



L&T Technology Services Limited
L&T Business Park, TC-2, Tower B,
2nd Floor, North-East Wing,
Gate No.5, Saki Vihar Road,
Powai, Mumbai-400072.

May 10, 2019

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: Transcripts of Earning Conference call for L&T Technology Services Limited (LTTS) for quarter and year ended March 31,2019

Dear Sirs,

Please find attached the transcripts of Earning Conference Call organized by the Company on May 3,2019 for the quarter and year ended March 31,2019 for your information and records.

Thanking You,

Yours sincerely,
For L&T Technology Services Limited


Kapil Bhalla
Company Secretary
FCS.3485
Encl: As above





L&T Technology Services Limited Q4 FY19 Earnings Conference Call

May 03, 2019, 18:30 hrs IST

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

Disclaimer: *Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve number of risks, and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. L&T Technology Services Limited (LTTS) does not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.*

Moderator: Ladies and gentlemen, good day. And welcome to the L&T Technology Services Q4 FY19 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 the conference, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan. Thank you and over to you, sir.

Pinku Pappan: Thank you. Hello, everyone. And welcome to the Fourth Quarter and Full Year FY19 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. These documents are available on our website, www.LTTS.com. Please note that our website address is now LTTS.com and all our email IDs too have changed to @LTTS.com, LTTS being our abbreviated company name as well as our stock ticker.

On today's earnings call, you will hear from Keshab Panda – CEO; Amit Chadha – President, Sales and Business Development; and P Ramakrishnan – CFO.

This call is for approximately one hour. An audio replay of this call will be available on our website soon after the call ends. We will begin with Dr. Panda providing an overview of the company performance and a commentary on the business outlook. Amit will then provide an update on the large deal wins and the deal pipeline. PR will walk you through the financial statements. We will then open the line for questions.

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

Keshab Panda: Thank you, Pinku. And thank you all for joining the call today. We had an excellent year, again, I am very pleased to share with you.

I will first cover the highlights of Q4 and full year FY19. We had a strong Q4 revenue, up 3% quarter-on-quarter to US\$191.3 million. EBITDA margin was up 10 bps quarter-on-quarter to 18.5%, because of operational efficiency improvement. Large deal traction continues to be there like last quarters. We had nine multimillion-dollar wins in Q4.

For the full year FY19, we grew revenue to \$723.1 million, which is an industry-leading growth of 26.5%. Our growth in FY19 was more balanced and we were able to achieve double-digit growth across all five vertical segments. Both process industry and industrial products which were muted in FY18 performed better in FY19 with double-digit growth in both these segments.

We are also happy that our top-line growth has been accompanied by EBITDA margin improvement, up 250 bps, to 18% in FY19. Digital and leading-edge technologies continue to be our focus, and our investments in last few years is paying us results. Revenue share has risen to 33% in FY19, a revenue growth of 58% compared to FY18.

Let me now talk about our five industry verticals.

In **Transportation**, we grew by 7% quarter-on-quarter in Q4 and 25% in FY19 on the back of multiple large deals and healthy demand across all three sub-verticals, auto, aero and off-highway. Today, we have a run-rate of \$250-plus million in transportation on an annualized basis.

In the automotive space, our customers continue to prioritize pending in three major areas, which is autonomous vehicle, electrification and connectivity & security of car. And this is going to be there for coming years as well. What is helping growth is that auto components, systems and architecture are becoming increasingly complex, while at the same time, user experience standards are also moving up in the value chain. We continue to invest in areas like digital cockpit, where we have built solutions with innovative features on the display and audio side. And in autonomous driving where we are working on building our own autonomous architecture.

In the Truck and Off-highway segment, customers are spending on digital initiatives like connected vehicles, autonomous capabilities for farm and construction equipments, and electrification of off-highway and access control equipment, which is new.

In aerospace, we continue to be preferred engineering partners for many of our customers in OEMs & Tier-1 segment, in the area of software. Two trends which are helping us here: One, clients are using a lot of advanced technologies which requires data analytics and compliance. And number two, clients are becoming more efficient in program management, which is opening a few vendor consolidation opportunities for us.

In addition, we are seeing smaller projects in the digitization space, like connected manufacturing and process automation. So, in addition to product development, we are also helping our customers make their shop floor more efficient.

Overall, we expect this strength in transportation to continue in FY20 as well.

Moving to **Telecom & Hi-tech**, while we had a soft quarter in quarter four, we had a great year with 31% growth in FY19. The client issue that we disclosed last quarter will lead to a soft Q1, but we will look to offset it with the growth from other accounts, which we see the visibility at this time.

On the semiconductor side, we are seeing demand in the following areas: advanced chips for autonomous driving, 5G chipsets which requires more computing and data processing power, and chips for the gaming industry which is preparing for disruptive models like streaming over 5G. Our successful delivery of a turnkey-chip with advanced features has opened up multiple

deals of this nature. We are well positioned to take advantage of the broad-based demand we are seeing at this time, leveraging our strengths in VLSI, Security, Physical design and Embedded software.

In the media and entertainment space, our expertise in the video domain is helping us win deals both on the front end and back end. At the front end, in developing next-gen set-top boxes, platform standardization, OTT and streaming apps, which is much more in demand today. At the back end, in areas like video distribution platforms, video ingestion software and so on. In FY19, we were able to broad base our media revenues to win more business from operators, too. We see more opportunity here in addition to strengthening our engagements with global OEMs.

Now, let me talk about **Medical** - we had a strong quarter with 7% growth in Q4, and this is the third consecutive quarter we have been growing at 7% sequentially. Our growth in FY19 in this segment was 23% and the momentum we are seeing puts us in a good position for FY20 as well.

Key demand drivers for us are: new regulations in European Union, like MDR and IVDR requires more stringent safety and data requirement for devices and will increase complexity, and this is a great opportunity for us. Connected healthcare is a big priority with the devices market shifting from hospital-centric to patient-centric; this is to facilitate preventive health care and remote monitoring of devices.

Our experience in end-to-end product design is helping us see a strong pipeline in areas like device integration with the digital health platform, smart product design for advanced diagnostic equipment and home monitoring solutions. So, this is again a great opportunity for us.

Moving on to **Process Industry**. We have been able to continue the growth momentum in process industry. For the last six quarters we have been growing at about 8% sequential on average. And in FY19, this was the fastest-growing vertical with 37% growth. Focus on large deals and targeting sustenance engineering projects, like standardization of data, digitalization of plant assets, regulatory and safety projects have pushed our growth higher.

Some of the investment we did in the platform, like MCare and so on, is also helping us in this segment. The three sub-verticals: CPG, oil and gas and specialty chemicals are participating strongly in this growth.

Customers are increasingly looking at vendor consolidation so a single engineering vendor can take of requests from different sites, which will ensure standards and databases are updated for better cost and lower turnaround time. This opportunity is global for some of our customers.

Demand is primarily in the areas of environment for carbon footprint reduction support, regulatory compliances and safety compliances, digital solution for enhancing productivity, yield and operational flexibility.

Strong plant domain knowledge and ability to bring in advanced technologies is a key differentiator for us. We have been doing plant engineering for quite some time, so we understand the plant and new technologies. I think that's helping us as well.

Moving to **Industrial Products**, while Q4 performance was muted, on a full year basis we had a good year as we were able to improve growth to double-digit, 10%, in FY19. We are seeing encouraging signs as digital is becoming a priority for our customers, and many more projects are moving from POC stage to full implementation stage. In Q4, we won multiple projects on the digital side, specifically in areas like sensor design, gateway design, IoT platform design and development. Our customers are making Industry 4.0 and Smart manufacturing a priority, and I our expertise in engineering, product design and manufacturing, that is a big differentiator for us. We are winning opportunities in asset management and manufacturing operations management.

We are also engaging in large, strategic initiatives with our customers in development of their next-generation products and systems, especially in the areas of motor drives and controllers, test automation devices, control systems and micro-grids.

We are targeting a double-digit growth in FY20 as well for this segment, aided by larger base of digital projects and continuation of the strong traction we have in the design and development of products that are smarter and have inbuilt predictive maintenance capability.

Let me talk about our **Platforms and Solutions** - we had approximately \$2 million platform sales in FY19, with success in iBEMS, MCare and NB-IoT – which is the narrowband IoT platform. The number of customer discussions, pilots and POC's that we did in FY19 has seen a marked increase, which is very good for us.

We have engaged with an external consultant to advise us on the road map, the optimal organization structure, and investments required to raise the maturity of our products portfolio. We believe this is a great asset for a company like us. We will be sharing our revised strategy by Q2, we will be ready by that time.

Finally, let me discuss the **outlook for FY20**. Our pipeline remains healthy across geo's and verticals. Customers are increasing their digital spend, new technology spend, investing more on disruptive technology and evaluating how to spend more efficiently and effectively. For us, this means our capability building in digital and other new age technologies must keep pace, and we will continue to do that. This will open more opportunities for proactive discussions with customers on how to consolidate work and save costs for them. We believe our deep understanding of the engineering domains and co-innovation with customers has helped us gain mindshare of our customers, and participate in larger and more strategic engagements, leading to growth ahead of industry.

Over the last two years we have progressively improved the way we provide guidance. So in FY18, we guided for double-digit and closed with 20% growth. In FY19 we initially guided for

at least 16% and later increased it to at least 24%. And finally, we closed with 26.5% growth. For FY20, we are further improving the guidance by providing a range so that you get a better picture of the upside possibility.

Our guidance for FY20 is for 14% to 16% USD revenue growth as things stand today. As we discussed last quarter, our FY20 growth will be impacted by 4% due to the headwind at one of our customers in the telecom & high-tech segment. So, the guidance of 14% to 16% is after factoring this impact.

We have reasonable confidence on the lower-end, that is 14%. We believe we can achieve the upper end of the guidance if deal wins and ramp-ups happen as per our expectations. Of course, we will update the guidance range as our visibility improves every quarter. We have been doing this the last two years; we will continue to follow the same system as well.

In terms of margins, we are seeing large deal opportunities that could dilute margin initially, as you can see one thing this time is our onsite-offshore ratio has improved now because the large deals signed earlier had increasingly onsite and now I think we have been able to operationally improve that. But we are carefully taking up only those opportunities where we have the chance to scale up margins over the life of the deal, which is the template we executed in FY18 as well as in FY19.

We will also have to do some bit of investments in capability building in new technology areas as well as existing services lines. Overall, we believe growth and continued focus on operational efficiency will help us pursue margin improvement for FY20 as well.

I now hand over to Mr. Amit Chadha. Amit?

Amit Chadha:

Sure. Good evening, and thank you, Dr. Panda. I will discuss four broad areas with you: large deal updates, our large deal pipeline, our geography outlook; and finally, how we are trying to change ourselves towards bettering business growth.

On the large deal update, we continue to sign large deals across verticals and geographies. Some notable ones in the transportation sector - we have signed two deals in autonomous driving, specifically in the active safety domain for a Tier-1 auto company with work being sourced to us from the U.S. and Poland centers to be executed largely from our India center on an ongoing basis. In the second deal, we have been contracted by a U.S. auto OEM client to do verification and validation in the infotainment domain. These two new deals will be executed over a period of two years, having started ramp-up in Q4 already.

Second, we have been engaged by two industrial product clients to enhance their digital platforms for better predictive maintenance, data analytics and for enhancing features that will yield higher plant throughput and equipment uptime. These are new contracts to be executed over the next 12 months.

Third, in the petrochemical sector, we have been awarded two contracts to provide detailed engineering services towards site upgradation and expansion of the client's petrochemical facility in the U.S., in one case, and a new LNG terminal in the U.S. in the second case. Both these projects have already started. One of these is a new client and the other an existing client where we are expanding our relationship.

Fourth, we continue to make strides in our digital journey with medical, where we are getting invited and winning new digital projects. In one particular deal, we will engage with a hospital beds and equipment manufacturer to help them create a scalable IoT platform with secure connectivity and analytics for in-room patient devices. In another deal, like Dr. Panda alluded, we are involved in IVDR and MVDR work for our QARA service, which is Quality Assurance and Regulatory Affairs service, so we will help in compliance of medical devices for the manufacturer's products as they get launched in the European markets.

Finally, the high-tech vertical has seen us win two significant engagements. In one deal, we will help our OEM client develop home protection and alarm systems, leveraging 5G technology for the U.S. market. In the second deal, we have created an ODC with an electronics and mobile company for support, enhancement and product launch for their devices being launched in the Asian market. Both these deals have already moved to execution mode in the later part of Q4.

Moving on to our large deal pipeline. We continue to see a buildup of large proposals to engage with our clients. We are looking to engage with a chip manufacturer for executing the design and verification of their chips globally. This leverages the two semiconductor acquisitions that we had made in the last two years. Second, we are in conversations with two Tier-1s and one OEM in the automotive domain to start execution of their autonomous programs in two cases, and electric vehicle in the case of the OEM. Third, we are in talks for an engineering support contract in the medical area to help an OEM who is expanding their manufacturing lines in the U.S. Fourth, in the O&G petrochemical sector, we are in conversations to set up an engineering value center in one case, and expansion of digital services, in the second case with large U.S. and European companies. Finally, in the media and entertainment space, we are in conversations with two MSOs and platform providers to provide support and enhancement of their platforms. We expect conclusion of all this in Q1.

Now on to our geography outlook. We continue to see traction for our business in the U.S. across all segments from product design & support to verification and validation opportunities, to plant expansion and digitalization work. In Europe, we are seeing traction in three segments: transportation, industrial products and oil and gas petrochemical in traditional and digital investments. In Japan, we are also seeing traction across most of these segments. The ongoing trade discussions between countries continues to provide us an opportunity to expand our footprint.

Finally, an update on the business growth strategy to make our business future-ready. We are investing in local U.S., Europe-based digital SME's and consultants that will help us to expand and elevate our discussions to a broader set of stakeholders backed by a strong India-based

engine. Two, we see opportunities in digital products and services on one side and digital manufacturing and operations on the other side, and we have created an organization to support this entire spectrum in a deep and focused manner. Third, we have relooked at some of our larger accounts and invested in client partners and program managers to turbocharge these relationships. We expect these people to help us unlock further value for our clients and continue our growth trajectory.

To sum up, we are stepping up traction in digital businesses, we continue to see a healthy pipeline across geographies and verticals and our large deals engine continues to churn wins continuously. So we remain upbeat about the new fiscal year and beyond.

Thank you so much, and I now hand over to PR.

P. Ramakrishnan:

Thanks, Amit. And good evening to all of you who are present in the call. I will summarize the financial performance of L&T Technology Services for the quarter and for the year as well.

For the year ended 31st March 2019, our revenues were at Rs. 50,783 million for the year, a growth of 35.5%. In equivalent dollar terms, we reported revenue of \$723.1 million with a constant currency growth at 26.5% as compared to FY18. Our EBITDA margins for the year was at 18% for the full year. And the net margin, we reported at 15.1% for the full year.

Coming to quarterly basis. Q4, we posted revenue of Rs. 13,431 million for the quarter in rupee terms, which is a QoQ growth of roughly 2%. In dollar terms, our revenue numbers were \$191.3 million for the quarter, which on constant currency was a growth of around 3%. The EBITDA margins of Q4 FY19 were at 18.5% as compared to previous quarter at 18.4%. And the net income, that is the PAT, was reported at Rs. 1,915 million, which is an improvement of 3.2% quarter-on-quarter and a net income margin at 14.3%.

You must have gone through the fact sheet which has been uploaded in the website. So I will try to give an overall view as to how the numbers have panned out for the quarter and for the year. If you see the fact sheet, I come to income statement, consolidated. I have explained already, I have highlighted the revenue part. When it comes to the overall numbers, if you see the cost of sales, which is the line below revenue, has for the quarter ended Q4 as compared to Q3, has shown an increase which is corresponding to the increase in revenue, but adjusted for revenue mix which has happened during the quarter in terms of a higher percentage of fixed-price contracts entering into revenue without a corresponding increase in cost.

Our selling and general and administration expenses for the quarter is at Rs. 1,773 million as compared to Rs. 1,483 million, is higher compared to the previous quarter, primarily due to higher provisioning for doubtful debts because of one or two accounts which we found as sticky. And secondly, a little amount of higher cost provisions which are taken on a corporate level.

Coming to other income. If you see the total other income we have reported for the full year is Rs. 2,209 million as compared to Rs. 1,910 million compared to previous year. This for the

quarter, we have reported a total other income of Rs. 333 million, which comprises of income from mutual fund or treasury investments at Rs. 64 million, foreign exchange differences including hedge cash flows attribute to Rs. 353 million, and there is a negative charge of Rs. 83 million net. This negative charge is primarily on account of a temporary markdown on our license income because we expected the license to come in the month of March, since it has not come by the end of financial year, it is expected to come in the first quarter of the current financial year, FY19-2020.

There is a special one-line adjustment on account of change in purchase consideration that is pursuant to the mandated accounting standard disclosure, where we have paid out on account of Graphene as against the earlier recorded liability when we acquired the company.

Coming to the balance sheet part. Our overall balance sheet, you would have seen it, but to draw your notice, I would like to say for the free cash flow, that is from operations adjusted for capital expenditure, has been a record high at Rs. 7,176 million as compared to Rs. 3,581 million compared to the previous year.

Coming to an overview of the segmental performance. The segmental performance for the year, transportation continued to lead the segmental growth, almost taking 32% of our total revenues, followed by telecom & high-tech at 27%; IP, industrial products, at 20%; process industry at 14% and the residual 7%-odd in medical devices. On a quarter-on-quarter basis, the percentages largely remain the same, but however from a revenue perspective on quarter-on-quarter we did see a smart growth in transportation and process industry and medical. We did see a little markdown in industrial product, that is more to do with normal spending cycles, which was expected. Telecom high-tech did not exhibit any growth, as Dr. Panda talked about one large deal which went into a ramp down from the month of March.

Coming to geography. The overall geography in terms of our revenues from North America still continues in the range of 60%. We have 58% of our revenues in FY19 from North America, followed by Europe at 17%, India showed revenue percentage share of 13% and the Rest of the World at 12%.

One of the important factors of improvement of margins from 15.3% to 18% for FY19 - this margin expansion has been largely attributed to one important element; the dollar-rupee was Rs. 65 for the previous year and average around Rs. 70 for the year FY19, and this itself contributed to around 190 to 200 basis points. The balance 50 to 60 basis points improvement has been increase on volume in terms of the volume of business, coupled with a blended mix of higher offshoring percentage of the contracts.

So, in terms of the revenue by project types, we closed FY19 with almost 42% coming through fixed-price contracts and the rest through time and material contracts. In terms of client profile, we have around 250-odd active clients, with two accounts going into the excess of \$50 million bracket. We had three accounts at \$30 million plus. And this is based on the last 12 months of trailing revenue.

In terms of some pointers for the quarter and the year ahead, just to talk from a P&L perspective, as has been the case, we will see in Q1 an impact coming on account of Visa, and followed by a wage hike we will see in a combination happening in Q2 and Q3 onwards.

Our tax rates for the year FY20 will largely be in the range which I have been always maintaining, but to be more specific, around 26% level. We also talked about one more item would be, we also have reasonably a major part of our cash flows for the year FY19-20 hedged, they have been hedged in the average rate of around Rs. 72 to a dollar.

Then we have the license income. We would probably expect, as I talked about, a major part of the license income for FY17-18 probably will be coming in Q1, and we expect that overall license income, which we will be showing as income in FY19-20 would be in the range of Rs. 50 to Rs. 60 crores.

So that is about it. The Board has declared a final dividend of Rs. 13.5 per share, which, coupled with the interim dividend of Rs. 7.5, added, aggregates to Rs. 21 per share. This effectively leads to a 34% dividend payout. And one more important fact we would like to demonstrate is our profitable growth journey along with better working capital management has enabled us to show a return on equity of around 35%.

So with this, we have given our overall summary of the financial performance and the other metrics. And Reo, I am requesting, I am giving back the call to you for us to take the questions from the investors or analysts. Thank you.

Moderator: Sure. Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Congrats on the pretty good quarter despite the headwind that you had called out. So, PR, it would be great if you could actually quantify what was the revenue loss from the one month of impact that you have had so far from the headwind. And what is the impact after additional recognition of fixed-price milestones that you spoke of?

P. Ramakrishnan: Okay. The client account which we talked about, roughly it would have impacted around \$2.5 million to \$3 million for the quarter. And this is the impact for 1 month, since it impacted from March, and the yearly run rate would be around \$30 million.

Ravi Menon: And the fixed-price contracts that you recognized this quarter, which you said helped cross-sell a little bit?

P. Ramakrishnan: Yes. As you see, we have had contracts across all the verticals. So, it depends on the contract completions which happen. So we had fixed-price contracts as some of the segments completing and we were able to probably recognize the margins which were residing in them. If you see in the gross cost of sales, the gross cost of sales has been, I would say, largely muted despite the increase in revenues, that is primarily because a lot of revenues got recognized in some of the clients across the segments through the fixed-price contracts which achieved the completion.

And we were able to achieve client certification. So that is one of the broad-based movements which we have seen. And another important aspect is, when you talk about margin recognition, especially on a cost of sales basis, it depends on how the fixed-price contracts, the completion and the certification happens. So, we need to see it more or less at a yearly level and not necessarily at a quarterly level. And that is one of the reasons I had explained about the cost of sales relatively lower to the increase in revenue for Q4.

Keshab Panda: Definition of T&M and fixed bid is different for engineering services project. Some of the T&M could be, we are scoping it. Scope is not clear, we are working with a new product, that could be T&M itself. But that, again, in due course of time it becomes a fixed bid. So I think defining clearly the fixed bid and time and material for an engineering project, technically is a little bit different from what are usually used in the industry.

Ravi Menon: Agreed, sir. And this year has been pretty good for Process Industries, but barring the deal to digitize oil well data, is a lot of this revenue project related?

Keshab Panda: I think usually one thing to remember, for engineering services company there are not too many suppliers there. When they select one supplier, any engineering opportunity that comes we work on it, and we will continue to work with multiple things. We work on the upstream side, downstream side, midstream side, all three areas. So, I think it is not one or the other, I think it's a combination of all that. And then more and more opportunities are coming on the specialty chemicals, that's more opportunity opening up for us. So I think some of the deals Amit talked about on the specialty chemical and also on oil and gas side. So I think traditionally what we are doing before and today, new technology plus the sustenance engineering, altogether that is, I think, making a difference. And we believe that's going to be the case for coming years as well.

Ravi Menon: Right. And one last question on aerospace from me. With all those turmoil that we have seen, would you see any headwinds to that or any major programs coming on hold or anything like that?

Keshab Panda: Not really. The work we do now on the system design and some of the work on the ATM (air traffic management), and in-flight entertainment, these are all long-term processes. And I know what you're referring to, we have no impact from that at all. So there is no issue there.

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

Pankaj Kapoor: Dr. Panda, last year, you have been quite conservative when you gave out the guidance and you basically increased it in a step manner. So I am just wondering that given that the first quarter you have already spoken about being weak, we probably would have an impact of maybe \$5 million to \$6 million because of this top client. Are you building in some ramp-up happening in the deals, which are already in pipeline or already won? Or you are hoping to convert some of the deals which are currently under discussion? Basically, what is driving the confidence of getting this 14% to 16% of growth?

Keshab Panda: Pankaj, I think when we give a number, I think we are very careful about what I see today. But you will remember, PR talked about we have 250 customers. Top 30 customer contribution of around 63% to 64%, right? And go to next 20, next 20 customers contribute around 13%, then next. In other words, top 100 customers contribute around 94% of business, okay. And the engineering spend in these 100 customers is as high as close to \$200-plus billion. So I think one issue it comes there, but what we see the opportunity in other areas altogether sitting in month of April and May, what we see now, this is the range. In other words, the growth what we see, quarter-on-quarter growth, sequential growth, we have worked that out. And things might change, quarter one we come here. You see last two years, the way we are going about, doing what we see visibility, every quarter we keep talking about that, so that we are all in the same. So we didn't want to give a number like earlier, maybe our maturity level is more now. We look at how to give guidance and how transparent we could be. So as we see today, this is the number, 14% to 16%. I think we will talk more when we come back in quarter one.

Pankaj Kapoor: Sure. No, so I was just trying to understand that this is something which, like last year you had increased every quarter in terms of the guidance. So, should we see this as what you think are reasonably confident of getting these 14% to 16%, that is the sense which we should take away with?

Keshab Panda: Pankaj, we are very confident about sequential growth quarter-on-quarter which adds up to 14% or 16%, right. So I think this is something we have worked out. See, I don't know whether we communicated correctly, Q1 is not a muted quarter, it is not going to be a muted quarter. You can do the math for the range, sequential growth quarter-on-quarter, and we will be remaining in that range. So we are pretty sure about the range of what we have given there. And quarter one, we will have a few large deals we are working on right now. And those deals, depending on whether we close in quarter one, how much revenue is going to come; quarter two what revenue is going to come; all put together I think that's going to give you more visibility in quarter one.

Pankaj Kapoor: Got it. This is helpful. And PR, just a question on margins, in fact two. One, you had spoken about aspirational level of 20%, 21% plus by FY21. So, does it mean that given the currency it may not be as big a tailwind this year, we probably will be more of a flattish? Or you still think there are a lot of operational efficiencies which you are working on, which can give you a boost up to continue to have a margin expansion in FY20 as well irrespective of the currency tailwind?

Keshab Panda: Pankaj, one correction though, we never said 21% any time, right? I think we said 20%. We said our aspirational number is 20% by FY21, that's what we said. See, we are working on every lever possible. See, last year, we discussed about EBITDA margin possible. We did not give a number because we worked on this. So continuously work on operational parameter. See, what we control is operations, what we control is business offering what we have, technology offering what we have. So we believe all the options are available to us, and we would not comment anything about the number, but you will see that in quarter moving forward. Only thing I can tell you is every option we are exploring and doing our best. If we make a statement we stand by that, and we continue to work towards that.

Pankaj Kapoor: Right. And just one clarification, will the ESOP charges come down for us next year given the accelerated amortization schedule that we had?

P. Ramakrishnan: Okay. So Pankaj, at this stage we have been consistent in the ESOP charge hitting our P&L almost in the range of Rs. 22 crores to Rs. 25 crores. And what we have seen is that whenever... the charge, obviously, it is front-loaded as far the overall scheme is concerned. But as you may be aware that we still have further options which could be granted during the year as per the discussions, whatever the NRC or the Board decides. So, if you assume that there is not going to be any further grants, then the charge to the P&L for the ESOPs which have been granted this year will come down. But in case there are fresh issuances that will happen, those fresh issuances, in my opinion, will not be as large as what it was earlier because this would be given to largely the next level of people, other than some senior people joining as and when they join. But having said this, this is subject to the fact that there are no further grants allotted during the year.

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

Abhishek Shindadkar: Congrats on a great set of numbers. The question is to Amit in terms of the demand environment and pipeline on the ground, while the commentary from the user industry remains challenging. It seems that nothing is getting translated into the deal activity especially for ER&D players. So could you help us understand what's actually happening on the ground, which is leading to the strong pipeline and order wins?

Amit Chadha: Okay. So Abhishek, what we have done is, when you talk about verticals; we look at sum of parts. So we basically looked at verticals with a micro-vertical focus, okay? So our focus efforts towards our investments, towards the widgets we have created, towards the competency we have built, frameworks we have issued out to the market, etc. is around...so in transportation, it's autonomous, electric and experience infotainment, right? So those three. If I take industrial, it's around, again, green, around smart plant manufacturing and also improving productivity. If I take plant engineering, it is like Dr. Panda talked about towards doing projects for the petrochemical value chain as they change, CPG industry and asset management digitization. Medical is around quality, IVDR, et cetera. And telecom & hi-tech is 5G and ASIC, and media, OTT. So we are very clear there are specific areas we are going after. And in these areas, we do not see a slowdown from a market standpoint. There is demand. People are talking to us on a regular basis. I was mentioning to somebody earlier today that it's a good problem to have that we have today that people want to talk to us more and more. So we don't see a problem. From a geo standpoint as well, we are encouraged by the activity we are seeing across Europe Mainland as well as U.K., mostly Mainland because we largely work in Mainland Continental Europe, in the U.S. and Japan. So to answer, we are fairly confident about our future prospects in FY20 and beyond.

Keshab Panda: Abhishek, one point to note though. If you take top 30 accounts, FY18 to FY19, they have grown 22%; next 20 accounts, 35%; and then next 30 accounts, 33%. So I think broad-based growth

and for all five verticals. That is one point to note. Second point is that digital and new-age technology has grown 58% from last year to this year. So it is not just one segment growing. The biggest differentiator we have, working on multi-vertical segment and borrowing technology from one segment to other segment, I think we mastered that reasonably well. And the global presence in some of the areas we talked about, I think that's making a difference. We believe that will provide a lot of opportunity. Again, if you see top 30 accounts, \$75 billion ER&D spend; and top 100 accounts, you take close to \$200-plus billion market ER&D spend, we are talking about a big-sized market. I think that, that is where it gives us confidence that we will be able to take this forward.

Abhishek Shindadkar: That's very helpful. And just second question to PR. PR, in terms of license revenue, we are talking of a substantial incremental number in FY20 versus FY19, and that itself should give you around 50-60 basis points of margin tailwind. So baking that in, are you kind of highlighting that would be invested in the business or that will be led through on the PAT side?

P. Ramakrishnan: So Abhishek, one correction here. When I talk about the license income, it's featuring as part of our Other income. So it doesn't feature in the EBITDA. It only impacts our PAT or the net income margin. So if you see, our numbers for FY18 was the first year when we had actually taken because the scheme started from fiscal year 15-16. So we had taken 15-16 and 16-17. Some amount of spillover of 16-17 licenses happened in FY18-19, and we filed for FY17-18 in the middle of FY19. We were expecting the licenses to come by March. That didn't happen. So it is expected to come in the current year. So as I talked about, some part of the license income will be from the previous year meaning 17-18, whatever we accrue after we receive the licenses. We will also file for the year 18-19, which will happen sometime during late Q2 or early Q3. Given the basis of that, we believe that the license income for the year, we will be in the range of Rs. 50 crores to Rs. 60-odd crores.

Keshab Panda: As you asked about the license. I think there are two licenses, right? Licenses from the platform selling is what you asked for. Is that going to help? This will also a lever we are working on...

P. Ramakrishnan: Abhishek, did you ask for the licenses on exports as in the government or you wanted our IP licenses revenue?

Keshab Panda: No, I was talking... PR, I was talking about the IP licenses.

P. Ramakrishnan: Oh, I am sorry. Okay. Okay.

Keshab Panda: Yes. I think I understand that. IP license, what you are talking about, this is also a lever when we talk about what we intend to do for FY20. This is also a lever we work on, absolutely.

Moderator: Thank you. The next question is from the line of Shyamal Dhruve from Phillip Capital. Please go ahead.

Shyamal Dhruve: Congrats on a very good set of numbers. So my first question is on the attrition side. So our overall attrition has been at a reasonable level of 14, 15 percentage, but how much would be the

on-site attrition? The reason I want to ask you is that one of our very closest peers has indicated that they are feeling supply side issues in U.S. So are we seeing any like similar issues in U.S. or any other geography? And if so, like what would be the steps we will take to offsetting attrition?

Keshab Panda: I think one thing positive for us is we don't see any red light there yet. Our on-site attrition is very low, and our offshore is much better than many other companies. So I think attrition is a non-issue today. But if you see, every location where you see - our attrition in Mysore is the minimum, if you see Baroda is the minimum, sometimes single digit or low double-digit. So I think overall, for the locations what we have, in addition to that, remember that we went to U.S. University, and university undergrads and grads, we hired. And those engineers can do the same work, as the engineers who were doing the work earlier and can replace the Indian engineers in the customer site for a long time. That rotation part, I think, is helping us as well. So attrition is a non-issue today. That's what I would say.

Shyamal Dhruve: And my second question is on the European geography. So the revenue from Europe has been stagnant at around \$30 million from last three quarters. So in previous two quarters, there was a cross-currency impact as such, but in this quarter, there was not much currency impact. Then also the revenue has not grown compared to our overall growth. So what are the factors affecting the growth in the Europe geography?

Amit Chadha: So first of all, if you look at it year-on-year, Europe growth is at 22%, right? And that is close to the company average. That is the overall company growth. Second, we have been seeing good conversion of deals in Europe and ramp-ups in Europe as well, and we are seeing traction in transportation, petrochemical, oil and gas, and industrial products in the region. And we remain very confident about our prospects in the region going forward as well.

Keshab Panda: I think a couple of things happened though. For an engineering and technology company, looking at quarter-on-quarter, comparing that is a little difficult. If you see year-on-year, I think Europe did very well. There is no doubt about that. Europe had, as Amit said, 22% growth. So I don't think Europe is a concern area at all. We did reasonably well in FY19 and we believe FY20 will continue to be the same.

P. Ramakrishnan: Actually, further to what Dr. Panda talked about, Amit did say that our Europe growth has happened 22% as compared to the previous year FY18. It's important to note that 2 important verticals we have a significant amount of traction. One is transportation and the second one is plant engineering or process industry. So as we have seen process industry as an account or as a vertical itself has demonstrated reasonably good growth in FY19 as compared to previous years, the large part of this growth actually has come out from Europe itself.

Shyamal Dhruve: Okay. And my last question is on the offshore proportion. So offshore has increased considerably in this quarter. Is it like that we have got any large project, which has a larger part of offshore work or it is the trend like we are seeing the shift from on-site to offshore? And at what level we will be comfortable?

- Keshab Panda:** I'll look at this way. Usually, the last few quarters you will have seen, when you get a large deal the knowledge transfer starts on site and then move to offshore. This stabilizes to offshore. We have been consistently saying that. So I think the offshore component increased. I think, FY19 it is 53-47, on-site 47%; offshore 53%. But is that going to be same next quarter? We will sign a large deal. Maybe there is again knowledge transfer coming on this. Our intent is, when you sign a large deal, always when we look at it, can we stabilize this offshore-onsite ratio where we improve our margin? Is it one quarter it takes, two quarters it takes? But definitely if are able to do that, then we sign a large deal. That's something we are very careful about it and that, we follow. And every segment is different. I know some of these large deals we signed earlier and that come to offshore, and we will continue to be in same way.
- Moderator:** Thank you. The next question is from the line of Akshay Goswami from SBI Securities. Please go ahead.
- Akshay Goswami:** Congrats for great execution. So there has been a Supreme Court order with respect to the statutory liability for Indian employees of IT companies, and because we saw Cognizant having a huge impact on margin. So there's some confusion regarding the impact to the retrospect or prospective, any update on that order? Or how it will affect your margins or the liability?
- P. Ramakrishnan:** Okay. That particular case is, I guess, the Supreme Court judgment, which has come, I think you're referring to the PF applicability, right?
- Akshay Goswami:** Yes. Yes.
- P. Ramakrishnan:** Okay. I think the judgment has come out, but it's not clear on its applicability as it stands, okay? And in our case, we have to await for its applicability whether it is for retrospect or is it prospective. Our understanding by common law in such kind of pronouncements or judgments which happens, it will always be prospective because that's the intent, I believe, as part of a court order, but the matter is still sub-judice. I guess the entire industry has put it up across to the court to get some additional clarifications. So pending that, it would be improper of us to comment the impact because it all depends on its applicability.
- Akshay Goswami:** Okay. So if there is any clarity within next quarter, will we be seeing a commentary by you for the margin for the entire year?
- P. Ramakrishnan:** See, if it is prospectively, which is the logical thing in such kind of judgment, I wouldn't see any material impact on our margins.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.
- Sandeep Shah:** Congrats on a great execution. I just wanted to understand what we are guiding on the margin as an improvement over FY19. So just can you give some color about what are the headwinds and the tailwinds we are looking at for the year as a whole in FY20? Because in FY20, there would be a wage inflation hitting in Q2 and Q3. So what are the tailwinds which would come?

- Keshab Panda:** See, I think PR talked about the visa cost. He talked about employee cost in next quarter. I think that's the two things he clarified. And we don't give a guidance for FY20. We don't give a clear guidance now, but only thing we could say is like last year and the levers available, we are working on that and we are confident that we will continue to work on this.
- P. Ramakrishnan:** Sandeep, just one point I wish to add while I summarize the performance for the benefit of all on this call. On EBITDA margins, as all of you may be aware, there is a new accounting standard which comes on leases, which is IndAS 116, it will get implemented from 1st of April 2019. This new accounting standard is on lease and especially on real estate users. Considering the fact that LTTS operates most of its delivery centers in India around long-term lease, there would be an impact on EBITDA margin, reported EBITDA margin as far as this standard is concerned. Our belief is that it will improve our margins at constant currency, same volume as what we suppose if we were to just translate our FY19 EBITDA margin at 18%. Under Ind-AS 116, probably there will be an additional improvement or we would be reporting slightly higher between 140 to 160 basis points, but having said this, this gets completely offset so at a net income margin, the whole thing will get neutralized because the cost would get reflected in both amortization and finance cost.
- Sandeep Shah:** Okay. So even, PR, on the EBIT level, the margin may not have a big impact?
- P. Ramakrishnan:** No. Some impact will be there because some part of the lease rental also gets factored in the interest cost, finance cost.
- Sandeep Shah:** Okay. And just on the SG&A, can you quantify what could have been the higher provision of letters? And what is the higher cost provision for the management?
- Keshab Panda:** So I think...
- Sandeep Shah:** So I just want to understand whether 13% will continue going forward as a percentage to revenue.
- Keshab Panda:** The first one, I think we talked about the EBITDA improvement. I am only saying our intent is always look at the levers for improvement. At the same time, I also talked about when you get a large deal, and on-site component could go up and increase there, that might offset the increase of what we get in operations. So I think we will go by quarter-on-quarter. Only thing I can give you confidence is that we understand and recognize the levers available for us today, which will have impact on the margin in FY20. That's our intent. That's what I said.
- P. Ramakrishnan:** Just to answer to your question, our PBDD provisions, which are higher based on... as I talked about some of the accounts, clients with whom we were interacting, there was a little amount of declaration of, I would say, understanding that they don't have money. So in prudence, we did provide for doubtful debts; that attributed to almost \$2 million equivalent. So that's what has been factored in other expenses.
- Sandeep Shah:** So what one should model the SG&A, PR, just going forward?

P. Ramakrishnan: See, I mean I can't talk about provision for doubtful debts, because usually, it has happened that whatever we have been invoicing, most of them do get collected. I would say this provision for doubtful debts is some sort of a one-off in a sense that it has happened because of a particular event, which was present in one of the client accounts. Otherwise, I think we would say that it is steady state. You have to take more or less on a yearly basis or the first three quarters basis to map your numbers if you...

Keshab Panda: Yes, I think one thing is clear. The doubtful debts, when you talk about the company, 250 customer, one customer applies bankruptcy. So what happens to that? So I think that doesn't happen in many case, nothing to do with the delivery or any issue there because of that. So that is where I think we are careful about it.

Sandeep Shah: Okay. Just the last question on the demand outlook though. We have already discussed this in detail. Any client discussion which is leading to any instance of a project delay or a start because of the macro-related issues?

Amit Chadha: So overall macro trends remain positive. I mean you saw the reports coming out. The U.S. Fed released some results today also. So overall, macro trend remains positive. The work that we are seeing in digital is only increasing, all forecasts are like that. There may be a one-off that may happen where projects get slightly delayed in the 5G area because specifically in 5G, they are scrambling for investments, et cetera. So there may be some of that, but otherwise, we don't see any challenges anywhere.

Keshab Panda: I think one point I must tell you that when you look in the market, 2018 to 2022, we are talking about 1580 billion dollars. And then the \$568 billion new technology and \$1,018 billion of the existing technology. So I think size of the opportunity is there. And case-by-case basis if something comes up, it might come up, but at least still today, we have not experienced anywhere that customers are getting delayed or chances have been delayed. I think we don't hear that. We have not heard that yet.

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

Sudheer Guntupalli: So you did mention that in some of the verticals like process engineering that clients are going for vendor consolidation. So our understanding is that these verticals are usually less crowded by vendors. So even among these few vendors, what is driving this vendor consolidation?

Keshab Panda: I think what is happening in this segment is that there our local vendors. So if somebody has resigned from the company or retired from the company with 10 people, 20 people, they were doing it, there's a risk on the business. Companies are looking at us, because of our maturity level, the work with them is growing. They do not like to work with the local vendor, with a small number of people and others. They will consolidate all that. That is number one. Number two, there are a lot more contractors working with the big companies, many contractors. So the opportunity for us is once you have the domain knowledge, technology and comfort with the

engineering community, so they would like to combine this together, than a contractor who is coming tomorrow or not he's not sure. If you have 500 contractors you're dealing with, you are not sure whether they will show up next day. So I think the way strategically these companies are looking at it, can we bundle all together? We know this company, Larsen & Toubro, is a big company, L&T Technology Services, 15,000 engineers. They operate in 33 countries. So, I think the bundling together where you can provide services globally, they are more comfortable in that. That's where this industry is moving.

Sudheer Guntupalli: Sure, sir. And in FY19, there was a meaningful state in revenue mix from fixed-price and T&M contracts. There was almost a 5% increase in the share of revenue from fixed-price contracts. So is there no impact because of the tilt on margins?

Keshab Panda: Again, this is something that I was talking to the team. The definition of fixed-price and time and material itself, I am very uncomfortable the way engineering community work, technology innovation community work. So I think the 2% or 4%, 3%, I don't think that you can relate directly to that.

Moderator: Thank you. The next question is from the line of Pratik Lambe from ARM Research. Please go ahead.

Pratik Lambe: Presently my question was just one question on the investment or Capex that you maintained. Presently, the investments that are made are around Rs. 885 million versus the previous Rs. 511 million. So why has there been a significant jump? And what has been actually going around the investment? So I just wanted to get more color on that because again, on an FY17 basis, there was just a 14% increase in FY18. So now that the number has increased by almost 70%. So what has been contributing to it, sir?

P. Ramakrishnan: Okay. Let me tell, you are talking of our CAPEX investments, which we have reported as Rs. 511 million for FY18 and Rs. 885 million for FY19?

Pratik Lambe: Right, sir.

P. Ramakrishnan: So there have been one or two centers where we have expanded in LTTS. As we have expanded, a number of people have gone up. We have also increased centers. We expect that for FY20, just to give you a perspective, for us CAPEX almost 60% to 70% is IT equipment and 30% is on what we call as real-estate-related CAPEX. Having said that, what we see in FY20 would be in the range of Rs. 100 crores to Rs. 110 crores. That's the level I see, out of which almost, I would say, Rs. 25 crores to Rs. 30 crores would come from real estate CAPEX and the balance Rs. 50 crores to Rs. 60 crores should be coming from what we have billable CAPEX. That is tools, mostly IT hardware and software and service.

Moderator: Thank you. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Pinku Pappan: Thank you, everyone, for joining us on the call today this evening. We look forward to meeting you over the course of the quarter. And if you have any questions, please feel free to write to me. Thank you so much. Bye.

Keshab Panda: Thank you.

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

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