our filings to the stock exchanges and at the investor section of our website.

On the call we have Mr. Sanjay Jalona – CEO and Managing Director, Mr. Sudhir Chaturvedi – President Sales, Mr. Nachiket Deshpande – Chief Operating Officer and Mr. Ashok Sonthalia – CFO. Sanjay and Ashok will give you a brief overview of the company's performance, which will be followed by Q&A session.

As a policy, we do not provide specific revenue or earnings guidance. And anything said on this call, which reflects our outlook for the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

Let me now invite Sanjay to talk about the results. Over to you, Sanjay.

Sanjay Jalona: Thank you, Nitin. Hello, everyone. And welcome to LTI's Earnings Call for the Third Quarter of FY20. Let me take the opportunity to wish all of you a Happy New Year, since we are speaking for the first time in 2020 and especially for today, Happy Makar Sankranti and Pongal to all of you.

We had a strong Q3 with revenues of \$394.4 million, up 8.4% quarter-on-quarter, and 13.7% year-on-year. In constant currency, we delivered 8.3% growth quarter-on-quarter and 14.2% year-on-year. Digital now makes up for 41% of our revenues.

Friends, this has been our best organic sequential growth performance since listing. This outstanding performance reflects the dedication, hard work and perseverance of 30,000 LTItes and our complete focus on customer satisfaction. We are extremely pleased with how the quarter panned out for us.

Those of you who were at our Analyst day last month would recall how our Go-to-Market strategy of powering the breakaway enterprises is resonating well with our clients. At LTI, we believe enterprises need to master four essential plays to be a breakaway leader, which are;

digitizing the core, data driven organizations, experience transformation and operate to transform.

Our two large wins this quarter reflect these plays. We won a \$60 million TCV deal with a global smart energy storage solution provider. As part of this deal, LTI will transform application operations for a landscape that covers users in 15+ countries across North America, South America, Europe and Asia Pacific, supporting 16,000+ employees across various business functions. LTI will manage a wide variety of application platforms, including all core ERPs, CRM systems and CX platforms as well. Competition for this deal included the usual suspects, but in the end, our Operate-to-transform Go-to-Market strategy backed by our credentials in the proposed solution helped us displace the incumbent vendor.

Our second large win this quarter was along our Data Driven organization Go-to-Market theme. For an apex government body, LTI is creating a conceptual framework on data management, integrating and harmonizing the available data sets in various key sectors through single window system for better governance.

Last month, I spoke to you about how we are continuously working towards strengthening the solve along these four plays by investing in people and sharpening our capabilities. Our firm commitment to this constant learning and development endeavor is reflected in our ranking and recognitions under partner ecosystem.

In Q3, LTI, achieved the SAP competency on AWS. You would recall that same time last year LTI became one of the top 16 companies in the world to be part of SAP GSSP, which is the Global Strategy Service Provider Partner list. We are pleased to share that only 8 of the 16 GSSPs have attained this competency certification on AWS.

Let me now provide you with vertical wise color on Q3 performance. In BFS, we saw double-digit sequential growth of 11.3% quarter-on-quarter. On our last call, we had expressed confidence of growth momentum coming back. This performance is primarily driven by growth revival at top customers and on track ramp up of large deals announced earlier.

Our investments in **Regtech** solutions and accelerators has helped in positioning LTI as a strong analytics partner and continues to be a key differentiator for us in the marketplace. The same was also recognized by the Everest Group that featured LTI as a Major Contender and Star Performer in its Application and Digital Services in Banking Services PEAK Matrix. We remain optimistic about our future and expect this vertical to grow for us in times to come.

Insurance vertical grew at a steady 2.6% quarter-on-quarter. In Q3, a leading American insurance company selected LTI as a strategic partner to digitize its core by rolling out guidewire to simplify operations across 47 states.

Manufacturing grew strongly at 15.7% quarter-on-quarter. You would recall that H2 is stronger for this vertical due to presence of higher pass through in one of our India engagements. The quantum of pass through revenue remained like prior year. The double-digit sequential growth similar to our performance in BFS is driven by ramp up of large deals announced earlier, one of the two large wins in Q3 also falls under this vertical.

While manufacturing companies have mature sourcing arrangements, new spend or digital transformation represent significant opportunities and is often our ticket to create a differentiated dialogue.

In Q3, as I mentioned earlier, a global leader in energy storage chose LTI's Mosaic data platform to drive an end-to-end enterprise wide data transformation. LTI's ability to compete and win in such pursuits serves as a positive reinforcement for our investments in developing IP and related value propositions to our customers.

In energy and utilities vertical, we delivered 1.5% sequential growth on top of a very strong 14.4% quarter-on-quarter growth that we saw in Q2. We announced two large deals in this vertical last quarter and the ramp up of those wins remains on track giving us confidence for sequential growth to continue in Q4.

CPG, retail and pharma, steady performance continues in this vertical with another strong quarter of 5.8% quarter-on-quarter growth.

Hi-tech and media grew strongly at 8.8% quarter-on-quarter. Our strong understanding of this emerging world of new media, combined with the focus on digital is producing strong growth. Our focus on scaling this vertical with some of the largest companies in these sectors is working well and our Q3 performance is a testimony of that.

Other vertical which includes defense, traditional services and travel and logistics was up 15.1% quarter-on-quarter.

With that, let me comment on how we see Q4. On our last earnings call, we had promised to deliver double-digit growth for FY20. With our superior Q3 performance we are comfortably poised to do that. Large deal ramp ups are on track. Our deal pipeline continues to be solid and aggregate health of our top 20 accounts is steady. We shall provide you more color for FY21 when we report our full year results.

At this point, let me reiterate that we want to be in the leader's quadrant, if not the leader, when it comes to revenue growth. We are working towards that end and would continue to make all the necessary investments to secure that growth trajectory.

Let me now hand it over to Ashok to give you the financial details.

Ashok Sonthalia:

Thank you, Sanjay. Hello, everyone. Let me take you through the financial high points for the quarter three of FY20, starting with the headline numbers - our revenues stood at USD 394.4 million, up 8.4% sequentially, and 13.7% on a year-on-year basis. The corresponding constant currency growth was 8.3% quarter-on-quarter and 14.2% year-on-year. Reported revenue in INR stood at INR 28,111 million.

We completed acquisition of Powerup this quarter and it became a wholly owned subsidiary effective 1st October 2019 and contributed USD 1.4 million in revenues. Higher pass through revenues in Q3 contributed to about 1.5% growth. Excluding these two components also, the quarter-on-quarter growth was strong at 6.4%.

Coming to profitability, EBIT for the quarter was INR 4,568 million, translating into an operating margin of 16.2% as compared to 15.5% in the previous quarter. The 70 basis points increase in the margin can be attributed to operating leverage in the business due to higher growth. There was marginal benefit from higher utilization and FX in Q3, which was offset by higher share of product pass through in the revenue mix.

Reported profit after tax was INR 3,767 million, which translates into a PAT margin of 13.4% this quarter, compared with 14% in quarter two. Lower hedge gains in quarter three versus quarter two resulted in sequential drop in PAT margins despite improvement at EBIT level.

On the people front, we continue to strengthen our workforce and during quarter three, we added 440 people on a net basis. The total manpower stood at 31,419, of which our production associates were at 94.4%. Utilization without trainees was at 81.3% as compared to 80.6% last quarter and utilization including trainees was at 79.2% versus 78.9% in quarter two. Attrition this quarter was at 17.7% versus 18.4% last quarter on an LTM basis.

Our cash flow hedge book stood at USD 1,249 million as at 31st December 2019, versus USD 1,219 million at 30th September, 2019, while the on-balance sheet hedges stood at USD 137 million versus USD 152 million last quarter. We continue to execute our hedging strategy consistently.

Moving on to the DSO, while we improved our unbilled DSO by 6 days in quarter three over the last quarter, our billed DSO went up to 78 days, partly due to unbilled getting billed and partly due to strong revenue growth during this quarter. As a result, our total DSO for quarter three, including unbilled revenue stood at 110 days versus 105 days in quarter two. Our net working capital stood at 19.5% of LTM revenue.

Our operating cash flow for the quarter stood at INR 3,855 million, which amounts to 102.3% of net income. We closed the quarter with cash and liquid investments at INR 21,860 million.

The effective tax rate for FY20 so far remains at 24.7%. Earnings per share for the quarter was INR 21.70 per equity share, as compared to INR 20.73 in quarter two. Diluted EPS was INR 21.50 per equity share versus INR 20.52 last quarter.

With that, I would like to open the floor for questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Hi. This is Mukul Garg from Haitong. First, strong congratulations to the management for a very good growth during this quarter. I just wanted to understand the breakup of that growth. You have given the breakup of pass through and the acquisition impact, but can you help us understand how much of the growth came from large deal wins over last few quarters, how much of it was on a run-rate basis? Because seasonally Q3 is expected to be a weaker quarter.

And following up on this, on the BFSI side, your peers have mentioned impact of furloughs, you don't seem to see any of that. So, if you can just help us understand that better as well.

Sanjay Jalona: Mukul, as Ashok pointed out, 2% of our revenue has come from licenses that you typically do from India and Powerup. The second thing which has contributed to this growth is the large account where for the last three quarters there had been de-growth. It has ramped up very strongly. Third thing, if you look at the year-on-year growth numbers, you will see all verticals have chipped in very strongly. So, it's a broad-based growth. On top of this, large deal wins announced in last two quarters, had to move on from the transition phase to steady state phase. It just so happened that all of that came together in a traditionally low quarter.

Mukul Garg: Understood. And on the BFSI side, is there any impact of the macro? How much of the growth during this quarter was a pull over or a push over from previous quarters when your large client was under spending?

Sanjay Jalona: The large account had reduced its spend. We had pointed out many times that we have not lost this revenue and expect it to open up. We were not sure when it will open up but were expecting it to do a little bit more in Q2 which did not happen. In Q3, it has come back very strongly, and we continue to see good pipeline all across, while we are also cognizant of all the macro issues, pricing pressure, etc. Where we stand today, we are optimistic about BFS in the coming times as well.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal:

Sanjay, I have just one question. We have faced growth issues in last two, three quarters. And if I see this strong number, will it be fair to conclude that the weakness, which was there in the past few quarters, has subsided in this quarter due to pent up demand? Or it would be fair to say that growth across the board from all other clients have also contributed to this significant strength in the quarter? And the clients who have suffered in the last two, three quarters, who have gone through budget issues are now coming back very strongly. How would you like to narrate the whole thing?

Sanjay Jalona:

So, let me try to answer this question very simply. There is no concept of pent up demand or something pent up coming back. As I keep articulating, this is a very simple industry which runs on four basic principles. So, you need to grow large accounts, you need to grow invest accounts, you need to open new accounts and you need to continuously keep doing large deals at regular intervals.

Now, in our case, what was happening for the first two quarters was, we were opening new logos from our target account list, growing the invest accounts and continuously doing large deals. But we were struggling with the large BFS account where they had their own revectoring of spend and a Hi-Tech account where we had headwinds. But we knew and we had clear visibility that H2 will be strong for us and that's why we kept saying that this year, growth for us will be driven based on what happens in H2. It has nothing to do with pent up demand. It's basically us firing on the fourth cylinder which was struggling in H1, which were the top accounts. That is what has happened.

Moderator:

Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Securities. Please go ahead.

Sudheer Guntupalli:

If I look at your client profile, we have been aggressively adding clients in the smaller engagement buckets. So over the last couple of years there is almost a 50% increase in the number of small accounts which are in the \$1 million + bucket and even in the overall number of clients. Of course, I understand that some of these additions would have come through your acquisitions. But even adjusting for that there seems to be a strong increase in accounts at the bottom of the client pyramid. So how do we look at this trend? Can these accounts be better mined and scaled up into higher buckets going forward? Or are we running a risk of increasing the long tail where we will have to potentially go for some sort of a tail account rationalization going forward?

Sanjay Jalona:

You got it absolutely right, Sudheer. For example, Powerup, which is a very small company, brought us lot of capabilities. But they are also working in geographies with smaller customers. So the number of customers certainly increases for us. But there is a goldmine of customers where we can definitely mine as well. So, we look at it as a glass that is more than half full for us to mine and create a next layer of invest accounts for us as a company.

Sudheer Guntupalli: Sure. And if I look at the platform-based solutions as an offering, I understand it may not be a needle mover for the overall business. Looking at the soft growth trends over the last few years, it appears this offering has not really been able to take off so far. So what are our thoughts here?

Sanjay Jalona: This is our Canada business of transfer agency. This is a cloud-based platform, which has around 65% to 70% of the Canadian market share. Now, for a singular product having that kind of a market, it's very difficult to grow beyond 60%, 65%. We are using that to grow our businesses with customers and mine them further. We need to see how we report it in future. But it's 65% of the market, so how do you grow it beyond that.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: My question essentially was around our margin performance. So while one has seen our growth recover very sharply, when I look at our operating margins, they are still down by about 300 bps on a year-on-year basis. So just wanted to understand how we should be thinking about our operating margins going forward. That's question number one. And associated with this, essentially in terms of the way we have seen our SG&A expenses come off as a proportion of revenues, is there more leverage there?

Ashok Sonthalia: . If you would have seen our performance in last few quarters, because of the large accounts' share coming down or accounts closing, there were utilization issues which have impacted us. Also higher wage cost which we have talked about earlier. More localization, improving the quality of intake in India, fresher's intake, all these things are putting pressure on wage cost. Some subcontracting expenses also inched up for us in the last three, four quarters.

So when you compare Y-o-Y, yes, there is a 300 basis points drop. But after three quarters with growth returning and our margin taking at least directionally the right course, I would say that's a bright side to look at in quarter three. As we have said, please look at us as a growth company. And with growth, some operating leverage will benefit us where we can further optimize our G&A. We will continue to invest in sales and marketing, but some opportunity to leverage still exists. As we go forward and improve on other aspects of talent management, etc., I am hoping that we can still be a stable and consistent margin player.

Manik Taneja: So just to prod you a little bit further on this, as you mentioned that there was some pressure with regards to our top clients and some client ramp downs. Given that some of those pressures are behind us now, should one be hoping that all other factors remaining constant we should essentially expect an uplift in margins next year versus this year?

Ashok Sonthalia: As far as the next year is concerned, I think we will come back to you at the end of quarter four and give our commentary for FY21. But at this point of time, with the requirement of investment

in technology, talent, and in localization in global markets, I would maintain that we would like to be a consistent margin player and a growth player on the revenue side.

Moderator: Thank you. The next question is from the line of Divya Nagarajan from UBS. Please go ahead.

Divya Nagarajan: I think many have kind of touched on the banking issue and you also gave a very clear explanation on what's driving your growth. Just in terms of the kind of projects that we are seeing in banking, especially with the top accounts where you had seen some stoppage of work earlier, Is it basically continuation of the same kind of work or has something changed work? That's question number one.

Sudhir Chaturvedi: So, specifically if I look at the top account in banking, the key reason for the growth is actually a new project, which is related to a common data platform that the bank is driving across its various functions. So that's net new revenue growth for us in that account. Overall in BFS we see an increase in the discretionary spend, especially in the digital areas and data areas. So, we are seeing new spend in BFS in our offerings around experience transformation as well as data driven organizations.

Divya Nagarajan: And there was some news flow around the homeland issue, I mean, visa related investigation that happened in December. Any updates on that piece?

Sanjay Jalona: We are committed to highest level of ethics and compliance and we are fully cooperating with the authorities. These are legal matters and sometimes take a long time to conclude. There is nothing else to add at this point in time.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGCS CIMB. Please go ahead.

Sandeep Shah: Sanjay, just one question. Thanks for the update on the top client. But if you just look at the press release issued by one of your competitors regarding the same, it looks like still some pain may be coming for some of your competitors from that account starting from April of 2020. So, for LTI, are you worried, or you believe for us the pain has already happened in FY19 and we may not be in the queue for the same, while for the other competitors it may be happening in FY20?

Sanjay Jalona: I don't want to comment on what others have said. I don't know what their project profile is, the business extension or consolidation which leads to all kinds of things. But all I can say is, we are on the positive side of consolidation. We continue to be a strategic partner. Q3 revenue growth has been very positive and we continue to stay positive for times to come.

Sandeep Shah: Okay. Because the press release has mentioned vendor consolidation. So I thought maybe all other vendors have also been asked to participate in the same.



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- Sanjay Jalona:** So, we are on the positive side on the vendor consolidation.
- Sandeep Shah:** Okay. So you foresee that now most of the pain in that account is behind and one can foresee this account as a growth account going forward?
- Sanjay Jalona:** Where we stand today, yes.
- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** I had a couple actually. One is, you spoke about how our confluence of large deal ramp ups has sort of impacted gross margins. If you look at this year, do you think that once these deals get into steady state, we should actually see an uplift? And what we are seeing in this particular quarter in terms of the absolute gross margins can actually be higher, is that the way one should think about it?
- Ashok Sonthalia:** Yes. So, I think with the kind of flow which we have established on large deal winning and the large deal pipeline which Sudhir and Sanjay had alluded to on our Analyst Day, we are very nicely set up for continuously winning large deals. So, this cycle of one large deal coming to steady state and the other one starting and transitioning, would hopefully set LTI to be seen as a steady state large deal engine company. So I don't think we should link large deal to the margin issue.
- On the gross margin, one commentary which needs to be understood is that higher pass through also impacted in the quarter-on-quarter gross margin decline of 10 basis points.
- Nitin Padmanabhan:** Sure. From an SG&A perspective, you think the current levels that we achieved in this quarter is something that one should assume as steady state with incremental leverage over a period?
- Ashok Sonthalia:** Yes. In terms of percentage of revenue and a little bit of scope of operating leverage, if growth continues to support that. But we need to continue to invest, let us understand that sales and marketing is an important area where we need to continue to invest.
- Nitin Padmanabhan:** Sure. And the third was, if you look at the commentary by most vendors who have reported until now, I think the general sense has been that there have been a lot of headwinds in some cases. And I think from what you are saying, headwinds are over, and things are likely to improve going forward and you have that visibility. From the client end, do you see a change in sentiment, which gives you a sense that it will be a continued sort of thing going forward through the year? Or do you think there is still some volatility that could impact going into next year, considering that you have elections and all other uncertainties.

Sanjay Jalona: Nitin, let me try to answer that and then you continue with the next question. We have always for the last three years, continued to say that if you have a value proposition to help client on the revenue side, or if you have a suggestion or a thought on how do we help them reduce costs dramatically, using new technologies which are coming into play every single day, customers always end up finding money.

The headwinds that we faced in this year were very client specific and very related to us. When we go and meet customers today, we consistently believe there is an opportunity to be had and create a pipeline. Pipeline is very different from what it used to be about 10 years, 15 years back when I was doing the same work. It's very different, it's new. There is a lot of imagination, there is a lot of new technology and technology is coming together for every vertical to create a value proposition for that vertical or for that particular company. So there is enough and more to be had.

In regard to what is going to happen because of elections, when we speak to customers today, this point has not come up at all. Yes, there might be a downward trend, or we will probably do a little less. We will see if there is something changing, but I have not seen anything as of now.

Nitin Padmanabhan: Great, that's helpful. And lastly, just your thoughts on how we should think about the remainder of the year in terms of puts and takes on both margins and growth?

Sanjay Jalona: We will continue to grow sequentially in Q4. See us as a growth company. For margins, there is no change in the commentary.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Sanjay, one question on bifurcation between volume and pricing. Maybe it's not too relevant, but still if we really look at it, a large part of your growth in the past few years has been driven by service lines such as Analytics and Enterprise Integration and Mobility, though others have also contributed. And I have assumed there could have been some pricing power out there, you can correct me if I am wrong.

But if we really look at your overall revenue growth, it is largely in line with how your volume growth has been or your hiring has been. So just wanted to understand what is the dynamic there? And do you see any kind of pricing improvement as a result of the mix change that you are witnessing, which could result in probably better non-linearity of revenues versus employees?

Sanjay Jalona: Alright. We do see pricing competitiveness on the legacy kind of business. And at times that is offset by analytics and digital integration. Enterprise integration is one way of saying it, but everyone is doing digital integration today. And we also face some pricing pressure on the

portfolio. So, there will be on and off some pricing pressure on banking customers and so on so forth. As regards to volume and pricing, why don't you give a color into that, Ashok?

Ashok Sonthalia: Continuing with what you are saying, Sanjay, when clients are squeezing the run budget and repurposing that to digital side and change side, the same thing gets reflected on our side where there are pricing issues in the run part or renewal part and you have to provide a lot of savings and efficiencies to the client. And then those things are getting offset, because you are able to grow your digital pie where definitely the price points are slightly higher. But at the same time, the resources which come, they also come at a higher cost most of the time. Also, these new technologies require more investment today, when companies are working on their positioning. So, on overall basis, on a portfolio level you don't see that difference. But there are moving parts within that portfolio which we are trying to explain.

Rishi Jhunjhunwala: Understood. So, just one on the hiring bit. So do you expect the hiring growth to continue the way it has been in the past? Or do you think you have actually built up some buffer that could probably provide some operational leverage going forward? The reason why I said that is because we have talked about operational leverage and SG&A, but that is not reflected on the employee cost side, despite such strong growth.

Sanjay Jalona: Rishi, employee growth on the core delivery part will continue in times to come. And for next year, we will come next quarter and give you some kind of indication on how many freshers we will be adding, because that's the only number that we give.

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

Pankaj Kapoor: Sanjay, you commented on our good growth outlook in BFS. So, I was curious if that is based on the market share gain that you have been making in the top clients? Or are you also seeing some ease up happening both in the amount as well as the profile of the spend by a broader set of your BFS clients? That's my first question.

Sudhir Chaturvedi: So yes, you are right, the top account growth has returned, and we expect that to continue. We had some couple of other accounts as well in BFS, which had bottomed out in Q1 and Q2 which are returning to growth. Also, there is a large deal that we have done in the Nordics in financial services, which has contributed to BFS growth. So, overall, we see BFS picking up further going forward from here.

Pankaj Kapoor: So just to persist, what I am just trying to basically figure out is that, if the view is based largely on the transactions or are you seeing a general ease up which is happening on the IT spend in BFS, something which was not there till maybe last year?



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- Sudhir Chaturvedi:** Pankaj, I am speaking specifically about what we are seeing in the market. The comments that Ashok made about how run the spend is being squeezed and spend is being increased in digital and change is exactly the scenario that we are seeing in BFS. And especially given some of our data play in BFS and increasingly some of our play in the operate to transform space also in BFS, we are seeing that there is room for growth in the accounts that we are operating in.
- Pankaj Kapoor:** Got it. And second, I mean, Mindtree, our fellow company, they also have been talking of building a portfolio of managed services deals, something which you have been able to do very successfully. So, I was just wondering if you are also helping them in building out this thing formally or informally.
- Sanjay Jalona:** No, we are two independent companies. If they ask us for an advice, we will help them in any way or form as they are a group company. But we are run independently.
- Pankaj Kapoor:** Okay. And lastly, on this whole fresher intake that we have been doing, so can you share the numbers for 2019? And how does it compare versus the previous year?
- Sanjay Jalona:** I don't have the number right now. Pankaj, if you drop us a note we will give you the numbers.
- Ashok Sonthalia:** With the quarter four commentary we will give you for the past year as well as the future year, wait for three months more.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda Capital Markets. Please go ahead.
- Ruchi Burde:** My question is regarding some of your deal wins. So if I look at your last two quarters, LTI has announced three government body or regulatory authority deals between September and December quarter. So, what I am trying to understand here is, is this a new segment where LTI is actively looking for growth opportunity? If yes, then which geography and what kind of engagement looks interesting to LTI? And subsequent to that, would it have some impact on profitability and receivables for the company?
- Sudhir Chaturvedi:** So, both large deals in this quarter are net new revenues for us. In this particular deal, we are creating an information platform for the government body. And this is a new project, it's a data platform which we are going to create for them. So, we are focusing on four areas from a government perspective; one is ERP, the second is digital, third is data, and the fourth is cyber security. So, as long as deals fall in this space, we are interested in these deals. If there are any deals outside this space, we are not bidding for those. So, these deals tend to have a different model and given that they are new implementations or data platform, what we are saying is that, if your question is related to the traditional profitability of government deals, then that is not the case with these deals.

- Ruchi Burde:** Okay. Any specific geographies that you are looking at, or you are seeing these kinds of opportunities across the globe?
- Sudhir Chaturvedi:** Right now this is focused on our emerging markets.
- Moderator:** Thank you. The next question is from the line of Ravi Menon from Motilal Oswal Asset Management. Please go ahead.
- Ravi Menon:** Sir, in your large deals that you mentioned this quarter, atleast one of them seems like a very outcome-oriented deal. So these kind of deals show LTI is really in Tier-1 like you were saying in the Analyst Meet. Wanted to check, I mean, is this kind of a norm for the large deals that you are doing, are you pricing this more than outcome of fixed price? That's the first question.
- Sanjay Jalona:** So, this one is a fixed price deal, but there are many deals that we do which are outcome driven, which are transaction driven. All kinds of deals are happening based on multitude of factors that go in on deciding what it means.
- Ravi Menon:** So can we say that in three-five years, the absolute mix of these kind of deals should increase and we should see some improvement in the margins, because the margin compression that you see in the existing run the business part of your portfolio, would probably be a smaller part for you compared to a larger Tier-1 player.
- Sanjay Jalona:** Look at us as a growth company. Regarding margins, Ashok has explained.
- Ravi Menon:** Sure.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead.
- Sandeep Shah:** Just the question on margin, Ashok. If I look at the nine months PAT margin, it is close to around 13.9% whereas Q3 PAT margin is 13.4%. And we are still reiterating that 14% to 15% is a doable PAT margin, even to achieve the lower end of 14%, the Q4 margin has to be higher than the 3Q margin. So, is it the right way of looking at it?
- Ashok Sonthalia:** Okay. Yes, we are all trying for that band. As per the guidance, of course, the full year number has to be on the lower side of that band and our focus would be to be in that band. It will be very close even if we miss the guided range. We are not changing our guidance for this year at this point of time.
- Sandeep Shah:** Okay. And just a few things on gross margin, you though, may have given some color in the earlier question. The gross margin for nine months has gone down by almost 300 basis points. So apart from the headwinds, is it fair to say that incremental growth is coming at bit of a pricing

pressure or is it more to do with the subcontracting cost or more hiring, which are more like the investment led kind of margin pressures rather than a structural pricing led margin pressure?

Sanjay Jalona:

Sandeep, it's a multitude of things that work in running a company and a portfolio. It is a mixture of the portfolio of programs and accounts that ramped up which were at times high margin. Also, we are all comparing it to 2019 numbers, where our margins shot up predominantly and we have gone on record saying we were probably not smart enough to invest back in the business at that time. We want to go back to that band. And all our efforts are to drive investments back into the business so that we can continue the path of being relevant to our customers, being relevant to investing in the technologies that are important for the future, being relevant for acquiring companies that are going to help us, be relevant in the newer areas that customers are spending on and drive growth.

Moderator:

Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu:

On the onsite billing rates, there has been a directional improvement over the last few quarters. So is it that the scarcity of resources is leading to a better pricing environment onsite?

Ashok Sonthalia:

There are different things which are happening in the portfolio. I believe our pricing has been stable throughout the last five to seven quarters. Quarter-on-quarter some ups and downs can happen due to transitions or something else. But otherwise, I would not read too much into that.

Madhu Babu:

And the DSO which has gone up by nine days on a Y-o-Y basis, so do we see some moderation there? Because DSO including unbilled is now around 110 days.

Ashok Sonthalia:

So, in this quarter inspite of very healthy collections, I called out two reasons, one is, of course, some of the unbilled receivables got billed during this quarter and they will be collected in quarter four. And the growth spurt which comes, always creates higher DSO for that quarter. We expect to normalize our DSO trajectory in quarter four, that's our endeavor at this point of time.

Madhu Babu:

Last one on the hedge gains, can we give any guidance on that, how we should see, I mean, what are the rates coming in to next year on the hedge position?

Ashok Sonthalia:

So, we have been giving you the book, we have been telling you that we do hedging for 12 quarters, first four quarters have slightly heavier hedging of net exposure and it keeps on reducing post that. Very difficult to tell you what the number would be. As we have explained, if rupee depreciates, revenue line captures the benefit and hedge gains comes down. If rupee appreciates, then operating margin is slightly impacted, but we cover it through hedge gain. And that is why the whole philosophy of giving guidance on the profit after tax, because we think we

have more control on that. So, that is what continues. I don't want to say anything beyond that because we don't know how spot would move.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Firstly, any status update we would like to give on the pipeline growth, proposal stage and large deal data that we shared in the Analyst Day? And how many of them are still in the funnel as we have added or was that already accounted for when we gave that data?

Sanjay Jalona: Yes, it's only one month since the time we did that. I don't know what else can we update you on that.

Sudhir Chaturvedi: But what we can say is that we have only added to it in the last one month.

Rahul Jain: And any outlook you want to share on whether things are changing from a macro perspective, by the way you talk to clients? Because some of your peers are saying that although deals are strong from a booking as well as pipeline perspective, they are little cautious from macro uncertainty. Do we feel that in any manner?

Sanjay Jalona: This is the same thing which has been going on, Rahul, for the last three years where all kinds of challenges have been there. But typically, we have always maintained that you have a good opportunity and a pipeline in the marketplace because the transformation that is led by technology at this time is moving at a very fast clip, as we see the world over. And though we see the positive, we are also aware that these macro challenges, protectionist environment, China trade war and all kinds of challenges are there which affect all peers and us. But where we stand, when we look at our customer base, when we look at our pipeline, we are also optimistic that we can still continue to grow.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I know hand the conference over to the management for closing comments.

Sanjay Jalona: Thank you, all. Again, wish you guys a Very Happy Makar Sankranti and Pongal. Look forward to speaking with you next quarter. Take care. God bless.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of LTI, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

(This document has been edited for readability purposes)

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Let's Solve

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