L&T Technology Services Limited
Q1 FY20
Earnings Conference Call

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MANAGEMENT: **DR. KESHAB PANDA – CEO,**
MR. AMIT CHADHA – PRESIDENT, SALES & BUSINESS DEVELOPMENT,
MR. P. RAMAKRISHNAN – CFO,
MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the L&T Technology Services Limited Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan – Head, Investor Relations. Thank you and over to you, sir.

Pinku Pappan: Thank you, Stanford. Hello everyone, and welcome to the First Quarter FY20 Earnings Conference Call of LTTS. I am Pinku from the 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.LTTS.com.

On today's call you will hear from Keshab Panda – CEO; Amit Chadha – President (Sales & Business Development); and P Ramakrishnan – CFO. We also have our Chief Operating Officer – Abhishek Sinha on the call.

We will begin with Dr. Panda providing an overview of the company's performance and a commentary on the business outlook. Amit will provide an update on the large deal wins and the deal pipeline. PR will then walk you through the financial statements. We will then open the line for questions.

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

Keshab Panda: Thank you, Pinku and thank you all for joining us on the call today. Good evening. I will start with the highlights of Q1. We grew revenue by 1.4% sequentially to US$194 million. We had a strong quarter in four of our five segments, industrial products, transportation, medical and Plant Engineering, with sequential growth accelerating in Q1 as compared to Q4.

Digital and leading-edge technologies, the growth driver for ER&D contributed 37% of Q1 revenue and grew 44% year-on-year. Customers are leveraging our capabilities in smart buildings and energy management in industrial products, IoT and telematics in transportation, asset digitization in plant engineering and connected healthcare in medical.

Our operational performance was healthy with EBIT margin at 17.1%, which is an improvement of 230 bps year-on-year.

Our deal win traction continues with seven wins across the sector.

Let me now talk about our five industry segments. **Transportation** had a strong quarter with 7.6% sequential growth on top of 7% growth delivered in Q4. Growth was strong in all three segments - Auto, Trucks & Off-highway and Aerospace. The large deals that we won in quarter four in the area of active safety and autonomous driving are ramping up very well. In Q1 too, we won deals in ADAS and body and security system design. In auto and trucks, we continue to see a good pipeline in areas like functional safety, electrification, autonomous and IoT and Telematics. In Aero, we have been selected as a strategic supplier in Collins Aerospace, and you will see us issuing a press release on that very shortly. We are seeing opportunities in the areas of aftermarket, digital solutions and creation of Innovation labs for our customers. Overall, we expect the strength in Transportation to continue in the coming quarters as well.

Moving to **Telecom & Hi-tech**, we had a tough quarter with revenue dipping by almost $7 million sequentially. In the semiconductor sub-segment, we saw a reprioritization of spends happening as a result of disruptions in the mobile supply chain and slowing demand from end markets like China. This weakness in semiconductor added to our challenges in Telecom and Hi-tech segment, as we were unable to offset the headwinds arising from the customer issue that we reported in the previous quarter.

The good news is that we continue to see big opportunities in the pipeline, and the large deal that we signed in Q1 in the physical design area highlights our capabilities and competitive positioning. Overall, the Telecom & Hi-tech deal pipeline continues to grow, and we see multiple opportunities in VLSI design and in advanced video equipment software design and development. We expect a slight dip in Telecom & Hi-tech revenue in Q2 also, as some residual impact flows through in Q2 as well. We see us getting back to the growth trajectory in Q3 and Q4 in this segment which depends on how quickly some of the large deals in the pipeline convert.

Now let me talk about **Medical**. We had a strong quarter with 15.6% sequential growth, driven by some of the large deals we won recently. In Q1 we won a large deal involving a remediation project in the neo-natal segment. We see a strong pipeline ahead with opportunities in patient monitoring devices, connectivity solutions, process validation and MDR compliances.

Moving on to **Plant Engineering**, we had another quarter of strong growth with 5.9% sequential growth. The growth outlook continues to be robust in all three sub-segments, like CPG, Oil & Gas and Specialty chemicals. In Q1, we won a large deal to be the engineering partner for a global beverage giant. We are engaged in discussion with our customers in newer domains like floating production storage and off-loading. We see a good pipeline with opportunities in digital engineering, EPCM support through an engineering value center model, asset digitization and harmonization.

Moving to **Industrial Products**. We are back in the double-digit growth territory on year-on-year basis with the healthy 3% sequential growth achieved in Q1. We are seeing good demand in areas like smart building consultancy, digital, power electronics, test fixture designs and end-to-end product design. We signed a few new logos with good potential and expect growth to continue in coming quarters as well.

Now let me talk about our **Platform & Solutions**. We are seeing an increase in customer traction for our solutions like Connected platform, MCare and AiKno – which is our AI platform. Our engineering connected platform or EnP, which leverages machine learning has opened new customers in the areas of energy management and predictive maintenance. As discussed in the previous quarter, we have engaged with an external consultant to advise us on the road map. Currently, we are studying the recommendations by the consultant and evaluating the right strategy to take this forward. We will provide an update on the progress very soon.

Finally, let me discuss the outlook for FY20. Our focus on our top customers and on winning large deals remains unchanged. As I said, four segments are doing very well. In Q1 we launched a unique campaign to showcase our innovation through an ER&D hackathon in Europe, covering four countries and nine cities over 16 days. Many of our leading customers had an opportunity to interact with our digital experts and explore our solutions in artificial intelligence, digital twin, cyber security, 5G and the Internet of Things. The feedback from this tour has been very encouraging and we achieved the objective of promoting our capabilities that span across a wide spectrum.

We remain optimistic on growth and see multiple large opportunities to partner customers in their business transformation journey. However, due to the loss of growth momentum in the Telecom & Hi-tech vertical, which we believe will recover in Q3 and Q4, we are now revising our USD revenue growth guidance to 12% to 14% for FY20.

I now hand over to Amit Chadha.

Amit Chadha: Good evening and Thank you, Dr. Panda. I will discuss three broad areas with you today. first, large deal updates; second, our large deal pipeline; and third, a geography outlook.

Large deal updates: We continue to sign large deals across verticals and geographies. Let me share the notable ones.

In the Telecom & Hi-tech sector, Dr. Panda talked about a large deal win - a large semcon major has awarded us a contract for executing the design of their chips globally, which entails activities across the VLSI value chain from physical design to design for testing to post-silicon verification. The ramp up started at the end of Q1 and will get to steady state in the next two quarters.

Second, in the Medical domain, we have four large programs in digital connectivity and analytics to help medical companies enable patient monitoring devices. All four programs in this area have started ramp-up and expected to reach steady-state in Q2.

Third, in transportation, we won two large orders in US and Singapore to help with electric vehicles - battery management systems in one case, and power charging in another case. Again, these deals have started execution.

Fourth, in Industrial Products, we have signed a deal to grow our relationship with an electrical automation company in the area of power control and drive monitoring.

Moving onto our large deals pipeline, we continue to see a buildup of large proposals to engage with our clients. Let me first speak about the Telecom & Hi-tech segment, where we are doubling our efforts to grow and close large deals in the current quarter. One, we are looking to expand our relationship with a technology major to provide connectivity solutions for their worldwide programs. It will require us to expand our existing global labs. Two, we are in conversations with two companies - one semcon and another media major for complete design and development of new chips for computing and entertainment, leveraging augmented reality. Three, as 5G rollouts start, we are expecting to close deals to work with consumer electronics companies to upgrade devices for 5G and enhanced cyber security. Four, we are pursuing a contract for smart buildings consulting services for a large tech company close on the heels of a previous rollout for them.

Now, for the other sectors where we have had steady and healthy growth in the last quarter. In the O&G and petrochemical sector, we are in conversations to setup an engineering value center in one case, an expansion of digital services in the second case with large US and EU companies, and in a third case to support detailed engineering efforts for their green field expansion. Next, in the Transportation sector we are pursuing a couple of large deals for helping a Tier 1 in their autonomous driving and intuitive driving controls program. We expect closure and ramp-up in the current quarter. Finally, in the Medical and Industrial Product segment, we are pursuing five different deals in the current quarter for engineering development centers involving product sustenance, digitalization and AI using voice and image processing.

Finally, the geography outlook. We continue to see traction for our business in the US across all segments from product design & support to verification and validation, to connectivity, digital and AI programs. In Europe we are seeing traction in three segments, automotive, aerospace and O&G/Petrochem in traditional and digital investments. In Japan we are seeing traction across IP, Auto and Hi-tech segments.

To sum up, we see good traction in digital businesses. We continue to see a healthy pipeline across geography and verticals, including Telecom & Hi-tech. Our large deals engine continues to churn wins continuously, which gives us the confidence on growth.

I would now hand over to PR.

P. Ramakrishnan: Thank you, Amit. And good evening to all of you. I will summarize the financials for the quarter ended 30th June. All of you must have seen our press advertisement of the financial performance along with the earnings fact sheet. Just to summarize again to take you through the revenue, we have posted Rs. 1,348 crores for the quarter, which is a growth of 0.3% QoQ and 16.9% YoY. In constant currency USD terms, the growth is 1.3% QoQ and 15.2% YoY.

Till the Q4 of last year, we have been referring to our EBITDA and net income. Pursuant to the mandated adoption of IndAS 116 "leases", from this quarter onwards, we will be explaining the EBIT margins and the net income. So, the EBIT for the quarter ended 30th June is around Rs. 230 crores for the quarter, which is a growth of 4.2% QoQ and 35.2% YoY. The EBIT margin for the quarter ended 30th June is 17.1%. Net income margin for the quarter is at 15.1% and Net Income reported is Rs. 204 crores.

Coming to the improvement or the explanation for the EBIT part. So, for the quarter ended 30 June, FY20, our EBIT was Rs. 230 crores as compared to Rs. 221-odd-crores for the previous quarter. As you may see, this increase in EBIT at 17.1%, I would summarize the QoQ movement into three broad areas: we had a Visa cost impact, which almost impacted 70 basis points, the appreciation of the rupee against the dollar impacted by another 30-odd basis points. This was compensated by operational efficiency, better SG&A leverage and a better revenue mix amongst the segments. So, that's one of the reasons that we have been able to show a better EBIT.

Coming to Other income. The other income reported is at Rs. 47-odd crores, which has to be split into, I will just give you a break up: interest income from our short-term treasury investments is 10 crores, adjusted for the finance cost under the IndAS 116 implementation of 9 crores, so, net income is 1 crore. The exchange differences on account of hedging and other translation/transaction differences aggregate to Rs. 22-odd crores. And the licenses pertaining to FY 2017-2018 which we got during the current quarter, a mark-to-market gain of roughly around Rs. 19 crores and the balance is miscellaneous income which together totals Rs 24 crore.

Coming to income tax. Our blended tax rate is around 26.5% for this quarter, and that's how the net income of Rs. 204 crores has been arrived at. In terms of our overall balance sheet, which you can see in the earnings fact sheet, there has been an increase in property and equipment from Rs. 144 crores as of March 2019 to Rs. 512 crores in Q1 FY20. This largely is on account of the IndAS 116 re-computation, around Rs. 333 crores has been added because of capitalization of right-to-use of all our leased property. The corresponding entry is factored in terms of the current liabilities and noncurrent liabilities.

Coming to our investments. Short-term investments, which typically represent our surplus, is around Rs. 740 crores as of 30th of June. The free cash flow for the quarter is Rs. 260-odd crores.

Dr. Panda explained about the performance of the various verticals. So, I would like to just summarize here that as per the last four or five quarters, transportation continues to be our major vertical having almost 35% share of revenues, followed by telecom hi-tech, which is reported at 22%, industrial products at around 20%, plant engineering 15%, and the last balancing medical devices at 8%.

The revenue per geography also, no major surprises. North America continues to dominate with excess of 60% of revenues, followed by Europe at around 16%, India attributes to 13% and the rest of the world around 10%.

Our on-site offshore revenue mix continues to be around 45% to 55%. On-site is 44.3% of revenues for the quarter ended 30th June FY20. In terms of the mix of fixed-price and T&M contracts, 42% are fixed-price and the balance 58% under T&M. In terms of active clients, we have around 258-odd active clients. And it is important that we have five $20 million-plus clients, seventeen $10 million-plus clients and forty-four $5 million-plus clients.

In terms of the client concentration, the top five clients contribute to around 25% of revenue. And the top 20 clients slightly more than half of the revenue. The utilization, as I talked about, the maintenance of EBITDA is because of better operational efficiency, is around 80% odd. We added around 700-people-odd during the quarter, so at the end of the quarter the headcount was 15,913.

The exchange rate assumptions, which are being used, we have had an average realized rate of 69.5 of the dollar-rupee for the quarter ended 30th June, as compared to 70.2 for the previous quarter.

So, with this, I have given an overview of the financial performance. Now it's back to you, Stanford, for opening of the bridge for any questions.

Moderator: Thank you, sir. We will now begin with the question-and-answers session. The first question is from the line of Pankaj Kapoor from JM Financial. Please go ahead

Pankaj Kapoor: Dr. Panda, I just wanted to understand this softness that you spoke about in the technology vertical. Is it pertaining to any realignment in the supply chain, so some macro specific factors which are leading to this kind of reorg of the R&D spend that you mentioned? Or this is something which are more client specific issues which are impacting their decision making?

Keshab Panda: Pankaj, we talked about last time one customer issue we talked about. This is not a customer issue; this is semiconductor as a segment that is going through a challenge right now. If you track it down last three, four months or so, suddenly semiconductor has a problem because of China and US this issue going on right now. So, it's a segmental issue, not a customer issue. That segment itself has slowed down a little bit. It will take some time to come back. At the same time, we have got, as Amit talked about, there are some chip design end-to-end, we have got some orders which we are working on it, right? So, it is like what we expected the semiconductor to go, that has slowed down. That is the impact of the telecom hi-tech business.

Pankaj Kapoor: Got it. So, I will just persist, are you seeing the segmental issues which affected the semiconductor this time, and do you see any signs of these global issues affecting any other business segment in any other vertical as of now?

Keshab Panda: Not really. I think if you see four segments are growing and will continue to grow. We also said that it will continue to grow in coming quarters. There is no surprise as we see now for anything other than the telecom hi-tech segment. And the deal pipeline is quite robust. If you see the four segments, I think we have a number of large deals that we are very close to closing it or there are multiple deals in place. So, I don't think any problem right now in global scenario, there's nothing there.

Pankaj Kapoor: Okay. And sir, I am presuming that you are not seeing any impact of these factors on the deal decision-making as well. Like, many deals which you are seeing are taking time for the client to decide. Has there been any such instances like that?

Keshab Panda: No. Actually, if you see deal size of the four segments, I don't think deal closing is an issue. Only problem we are saying is, main reason is that in telecom hi-tech some of the deals we are working right now and how soon we can close it. The other segment there's no issue at all.

Pankaj Kapoor: Got it. This is helpful. And PR, just one small question. So, we are going to see the wage hike happening in the coming quarter. So, any quantification, if you can do of the impact? And second, with the focus now shifting on the EBIT margin, do you have any aspirational or target margin band that you are looking at an EBIT level? Thank you.

P. Ramakrishnan: So, Pankaj, one thing is, yes, we will be having the wage hike from this quarter. And the approximate impact would be in the range of around 160bps QoQ. And in terms of EBIT guidance, as you know we generally do not give the margin guidance as far as the overall profitability is concerned. So, what levers we are talking about is this wage hike is there. But more important thing is the composition of revenues, better operational efficiency are all other factors by which hopefully we should be in a better position to… but at this stage no guidance for the margins part.

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

Sandeep Agarwal: Sir, already you answered on the weakness which is coming from the semiconductor side. But Dr. Panda, are you getting any sense of any kind of budget cut downs or anything which is related to economy or something in the developed market where some kind of view is developing that there is some kind of slow down and because of which some clients might be cutting down? Or even in the ER&D space where we are very strong, other than semiconductor also there is kind of challenge? Do you see any of those things, number one. And, already you mentioned that we will recover in Q3, so is it because of the hit in Q1 or Q2 that we are doing this kind of adjustment in our outlook or you think that this is a new normal that you would call out?

Keshab Panda: No. Sandip, I think the reason I am saying it will take one quarter, two quarters to recover because you know that we explained one customer issue earlier, then we have semiconductor slowdown, a combination of both, right? We also have given quantum of impact from the customer issue that we announced last quarter. So again, we are working on a few deals on the telecom & hi-tech segment, we believe that we are going to close quickly so that Q3, Q4 onwards we will get the revenue. Other than telecom hi-tech, we don't see issues. At the same time, again, I want to give you… the very reason I think we are a leader in the semiconductor segment – in VLSI design, especially the chip design end-to-end. And that gives lot more opportunity for us. As we speak today, we are working on a few very advanced chip designs. We are close to closing that deal. So, I think it is a mixture of both, but outside of this we don't have -- so far we have not seen anywhere any slowdown or cooling down. The pipeline, large deals and the customers what we have, I don't see any issue in the other four.

Moderator: The next question is from the line of Shyamal Dhruve from PhillipCapital. Please go ahead

Shyamal Dhruve: Sir, my first question is on the guidance front. So, at the start of the year we had given the guidance of 14% to 16% revenue growth after taking into consideration the decline in one of our large telecom clients. So, though apart from that, you mentioned that the deal flow has been robust and you are not seeing any weakness in any of the other verticals, so what led to the lowering of guidance by around 2 percentage points?

Keshab Panda: Shyamal, I think if you look at -- I did talk about this segment of semiconductor slowing down because of global impact. China and US trade conflict is going on right now, that had some impact in this particular segment, okay? So this segment, we talked about customer issue earlier and given the guidance now we saw suddenly the semiconductor segment has cooled down a little bit. Because of that we thought whatever we know we will communicate very clearly. So, making sure that you know as best as we know, right? So, we thought it is important that we should communicate to you, semiconductor has slowed down. Because of that, the guidance is revised. Nothing else, other than semiconductor segment we don't have any issue anywhere else.

Shyamal Dhruve: Thanks for the clarification. And my another question is to PR, so at the end of Q4 FY18 we had mentioned that we would be getting around $1.2 million of payout from the Esencia deal, which we did at that quarter. But there was no mention about that in the other income in this quarter. So, whether that milestone based payment has been delayed or any color on that?

P. Ramakrishnan: Shyamal, that payment of $1.5 million did accrue in the first quarter. But against that, contractually there was a payout as well. So, the net impact of that aggregated to around Rs. 4 crores has been reported in the other income in Q1.

Shyamal Dhruve: So, that Rs. 4 crores, like that other income includes from Esencia as well as the export license sales, is this correct?

P. Ramakrishnan: Yes. So, just to summarize the other income, the net income of interest adjusted for the income from mutual fund investments where we do invest our surpluses, adjusted for the Ind AS financial expense is around Rs. 1 crore, exchange difference is Rs. 22 crores, then around Rs. 19 crores comes from SEIS, that is export licenses. And the balance Rs. 4 crores or Rs. 5 crores largely is contributed by this particular line item which I talked about for which I have answered your question now.

Moderator: Thank you. The next question is from the line of Abhishek S from Equirus Securities. Please go ahead

Abhishek S.: So, the first question is regarding your comments about a decline in the telecom & hi-tech business in Q2 as well? Is it possible to quantify either on a YoY basis or a year-over-year basis as to… because this quarter was significantly higher, almost 11% sequential on a YoY basis. So, would you like to quantify in terms of, or any commentary as to how could we see that decline in the quarter?

Keshab Panda: We are working on this right now. As I said, we have multiple large deals in the pipeline now. If we close it, some of this is going to be taken care of. So, I think you will have to wait for that, we will not be able to tell you right now what the impact is going to be. But we thought what we see now, definitely Q2 will have some impact. How much impact? We don't know at this time. But not to the same level as what we saw in Q1, less than Q1.

Abhishek S.: Okay. That's helpful. And how should we read your revenue mix on onsite-offshore basis on a YoY basis, that has seen almost a 500 basis points movement. So, how should we read that, both from a revenue per employee and a margin perspective?

P. Ramakrishnan: Okay. Abhishek, as we see now, I mean we are at 45% - 55% in terms of onsite-offshore revenue. We believe that this should be in the range between 45% to 48% for this year. So, today's 45% - 55% could probably go up to maybe in one or two quarters, depending on any large deal which comes through, which usually is initially onsite-centric. So, it's fair to assume that we will have this range of onsite-offshore from 45% - 55% to 48% - 52%

Abhishek S.: Okay. That's helpful. And last one from my side here. What is the reason for a significant jump in the unbilled revenues on a quarter-on-quarter basis?

P. Ramakrishnan: Okay. So, this is, I would say, more to do with in terms of the overall progress of projects across the year. This, in my opinion, I mean as far as we are concerned this has got no impact, it has more to do with some delayed milestones. So, this will all probably go into invoicing in Q2. But wish to tell you that if I take both the DSO and unbilled together, as far as last quarter was concerned, we were at around 90, and this time we are around 94-odd. So, that is not a matter of concern, it's more to do with some delayed invoicing which will slip into Q2. As you may see that our FCF, at the end of the day all this will manifest in terms of the robustness in the cash flows, so for the quarter it was almost Rs. 250-odd-crores-plus, so we expect the free cash flow to be robust enough in the coming quarters as well.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead

Mukul Garg: Dr. Panda, just wanted to clarify on this semiconductor issue. Was there any impact from the recent regulatory restrictions which happened in US on the degrowth in this business?

Keshab Panda: No, I think we don't comment on client-specifics. But I don't think this has anything to do with any particular client. This is a segmental issue and that's where it is. I think we don't comment on any particular client issue.

Mukul Garg: Understood. So, just taking this forward, if you look at your current guidance, the average growth over the next three quarters is still quite decent. So, just wanted to get a sense of your confidence that even though there are still some headwinds from semiconductor space in Q2, you are fairly confident that you would be able to achieve the guidance?

Keshab Panda: Yes. I think we are multi-vertical, that's one of the positive things we have. I think we have been able to grow that in spite of a drop in the customer as explained, we have seen a robust growth this quarter. So, I think we believe these four segments are going to drive it, continue to grow. We have enough pipeline to continue those four segments. And this segment is a matter of time, as the telecom & hi-tech, the pipeline we have, how quickly convert into revenue, that's the reason we said at this time the visibility in Q2 what we have, we explained. And end of Q2 we will come back and talk to you about how this segment is doing. Other four segments is a non-issue, I think it will continue to grow. So, that gives us confidence that we will continue to grow in coming quarters.

Mukul Garg: Got it. And then if I may ask one more question. We recently saw a major competitor getting acquired in the space. Any thoughts? Is this something which we should look at a negative aspect from the competitive intensity point of view, given that their scale is at a different level now and including the regional strength they will have? So, any thoughts on exactly how we should read that particular M&A deal?

Keshab Panda: I think I am very excited that the IT companies are looking at the pure play engineering asset they want to buy. I think today if you really want to do that, the customers are looking at pure play engineers who are thinking only engineering, like us, right? And I do not want to comment about why they did what they did, but I can only tell you that when you go to customer all the time they talk about, “we talk to you because you guys are pure play, you do engineering, you have domain and so on”. We have been competing with them effectively. Both the companies we know reasonably very well, we see in that geography. One advantage we have is our base location of India, the innovation engine what we have fired globally, I think that's the biggest differentiator. Today if somebody else comes to competition, I don't think there is an issue at all. I don't think size in engineering is a big issue, I think they become 17 billion 15 billion, they will have their own challenges. But we believe that being an engineering company, a pure play engineering company, we have our advantages and we continue to drive that.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal Asset Management. Please go ahead

Niket Shah: Just one question. I think in third quarter of FY19 you had highlighted the amount of open position that you had, is it possible to spell that number at the end of this quarter?

Keshab Panda: I think I will not comment on a quarterly basis number of open positions. And I was talking about, I think a HR team and we were discussing about how to go about it. So, I don't think what we gave you last quarter, I would think similar number now. But exact number quarter-on-quarter basically we don't specify.

Niket Shah: The reason is that it was a fairly large number of vacant positions being open?

Keshab Panda: If you have to grow, I can tell you, Niket, if you have to continue to grow the speed at which we grow, and multiple verticals, we always need some number to be there. If you don't have this number, but at the same time, we always look at it, can you add less number of people, less open positions, but still continue to grow using new technologies, using the innovation, what we are doing it. So, I think that's where you look at it now. So, I think number of people adding to increase revenue, that equation is no more valid, at least in engineering and technology area. So, I think I am not too worried about it, the only thing I am looking at is, am I getting right people, am I training people well, do I have it globally? As I said last time, we did hire in US, we did hire in Israel, and we did hire in Europe as well. But the number is small, we hire 20 people, 30 people and 10 in different geography, we will continue to do that. But number of open position to revenue, I don't think is an issue. But only our engine should be fired. The number is not small, the number is big, and the number is on the different areas, in the medical area, it comes in industrial area, plant engineering area. So, I think how we do this effectively, which we have been able to do that last years and we continue to do the same.

Niket Shah: Sir, I appreciate your point. But my only question was that if you have a number, which you said is a very large number, essentially mean that if you get those many people you can obviously have a higher revenue number. And I am assuming that is at a good margin as well. So, I am just trying to correlate your guidance downward versus the open position you have. So, that is the area where I was unable to kind of join the dots.

Keshab Panda: No, I think that's the part of the guidance what we have given, right? We always look at it, the people we need and how does it translate to revenue, where it is, onsite or offshore. And the part of guidance when you do that every segment when you look at it, that's the part of job we do.

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

Ashish Agarwal: Sir, actually I have a couple of questions. First of all, in the quarter did any of the verticals grow better than what we were expecting? And secondly, on the guidance front, now we said there are a couple of large deals in the pipeline in the telecom & hi-tech space. If you are able to sign those deals, will our view for the year change significantly?

Keshab Panda: Before answering, I would not be able to comment on this right now. What I see today, that's the guidance we have given now. Is that going to be different tomorrow, our expectation is, depending on our experience so far, we believe these deals are going to close. So, I think that's where we have given. I do not want to guess anything or do that right; I think that that's how we look at it.

Ashish Agarwal: And what about the verticals, did any of the verticals give any surprise?

Keshab Panda: I think whatever we have been saying is all in line. And we believe the four verticals, these four verticals what we expected, we have been able to deliver that. And we believe that that trend would continue in coming quarters as well.

Ashish Agarwal: No, why I was asking was one of your peers gave a negative commentary on the automotive vertical or the transportation vertical, but your commentary looks like very positive around it. So, just want to understand what could be the reason? Are you seeing any problem in any of the clients in that or you are seeing growth across all the clientele?

Keshab Panda: I think transportation is a segment, we have three components, right, we have Truck and Off-highway, we have Automotive, then we have Aerospace, okay? And again, see you can't generalize a segment as a whole. Aerospace we decided to work in only few areas where we are good at, and that segment will continue to grow. Similarly, in Automotive we are not doing everything, we selected a few areas where we do well and there is a market potential for us to grow. So, that has been selectively done. Off-highway, if you see off-highway as a segment, earlier it was hydraulic and structural engineering and mechanical engineering. Off-highway is trying to adopt new technology what Automotive is doing it. So, it's a combination of all three, that gives us confidence that transportation as a segment is going to grow. If you see automotive as a segment, you are focusing on one particular area, if you continue to do that. Or aerospace as a segment you do only one particular area, it's all project-specific. If a project gets over then your revenues goes down, right? So we are broad based in our transportation segment… I don't know who commented that, but I think our segment is quite broad-based. So, that gives us confidence that we will be able to continue the same.

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

Apruva Prasad: Dr. Panda, where you mentioned about the decline that you expect in telecom & hi-tech in 2Q and then a recovery in 3Q, 4Q. Any color that you can share on the other verticals, transportation, industrial products and plant engineering in terms of any pattern that may play out 2Q versus second half?

Keshab Panda: I think what I can tell you is that Q2 we have clarity that is why we say telecom & hi-tech in Q2 also is going to decline, we clarified that. And we always believed that some of the deals that we are working on, large deals we are working on if we are going to close in Q2 it will translate into revenue in Q3 onwards. Let's say one gets delayed, but we don't see the drop that happened in Q4 to Q1 - it's not going to be so much drop. There will be a drop, not at the same level and we believe that by closing those deals we will recover by Q3 onwards.

Apruva Prasad: Sure. That's helpful, Dr. Panda, but I meant on the other verticals, transportation, industrial products and plant engineering. Any pattern there in terms of 2Q versus second half, can that be different?

Keshab Panda: No, not really. I think as we see now our trend, if I try to study last eight quarters when I look at it, it follow the same trend, nothing like I think H1 will do well compared to H2, that's not the case.

Apruva Prasad: Right. And also on industrial product, do you think we can maintain the double digit for the full year in FY20, we hit that mark this quarter, but do you think for the full year can we get to that number?

Keshab Panda: Yes. I think if you see, last year we did a double-digit growth in the industrial, and we did make a statement this year also, we will do depending on what orders are in hand now and what we think opportunities on our hand, and we will continue to reach double-digit growth again this year as well.

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

Sandeep Shah: Dr. Panda, just wanted to check regarding the guidance if I look at next three quarters, 4% to 4.5% is a compounded Q-on-Q growth rate which is required. So, you believe that with telecom & hi-tech also having some headwind in 2Q, this would be more a second half led or this may be like evenly spread out from 2Q itself?

Keshab Panda: Of course, what is visible right now, we did our homework, and we believe that whether it's happening in Q2 or Q3, Q4, annual guidance we have given. We said looking at the opportunity on hand, this is what we are going to do. I am not going to tell you that Q1 to Q2 what percentage is going to go Q2 to Q3 or Q3 to Q4, but annually we looked at it how this is going to shape up. And that's the visibility right now, and based on that we have given the guidance.

Sandeep Shah: Okay. But because of the headwind on the hi-tech & telecom, do you believe the growth rates may be softer in 2Q? Or it's unlikely a scenario because of the deal wins?

Keshab Panda: We have given our guidance; you can look at that. Keeping all these into account we have given our guidance. So, Sandeep, I think we have taken all this into account given the guidance, Sandeep.

Sandeep Shah: No issue. And just to follow up, I think on the wage inflation 160 bps what we have said, but last year I think there is some portion which has come in Q3 as well. Because if I look at your employee cost and apply a 3.5% to 4% wage inflation, I think it comes to close to around 200 bps kind of an impact.

P. Ramakrishnan: Okay. Sandeep, this time wish to say we are planning wage hike across the company in this quarter itself. And as we see it, the impact of that in the current spend would be around 160 bps.

Keshab Panda: See, if you see last year, we have given up to some grade in Q2 and some grade in Q3. That's the reason we will see Q2, Q3 impact. This time we are going once now, for all employees we are doing in Q2 itself, so the impact is going to be one time in one quarter.

Sandeep Shah: Okay. Because last time in Q2 we had a 150 bps impact and then some impact which has come in Q3. And this time we are saying 100% impact we will have just about 160 bps kind of an impact?

P. Ramakrishnan: Around 160 bps, yes around that.

Moderator: Thank you. The next question is from the line of Deepesh Mehta from SBICAP Securities. Please go ahead

Deepesh Mehta: If I look at our geographical revenue growth, Europe and rest of world is seeing weakness for some time. Europe remained broadly flat for almost six quarters, around Rs. 30 million to Rs. 32 million kind of run rate. India also is showing moderation in growth rate now, from 70-odd-percent a couple of quarters back now to below 20%. So, can you provide some outlook there in these three geographies, what is currently playing out and how you expect them to grow? Thank you.

Keshab Panda: I think these geography, Europe and India, for example is doing reasonably well. I am happy about it. The only thing is, the impact I talked about one customer impact 4% impact, that's happening in the geography. Because of that what you see the growth in Europe and India. Otherwise there is no… the business in India, for example, we are very specific and selective about which customer we do and which we don't do. So, India as a market, because of that impact some people had to go, the 4% we talked about last year, that had impact in India as well as Europe. There is no other business concern. As you see, I think a lot more traction we see. Amit talked about there is one win we had in transportation segment that was in Europe. Again, there are few more deals we are working in Europe and that again on different segments. So, it's a non-issue. On the India point of view, India, we focus on global customer in India, not Indian customers in India. So, I think this is something which will continue in the same trend.

Deepesh Mehta: And sir what about the rest of the world?

Keshab Panda: Rest of the world, as you see, I think we won a few deals in Japan. And as you know, the total ER&D spend, Japan and Korea these are the two big markets. And we did little bit of Middle East and Africa as well, a small part of it. But big market for us is Japan. And Japan has a good traction. There are couple of deals we won recently in Japan and I believe that has continued to grow.

Deepesh Mehta: But if I look YoY, it's showing some weakness. It is down YoY for the quarter one also.

Keshab Panda: I think I know what you are referring to, the drop again. If you see the 4% drop, there are three geographies, I missed that. We had Israel again we had some loss because of that one singular 4% we talked about last year. Israel, Europe and India, these are the three geographies it impacted, that's why you see that going down. I would say once this goes away, then you will see a different trend altogether.

Deepesh Mehta: Understand. And sir top 20 client overall weakness is largely the factor which you just now narrated in terms of one client-related specifically?

Keshab Panda: Absolutely, you are correct. Yes, you are right.

Deepesh Mehta: So, rest of the client, we are not seeing any kind of weakness?

Keshab Panda: Exactly. Yes.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead

Ankur Rudra: Just wanted to understand the decline we saw in the semiconductor sector. Clearly the telecom decline was more than the planned ramp-down. I was curious if you could share when you saw the slowdown in the quarter? Was this, for example, the last month or the last 15 days or so? And also what was the nature of the softness - was this contract cancellations or ramp-downs or lack of renewal on short-duration projects? Thank you.

Keshab Panda: We came to know around end of May, it's too recent. We came to know end of May or so, and suddenly customer changed their investment priority. So, what they expected to do and we had a business plan with them, they said this is something they are going to stop it or they are not going to do it. So, diversifying it into different areas, that has impacted. And we were aware of this May end onwards or June first week onwards.

Ankur Rudra: The second part was, Dr. Panda, what was the nature of the softness you saw, was it cancellations, ramp-downs or lack of renewals?

Keshab Panda: See, there are customers, I think, they changed. The US and China impact to some extent it happened; they changed their priority in semiconductors. If you see, Ankur, in all the semiconductor segment, they are not doing well, they are going through difficult times as well. So, we thought that will recover. But at the same time we can't fix it to one point because I think we have got some advanced chip designs from the same customer. They are asking us to look at it at different areas. So, I think it's a broad-based issue. I would say major part of it, the semiconductor segment, there are few opportunities we thought immediately we are going to cash on this, and this got delayed.

Ankur Rudra: So, it seems like it was more of lack of refillment backfilling of projects which ended as opposed to cancellations?

Keshab Panda: It's not cancellation. Their priorities they have changed, they have prioritized not as first priority, they have got it third priority. So, we expect to kick up the project in a bigger way, that slowed down.

Ankur Rudra: So, would it be fair to say that the way you baked this into the guidance is, you saw this impacting one month of the quarter and you baked it in for the entire quarter for 2Q, and you obviously have projects at hand, I mean, deals on hand, and that's what's impacting in terms of how you baked this into your guidance?

Keshab Panda: You mean, now, current guidance?

Ankur Rudra: Yes.

Keshab Panda: Yes. So, we looked at it, is that going to come in quarter two and what is the impact happening in quarter one, what in quarter two. We said it is fair for us to communicate this because in quarter two we come back again, if we don't do that. As much we know we must communicate with you guys clearly. So, we thought this is not going to happen in quarter two, they are going to kick start. It is going to be in the quarter three and beyond. So, in quarter three and beyond, we must tell you that's the reason we are changing our guidance.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from AMBIT Capital. Please go ahead

Sudheer Guntupalli: Any color on the trajectory of IP revenues and IP influenced revenues will be helpful. And secondly, by any chance is the focus on this aspect come down, because if you remember three or four quarters back we used to significantly highlight this aspect on most of our earnings calls religiously. And I think over the last two, three quarters has that focus come down by any chance?

Keshab Panda: Sudheer, I think I have been talking about the platform revenue and how is it going to help. But there are two ways it helps. Our priority has not changed, what we said before, it continues to be the same thing. Only thing we did is, you have to imagine, one is the license revenue from platform, the other one is using these platforms doing your services business, right? Your win ratio increases because you have this platform. So, we are effectively doing the services business using these platforms. Only license point of view, as last time I did talk about, we appointed a consulting company to go through what is the business model we are going to follow so that we will effectively play this game. The services company doing the platform or product is a different game altogether. They have come with a recommendation; we are studying into that. When I talked about in my beginning when I started, I talked about we have a report from the consultant ready, we are looking into that. Not that we stopped selling it, we are doing it, continue to do that and we will have a bigger game plan once effectively we take a decision on that.

Sudheer Guntupalli: Sure, sir. And any new platform that we have added to our portfolio beyond what was discussed earlier?

Keshab Panda: I can tell, you come to Bangalore we will show you 19 platforms. So, the only thing here is you will have to prioritize this is what we are going to do and why we do this. But this platform continuously we should continue to do that. There is one deal we got recently using AI platform, right? So, because of the platform we went and talked to the customer, proposal when we talked about, we can reduce the effective time by 40%, let's say. So, we are much more competitive in the market compared to the competition. I think that we are doing it now. We have multiple platforms right now, but which is one we are going to make investment for productizing this platform and monetizing this platform, we are very careful about doing that. And as I said last time, we have a CTO organization, full-time 200 people working on this platform, creating the asset, which is used for the services business we run now. And they are also creating a platform which is going to be competitive in the market.

Moderator: Thank you. The next question is from the line of Aniket Pande from Prabhudas Lilladher. Please go ahead

Aniket Pande: I have two questions. So, basically large part of the contracts are fixed-price contracts. So, do we see change in profitability of these contracts since we have signed in, either because of the change in scope or any other reason? And my second question is on the outlook of receivable days going forward.

Keshab Panda: First part I will answer, and second part I will request PR to talk about it. See, this large part in fixed bid, that's not correct. The only thing is, the impact of that on the margin, when you win a large deal, let's say fixed-bid deal, initially when there is a knowledge transfer more people have to go to onsite, you will have impact on the margin. But overall when you see in a few quarters range, I don't think that's an issue at all. So, it is onsite-offshore knowledge transfer that you do depending on size of deal, type of deal we are doing it. It may have some impact, but overall on an annual basis I don't think there is an impact on the deal. And PR will explain you the other part.

P. Ramakrishnan: So, Aniket, as I answered to a similar question earlier, I think the emphasis what we are doing internally is a combination of tracking the aggregate of both DSO and WIP. So, as we are tracking both these two elements very closely, and it is one of the reasons that we could manage to have a better cash flow generation last year, the emphasis of that even continues in the current year. So, internally we track this in aggregate, and we believe that we will ensure that it lies in the plane between 90 to 95, that is aggregate of both DSO and unbilled in terms of number of days of sales.

Aniket Pande: Okay. Just one more question. Other IT services companies have cited weakness into manufacturing vertical in Europe space. As you are into IT pure play engineering space, can you give us a brief outlook on how you are seeing things into the manufacturing space in Europe?

Amit Chadha: So, thank you so much for the question. See, we are not seeing any softness in Europe in manufacturing. In fact, if anything, we are seeing discussions as well as a lot of programs, POCs that we are doing in Industry 4.0, in the manufacturing sector discrete as well as processed, that is one. Second, we are seeing in fact petrochem companies coming up with upgrades as well as engineering value centers in that geography. So, that's two. And third, we don't see an impact of any of the tariffs happening there. So, decisions are fairly straightforward. So, we are fairly optimistic about it.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Pinku Pappan for closing comments.

Pinku Pappan: Thank you, everyone, for joining us on the call today. If you have any questions, please write to me. We will sign off now. Goodbye, and wish you a great evening. Thank you.

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

Note: This transcript has been edited for clarity and accuracy.