



LTI
Q4 FY17 Earnings Conference Call Transcript
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Moderator: Ladies and Gentlemen, good day and welcome to the LTI Q4 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Mohta – Head of Investor Relations. Thank you and over to you, Sir.

Nitin Mohta: Thank you, Karuna. Hello everyone, thank you for joining us today to discuss LTI's financial Results for the Fourth Quarter and Full Year Fiscal 2017. The financial statements, press release, and quarterly factsheet are available in our filings with the stock exchange and at the investor section of our website.

On the call, we have Mr. Sanjay Jalona – CEO and Managing Director; Mr. Aftab Ullah – COO; and Mr. Ashok Sonthalia, CFO. Sanjay and Ashok will give you a brief overview of the company's performance which will be followed by Q&A session.

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

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

Sanjay Jalona: Thank you, Nitin. Good morning everyone, and welcome to LTI's Earning Call for the Quarter and for the Year FY17. This year is special for many, many reasons. It marks our first financial year as a listed company and we hit the annual revenue run rate of a billion dollar with Q4 revenues of \$254 million. At a personal level, this is my first full financial year as the CEO of the company and it has been a very satisfying and a humbling experience not only for me, but the leadership team as well. We have several updates to share with you on our call today and I want to start talking about our brand refresh first.

As you might have seen from our press release yesterday, we unveiled our new brand identity as LTI. This is a very important announcement in our 20th year of operation. It positions us effectively for the future and will help us open several new doors. When I joined LTI as a CEO in August 2015, the need to reposition the company with a modern look and feel was clearly evident. Above everything else, it was needed to address a new set of buyers and changes in technology landscape and customer expectations as well. However, we wanted it to be deeper than just a new look, so we set about an aggressive transformation journey around sales, delivery, people, and marketing processes. The result across all these areas was visible in FY17, our growth rate in the last three quarters, expansion of the leadership team, listing on the stock exchanges as well as acquisition of AugmentIQ. With consistent performance, the company is now ready to launch a bold and ambitious brand identity in the 20th year of its operation. The new identity is based on our unique heritage of rich, real world expertise that allow us to craft better solutions for our clients in all domains. With these changes, both at the inherent level and the sleek visual appeal, we are placed well to compete in the years ahead. Do look at our press release for more information.

Another great news I want to share with you is about our customer satisfaction survey. This was our second year of the survey through an external company which does a lot of these surveys with other IT companies in India and the results are very encouraging. Overall, satisfaction has improved significantly and more clients are now looking at us as their partners for digital transformation initiatives. This being our annual results update, let me share some key highlights of the year and also provide an update on the priorities that I had outlined in our Q1FY17 call.

First, FY17 was an exceptional year for us in terms of large deal wins. We had shared with you the details on large transformational deal win with CDBT in Q1. We also had another outstanding quarter in Q3 where we announced three deal wins with a new net TCV of \$100 million. What excited me about these deals is not only the TCV of the wins, but also the fact that we fought

hard and won each of these deals against significantly larger global players. There is a fundamental shift in the confidence with which our sales force is approaching the market and we are optimistic about our deal pipeline. Second, our focus is on client mining. We added one client each in 50-million category and 20-million category, and added six more in the 10-million category in FY17. A year ago, we launched ADEA, Analytics and Digital in Every Account, to ensure our focus is aligned with the text kind of our clients. I am extremely satisfied with the results that this program has yielded. More than 100 clients are now using our digital and analytics offering and these service lines have posted 35% Y-o-Y growth in FY17.

Another priority for us was to add must-have client logos to our already marquee client base. Our relentless focus to win on this count saw us open another Fortune 500 logo in banking space in Q4. I am also very pleased with the way our employees have re-pivoted the organization to digital. As you all know, we had moved the needle significantly on this count in the past year. Digital now makes up for 28% of our revenues. We invested heavily in new technologies to build differentiated service offerings and competencies to address client demand. Five areas where we want to build capabilities, continue to be digital, analytics, IoT, cloud apps, and automation.

All the IP that we have created on these exponential technologies is housed under our trademark Mosaic platform. The market perception of LTI is also changing. We forged multiple partnerships throughout the year, some of the key ones being Nutanix, Duck Creek, GE Digital, Pega, Coupa and others. We are also working actively with clients on exponential technologies and our elevation to an advanced level of partnership with AWS recently is a testimony of that. In summary, FY17 has been an incredible year for LTI and I hope this update on the key milestones achieved and progress made on priorities is helpful to you.

With that, let me now turn to the headline numbers for the quarter. We registered a 3.6% sequential US dollar revenue growth in Q4. Net profit margin

for the quarter came in at 14.7, an increase of 30 basis points QOQ. We added 15 new clients in the quarter. Our quarter end headcount was 21,023 and the attrition has come down to 16.9%. For the full year, FY17, we delivered an industry leading growth of 9.3% in USD terms. This translated to our double digit revenue growth of 10% in constant currency. I am pleased with this industry leading growth has been amplified at net profit level as well. Our FY17 profits are up 16% year-on-year.

Let me give you a bit color on each of the verticals. If you recall there was a lot of pessimism on BFS six to nine months back. We never shared that pessimism and had expected this key vertical to perform well for us, so I am happy to deliver on that promise with a 7% quarter-on-quarter growth in BFS in Q4. For FY18, we think the overall spend is moving in the positive direction as well. In the US, we are seeing increased spend in the capital market area as there is a belief that deregulation will result in newer products and opportunities in this space. On the other hand, Europe and APAC markets, we continue to see momentum in regulatory spend as well. In the US markets, banks are starting to leverage massive data that they have collected over the years to generate meaningful insights. They are investing in building analytics platforms that can help them understand their customer base, assess risk differently and reduce costs. Overall, banks are moving quickly to leverage digital technologies to transform traditional operating models using things like Blockchain in trade finance, and KYC and Artificial Intelligence in areas like anti-money laundering and financial crime. LTI is well prepared to take advantage of these trends and as you can see in the earnings release, we have been positioned as a leader by Nelson Hall for RPA and artificial intelligent in banking.

Coming to Insurance, the average spending levels are consistent with prior years, large P&C, Property and Casualty customers are spending the most on core policy systems replacements followed by billing and customer communication management systems. Increased skew of the tech spend towards digital, for example, portal, mobile and customer experiences is evident in this vertical as well. According to Novarica, one of the analyst

companies which tracks insurance vertical, almost a third of the overall budget in insurance vertical is getting spent on digital technologies. With deep expertise in leading insurance products like Duck Creek, Insurity, Guidewire etc., LTI is uniquely positioned to help our customers co-innovate. For example, in Q4, one of the largest insurance broker firm selected LTI for consolidating its scattered infrastructure to Azure and move to office 365 as well.

Coming to Energy and Process, after a strong Q3, the E&P portfolio had a flat Q4. When you look at year-on-year, we grew at just about a percentage point, so the degrowth which we have seen in the last three-four years is behind us. The stress on IT spends due to low crude prices seems to have plateaued although the recovery is slow and oil companies are very watchful before committing to new investments. Operating philosophy is to use this time to create a leaner operating model for them. For example, an American multinational energy corporation is linking multiple platforms operated remotely from a single onshore center leading to a redundancy for physical onsite inspection of each location.

Coming to Hi-tech, Media, and Entertainment, Q4 also good growth momentum in this sector. The cord cutting phenomenon continues to drive investments into building a digital supply chain backbone and customer analytics. Incumbent telcos are pursuing M&A to get into original content space even as Netflix and Amazon continue to invest in creating content. CRP, our CPG, Retail and Pharma vertical recorded another good quarter of above company average growth. Powered by technological advancements, consumers are driving an incredible transformation in these industry, business models are getting disintermediated forcing our clients to drive greater efficiencies in their business operations. Our digital for 10X outcomes theme is resonating well with clients, for example, LTI helped one of our Pharma clients to reduce wastage and time out of the environment for raw materials and drug manufacturing process. We built an IoT solution with the cloud data platform that had predictive capabilities to enable preventive actions. The result is 35%

reduction in manual effort, 22% inventory reduction, and 100% Federal compliance.

Coming to Auto, Aero, and others, which include engineering and construction, plant and equipment, defense and government businesses, the sluggishness that you see in Q4 is due to India piece of the portfolio and there is nothing secular that gets us worried. We think automotive sector has already been capturing digital transformation for many years and the trend continues to accelerate. This is truly an industry at an inflection point, simultaneously getting impacted by digital technologies as well as autonomous vehicles are creating major disruption in bringing into the question the very business model of the industry. In times like these, clients are looking for IT partners who they can trust to be their innovation partner and LTI with its extensive manufacturing experience due to its parentage is in a sweet spot.

Let me now move to give you a color on FY18, following a successful FY17, my team and I are optimistic about our revenue growth in FY18 as well. Our endeavour is to be on the leading side of the pack and we are working towards repeat of the success of last year in FY18. We would continue to grow quarter-on-quarter, some of the large deals engagements that we announced in Q3 would fully ramp up towards the end of Q2. We expect our net profit margin to be in the same band as what is defined last year in the band of 14-15%. Now, let me hand over to Ashok to give you the financial details.

Ashok Sonthalia:

Thank you, Sanjay. Hello everyone, this is Ashok here. We are pleased with the way FY17 has panned out for us and we are exiting the year with good set of numbers. Let me share with you financial highlights of the quarter and the full year starting with the revenue numbers. Our Q4 revenue of USD 254.1 million were up 3.6% sequentially and 10.6% on YOY basis. This corresponds to constant currency growth of 2.4% on quarter-on-quarter and 10.2% on YOY basis. In INR terms, we delivered revenue of INR 16,772 million. For the full financial year, revenue stood at USD 969.9 million, growing 10% in constant currency and 9.3% in USD terms. In rupee terms, the full year revenue was Rs.

65,009 million. Now, moving onto profitability, our Q4 PAT was Rs. 2545 million up 2.6% quarter-on-quarter. For the full year, we delivered PAT of Rs. 9709 million up 16.1% year-on-year, another industry leading growth rate on this parameter.

Our Q4 PAT margin stood at 14.7% up 30 basis point versus Q3 and full year PAT margin came in at 14.6% as against 13.9% in FY16, which is an improvement of 70 basis point and within our target margin band of 14 to 15%. Despite the currency headwind seen in the quarter, we delivered EBIT margin excluding revenue related hedge gains of 16.5% which is an improvement of 120 basis point quarter-on-quarter. Comparable full-year margin was 16.2% versus 14.6% of FY16, which is up 160 basis points. Our focus on delivery optimization and G&A efficiency helped us while we continued to invest in sales and digital capability building during the year.

Now, moving to some of the cost employee metrics, our efforts in improving employee metrics have yielded good results on both utilization and attrition numbers. The utilization including training stood at 78.3% for the quarter. It stood at 79.3% excluding trainees. Full year FY17 utilization including trainee stood at 78.1% and excluding trainees at 79.6%. This is up 430 basis points and 390 basis points, respectively, compared to FY16. Attrition has also improved to 16.9% on LTM basis in Q4 compared to 18.1% in Q3, an improvement of 120 basis points. Compared to FY16, we improved on attrition by 150 basis points. In last year, the full-year attrition was 18.4% compared to 16.9% this year. With these improvements, the trend in overall manpower revenue productivity has shown consistent increase quarter after quarter and now stands at 48,100, which is up 12% compared to Q4 FY16.

Moving on to our hedge book, our consistent execution of hedging policy has been paying off well and we envisage no change to our earlier articulated hedging bands despite the volatility in the exchange market. This quarter where we saw sharp appreciation of INR against the dollar, we remained largely insulated. Cash flow hedges as at March 31, 2017, stood at USD 848

million and on balance sheet hedges stood at USD 110 million. Effective tax rate for the Q4 was 22.3% against 21.2% for Q3. Full year tax rate was 21.4%. All this improvement and final profit after tax has resulted into EPS for the quarter, which stood at Rs. 14.92 per share, while diluted EPS stood at Rs. 14.60. Full year EPS was Rs. 57.08 per share and diluted was Rs. 55.80.

Now turning to cash flow, we continue to have a strong cash flow generation during the quarter. While operating cash flow at 19.3% of total revenue and 131.2% of net income during the quarter, for the full year corresponding number stood at 20.7% of total revenue and 142.4% of net income. DSO without accrual for Q4 stood at 66 days as against 64 days in previous quarter. When we began this year, the DSO was at 73 days and we ended with 66 days which is an improvement of 7 days. As on March 31st, our cash and liquid investment stood at Rs. 13,167 million. FY17 marks the first fiscal year of the company after being listed and we have made a good beginning. We are happy to announce a final dividend of Rs. 9.70 per share which in addition to interim dividend declared in Q2 makes up the dividend for the full year at Rs. 16.55 per share. This translates a payout ratio of 35%. The cash outflow on account of final dividend including DDT stands at Rs. 1992 million.

I wanted to particularly draw your attention to one point that we are evaluating certain changes to our operating metrics disclosure in the factsheet from Q1 Financial Year 18. This is aimed to help you in understanding our business better. Simultaneously, we have decided that we shall provide you with prior period data in the same format so that you can do an apples-to-apples comparison. I would request that if you have any suggestions, comments, please reach out to Nitin who heads our investor relation function and we would be very happy to look at your comments, suggestions, and if possible, incorporate them in our final factsheet. Finally, I would like to thank all of you for your continued faith and trust in LTI. With that, we would like to open the floor for questions.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: I just wanted your thoughts in terms of how the TCV wins this year has progressed versus the same time in the previous year for the whole year is what I am asking. The second is do you continue to be confident about growth in the top 20 clients going forward into FY18 and actually this year has been a great year with very minimal revenue leakage, do you expect that to continue, and the last question was in terms of the margins, I think the employee cost on an absolute basis has declined, just wanted your thoughts on that as well?

Sanjay Jalona: Overall, TCV I think I have given the commentary in the last many quarters that both quantity and the quality of pipeline and the deals that we play in has dramatically changed for us in the last 18 months or so. We announced CBBDT \$100 million deal and three large deals with a net new TCV in Q3. This quarter also we have announced a service desk deal with one of the manufacturing customers in the US. I request Ashok to talk about the margin question that you have, if he has any quantitative numbers on comparison between FY16 to FY17, he can give you that, otherwise, we can get back to you offline. Overall, the kind of deals that we are seeing, the places we are getting invited is tremendous. There is a sense of, yes, we can fight with any large peer both leading India based players as well as global competitors because there are wins that we have under our belt today. The confidence with which our sales team is going and addressing the markets is tremendous. With our increased focus on partnering with the deal advisors and so on and so forth, the places that we are getting invited has also increased tremendously, so the leads and deal opportunities that come to our pipeline from marketing-related efforts has really gone up. That is the color on TCV.

Let me take your question on top 20 accounts. Top 20 accounts, the flavor of the spend at times changes from traditional business to digital business and I have always talked about the pot of gold for us being the top 250 accounts

really marquee names, with a specific focus on top 50 accounts with a program called Minecraft. Top 20 accounts are very, very dear to us. They are the ones who drive the growth and we need them very, very regularly. We have instituted various processes on quarterly reviews. We have a program called, Beyond, how do you bring value, every employee that is working for those programs, how do you continue to bring value for them beyond the call of duty. When you look at CSAT, CSAT expectation changes have happened from them in terms of being a digital partner and they are seeing us bring value to them in that regard as well. In summary, I do expect that top 20 accounts will continue to grow for us.

In terms of revenue leakage, look I think frankly when the mix of customer spend changes from traditional businesses to digital business, you will have some kind of a revenue leakage, but if you are close enough to the customer, if you understand the vertical that they are operating in, our ability to back fill that business with the new digital or exponential technology spend is what is leading to the growth that you have seen. So there is revenue runoffs that happen in every account, but our ability to fill that up with newer digital exponential technologies is what is keeping us in good stead. Now on margin point, I missed that, Ashok if you can answer that.

Ashok Sonthalia:

Nitin, I think you are referring to schedule 3 format of SEBI disclosure where there is a sequential decline of Rs. 193 million in employee benefit expenses. I would say largely this is rupee appreciation seen in Q4 and the other reason also which added to our advantage that the actuarial valuation which happens in Q4 for the full year for the audit particularly, there was some benefit which accrued to us on the leave encashment provisions which we make, the debits which we make. You would have noticed the yields have hardened, so that has given some benefit. So combined with these two reasons, our absolute number of employee expenses have marginally come down in Q4.

Moderator:

Thank you. The next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: Great performance especially on BFS. My question was on US BFSI companies, do you think they are starting to increase budgets now after at least a couple of quarter of good results or do you think you will continue to grow by taking share?

Sanjay Jalona: Both, we will continue to take shares away from larger players. As I had talked about in last two quarters, we actually opened two Fortune 100 global banks, and that will continue especially in the areas where we are very strong in be it capital markets, be it finance, risk, and compliance, data lineage work that we do for the customers, the work that we do on digital banking, RPA etc. In terms of the kind of spend that they are doing, they are also investing a lot on the digital side. The ease of launching new products, more intuitive products for the millennial, so many, many things are happening and that is creating good opportunities for us. As far as budgets go, I think the basic phenomenon in the last many years has been, companies operate at more or less same budgets if not marginally up and I think banking in the US, the budgets will be marginally up, but they go quarter-on-quarter and bulk of the spend is actually vectored towards newer technologies, and there the barrier for us to move in and do that piece of work is much lesser compared to traditional businesses with large incumbencies, so that is what typically is happening and that is what we are seeing in US companies in BFSI. I will give you one simple example. We met one of the largest deal advisors last week. We were talking to them about how we are using digital and they were running a digital banking opportunity for a Midwest super regional bank and we got invited from there. These things were very difficult to do in the old traditional way, but everyone is spending more money on the exponential and digital businesses, the barrier for a new player with capability is a little lesser and that works well for us.

Sagar Rastogi: This is quite useful, thanks for this. One other, more of a bookkeeping question actually, in 1Q FY17 you had a bit of dip in revenue, I guess because some of your pass-through revenues dropped away, could that pattern repeat in 1Q FY18?

Ashok Sonthalia: One correction that it really did not dip, it was still a growth in Q1 last year, Sagar.

Sagar Rastogi: Constant currency term?

Sanjay Jalona: We believe we will continue to grow on quarter-on-quarter basis throughout FY18, but it is also important to note that the wins that we had from Q3 will start to actually go in at the end of Q2, the revenues once we finish transition, etc., so it will be a little higher growth in the Q3, Q4 area, and there are no big pass throughs that have happened in Q4 as well.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities Ltd. Please go ahead.

Ashish Chopra: Sanjay, FY17 has been a good year in terms of the overall growth ahead of the industry although the growth has been contributed more by certain pockets versus the others, your commentary overall across segments looks fairly healthy, maybe Energy like you mentioned is a little bit slow on the recovery side, but do you expect some convergence of performance across verticals as you head into FY18 and growth to be much more broad based or would you expect this kind of a trend to maybe continue even further?

Sanjay Jalona: Ashish good to talk to you. Overall, we are very positive on all verticals including Oil and Gas, but Oil and Gas is not going to be a leader in terms of growth. It is not the one which is going to drive the growth for the company, but the degrowth that we had seen in the last years will not be there. We are very differentiated in this vertical and we are only taking away the share from people, because we are so specialized based on the capabilities we bring in Oil and Gas from our parent organization as well. Now, coming to all verticals, there is positivity all around and we will see growth, there will be varying growths based on not because of sectoral challenges, but some customers might spend more and some verticals you will see a higher growth compared to others, but there is a good engine going for us. There are leaders in place and every vertical has positivity going in FY18 for us.

Ashish Chopra: That is good to know and secondly on the enterprise solution side, while the overall year growth has been soft but the growth this quarter was quite encouraging, so just wanted to understand is there some kind of a corner that we may have turned there or how should we look at that segment?

Sanjay Jalona: One changing landscape is that people are not doing large on premise SAP and Oracle implementation in the quantities that used to be done many years back. There are still on premise ERP transformations happening as companies merge or separate or they are launching in new markets, but the quantum has come down. So most of the spend in the ERP is actually with the new technologies, new digital ERP versions whether it is Salesforce, whether it is SAP S/4 HANA. Incidentally, today is another good day because we had our reasonably sized S/4 HANA win in one of the largest CPG companies. Against some of the biggest names, both global as well as leaders in India, so the trend is shifting towards newer technologies, digital ERP version, S/4 HANA, Oracle Cloud and so on and so forth. There are tremendous opportunities that exist, but obviously the size is not what it used to be with on-premise implementations, so I am not thinking that this will be a leader, but we will continue to grow.

Ashish Chopra: Just lastly from my side, you do have a fairly healthy base in digital or exponential technologies driving a good chunk of your growth, could you just share maybe are there any sub segments within that some technologies which are clearly driving the bulk of that growth for you whether it could be IoT or any of the other areas and just how would you be differentiating in those sub segments?

Sanjay Jalona: I will answer this question, but I will give you a premise before. Look what has happened in the last maybe seven-eight years, lots of new technologies have come in and they will become the norm going forward. On one side, you have social, mobile, analytics, RPA, 3D printing, virtual reality, and a whole bunch of things that are there. Now, it is a maze for the customers. When customers look at how they should do the new business with the new technologies available, somebody needs to weave these solutions together in a digital

architect kind of a way to make sense of the disparate technologies that are available. Now that is the role that we play with the customers, so solution would be IoT plus mobile plus 3D printing plus many, many other technologies that are there, and form a Mosaic, form a solutions with everything put together. Two specific areas that I want to specifically call out, one is analytics, advanced analytics, that grew by 35% for us year-on-year. Second one is cloud based infrastructure transformation, this is where either infrastructure as a service, moving to the cloud. In Q3, we announced a deal where we moved for an European customer, their entire SAP on AWS, so those are the two areas that I want to specifically call out which have grown really, really fast for the company, but again premise is that when you provide a solutions you are creating a Mosaic, a work of art from various rocks which have analytics, RPA, social, mobile, etc., put in a scattered form bringing it all together.

Moderator: Thank you. We have the next question from the line of Aniket Pande from Elara Capital. Please go ahead.

Aniket Pande: Most of my questions have been answered, I just wanted some color on your Energy and Banking vertical what is the nature of work or what kind of deals are happening over there in these sectors?

Sanjay Jalona: In the Energy vertical clients are using digital technologies to improve the efficiencies and increase the production yield from the same oil field. There is a lot of IoT work, lot of operational excellence work, lot of infrastructure consolidation work, so they can do the same amount with lesser spends.

In Banking we have talked about the frontend digital spends using Robotic Process Automation as an area to improve the efficiencies and ability to launch new products and platforms. On one side, in the US you have deregulation, which is going to create opportunities for the banks to be able to create new products for the customer base, on the other hand in Europe and Asia-Pacific, there is still work that is going on in the regulatory space as well. So, it is automation, user experience, monetizing data that they already have, using

things like Blockchain, etc., which are new age technologies to bring better solutions, better experience for their customers.

Moderator: Thank you. The next question is from the line of Jai Doshi from Kotak Securities. Please go ahead.

Jai Doshi: My first question is, I think someone asked earlier as well that in June quarter last year it was weak and I think if I remember correctly, June has been seasonally weak quarter for LTI for past two or three years, I just want to understand if there is any seasonality specific to the company and will it be different this year, how do you think?

Ashok Sonthalia: I would rather flip this, Q4 has been strong and that is why Q1 may be sometimes looks weak in comparison. In Q4 some of the projects in last two years had a cycle where there was a lot of pass through and that also made Q1 weak as those were not repeated, but this is not a seasonality pattern that you can talk about us. As Sanjay mentioned there are large deals that are coming in end of Q2 and with full force in Q3 and Q4 but Q1 we do not see any kind of softness. We will continue to grow quarter-on-quarter. The way we have come out from Q4, we do not see any problem or any repetition of what you have seen last time.

Jai Doshi: Second one was more on, how should we track your company, is TCV very important number or metric for you to sort of deliver the kind of growth that we have seen in the past year or because bulk of your growth is driven by the top 10-20 accounts as you may not necessarily closing very large deals, but gaining gradual share, so because lot of companies report TCV on a quarterly basis and you indicated very strong TCV numbers in Q3, so how should we think about tracking TCVs on a every quarter basis?

Sanjay Jalona: Look there are many things that are important when you run an organization and mining your pot of gold, mining your top customers is extremely important for a good health and growth in an IT services company. We specifically wanted to call out net new deal so if you really look at, we do not call out renewals, we

call out net new deals that are large and chunky which will help in addition to the mining of the accounts that we do. The way to look at this is we give you a very good commentary and confidence on how our top accounts are doing, we give you net new deals that come in there and where I sit today, both the quantity as well as quality of pipeline that we have is, there is a lot of satisfaction there.

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

Manik Taneja: I appreciate your detailed comments across verticals, but I just wanted to get a sense on the fact that we have seen an improvement in revenue productivity for us through FY17 and this is especially after most of the competition has been talking about pressure on these aspects, if you could delve deeper into what is driving some of these trends for us?

Ashok Sonthalia: Manik, revenue productivity of course you know when you start making some changes in the shop and you are trying to make it run very, very efficiently initially of course, you have more juice to extract. First of all, we did not see any pricing pressure during the whole year. We of course improved our utilization, by 400 basis during the year, so some of the low-hanging fruits, some of the work which the whole team was working throughout the year have yielded good result. From here, I think the increase would be incremental because still there are certain levers which we continue to work on our pyramids, continue to work on our role ratios, and n-1 replacement. We are getting into some of the solutions and platform which really do not require the kind of one-to-one equation of volume versus revenue. You will see some of those disconnects also start appearing in our solution. Our Canadian entity which is a completely platform-based solution has been doing extremely well, so again that contributes to that productivity improvement because the people are not increasing, but the revenue is going up there, so some of these things are still available to us, so I believe we will continue to grow but Yes, this

year the progress has been quite good and we are pretty satisfied with 12% growth in revenue productivity.

Manik Taneja: If you would give us some sense on the wage increments that you plan for the year and I suppose you typically have a Q2 cycle to that?

Ashok Sonthalia: Yes, you are right, our wage cycle starts from July 1st and it will be normal cycle for us, we are not thinking of any deferment. Overseas onsite as we have been talking like every other year, it should be around 2% and off-shore should be around 6-7%, but some review, some decisions are yet to be made because it is July 1st, we will be able to tell you in definite terms what we have actually implemented when we meet next quarter.

Moderator: Thank you. The next question is from the line of Govind Agarwal from Antique Stock Broking. Please go ahead.

Govind Agarwal: I have a question on the CPG, Retail and Pharma vertical, where we have seen a very healthy growth unlike most of our peers and what is driving this growth and are we doing something different over here and another question on Auto, Aero and other vertical, we had very strong start on in Q1, Q2, but it has come down in the Q3 and Q4 quarters, so is it any client specific thing over here or do we see growth coming back going forward?

Sanjay Jalona: Govind, I will take your second question first and this is why Ashok talked about how we will report our numbers differently for you from next quarter onwards because that vertical is like a catchall, which also includes plant and machinery, it includes government projects, it includes a whole bunch of things, so we want to break it going forward, so you will be able to see what is happening in Auto and Aero verticals separately compared to government projects so on and so forth. Coming back to your real question, there was no degrowth on Auto, Aero itself. It is the India piece of the projects where milestones had finished in the last quarter and they were not carried forward in this quarter that is the reason why you would see the same percentage dip in the India revenues as well, so that I hope explains your second question.

On your first question on CPG and Pharma - the customers are spending more and more on analytics and digital disruptive solutions, for example the 10X benefit kind of a solution that we talked about are the key areas where we see spend. There are newer things happening where even in Pharma for example, where you have smaller players where you can partner with them and bring point solutions to bear for Pharma customers, there is cool work happening in analytics. There is one customer, a CPG company, where we have helped them reduce their DSO by two days, for a CPG company that means a lot. I think the spend is focused on fewer areas - digital, point solutions are the ones that are important. Retail for us, by the way, is not big, so we do not call Retail plus CPG, it is mostly CPG for us, Retail is not very big sector. I think that is where probably the peer community has not fared well.

Govind Agarwal: Also on Auto, Aero, and others, do you expect growth to come back in FY18, where we had a slowing growth better along the quarters in FY17?

Sanjay Jalona: If you looked apples to apples, the growth will come.

Govind Agarwal: Another question on interest income in the quarter is quite low around Rs. 4 million, so is it some typo over there, because we had a very good, healthy cash balance?

Ashok Sonthalia: You are looking at SEBI result, Govind?

Govind Agarwal: Yes.

Ashok Sonthalia: We have the credit support agreement with the banks where we pay some interest and then there has been revaluations of the bank balances held overseas because of the currency appreciation that also gets netted into that, those are the two things why you are seeing low number there.

Govind Agarwal: How much was the individual heads of interest, income and the other impact of revaluation?

Ashok Sonthalia: Please call Nitin for that number as I do not have that detail with me right now.

Govind Agarwal: Another thing on dividend payout ratio, we had a very healthy cash initially in FY17 and I think we earlier indicated of a better payout ratio, so any update on the payout policy, can it inch up in FY18, FY19?

Ashok Sonthalia: Govind, this is the first year for the company after being listed, and there was of course discussion how do we start and from where do we go where. Whatever we are doing we want to be sustainable and increase it gradually and of course there is a growth requirement which board would evaluate from time to time. The Board needs to evaluate how to utilize our cash generation for investments in the company, for inorganic growth opportunities, as well as rewarding shareholder, these are the key considerations. We have made a start and I think as the year unfolds and environment is more certain, we will continue to not only sustain but grow from here, that is the guidance right now I can give you, but the shareholder reward and growth both will play a major consideration in this.

Moderator: Thank you. We have the next question from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod: Just on the receivables, it has declined very sharply in spite of if you see FY16-17, India has grown 28% but in terms of number of days and in terms of absolute amount also, it has declined, so can you explain that?

Ashok Sonthalia: I do not know what all numbers you have, but India projects are typically fixed projects and what we have demonstrated also that even India business grow, it will not put too much strain on our receivable. I am very happy to announce that CDBT project which you all know achieved first milestone invoice, money collected in-time, so India portfolio will not necessarily result into bad quality of receivables for us, some of the accruals do happen in fixed price, large project where accruals are still happening till invoicing milestones are achieved and invoicing is done, but otherwise, just billed receivables, they have come down by seven days and we have collected and that is what has resulted in good cash generation too.

- Ritesh Rathod:** This would stay on this level of 66, like there is no factoring on receivable discounting?
- Ashok Sonthalia:** Not at all, we have not resorted to any of those things.
- Ritesh Rathod:** In the quarterly employee benefit expense, you mentioned that has declined in absolute terms, I believe employee addition has been there QOQ, but you said there is leave encashment something?
- Ashok Sonthalia:** You see what happens, there are actuarial valuations involved in this and typically during annual audit, you do these actuarial valuation done by the expert actuaries and you do the true up, whatever you have been providing for during the year and Q4, so we had some benefit, but largely FX also had a role to play on this.
- Ritesh Rathod:** That actual number will not be big enough?
- Ashok Sonthalia:** It is not the major cost, it is the second cost, FX is the major cost.
- Ritesh Rathod:** In terms of the cash balance, you said large portion being revalued, being in foreign accounts, how big would be that out of 1300 crores?
- Ashok Sonthalia:** Our endeavour is always to bring money to India within some of the subsidiary framework and branch framework which we have to work on, but I would imagine out of 1300 crores, 1000 to 1100 crore would be in India, but it keeps on fluctuating, because LTI FST is a good cash generating unit in Canada, so at this point of time they hold some cash.
- Ritesh Rathod:** Still your other income yield is very low, if I gross it up on annual basis like your annual other income was 20 crores or 19 crores?
- Ashok Sonthalia:** For the full year, my average cash balance is also not 1000 crores, it is about some 300 odd crores, we started the year with maybe 100-200 crores and then we have been building up.

Ritesh Rathod: FY16 it was just 100-200 crores?

Ashok Sonthalia: At the end, I think cash balance would not be more than 200 crores or at the best 300, I will just check and let you know. I have two major numbers in my mind - that this year we have generated 500 crores extra from the operations and roughly 400 crores with the accumulation of profit which did not get distributed, so that is the 900 crores accumulation.

Ritesh Rathod: Sanjay, what would be the thought process on the inorganic side, since we have done a decent cash accumulation, what kind of areas or geographies which would be very open to?

Sanjay Jalona: We keep looking at five areas that are focus for us, all around Mosaic, but five areas if I call them out analytics, digital, automation, IoT and cloud, and we will look at all over the place mostly in US and Europe are the two areas that we function on that we will focus on for M&A activity. I probably spend 30% of my time looking at the assets that are available in the market place. We are quite active. Our acquisitions will not be for scale, they will be for the capabilities that we need to bring for the future for our customers, so that is what we focus on.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Hi Sanjay, some of the other bigger players have started opening US-based centers or hiring more number of US engineers to partly offset the rising rhetorical on H1B, what is our take on that, are we also trying to increase our local presence in US or there will be automation there to offset the possible curbs on H1B?

Sanjay Jalona: We have been hiring a lot more local people in the US. We have been running a very-very strong localization program for a year now. Broadly if you look at us, sometimes comparing a large 300,000 people, 400,000 people company with a company which is only 20,000 people, it is an unfair comparison, but if

you really look at the numbers, we are 20,000 people with one of the lowest onsite ratios in 24%. Most of the people operate at a much higher onsite ratio. We still believe there is an opportunity for us to use the technologies, video conferencing, Skype, FaceTime, which are really free or the videoconferencing facilities like tele-presence which have come down in price significantly and that can give us a lever to increase the off-shoring ratios even more, but to be very clear, we are hiring more and more people locally. We are going into the campuses, we are creating a brand for ourselves, making sure we get good people. We are very confident in our hiring ability to keep inching the number of local recruits in the company.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments, over to you, Sir.

Sanjay Jalona: Thank you folks, as usual you have kept me on my toes, but I look forward to interacting with you again next quarter in the next earnings call, thank you, take care, good luck.

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

(This document has been edited for readability purposes)

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