



“LTI Q1 FY18 Earnings Conference Call”

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**MANAGEMENT: MR. SANJAY JALONA - CEO AND MANAGING
DIRECTOR, LTI
MR. SUDHIR CHATURVEDI - PRESIDENT (SALES), LTI
MR. AFTAB ULLAH - COO, LTI
MR. ASHOK SONTHALIA - CFO, LTI
MR. NITIN MOHTA - HEAD OF INVESTOR RELATIONS,
LTI**

Moderator: Ladies and gentlemen, good day, and welcome to the LTI Limited Q1 FY2018 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 call, please signal an operator by pressing * 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, Mr. Mohta.

Nitin Mohta: Thank you, Karuna. Hello, everyone. Thank you for joining us today to discuss LTI's financial results for the first quarter of fiscal 2018. The financial statement, press release and quarterly fact sheet are available in our filings with the stock exchanges and at the Investor section of our website.

On the call, we have Mr. Sanjay Jalona – CEO and Managing Director; Mr. Sudhir Chaturvedi – President (Sales); Mr. 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 a Q&A session. As a policy, we do not provide specific revenue or earnings guidance, and anything said on this call, which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risk the Company faces.

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

Sanjay Jalona: Thank you, Nitin. Good morning, everyone. Let me begin with headline numbers for the quarter.

We had another quarter of steady growth with revenues of \$259.2 million, which is up 2% quarter-on-quarter in US dollar terms. This came on top of 3.6% and 2.3% in Q4 and Q3, respectively. Our disciplined hedging policy has insulated the impact of volatile currency and helped us deliver net profit margin of 15.2% in Q1. We added 12 new clients in the quarter, and we continue to witness an improvement in the client pyramid, with an addition of one client each in \$20 million bucket and \$10 million bucket. Digital now accounts for over 29% of our revenues.

Let me give a little update on our rebranding. Last quarter, we unveiled our brand positioning and visual identity. I am pleased to mention that the LTI brand has received positive feedback from all the stakeholders including clients, analysts, partners and our employees. We continue the global rollout during this quarter.

So before I give you the business color on the verticals, I wanted to spend some time on sharing the success stories of our Digital offerings in the marketplace. As you know, we are focused on five key areas: Analytics, Digital, Automation, IoT, and Cloud. During the last year, we have made significant investments in enhancing our capabilities around these five service offerings. Let me give you 2-3 proof points on the differentiation we have created for ourselves in the

marketplace based on these capabilities. First, LTI's Mosaic was highlighted in Gartner's Competitive Landscape of IoT Platform Vendors. Mosaic IoT platform shared the honors with other platforms like Oracle, IoT, cloud service, GE Predix, and AWS IoT. Demonstrating our real world expertise in IoT, ARC Advisors last week published a report highlighting how LTI is improving the return on assets for a solar power company. You can find the report online or you can reach out to Nitin for it. We have also been recognized as a contender by IDC in their Vendor Assessment study that evaluated vendors on their collaborative cloud capabilities. This is a validation of our infrastructure management practice and our capabilities in the new age technologies.

On Automation, LTI was recognized in the leadership zone by Zinnov for robotics process automation or RPA. Our deep domain knowledge of the Insurance industry and RPA capability has helped us to win RPA design and deployment engagement with a global reinsurance company in Q1. We are working with one of our large CPG customers to develop a conversational bot that would be used to automate all call centers for their beauty products. The bot would be able to differentiate between product features, remember the recommended products and answers follow-on questions and engage the customers in small talk as well. In another example, LTI is solving financial reconciliation for consumer subscription for one of the leading US based media streaming companies. As part of this digital-driven engagement, we are working with the subscription team of the client, their finance department and third-party payment companies to identify the gaps and help the client know their subscribers better. These data points are symbolic of the traction we are getting in the marketplace and is also reflected in the higher share of Digital revenues in the total revenue pie. As I mentioned before, Digital now constitutes over 29% of our revenue at the end of Q1.

Coming on to industry-specific numbers and trends, based on the feedback received from you in the last few quarters, we have reclassified our vertical revenue mix. For ease of comparison, our fact sheet also provides you the data for the past eight quarters in the same format.

In terms of performance by verticals, highlights are as follows. BFS, we delivered 1.8% quarter-on-quarter growth and we continue to remain optimistic about our growth in this vertical for FY18 as well. In the US market, the spend continues to move in a predictable fashion, the softening of Dodd-Frank provisions have resulted in more funds being diverted to digital and data projects, with an intent to improve the product and increase efficiency. Banks are trying to bring innovative technology solutions to their run the bank cost and increase the ROI of their grow the bank budgets. Clients are relying on strategic partner such as ourselves to bring in an ecosystem of partners and startups and deliver solutions that can challenge the status quo. Our size is lending ourselves well to the new iterative model that some of the banks are looking to adopt.

Moving on to Insurance, this vertical too grew by 1.8% quarter-on-quarter for us. Our clients in this vertical continue to face pressure on reduced spend because of increased claim losses. Customers expect significant savings on renewal business by leveraging automation. In the

European market, we are seeing the push from customers to make the core insurance platform more resilient and robust and simultaneously invest in building apps to improve overall customer experience. We are happy to report that in Q1, LTI has been selected by a US Fortune 500 multispecialty Banking and Insurance company. We won this business against tough competition from larger peers and also displaced a large global incumbent in the account.

On the manufacturing front, we witnessed 11.3% quarter-on-quarter decline in this vertical. Sequential decline in this vertical was largely driven by absence of pass-through revenue in Q1 compared to Q4. Clients clearly want to spend more on digital transformation. Even so, they are testing hypothesis and ascertaining value before committing to large spend. By and large, nothing wrong with the vertical overall. We finished one of the ERP programs as well in Q4. So it is a bit soft for us. And probably will remain soft in the subsequent couple of quarters as well.

Energy and utility, we had a good 7.3% quarter-on-quarter growth in this vertical in Q1. The performance this quarter is driven by a ramp up in one of the three large deals in the utility space that we had announced in Q3 of FY17. Specifically in energy vertical, clients are still cautious in spending. It has stabilized versus a year ago, and some long held projects are opening up, but at overall level, cautiousness still persists. We are confident that this vertical would contribute positively to the overall company growth in FY18 though.

Moving onto to CPG, Retail & Pharma, we saw a 6.2% sequential growth in revenues in this vertical. CPG, Retail & Pharma vertical have been a focus area for LTI, as we have articulated in the last four quarters and our focus have begun to show results. During the last quarter, we won multiple deals due to our digital differentiation. A global CPG major selected LTI for digitizing its finance operations using SAP S/4HANA. We are also working with a US based retailers to migrate its SAP infrastructure to AWS.

We had 4.8% quarter-on-quarter growth in the Hi-Tech and Media vertical. We have opened some marquee logos in this vertical last year and expect that to aid growth in FY18.

Other vertical include clients present in the areas of defense, travel and logistics and services. Some of the key projects like CBDT that we are executing in India are classified under this vertical, and we expect the growth momentum here to continue.

On the service lines front, our growth this quarter has been driven by IMS, Analytics and Enterprise Integration & Mobility services. We delivered Q-on-Q growth of 10%, 4.3% and 7.2%, respectively in these service lines. Starting this quarter, we have also split our AIM, EI & Mobility services into two. First, Analytics, AI & Cognitive and second, Enterprise Integration & Mobility.

Before I hand over to Ashok, let me give you an update on our outlook for FY18 overall. Q1 revenues have panned out in line with our internal expectations. At the beginning of this year, we had shared with you that for FY18 our endeavor is to be on the leading side of the pack in

terms of revenue growth. We are confident that based on the current order wins and deal pipeline, we are on track to achieve that. We continue to expect revenue momentum to pick up in H2 as we had articulated earlier, large deal engagements announced in Q3 are expected to ramp up towards the end of Q2. On the margin front, our investments in business has resulted in a soft Q1 but we do not envisage any secular pressure on our margins. We have already started the work to show improvements on this count and Ashok shall talk more about it. For the full year, we are on track to deliver net profit margin in the band of 14% to 15% as well.

Now, let me hand over to Ashok to give you the financial details.

Ashok Kumar Sonthalia: Thank you, Sanjay. Hello, everyone. This is Ashok here. After good revenue momentum in quarter three and quarter four of last year, we have started Q1 reasonably well. Let me share the key financial highlights of the quarter starting with the revenue numbers. Our Q1 revenue of USD 259.2 million were up 2% sequentially and a robust 12.2% on year-on-year basis. This corresponds to constant currency growth of 1.5% on quarter-on-quarter basis and 11.8% on year-on-year basis. In rupee terms, we delivered a revenue of INR 16,707 million.

Now, moving on to profitability, our Q1 PAT was Rs. 2,672 million, which is up by 5% quarter-on-quarter basis. Our Q1 PAT margin stood at 15.2%, up 40 basis points and above our margin guidance band of 14% to 15%. Operating margin for Q1 was 18.5% as against 18.9% in Q4, dropping by 40 basis points sequentially. In spite of decline in the operating margins, increase in PAT was contributed due to increase in other income which majorly comprised of hedge gains. While we maintained that our differentiated hedging strategy is core to our overall margin management, for those of you who prefer to view our operating margin excluding revenue-related hedge gains, EBIT was 14.4% in Q1 as against 16.5% in Q4, a decline of 210 basis points. Major factors impacting the margin negatively were rupee appreciation, which contributed about 90 basis points, drop in utilization and increased lateral hiring both onsite and offshore contributed about 110 basis points. Sales and marketing investment and visa fee put together contributed about 50 basis points. These pressures were marginally offset by savings in G&A and lower pass-through revenue in the quarter. Looking ahead, we expect margins to recover as we tighten the belt on utilization and net headcount addition moderates. We are going ahead with our annual wage hike cycle effective 1st July and that is expected to weigh down on margins by 150 basis points to 200 basis points. Our revenue growth and cost initiative should not only help us recoup the wage hike impact in Q2, but our endeavor would be to deliver sequential margin improvement.

Now, cost and employee metrics. As I said earlier, we have been hiring laterals at onsite as well as offshore which had impacted Q1 utilization. For the quarter, it stood at 77.7% including trainees and 78.2% without trainees, down by 60 basis points Q-o-Q and 110 basis points Q-o-Q respectively. However, our efforts have continued in the process of billing them and as we speak today, the utilization has improved back to 79.5% with trainees. Attrition has improved to 14.7% on LTM basis, compared to 16.9% in quarter four, an improvement of 220 basis points. With these, overall manpower productivity stands at \$47,700 in quarter one, marginally down

by 0.8% versus quarter four. This decline is largely due to increased contribution from fixed-price projects and we do not see any acute pricing pressure on the portfolio.

Now, moving on to our Forex situation at this point of time. Our consistent and disciplined execution of the hedging policy continue to do well by insulating us from currency market volatility. As mentioned earlier, we continue to run 12-quarter hedging plan and use simple forward cover. We have had a good quarter of revenue-related Forex gain and other income generated out of surplus cash that we had on our balance sheet. Cash flow hedges as at 30th June 2017 stood at USD 832 million and on balance sheet hedges stood out USD 117 million.

Our effective tax rate for the quarter was 23.4% as against 22.3% in quarter four. As we progress, some of SEZ units are coming out of 100% bracket to 50% tax exemption and that will keep the ETR almost at the same level which we saw at Q1 for the financial year 2018. EPS for the quarter stood at Rs. 15.66 per share, while diluted EPS stood at Rs. 15.29 reflecting our strong growth in profit after tax.

Cash flow, we continue to generate healthy cash flow with operating cash flow at 13% of total revenue and 81.4% of net income during the quarter. DSO for Q1 stood at 67 days as against 66 days in previous quarter. Cash and liquid investment as at June 30th stood at INR 15,377 million.

In our journey to be more transparent and investor friendly, you would see enhanced disclosures in our fact sheet. We have also started giving quarterly balance sheet and cash flow. The fact sheet also provides you the constant currency revenue cuts across verticals, service lines and geography. In addition, we have increased our segment disclosure from two segments to five segments to align the same with the vertical reporting in our fact sheet.

With these, I would like to open the floor for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. First question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Sir, just wanted your views on our top accounts, top 5 and top 10. They have been growing phenomenally the last 3 quarters. This quarter seems to have been rather flattish. So, any outlook on that would be great, sir?

Sanjay Jalona: I want to iterate that the top account has actually grown faster than the company growth in this quarter. So, just want to be sure that I mention that. As we talked about the Minecraft program, other programs that we have worked on with our top 5, top 10, top 20, top 50 customers, we continue to feel strongly about the top customers. There were one or two challenges on some of the programs getting over. One ERP program for a large manufacturing company came to an end in Europe. We also had pass-through that was there on one of the transactions on one of the top 20 accounts in Q4, which was not there in Q1. Barring that, there is no issue at all.

- Apurva Prasad:** So we expect that kind of growth rates to resume for all the reason that you said?
- Sanjay Jalona:** We remain positive about the top accounts and top accounts have driven the growth. So, yes, it will continue to be the case.
- Moderator:** Thank you. The next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.
- Sagar Lele:** Would it be possible to give out the Cloud component in your ERP portfolio? Revenue here seems to be pretty stable growing at low-single digits. Just wanted to get a sense on, if you have managed to strike a good balance between large on-premise implementation in Cloud?
- Sanjay Jalona:** I don't think we give the break up by Cloud but overall it is added in the Digital revenues. But if you look at the 3 deals that we announced in Q3 itself, 2 of them are in infrastructure and a significant part of that is taking them on the Cloud. One of these deals actually is a good 25 million plus moving SAP ERP for a European customer on to AWS infrastructure. Last two quarters again, we have done multiple things both in Oracle managed services, Cloud, as well as S/4HANA on AWS cloud, with a few other customers. But I do not have the numbers nor do I think we report that number other than the digital revenues number, which has gone up.
- Sagar Lele:** Sure. Also, Sanjay, over the last year you had been speaking of penetrating all accounts with Analytics and Digital. Any progress metrics you would be able to give away in terms of how many or what proportion of your customers would now be serviced on these offerings?
- Sanjay Jalona:** So, ADEA, as we call it Analytics and Digital in Every Account is very strong. If you look at the digital revenues overall, it has gone up from about 20 odd percent to over 29% at the end of Q1. And the other metrics that now you would be able to see with the additional disclosure we have done is that if you look at last 8 quarters, you will see a lot of growth, one in Analytics; second in this whole EI and Mobility area; and thirdly in IMS, which is all coming from these new age digital, cloud, analytics etc. programs.
- Moderator:** Thank you. Next question is from the line of Rahul Jain from Emkay Global. Please go ahead.
- Rahul Jain:** So, when we say this, we would do a leading growth for the year, fiscal 2018, what is the benchmark number in the mind?
- Sanjay Jalona:** Benchmark number is whatever you guys say that India IT companies will do! We do not have a benchmark number. If you look at our Q1, we are at 12% year-on-year growth. Where we stand, we have a strong pipeline of large deals as well as account mining is going at a good pace. The deals that we won in Q3 of FY17 that we announced 100 million TCV will actually start to flow in more from Q3 but towards the end of Q2 as well. So where we stand today, we look at the Indian IT services business, we feel confident that we will be in the leaders pack, if not leading.

- Rahul Jain:** Right. So this sort of confidence in the commentary, is it more driven by winning more wallet share within the client or gain in the client spending budget you are servicing?
- Sanjay Jalona:** So both kind, Rahul. We are obviously stealing business from other people but also doing a lot more with them in the new areas of spend in Analytics, Digital etc. Example is helping them do things that is at the convergence of physical and digital, helping them move into industry 4.0, doing a lot of robotics process automation kind of a work. These are some of the sweet spots that are there for us which is helping us do the things with them.
- Rahul Jain:** Okay. And specifically on the US bank where you said that banks are spending on changing the status quo. So is it more on the frontend side still or it is even moving towards core modernization?
- Sanjay Jalona:** It is actually on both sides. So we are doing a lot of work on digital banking, the frontend part. The people are not doing a lot of it in the US, specifically since you asked the US question. People are not changing the core banking in that speed as it is happening in Asia Pacific or in Europe. But the frontend part of digital banking, launching new products and platforms, and competing and partnering with the startup ecosystem, there is a lot of work that is going on. Specifically on the back office side, you will continue to see things on finance risk and compliance, as well as using automation as a tool to cut down the back office cost.
- Rahul Jain:** Okay. And your view in terms of better H2 is also a function of how some of your past deals would pan out, and we have seen some of the peers even highlighting that deals have not been ramping up the way it was scheduled. So, are we seeing any risk to that schedule change in terms of starting up some of these projects or we are fine with the timeline?
- Sanjay Jalona:** Absolutely no deferment and we have full visibility on these ramping up.
- Rahul Jain:** Understood. And one question on this hedges, are we sharing the rate or maybe the spread of this portfolio?
- Ashok Kumar Sonthalia:** No, I think, Rahul, we are not sharing the rate. As I would like to reiterate, we consider this as a commercial and competitive information for us. So we give you position of our hedge book, we also say that this is 12 quarters hedge book. We also have articulated our bands, how we go for the first four quarters 70 to 90, 50 to 70 and kind of up to 30% for the last quarters, I think those are quite detailed parameters for you to be able to look at how our hedge book is panning out. If you want to see any reflection of our hedging strategy doing well, I think quarter one gives ample evidence that when the rupee has appreciated our hedge gain has gone up.
- Rahul Jain:** So when you say this competitive factor, because based upon the kind of gains you may have this could be used in as a tool for competitive pricing. Is it what you are trying to implicate?
- Ashok Kumar Sonthalia:** Yes. People can kind of at least start estimating what could be our pricing strategy with this.

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

Abhishek Bhandari: Sir, my first question is, if I refer to the page 10 of your fact sheet, I noticed that the platform and the European on the geography side seem to be a bit soft this quarter. So was there any one-off or like, is there any seasonal element to it? Would you like to share anything?

Sanjay Jalona: Let us go one by one. So it is platform and Europe, right? So see, platform has two components, folks, and this is broadly if you look at the Unitrax platform, it is what contributes the maximum amount here. So, when you do the Unitrax platform, the transfer agency, there are two components to it. One is, what you get on a pay per use, transaction based pricing. There is no change on that, which is bulk and largest part of the business. Then what happens is, when you get a new customer in there, there is a customization and that kind of work. That component was not there in Q1. There is absolutely no problem and we have not lost any customer. It is just that that customization piece of work that was there in the previous quarter was not there in Q1. And just so that you know, in absolute terms, it is about \$500,000 worth of revenue. So do not read too much into it, hopefully you will see an uplift in that in Q2 itself.

Ashok Kumar Sonthalia: Just if I can add, Sanjay. In fact, the client which we have added in our 10 million bucket comes through this platform, just to let you know. So the subscription-based revenue is completely intact and growing rather.

Sanjay Jalona: Okay. So that is on the first part, which is the platform, again absolute number \$500,000 only. Now, coming to Europe. Europe was largely driven for us from France and Nordics, and Nordics quarter one had couple of less working days as you understand - 4-5 working days were less. Europe has been muted for us for the last 3-4 quarters, you would have seen. And I think we are making the right investments in Europe and with the new CBO, Satya Samal coming in, some of the sales guys coming in, and we have started making investments so that we capitalize on the other countries, which are Germany, UK and Switzerland. And I think that is where you will start seeing that in coming quarters, Europe will start giving us some support on the growth.

Abhishek Bhandari: Sure. That is helpful sir. My second question is on your margin, while we know you guide only at the PAT level at 14% to 15%, but do you have any internal metric on trying to have a benchmark on the EBIT ex-Forex the operating margin, what is your comfort band out on there?

Ashok Kumar Sonthalia: So Abhishek, as you yourself said, it is internal and not to be called out. Of course we look at it, but what I want to reiterate is that in a company where 95% is foreign currency dependent, we have a philosophy that hedging is very core to our operations and we cannot give you a band for EBIT. Guidance would remain at profit after tax, which is 14% to 15% and we are very confident that we will be achieving this.

Sanjay Jalona: Abhishek, this is Sanjay, I want to again assure you that in Q2 despite salary increments that are effective 1st July and could have a 150 basis points to 200 basis points impact, we will still see

an EBIT level increase in Q2 on a sequential basis. FY17, we have shown improvements as well, so that will continue.

Abhishek Bhandari: That is very comforting to hear. And my last question is around cash balances. Again strong cash flow generation happening and we are now almost touching 1,600 crores on the cash balance, if I look at the other income, the yield is somewhere between 6% to 7% and on a post-tax basis around 5%. It is kind of destroying value for the shareholders. So any thoughts around there on improving payout or using it for acquiring something that will be helpful?

Ashok Kumar Sonthalia: Yes, we fully understand and we are very aware of that point, Abhishek, and the Board is fully aware of this and they will take it into consideration. As we have articulated, we continue to look at our inorganic growth and certain things are always in pipeline and that would hopefully consume some part of it.

Sanjay Jalona: Abhishek, it is Sanjay. We did acquire one company last year and obviously we need to increase the intensity of that. We are very cautious, but I think we need to be a little more aggressive, which we will be.

Moderator: Thank you. We take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: So, just on the margins. Well, it is quite comforting to hear that it is going to be improved next quarter. I just had a little more longer-term kind of question. It is that, if you move into next year and let us say, the currency remains where it is, then wouldn't the hedge gain sort of come off? Will the 14% to 15% band, is that something that can still hold if you move into the next year? It is just, let us say, a question in terms of a broad theoretical understanding perspective?

Ashok Kumar Sonthalia: Okay. So, Nitin, our hedging strategy basically provides us a long road compared to other players. So, as time passes and if rupee remains at 64-64.5, of course all the hedges which are being taken now will be at a slightly lower final rate. But as far as we are concerned, 50% of our exposure is definitely hedged at this point of time at a good attractive rate. So to that extent, yes, it will protect our PAT margin, and hopefully the growth will support us to get some more margins. But giving you a firm guidance at this point of time for FY19 is difficult. As we go closer we will, of course, give our net margin guidance in the beginning of FY19.

Nitin Padmanabhan: Okay, sure. Absolutely, that 50% itself is quite helpful. Just the other thing is that EBIT margin seems to be coming off across the board in the sector overall, we have done quite well so far but this particular quarter it has come off for us as well. If you could just give us some puts and takes in terms of how do you see this sort of covering up next quarter?

Ashok Kumar Sonthalia: So, Nitin, if you would have looked at the reasons that I articulated, there is nothing that we cannot control as a management team. We are saying that this is not because of the pricing pressure on the deals. If that is the case, then yes, I would also be equally concerned on how

would we recover from that. As far as just specifically quarter two is concerned, just to give you very near-term visibility, the visa cost will not be there in quarter two. The utilization and pyramid, which kind of affected us in one quarter by 110 basis points, we expect we will recover and in fact, we may be able to get few basis points positive edge there. Because as we speak, as I told you, we are already running at 79.5% utilization. And we are running some cost initiatives, which have started taking shape and they are now firmly on ground and I am very hopeful that we will get some benefit out of that also. So largely, absence of visa cost, utilization and pyramid improvement and our G&A cost initiatives which are now firmly on ground will help us not only to recoup the entire wage hike, our endeavor is that we should be able to show you some sequential growth.

Nitin Padmanabhan: Great, wonderful. Just one last thing, Sanjay. You mentioned that manufacturing could remain weak. And also, I noticed that the client's 6 to 10 have declined even on a year-on-year basis. So I was just wondering is this related to the client's 6 to 10 and should we expect that band should remain sort of weak or...?

Sanjay Jalona: No, not directly related, Nitin. This is a little different. As I said, 6 to 10 we had one case of a pass-through that was there in Q4, which was not there in Q1. It is not directly related to manufacturing overall. See, you got to remember, where I sit today, I feel it is going to be a little softer, but you got to remember that in this area, we are actually much differentiated. We have a portfolio where there are some ERP programs that have finished and it will probably be a couple of quarters before the pipeline that we have been working on actually materializes into a stronger growth. So where I sit today, I feel Manufacturing will be a little soft compared to other verticals, but it will continue to grow for the year. Just to clarify, by soft we do not mean it will be negative growth for the year.

Moderator: Thank you. Next question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, in your opening comments you were talking of Mosaic IoT platform being comparable with Amazon IoT and all that. I did not get that quite. I mean, could you explain more on that?

Sanjay Jalona: So what I was saying was that our platform was evaluated along with GE Predix, Amazon IoT, whatever solution they have on predictive maintenance, as well as a few other platforms and we had a mention of how differentiated we are and how our customers value us. These guys do this report based on talking to various customers on their using Mosaic IoT, what we call Mosaic Things. But we continue to be partners with GE Predix, we continue to be partner with AWS IoT, AWS overall and IoT in particular. We continue to be partners with Microsoft and Azure PaaS, and we believe strongly on all the three platforms as well.

Madhu Babu: So our own platform, that is what exactly I wanted to know, because these opportunities would be in implementing the third-party platforms like...

- Sanjay Jalona:** Let me try to explain this. What these three platforms AWS, Microsoft, GE Predix and there are few others, they are very expensive platforms, right? What we do with Mosaic IoT, for example, Mosaic Things is to provide point solutions to solve point problems in various verticals, right? So with that it is not a full blown GE Predix kind of a solution, but it has got point solutions. So that is the way you need to look at it.
- Madhu Babu:** Okay, understood. And sir we have been talking of back ended growth. So second quarter also you are looking at like 1.5% kind of CC growth or similar...?
- Sanjay Jalona:** We do not give any guidance my friend, but H2 is what will be strong.
- Madhu Babu:** Yes. And just one last question. Sir, if you see, I think lot of other companies there has been a kind of very tight headcount reduction, at least at Infy and TCS we have seen that on a year-on-year basis. But for us, if you see the headcount, I think 15% Y-o-Y growth as of 1Q, which appears very high. I mean, how would we see the headcount going forward?
- Sanjay Jalona:** See, obviously all the tough questions you folks have asked me on the margin is also a reflection of 1,300 people being added, right? But we are positive about the growth; we are positive about the pipeline and what we see as top customers. So that is why we have inducted all the people. And throughout the year it might not be at the same pace, but we will definitely be adding people.
- Moderator:** Thank you. Next question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.
- Sudheer Guntupalli:** For the last 3-4 quarters the Company has been reporting steady growth in margin performance. So going forward, over the next two years, what is the biggest risk that you see that can potentially disrupt this revenue growth and margin momentum? I am talking about risk specific to LTI rather than macro risk like INR appreciation or US protectionism or weakness in BFSI etc. And for such risks what is the strategy that we have in place to successfully encounter that and continue this momentum? Thanks.
- Sanjay Jalona:** Sudheer, you have asked a very important question. Look, this risk and challenges have not changed in a short while. You always depend on two basic things. One, do you have the best people in your organization, both to create the best solutions, be at the cutting-edge of technology, have the right people who can consult, co-create with the customers, so right people both in sales and delivery, simplifying, that is one thing which keeps you worried all the time. This is where you keep attracting the best talent; you keep creating succession plans for people, I keep advocating to people that we need to have at least 3 people who can actually take over my job, for example, if I get run over by a truck. So having a good set of people is one definite thing. Second thing, the pace at which the technology is changing is far higher than ever seen in this industry for the last 3 decades, and that requires nimbleness for the organization to adapt to new technologies, invest in platforms such as MOVE, get the people and create an urgency with the people and the employees to tell them that there is no option to learning. And that is another

thing that keeps me worried, our people taking the interest and I am happy to see the kind of initiatives that people are taking to upskill themselves to the new technologies because of the rapid changes that are happening in the marketplace. So these are the core two things that I worry about.

Sudheer Guntupalli: Okay, sir. In terms of service offerings, do you see any gap when we benchmark ourselves with global peers or the bigger peers in India and where we are working to possibly close that gap and put ourselves ahead of them?

Sanjay Jalona: Sudheer, we are a \$1 billion company. The other companies are much larger companies. But what the new technologies have given us is that, some of these technologies are so new that the body of work that we have is comparable to anybody else, right? We keep working on enhancing the capabilities, we enhanced capabilities on Digital in the last two years, we enhanced capabilities in Analytics; we enhanced capabilities in the Cloud. For example last quarter, we hired probably one of the best guys on cyber security, he is based in North America, and we are building a very strong practice in cyber security. So today, where we stand, I think we are able to compete in the five areas that are of focus for the Company. We have built strong leadership team, we are building IPs and solutions in those capabilities, and where I sit today, I do not see a wide gap in any vertical that we operate in with any capabilities that comes from service lines.

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

Sandeep Shah: Sanjay, just one question in terms of the digital adoption. Do you believe that the adoption scale at the client has been increasing and this is beneficial? Because for you it is a respectable size with almost 30% of the revenue. And with that, is it the competitive landscape has been changing, which is moving more in favor of larger peers like you and other larger peers of yours?

Sanjay Jalona: So, I think, by and large, and I read some reports, I think this is the favorite pastime for everyone, everyone is estimating what the numbers will look at 2020, 2025, 2030. And they have been talking about maybe 20% digital business spend for the customers will come go up to 80%, by 2025 odd year. I think sooner than later this whole classification of digital etc. will actually disappear, simply because it will become mainstream. Because that will be the only way of doing business. Customers will use new technologies to do the business. So we do expect this number will continue to ramp up till this classification actually disappears and that becomes the norm that becomes the basic way the things get done in the future. That is how I see it.

Sandeep Shah: Okay. And is it more deals in the pipeline where there is more demand for the integration touching the core with the frontend digital?

Sanjay Jalona: Oh, definitely. As I gave some of the examples, one, the European business where we are taking SAP, enterprise implementation to cloud, that is a basic new way of doing things using digital technologies. Second example I gave was the core banking, people are not touching much in

North America, but using the frontend technologies and digital technologies to provide faster, better products to the customers.

Sandeep Shah: Okay. And just last question for you, the IMS has been growing, but you also said that it has been largely growing through cloud migration and the new services adoption. But is it on the traditional side of the IMS, do you believe that there is now the pipeline of deals are been much lower because that is some commentary we are getting from the larger peers?

Sanjay Jalona: Definitely, I was looking at some KPMG report a few weeks back and traditional infrastructure businesses deals would have probably seen a decline of 20 odd percent. But the new age infrastructure deals are more than compensating for them. Given that our portion of IMS is much lesser and we do not have a drag coming from older traditional revenue stream where there is a lot of automation etc. that has happened. We see a lot of pipeline for new age infrastructure deal that has helped the growth.

Moderator: Thank you. Next question is from the line of Harsh Kundnani from SBICAP Securities. Please go ahead.

Harsh Kundnani: Just wanted to understand what affected the cash flow from operations in this quarter?

Ashok Kumar Sonthalia: Okay. Harsh, you have the DSO number, which increased by one day and accruals have inched up by five-six days. And then there were some one-off items, like related to tax payments and some salary payments etc. and on treasury accounts. But there is nothing secular about this. I think we will continue to generate healthy cash flow going forward. There is nothing structural which has impacted this.

Moderator: Thank you. Next question is from the line of Duby Rex from ithought Financial. Please go ahead.

Duby Rex: See, I understand we have a major focus on the digital technologies and things related like making 29% of our revenues. My question as an investor what would be the metric I would be looking forward to measure that as a success from a financial point of view? Would revenues per employee be a correct metric?

Sanjay Jalona: I think the first and foremost success factor you need to look at would be the growth for the company itself simply because the customer spend will shift to these newer technologies. If a company is growing because the customer is spending only in these technologies, that is a direct correlation for that. Second way of looking at this is, and that we have started calling the growth on the Analytics pieces of the work because nobody is doing too much of transactional BI. People are doing all predictive maintenance, Semantic Web and that kind of thing which gets highlighted in those pieces of business. So these are the two data points that I think could help you understand that.

Duby Rex: Okay. But when I do a peer-to-peer comparison that would hold, is it? We would not have to lay much emphasis on the revenue per employee and things like that, is it?

Sanjay Jalona: We have definitely seen a tremendous change in revenue per employee for ourselves. I cannot comment on others. But I do not know whether I can fully correlate that with the growth in the digital revenues.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to the management for their closing comments. Over to you, sir.

Sanjay Jalona: Folks, Sanjay here. Thanks everyone. I look forward to interacting with you through the quarter and then again at the next earnings call. Stay tuned. Thank you. Good luck. Goodbye.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of LTI Limited, 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)



Contact Information

Investor Relations: Nitin Mohta, Head of Investor Relations
Tel: +91 22 6776 6192/ 6230
Email: investor.relations@lntinfotech.com

Registered Office:
L&T House, Ballard Estate,
Mumbai 400001, India

CIN: U72900MH1996PLC104693

<http://www.lntinfotech.com>