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July 23, 2020

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex
Bandra (East), Mumbai – 400 051.
NSE Symbol: LTTS

The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400001
BSE Script Code: 540115

Subject: Transcript of Earnings Conference Call for L&T Technology Services Limited (LTTS) for quarter ended June 30, 2020

Dear Sirs,

Please find attached the transcript of Earnings Conference Call organized by the Company on July 16, 2020 for the quarter ended June 30, 2020 for your information and records.

Thanking You,

Yours sincerely,
For L&T Technology Services Limited

Kapil Bhalla

Kapil Bhalla
Company Secretary
FCS.3485

Encl: As above

L&T Technology Services
Q1 FY21 Earnings Conference Call Transcript

July 16, 2020, 20:00hrs IST

MANAGEMENT: **DR. KESHAB PANDA – CEO,**
MR. AMIT CHADHA – DEPUTY CEO,
MR. ABHISHEK – COO,
MR. P. RAMAKRISHNAN – CFO,
MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY '21 Earnings Conference Call of L&T Technology Services. 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: Hello, everyone. And welcome to the earnings call of LTTS for the First Quarter of FY '21. I am Pinku, heading Investor Relations. Like last quarter, I will start with an apology for having the call at 8 p.m. Let us hope the pandemic will be behind us soon, and we can all revert to our earlier norms. Our financial results, investor release and press release have been uploaded on our website, www.LTTS.com. I hope you have had a chance to go through them. This call is for 60 minutes. We will try to wrap the management remarks in 25 minutes and then open up for Q&A. The audio of the call will be available for replay on our website approximately one hour after the call ends.

Let me introduce the leadership team present on this call. We have Keshab Panda – CEO, Amit Chadha – Deputy CEO, Abhishek – COO, and P. Ramakrishnan – CFO. We will begin with Dr. Panda providing an overview of the company performance and a commentary on the business outlook. Amit will then talk about the large deal wins and the deal pipeline. And finally, PR will walk you through the financial statements.

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

Keshab Panda: Thank you, Pinku. And thank you all for joining us on the call today. I hope you are all keeping safe and well. I am happy to share that our employees continue to be safe across the geographies. We are taking every precaution to ensure this continues, especially as we started resuming work from office. Our India offices resumed from the first week of May, strictly following the guidelines of the respective state administrations. Today, around 25% of our India based employees have resumed working from office.

Let me talk about our Q1 performance:

We had indicated via the exchange filing on 20th of June that we will see a low double-digit percentage dip in revenue in Q1. The slowdown in the global economy and our exposure to some of the heavily impacted industries, like aerospace and oil and gas, in addition to auto and industrials which were also impacted in a significant way, led to our revenue dipping by around

12.5% quarter-on-quarter. The operating margin was down by 300 bps quarter-on-quarter, again impacted majorly by the dip in utilization. On the bright side, free cash flow generation was robust as we improved on collections. The balance sheet position is also very strong with net cash of around Rs. 1,000 crores plus. Our large deals engine continued to fire well. We had strong deal bookings, higher than what we booked in quarter four. And we won two deals of $15 million plus each and one deal of $30 million plus in the quarter.

Let me provide a brief summary of our performance in each vertical before providing the overall outlook:

Starting with **Transportation**: We had a sequential dip of around 23% in Q1, and the decline was sharper in aero as compared to automotive segment. Let me cover auto first. Many of our customers resorted to furloughs and spending cuts as car sales fell globally in the last four months or so. But we are seeing things picking up slowly; more importantly spend will continue in areas like electric cars and autonomous technology where we are strong. Our competencies continue to be top notch. We won two large deals, one $30 million plus, another $15 million plus in auto, both in design and development of new-age platforms. In aero, as you are aware, the number of flights globally are much lower than normal. And airlines are cutting down fleet sizes, which is leading to pain for both the OEM's and Tier -1's. We will see a decline for one more quarter in aerospace segment.

However, we are seeing good opportunities on the defense side, where spending continues to increase. We already have two ITAR certified facilities in U.S., and we are in the process of adding one more. Overall, for transportation, we are optimistic on growth coming back. And we will grow sequentially in Q2 and should see the pickup improving in Q3.

In **Plant Engineering**, the quarter-on-quarter dip of 24% was led primarily by oil and gas. As we indicated in the previous quarter, the sharp fall in oil prices led to immediate cuts in budgets and ongoing spending mostly in upstream areas. We are seeing some signs of stability in O&G. There are a few large proposals in the pipeline. We have established a good track record in setting up what is called an engineering value center model for providing sustenance engineering for some of the oil and gas majors. In CPG, we are seeing increased traction in digital, and we are having conversations to help customers improve operating efficiency and quickly turn around from one product to another. This is something that I am happy to say that we had few wins recently. In Plant Engineering, we will see a sequential growth from Q2 onwards led by CPG and chemical.

In **Industrial Products**, we had a decline of 12% quarter-on-quarter and was on account of the machinery sub-segment - where there was a sharp reduction in demand from their end-customers like oil and gas upstream players. Again, I want to highlight our competency edge - we won a $15 million plus deal in the O&G machinery side, where we will help to create a data analytics platform, again an example of how we are winning in digital and new age areas. At the other sub-segments like building automation and electrical, there was a pause in decision making but we see growth picking up as customers are ready to spend on new product development and value engineering. We see growth in Industrial Products from Q2 onwards.

In **Telecom & Hi-Tech**, after a few quarters of pain, we turned around in Q1 with 5% quarter-on-quarter growth, led by ramp-up in both media & entertainment and semiconductors. We expect the growth path to continue with good deals in the pipeline. I must, however, add that the pickup in momentum will be gradual due to longer sale cycles and some bit of caution in the budgets. The outlook remains positive with the momentum in 5G picking up and chipset and entertainment consumption on the rise.

Telecom & Hi-Tech is a sector where technology disruption is a norm. And to strengthen our capability in the Telecom OEM side, today we announced the acquisition of a company called Orchestra Technologies based in Texas. We are excited about this acquisition as this will help us capture the opportunities in 5G with Telecom service providers and Network OEMs, as they ramp up 5G rollouts and look for solutions to manage and optimize network performance.

Lastly, in **Medical**, we continued the momentum from Q4 with 9% quarter-on-quarter growth on the back of deal ramp ups. In fact, growth would have been better if not for the fall in the number of elective surgeries that has affected hospitals and the devices industry. We continue to be positive on the outlook with a good pipeline in the new product development, sustenance engineering and new age technology for diagnostic devices and newer areas like tele-medicine, tele-consultation and remote monitoring, we are very bullish about the segment.

Let me now discuss the **outlook**: Q1 was a tough quarter and we took a hard knock at three of our verticals. Broadly, there was a freeze in decision making and many of our customers resorted to pausing some of the ongoing development work, given the uncertainty. However, spends are going to continue. For example, even in aero or oil and gas, we are confident that we will grow over the next few quarters. We may have to look at different areas of growth - like in aero - given how the industry has been hit - and that alignment has already started. This is the unique advantage of being broad-based, both in domain as well as in technology - it gives us the ability to pivot based on customer needs and where the spending is happening.

The pandemic has given us an opportunity to take multiple proactive proposals to our customers in very strategic areas, which addresses their key business priorities - like manufacturing line expansion, agile sourcing, remote operations and asset care, lab consolidation, etc. We have also aligned our offerings to the market, like Frugal Manufacturing, Tele-health solution and i-BEMS Shield, which are seeing good traction. So overall, we are confident of our ability to keep growing and expect a sequential recovery in revenue as well as margin from Q2 onwards.

Our guidance for FY '21 is revenue based on our current visibility, is for a decline of 9% to 10% in USD terms. I want to end by assuring that we are taking actions to increase sustainability of our business. Our focus on training and competency building, investment into labs and technology provides us with a lasting competitive differentiation, and we will continue that journey.

Before I end, I would like to comment on the change in CFO. As you would have seen from the exchange filing, P. Ramakrishnan is resigning as CFO, and he is going back to the parent company, L&T, on a new assignment. PR, as we fondly call him, has been with L&T since 1992. He moved from L&T to LTTS in January 2016. And before our IPO, he had gone with us on the IPO roadshow. And he is a quick learner. There are very few CFOs you will find who are more inclined towards technology. We are very proud of associating with him for the last four years. But PR is not going to go away, we will miss him in LTTS, but he is going to be with us in our parent company, Larsen & Toubro. He did a great job. I think we will always remember him.

I would also like to welcome our new CFO – Rajeev Gupta, who joins us from Birlasoft where he was the CFO. Rajeev brings a lot of experience with him, especially in the IT and ITeS industry. He worked in Capgemini for a long, long time. He joined us in April and had a good transition period from April till today. Last few months, he has been working closely with PR, and he has had a good transition period. We look forward to working with him to achieve our milestones.

Ladies and gentlemen, thank you. And I now hand it over to Amit.

Amit Chadha: Good evening, and thank you, Dr. Panda. I trust all of you and your families are keeping healthy and doing well.

When we spoke to you in May, we shared that we had created growth and resilience action streams amongst the leadership team, right from March onwards, focused on growth actions and cost actions. I would like to provide an update on the growth actions we have taken:

- The entire company across delivery, sales, operations enablement has come together to generate proactive proposals focused on our top-50 accounts that are aligned to their revised vectors of value definition.
- The theme of these proactive proposals has been very targeted, with broad themes centering around consolidation of spend, repurposing manufacturing, rewiring of the supply chain, cloudification of products and services, enhanced security and data analytics.
- And we are finding that majority of our customers are wanting to work with us on their newer priorities or changed business plans, which gives us an opportunity to target more of their ER&D wallet share.

Backed by several of such proactive proposals, our pipeline today is higher than pre-COVID levels and gives us the confidence that the worst is behind us. Also, from May to now, we have seen an improvement in deal closures, although client decision making cycles have to still improve to pre-COVID levels.

Let me give you a segment wise update:

For Transportation, we won a large deal in auto in the area of software integration for autonomous driving. We have additionally won two of the four deals we were pursuing, one in automotive, where we will be setting up an ODC for our client to support their digital initiatives globally for drive performance; and the second one in aero to build on a software factory for the customers' defense business in the U.S. We are working on an additional conversions at this stage across four more deals in the areas of powertrain, connectivity in two of them, and expanding an ODC relationship in the other two.

In Plant Engineering, we closed three deals in this segment, one in oil and gas and two in CPG. In one of the wins in CPG, we are executing our digital paperless factory project for the customer. And in the second, we are working on asset and reliability management. Last week, we closed a new engineering value center deal with our U.S. client, where we will support this client with site engineering tasks across multiple sites. We are pursuing two more engineering value center deals in this segment.

Moving on to Industrial Products, we have closed three deals in this segment in the last quarter. We are in the process of discussing proposals in the digital and touch-less operations domain and supply chain realignment and hope to make some headway in this segment, though growth will be muted in the near-term.

In the Medical segment, we closed three of four deals being pursued in Q1. We are currently in the race for closing three deals additionally in Q2. The pipeline here is robust, and we expect this segment to continue the momentum.

In the Hi-Tech segment, Q1 saw us win two new clients in the Telecom operator space, expand some existing relationships in the Telecom infra space, and win a new chip design project with a client leveraging our VLSI acquisition. We are currently working on some opportunities in the semcon and Telecom infra space in the areas of full chip design in one case, and product support and vendor consolidation in the second case. We continue to see headroom for growth in this sector.

Summing up, we saw furloughs and deal decisions being delayed in quarter one, but have been able to grow back our pipeline as well as close deals higher than the previous quarter sequentially and year-on-year. For FY '21 and beyond, we expect to see positive momentum in Medical and Telecom to continue, Industrial Products slightly muted for Q2 and see a path for sequential growth quarterly for Transportation and Plant Engineering from Q2 onwards.

Like Dr. Panda mentioned, we are working with customers to address their key business priorities and that is giving us visibility for growth for the coming quarters.

I would now like to hand over to PR. Thank you so much. Stay safe. Stay healthy.

P. Ramakrishnan: Thank you, Amit. Good evening to all of you. So I will just take you through the financial statements. I hope all of you must have received the SEBI advertisement along with the earnings fact sheet.

As you may have seen, the revenue for the quarter ended June 30, 2020, was reported at Rs. 1,295 crores, showing a decline of 10.5% on a Q-on-Q basis; and 4% on a Y-o-Y basis. In dollar terms, we reported revenue at $171 million as compared to $195.4 million, demonstrating roughly 12.5% degrowth. I would say, the degrowth was most visible in some of our major segments; transportation, almost around 23% degrowth from previous quarter; Plant Engineering at 24%; and Industrial Products at 12%. The degrowth in these three segments was partly offset by a growth of 5% in Telecom & Hi-Tech; and a growth of 9.2% in Medical devices. As you may be aware, that last year we had a muted performance in Telecom & Hi-Tech. I guess, we have turned the tide now, and we expect the growth rebound to happen in Telecom & Hi-Tech segment from this year onwards.

Coming to Margins, our reported margins for the quarter was at 12.1% as compared to 15.2% for the previous quarter. 15.2% adjusted for the one-off PM Cares contribution of roughly Rs. 20 crores which happened, the previous quarter margin was actually around 16.5%. So, a drop has been visible from 16.5% to 12.1%. And if you see from the overall revenue and the cost stack, the savings which we have managed to accrue in the current quarter have been able to absorb around 7% of the revenue dip - due to the 500bps of cost savings that we have been able to accrue in Q1. So, of the 12.5% drop in revenue, up to 7% we were able to offset in terms of cost savings. The rest had a roughly impact of almost, I would say, 450 basis points, which has contributed to a drop in EBIT margin to 12.1%.

As far as the other income element is concerned, our other income for the current quarter was reported at net of others, including of interest charges it is around 30 million. But the drop has been partially because of the exchange loss which we have accrued because of a weaker rupee. And we also had, in the previous quarter, the export licenses income which we accrued for the year FY '19. In this quarter, it is only realization of those licenses which happened to accrue to only around Rs. 51 million. So that has one of the reasons that the other income has also partially dropped.

The overall tax provision from a tax provision perspective is around 25% to 26%, no major change which we see in the current year as well.

Coming to the balance sheet, one important thing is, the balance sheet is roughly unchanged, barring for the fact that there has been a drop in accounts receivable and unbilled revenues, and led by an increase in investments and cash and cash equivalents. As you may know that when we closed Q4 last year, we had a shortfall in collections of almost $25 million, which we have recouped in the current quarter. And that is one of the reasons why despite a lower profitability, our free cash flow is almost in the range of Rs. 318 crores. But kindly note that this includes, I would say, roughly around $25 million to $30 million of shortfall of collections, which we could not do in the month of March, that has slipped over to the current quarter. But with that, we are reasonably sure that at least the working capital in terms of DSO and unbilled revenue, we have brought it down from previous quarter levels of 109 to current quarter of around 95 to 96.

Coming from a perspective of geography constitution of revenues, no major change: North America still continues at 60% plus, and we have Europe and India roughly at 16% and 13%, respectively. The other metrics, no major change. Our onsite-offshore revenue metrics comes to roughly around onsite is 48% and offshore revenue mix is around 52%. Fixed price contracts, time and material, again, 39% to 61%, that combination remains the same.

One of the reasons for the drop in margins can also be witnessed by the drop in utilization. Q4 utilization was around 78% and Q1 is reporting at around 71%. The headcount, marginal drop in headcount, the total headcount as of July 30th June was 16,641 as compared to 16,883 for the previous quarter.

With this, I have tried to summarize the overall financial performance. And I would also like to put on record that it was a pleasure working for the stint of four years with LTTS, and also the interaction with all of you. And I am moving back to parent on a different assignment. And myself and Rajeev, we have worked together for the last three months, and Rajeev Gupta comes with a rich experience, especially in the IT and the engineering services sector. And I am sure that he will take LTTS to new heights. Welcome, Rajeev, a formal welcome to you.

And that is all from my side. We can probably go back to the question and answers. Thank you.

Moderator: Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Dr. Panda, if I refer to your commentary from the Q4 call, while Q1 was expected to be weak, but the degrowth this quarter seems to be a bit sharper than what we initially expected. It would be great if you can just help us with the areas where you saw further deterioration as we progressed during Q1? And are these areas now coming back?

Keshab Panda: I think the impact was, as you said, plant engineering and the other one is transportation, right? Transportation, I did not expect the aerospace to go down to the level it has. The areas, if you recall, quarter four I talked about, areas like in-flight entertainment or the air traffic management, the software area which we work, and that is going to be in demand. That is number one. Number two, Japan MRJ, there is a customer who decided to scrap the project as a whole - it has impacted in a big way some of the OEMs and Tier 1s, who were our customers. So Japanese aerospace customer deciding to scrap the project, we never visualized in quarter four that that's going to be the case. So aerospace has an impact, which impacted our transportation segment. 23% drop quarter-on-quarter, I did not expect that to happen, right? So this suddenly came there.

And second point was on the two segments, plant engineering and transportation, these two segments were hit in a big way, 23%, 24%. Plant engineering, oil and gas has taken a beating. But oil and gas, the way it has gone down – what we expected was part of it to remain part of it to go away. The CAPEX spending sudden decision - we thought this would take two quarters to bottom, but it happened in quarter one itself. So this together, before we gave to the stock exchange that is going to be low double digit, and we never expected to go there. And suddenly these two factors impact in a big way to this drop in Q1.

Mukul Garg: Got it. So given that backdrop and the uncertain macro environment, what puts and takes you currently have to stay within the current 9% to 10% degrowth guidance? Have you incorporated any scenario in this, where you might encounter greater restrictions on either supply or demand?

Keshab Panda: See, what I see today that in all the segments the worst is behind us, because the segment has already hit the bottom of it, right? And we believe transportation and industrial, for example, is going to take some time. But aerospace is going to take one more quarter to hit the bottom, it has not hit the bottom yet. Q2, aerospace is going to hit the bottom. But automotive we have seen already a growth. The number of deals we won and already action started now. Q2, there is a growth in automotive, that is going to be muted partially by aerospace. Then coming to plant engineering, anyway, whatever had to go it has gone already, there is nothing else I have where it is going to go whatever may be the oil price. And FMCG and the chemicals segment, some of the orders we won, Amit talked about, so those segments are going to have a positive impact quarter two onwards. So Q2, there is going to be an increase in that segment, which has hit 24% down in plant engineering, that is already behind us.

Then our Medical segment, which grew 42% year-on-year in Q1, in that segment the pipeline we have, the order we won will continue to have a sequential growth, we will have that. Industrial, there will be growth, there won't be degrowth. With 12% degrowth happening in Q4 to Q1, that is not going to happen again. So we have hit the bottom of it and with the orders we won now, there will be a marginal growth in Q2 and start growing Q3 onwards. And Telecom & Hi-Tech, as you know, I think last year we have gone through a very difficult time in Telecom & Hi-Tech as de-growth happened. Now Telecom & Hi-Tech first time, after so many quarters, we have grown 5%, so we have shown growth. So that, I think we believe, that quarter two onwards we will start growing. So all these segments when I look at it overall, what would be the worst case scenario, and looking at that we have given the guidance as we see right now.

Mukul Garg: Got it. Just clarification. Is the acquisition baked into your guidance number or is that on top of it?

Keshab Panda: We have not taken that into account. This is not part of the guidance number.

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

Sandeep Shah: Just wanted to understand first question in terms of the gross margin. So it has declined by almost 675 basis point on a Q-on-Q basis. So wanted to understand, is there any element which can be understood as a permanent loss to the margin where we might have given some billing rate discounts to the client? So out of that 675 basis point, what could be one which you can recoup with the growth?

Keshab Panda: Yes. I think I will let PR answer that. The first point is revenue itself. If the revenue $195 million goes to $171 million, if you do the math on that, that itself is a big part. And then number two, as you can see that people were coming out of the project in U.S. and outside India; and also in India we were not able to make a decision to reduce. We have taken a conscious decision that the people, only bottom performers we are going to downsize, but all the employees we will retain them. And number one is, they couldn't fly back to India, with their assignments over they were all sitting in the U.S., their cost was on us and that was going through. So all these together, I think I would say major part is on the revenue drop itself. Once revenue starts coming back and the margin will come back, there is no other major issue on any customer issue or any onetime payment issue, no, that's not the issue. The issue was suddenly this came in Q1, that has impacted the margin. PR, you want to add anything to that point?

P. Ramakrishnan: Thank you, Dr. Panda. Sandeep, just to add to what Dr. Panda just now told, the drop in margins is led by drop in revenue, which I say from a volume basis, not necessarily from a value basis. There has been some reduction in billing rates, but that is not material to impact these margins what we have shown. Essentially, 12.5% dollar terms drop in revenue which has led to the margin drop. But for the fact that we managed to have normal cost savings, which any company would have witnessed, like travel cost and other stuff, that has anyway happened. Plus, we have been able to optimize some part of our employee overall cost stack without disturbing the overall employee headcount. There are further actions like Dr. Panda talked about more, I would say, clinical separation of bottom performers, which will lead to some amount of cost savings maybe from Q3 onwards.

Sandeep Shah: Q3 onwards, you are saying?

P. Ramakrishnan: Yes. Because separations would have happened some in June, July. So I think we have to see from Q3.

Keshab Panda: See, there is an important parameter again there. The C&B cost when I look at it, the one thing I want to be clear that the number of the employees downsizing we are going to do is of only bottom performers, Rated-1 and 2, nothing beyond that. We will take some pain for one, two quarters. We have invested a lot on these engineers for last few years. Because projects came down, I don't want to reduce the cost for improvement of margin. I am training them. There are a few hundred people, now close to 1,000, 1,200 people are going through training on new technology, because getting a combination of engineering and technology combination, getting people in the market is difficult. So that investment we are doing it. But I think once revenues start improving it, and then all this pain is going to go away, that is number one. Number two, the reduction of billing rate is less than 1%. Not that in many places we have got requests from customers to reduce billing rate, it's a small percentage of our business.

Sandeep Shah: Okay. Fair enough. Just in terms of guidance indicates 2.3% to 3% Q-on-Q growth from 2Q to 4Q at the higher end and the lower end of the guidance. So will it be back-ended more in 3Q, 4Q or you believe even 2Q may see almost a similar guided range of growth?

Keshab Panda: Quarter two, as you know, I think every day is a different day, every day we are going through. As I see right now, I also talked about every segmental growth quarter two onwards, right. And what is the percentage, I am not going to comment at this time, but I can only tell you that every segment, all the five segments I talked about, which is going to have growth and which is going to have a very positive growth, which is going to have a flat growth and so on. So I did talk about it. It's difficult to say. I will not be able to comment on this quarter two what is the percentage of growth. But growth is going to happen from quarter two onwards, that is for sure.

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

Pankaj Kapoor: Dr. Panda, two questions to you. How much of the revenue fall in the quarter you will attribute to projects that may have been altogether scrapped or canceled by the client and probably will not get revived instead of just being deferred? That's my first question.

Keshab Panda: Yes. See, Pankaj, majority of this what happened is deferred. I would say, 60% to 65% of the project got deferred because customers were saying, "Let me review, am I going to have this product rollout now or I will do that later. Is that going to be my priority?" So in quarter one most of the impact happened, because the customers were also not going to office, coming together and thinking about how in the product engineering they going to change their strategy. They wanted to design a product and go to a different market. Is that market the right time today or they will wait for three more months? But at the same time, they also came back and asked which areas was not priority. Some of the areas, new areas, they came back and said, "Can you stop this and work on the other areas?' So I would say it's a combination of both together. So more and more if you see, and again segment wise, there are customers where the capital investment in oil and gas - we were were doing very interesting projects but they said, "We see the value in doing that, but I think let us delay by a few quarters. We will come back in quarter three, quarter four, year time, maybe October-December time frame we will come back and reopen this and make sure that our core team remains." So I think all combination happened during these last four months.

Pankaj Kapoor: Okay. And in scenarios where the customers decide to scrap or cancel the project, how did we account for the cost? Was there any cost element taken up in this quarter which was a one-time in nature due to those contracts?

Keshab Panda: Only cost is like customer cancels the project. For example, onsite. See, offshore to some extent can be managed. Onsite, they were not able to fly to India, right? And there were a few, let's say, 50 engineers came out of the project and they were sitting in the U.S., and we had a choice to terminate their service in U.S. itself. They were on our H1 visa, they were on L1 visa, it is allowed legally. But we made a conscious decision that getting our employee from India to U.S. or Europe, we are not going to terminate their service. If they have come on visa, we should retain them. And there was a cost came along with that. We paid for it, and we hold the people, some of them have gone back to India and some of them have reengaged into new assignment with other customers. So that all happened, if they have the right skill set. And other areas when we look at it, employees who are here, the defense area we believe is going to grow. Some of these citizens what we had in similar area, we put them in our development centers in the U.S., and they are going through training program, that is giving us more opportunities. Recently, we won a deal because these employees we held them, even though the cost came to us, that is helping us to win new orders. So I think there are multiple situations.

P. Ramakrishnan: Pankaj, apart from what Dr. Panda just now stated, I guess to answer to your question, we did have in one of the projects in plant engineering in terms of project closures, one time I think costs have come. One of the reasons for plant engineering to come down in margins is attributable to that. I guess, with that project being done, I think from next quarter onwards, at least to that extent there will be a rebound in margins.

Pankaj Kapoor: Thank you. And PR, just one bookkeeping question on the SEIS income. You have any figure which you are expecting to come through in this year? And you think this will be more in the latter half of the year?

P. Ramakrishnan: See, Pankaj, normally you are aware that the way we do is we file for the licenses usually in the second quarter. When we file, we do take a percentage of the licenses which we have filed for. And usually, we get the licenses in the fourth quarter, correct? Another percentage we accrue based on what be the probability. So as it stands now, the government has not opened the portal. Usually they open the portal for filing sometime in Q2, most probably, I think, July or August. But as it is COVID and there is Foreign Trade Policy, that is still not announced, but I believe that the policy will continue for FY '20 in terms of our ability to file. But we don't know when we will be filing because the portal is not yet open. Our understanding is that if it's open we will file it in Q2. So we will have some number accruing in Q2 and if you look at the licenses in that quarter, usually Q4. And what you see in the other quarters is nothing but how much we have taken as a mark-to-market, and the realization of that what accrues as a number. So whatever number we had in Q1 is nothing but realization of the licenses what we already had.

Pankaj Kapoor: Got it. Thank you. And wish you all the best, PR, in your new role back in L&T.

P. Ramakrishnan: Thank you, Pankaj.

Moderator: Thank you. Your next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, just two questions from my side. One, if maybe Amit sir can answer this. Sir, basically, just wanted to get an idea as to what exactly is your outlook in terms of the, let's say, the deal flow that could play out, not just in the next couple of quarters but, let's say, over a larger period of time. Do you see this pandemic actually impacting the companies so significantly that at this point of time, while at one hand we are seeing these project cancellations and companies putting their spend on hold. Even if, let's say, we are past this pandemic, there is going to be a lag with which the companies actually resume their R&D spending. I mean, initially they might want to just focus on their other activities to boost sales and rationalize their costs.

So do you see that even when we are past this pandemic, do you see a lag in which the entire discretionary R&D spend comes back which could take us back on the growth path? And my second question is on, basically the growth outlook that we are looking at in the transport space. So in the transport space, the auto manufacturing probably is one of the largest part, aerospace has been through downturn. Where in the year, not just necessarily for us, but for the industry as a whole, when do we see the auto industry and the overall transport industry to maybe start reviving back in some sort of numbers?

Keshab Panda: See, I think, overall, which industry is going to be, if you look at three years term, right, pre-COVID and post-COVID is going to be different. We have recognized that in the last four months. What we were selling in pre-COVID, 100% is not going to be the same way. The business model has changed, new technology has come in, customer priority has changed. So we have realigned ourselves. When you have gone to customer and submit a proposal for not only quarter two and quarter three, but beyond for the next year as well, so the proposals have gone to the customer, we have video conference, we are talking to them regularly. And that process is on, the team is working. Amit and the whole team is working on this, the delivery team as well working on this, number one.

Number two, for example, some of the platform area which we work on. i-BEMS Shield, if you see in our press release, we had a smart campus management platform. We said in post-COVID what is going to be important we have to change or transform that post-COVID. And then if you look at the process industries, what they would be needing it now, when you say top place operations when you have to run it, or remotely you have to track your plant, what are the technologies used there? The number of people going to plant is not going to be the same. And what technology we have today we can immediately realign to what the customer is going to buy. So those we have already been doing it.

And I would think, as a whole, we are making every effort to say this is not for quarter two or quarter three, even beyond. How do you do this year FY '21 and beyond, what are the technology and engineering what we need to build, what is important today? And how much software and electronic engineering, embedded engineering is more important, how much mechanical we don't have to have. So those balancing is what in last four months we have been doing it.

As far as transportation is concerned, I think if you see transportation as a segment, before transportation, I will talk about manufacturing. We did talk about frugal manufacturing. We realized that what the customers, auto industries, we are already working with some auto industries, I will request Amit to give a few examples. See, I think auto industry, what are they going to buy? And if you go to auto and aerospace now, we are doing it. Now aerospace, even though there is a downturn, customers are talking about the digital way of design to manufacturing how do we compress the time and what are the new technology we can borrow from adjacent industry to aerospace industry, that process is going on.

Auto industry, again, auto industry the customers are going to buy different type of things. Now, there are electric vehicles, are they going to autonomous car? Is that going to go away? No, it's not going to go away, there's much more technology driven is going to come. And if you see us some of the deals we won recently are in these areas. So we believe there are some priority changes happen to what we were doing pre-COVID to post-COVID. But I think some of the technology areas, if you are in technology, you understand the segment domain, it is going to continue. It is not going to be, I think, maybe pain for few quarters, one or two quarters we go through, then we will come back slowly, both top-line and bottom-line improvement we can do.

There are areas in oil and gas. We are going through difficulty in oil and gas. As you know, oil price has gone down, but we had a gain in oil and gas segment in upstream area in the oilfield services area which is entirely software. We are building a platform using analytics, our domain knowledge, we are building platform there. So I think more and more your priority changes, business model changes, but I think nothing changes as a whole. That is our experience last four months dealing with customers through audio, video and emails, communication what we have, that's our experience. Amit, do you want to add anything?

Amit Chadha: Sure, sir. So one, like Dr. Panda talked about, he already talked about frugal, so I will not touch on that. See what we are seeing definitely is that there is cost pressures that our clients are facing, number one. Number two is, these remote operations from idling factories getting shutdown because of infection, etc., as well as shutdowns in local counties and areas and precincts is creating more digital opportunity. Third, there is repurposing of the manufacturing as well as supply chain that is happening. So the wins we have had are broadly in these three areas. If I look at the technology tailwinds that we have got, these are around Industry 4.0 smart manufacturing, product redesign, cloudification, AR/VR and analytics, and then system and network security.

We have invested in these areas in the last few years, quarters. Dr. Panda alluded to it by saying we invested in technology, that is helping us at this stage, right. If you see the report that came out today morning in the U.S., we have seen this on the ground, retail is back up, cars are selling again, Europe has opened up. So we do see that coming in as a positive. So that's one and two. Third, just one thing, in your data metrics we have gone to the e-business platforms, we have conducted more than 30 webinars just in the last quarter, which was attended by about 1,300 people. And this would not have happened had there not been interest in engineering services in our technology area. So we still are fairly upbeat about our prospects in this sector. Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: Let me first wish PR, thank you for the support and best wishes. My question is regarding the December quarter more. So generally, it's a seasonally soft quarter with furloughs, but this time because of the COVID, people have had furloughs in the June quarter itself, and there is a possibility that we could resume back and continue during the holiday season as well. So my question is, when you are talking to clients and when they are budgeting for the ramp-ups or the transitions, what is the kind of feedback you are getting? Are they kind of budgeting the ramp-up to continue in the Q3 as well or it could be the usual year? Thank you.

Keshab Panda: It's a mixture of both. There are customers who are coming back and saying that, "We are going to relook at it". As I said before, saying, "This project, we are not going to do it". Now look at the elevator, right, touch-less elevator, can we do that? How do you do this?" There is some technology coming in there. And looking at the other areas, automotive for example, the customer has come back and said, "Can you do this now and which we need more than before, can we do that?" Data analytics getting from auto, from lot of chips out there. And then we sold recently an end-to-end chip design for a camera. So I think there are multiple things happening right now. It is not that customers are saying, "Am I going to reduce my spend?" Yes, we are always careful about the big customers who are $10 billion, $20 billion customers, they are thinking differently than the small companies, less than $1 billion. They are worried about, are they going to keep their employees outsourced or they are going to reduce their employee cost and use us more? So there are multiple things going on.

And more and more we hear from them saying that "Can I reduce my cost? Can you take this particular product, can you take complete control over this, starting from design modification to my customer support, can you take completely?" And the other point is, "New product I am coming back with, now I am going to use less employees, I will use more employees, your employees, because you have a lab, you have multiple labs, your employees have domain knowledge, can I use that?" And there are cases customers are also saying on the negative side, customers are saying, "I think I will not talk about next two, three quarters on the growth. And let me look at it how this goes, then I will come back to you." So I think it's both, that's how we look at it.

Abhishek Shindadkar: Sir, second one on the acquisition. So as per the press release, the revenue contribution you have highlighted for 2019 and 2018, there has been a sharp jump in the revenues of the company. So what is a sustainable revenue run rate for this company? If you can just provide a color, that would be helpful.

Keshab Panda: No, I didn't understand your question, 2018, 2019. See, I think, one, on M&A we believe in one thing. We always believe in that we are not going to acquire a company for the top-line, we are going to acquire a company for technology we are going to get from them, wherever the gap whether we can build or buy? And is that going to give us access to which market and what technology, how we are going to do that? So all the M&A we did, small one we do always, $10 million, $20 million M&A, we do always. And not too many companies are available in technology segment where we can acquire for engineering application. So the M&A which we did now also, we believe, that is a gap in competency we can fill. And that is a segment we think we should go, it will add to our portfolio what we have. That is how we go and do that. Sorry, I missed that, 2018, 2019, PR or Amit, can you explain that?

P. Ramakrishnan: Amit, you explain.

Amit Chadha: Yes. So before we go to numbers here, see, the reason we have done this is that, like Dr. Panda said, 5G is an area for us. 5G, we believe, is an area where there will be investment, right, and we are seeing that already. We have been working with some Telecom infra providers. We also talked about in our investor release that we have actually started business with operators also. So this company does high-end value engineering work for the Telecom industry in the areas of network engineering operations and enterprise mobility. So they just don't provide services, they also have a patented product that helps with the network as well as devices. They have got multiple clients, in fact, they work with three of top four communications service providers in the U.S. They work with the Telecom operators headquartered in U.S. and Europe. So that's why it's strategic to us in terms of competency as well as client fit. From a revenue standpoint, how much would it add? I will request PR to answer that directly.

P. Ramakrishnan: So last year revenues were in the range of $15 million, okay? And the way we have structured the transaction regarding to earn-outs, we will have a better revenue growth rate. I mean, quite an aggressive growth rate over the next three years. And also, equally, I think I would say, good EBITDA track, because we believe that this company is in the current, I would say, scheme of things into Telecom related work, which is going to really be well. And with their association with LTTS, the company should be giving us good flexibility in that particular space. So last year revenues were $15 million, and we expect it to grow better.

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

Sandip Agarwal: So Dr. Panda, I have one specific question on the growth front, and then I would have a small question on the margin front also. So just wanted to know sir, while we knew that this quarter will be weak because we are a lot more dependent on physical activities or physical interface because we have plant engineering, and there it is very hard to grow in this kind of situation or defend the revenue. But when you are guiding for a 9%, 10% decline, why that 9%, 10% decline number implies a very, very small quarter-on-quarter growth, particularly in a scenario where we have seen such a sharp decline in this quarter. And as one of the early participants mentioned that the manufacturing industry may not go through the furloughs which they generally go through this time. So, I believe that the recovery could have been much stronger. So what is holding you back to give such a deep cut for the full year, barring the quarter one number? Is there something else or you are just simply conservative? Number one.

Number two, on the margin front, in the utilization there is a dip to 70%. I understand that you have taken few steps which will be helpful for the company in the long-term, in the sense that we are not asking anyone to go and all those things. But with such a low utilization, I believe that the comeback or the turnaround will be also extremely sharp. So while you have mentioned there will be a recovery in margin, can you give something, some ballpark on what could have been the loss of this last fall of utilization in the overall thing?

Keshab Panda: See, Sandip, I think there are a couple of things happening. Now in the U.S., as you know, I think there are states which opened and closed after two weeks, it's still going on. And the offices open, office closes. Capacity is not at 100%, 50% itself is a big number. So I think we have to look at it overall point of view, what could the challenges be in the future, looking at that. And in the aerospace segment, as you said quarter four, I did explain earlier, quarter four I did not see the Japanese aerospace company completely scrapping the project itself, a few billion dollars they invested, they decided not to go ahead and said few quarters they are not going to do it possibly this year itself.

So I think taking that into account and then what is happening in their overall point of view. And engineering is one thing for sure that the market size is big enough for us to dream big, there is no question about that. If anybody can do engineering, we can do engineering. I have no doubt about that, it is technology and engineering put together. The only point we have to be careful about is that, a number of order or pipeline we have today is better than Q4. We did that. And then decision making, if some of the customers are going to delay the decision making...the decision-making would have happened now because, let's say, Texas closes or Florida closes or California closes or Arizona closes, in that, some city close. If it happens to be there, if that's going to be delayed by two months, that's going to impact your business.

So I think overall, keeping in mind what is going on in the world today. See, I think the factory or oil and gas, the drop in plant engineering is more related to oil price than going to factory or office. See, we were doing much more technology work in upstream area, and the CAPEX investment and companies oil and gas companies, OEMs going through difficulties, they said, "That investment we are going to put a stop to that right now till we come back." When oil came down to $20, $22, they made a decision that we will come back to that investment later. There is no doubt about our contribution to this, no doubt about our technology use, they need it. But at this time, affordability was issue or looking at strategy was issue. "Can I look at investment more in downstream, upstream area, can I put a stop for some time?" So those changes which happened, in the quarter two if I see things are going to be better, I think we have to be very, very careful about what we say and what we really see, that we communicate.

As I see, what we see today, that is what we communicated. See, today this COVID-19 is not over yet. If the vaccination is going to come, is medicine going to be there by end of December or January, and some city opens and closes. So I think keeping all these factors into account, we have come with the best case scenario, this is what we see today. And we will keep updating you next quarter, again, what we see this quarter to next quarter. This is something we will continue to do that.

On the margin front, you asked about, our intent is, it so happened that suddenly it came in Q1. I think keeping in mind the employees, conscious decision we have made that employees we will keep them, the cost came now. And once the business starts growing, revenue keeps adding, these employees we kept them. The employees who are relevant in terms of technology and domain knowledge they have, we kept them, we are training them. And we don't have to go to market and hire those people to increase our revenue in Q2 and Q3 in a bigger way. And those employees with entry level engineers we get from good engineering school, I think that solve our purpose moving forward.

And again, our investment in technology whatever we did, the platform, the 525 patents we have filed now. So we are not going to stop that to improve margin right now, because that investment if you don't do in engineering and technology, you are not going to be relevant in the long run. So keeping that in mind, balancing out customer buying behavior, balancing out on the post-COVID scenario and employees, what assets we have, that is what we have worked out.

Moderator: Thank you. The next question is from the line of Prakash Chellam from Marathon Edge. Please go ahead.

Prakash Chellam: Just a quick one. Your SG&A has dropped dramatically by almost 33%. Could you give me some color on how much of it has dropped because of S&M? How much of it has dropped because of G&A? What sort of cuts have happened on that front? Thank you.

Keshab Panda: PR, take that question, please.

P. Ramakrishnan: So Prakash, the SG&A drop, one of the reasons would be the savings from the travel costs. And then we also focused upon how much we can optimize on the sales cost also. So there has been some amount of savings. And also, the other aspect is, we have had some separations in that particular area, in enabling functions earlier itself. And that also we managed to cut on the cost aspect. So the major things are, I would say, savings in travel and also a some separations which we managed to do prior, the savings on that account also has come back.

Prakash Chellam: And these separations are in sales and marketing or in G&A.?

P. Ramakrishnan: It is a combination of both.

Keshab Panda: Prakash, what we did is we formed different teams now internally, and we said in very difficult time, we get new ideas. We said, "Are we efficient enough in sales organization? If more demand is going to be on Telecom than in Medical, can we reassign our sales people if they have the right technology knowledge, can we do that? And there are people who are selling the technology which we don't think are relevant, can you reduce that number of head count?" So we have taken a target for this towards both sales and administration side, both the HR, then the finance, the administration plus sales altogether, we said we are going to do that, look at this parameter, where are the room for improvement, very, very aggressively we have done that. I still believe that there is some more work we need to do, depending on what we learned in quarter one and what difference is going to be quarter two and beyond. That's work in progress, and we will continue to do that.

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

Pinku Pappan: Thank you for joining us on the call today. We hope we were able to answer most of your questions. In case you have any follow-up queries, please reach out to me on email. Wishing you safe times. Goodbye, and have a great day.

Moderator: Thank you. 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 lightly edited for clarity and accuracy.