



“LTI Limited Q2 FY 2018 Earnings Conference Call”

November 07, 2017

**MANAGEMENT: MR. SANJAY JALONA – CEO AND MANAGING
DIRECTOR
MR. SUDHIR CHATURVEDI -- PRESIDENT (SALES)
MR. AFTAB ULLAH -- CHIEF OPERATING OFFICER
MR. ASHOK SONTALIA -- CHIEF FINANCIAL OFFICER
MR. NITIN MOHTA -- HEAD (INVESTOR RELATIONS)**

Moderator: Good Day, Ladies and Gentlemen, and a very warm welcome to the LTI Limited Q2 FY 2018 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Mohta -- Head of Investor Relations. Thank you and over to you, sir!

Nitin Mohta: Thank you, Ali. Hello, Everyone. Thank you for joining us today to discuss LTI's Financial Results for the Second Quarter Fiscal 2018.

The Financial Statement, Press Release and Quarterly Fact Sheet are available in our filings with the Stock Exchange and at the Investors 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. Hello, Everyone. We delivered a solid Q2 with US dollar revenues of 270.6 million. This translates into industry leading revenue growth of 4.4% quarter-on-quarter in U. S. dollar terms and 3.5% in constant currency. Our focus to deliver profitable growth and tight cost execution helped us deliver net profit margin of 14.9%. This is at the higher end of our guidance band.

Key highlights of this quarter has been our momentum in the large deal space. Since we last spoke we have signed two large deals. Let me give you some color on them.

First one is a new logo win. A European CPG company has selected LTI as a global SAP MS partner, covering over 17 locations and providing support across 8 different languages. The TCV of this win is close to \$50 million over five years. What makes this win even more special is that despite the lack of existing relationship, we were able to convince the client of our capabilities and ability to deliver a global solution.

The second large deal is a transformational engagement to provide application development and support services to a leading African bank. We won this deal due to a combination of factors, including automation-led solution, business and analytics capability, superior client focus, and strong employee proposition.

As you can imagine, we contested and won both the deals against global majors as well as larger industry players.

One of the key contributors of our growth has been our focus on digital and I wanted to spend some time today talking to you about our point of view on digital.

We are very excited to see how our digital strategy is evolving with unprecedented speed of change in our clients' businesses. Digital is not about just transforming our clients' business. It is creating new businesses and new paradigms for them. Being relevant in these times of change is not just about building and strengthening digital capabilities and counting share of businesses from these capabilities. It is not about being an IT consulting company supporting digital transformation either.

We believe it requires an all-in strategy. Hence, we now look at ourselves to be a digital company in the business of helping our clients build their digital business and thrive in the digital era. We are driving this transformation across five dimensions.

Number one, digital embed. All our services are changing as we see these technological changes in the marketplace. We do not believe there is legacy business or traditional IT business anymore. Everything is digital and we are disrupting status quo by embedding our services with digital levers to transform outcomes for our clients.

Number two, new ways of working. We are changing the way we work and collaborate internally. Our methodologies, like design driven delivery help us collapse layers and be more agile for our customers.

Number three, ecosystem integrated. It is impossible for any partner to deliver on the promise alone. We are constantly investing in becoming an ecosystem integrator and bringing the collective innovation of our partners to our clients.

Fourth one, measuring business outcomes impacted, which is going beyond traditional IT SLAs to measuring the business outcomes which we have achieved for our customers.

And finally, building new capabilities and constantly enhancing our IP and our teams to deliver accelerated and impactful solutions to our clients.



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We believe the journey has just begun and there has never been a better time to be in our business.

Given this backdrop, it is heartening to note that in Q2, we signed the first license sale of our LTI Mosaic platform, winning against all the known platforms in the marketplace. A U. S. based global insurer selected Mosaic decisions our analytics platform, to improve customer experience for them.

We have delivered \$4 million worth in savings per year to the customer using this platform. This is a testimony to LTI's ability to provide innovative and IP-led solutions that help us differentiate and win in the marketplace.

We have also launched LTI REDaxis - an Accounts Receivable Analytics suite for CPG and Retail enterprises, deployable both on-premise as well as on Cloud.

I would also like to share with you the work we are doing on a couple of very interesting projects using the Blockchain technology. So first one is for a U. S. based high tech company. LTI is facilitating inventory financing program by on boarding the banking partner, the supplier and the client themselves onto a single Blockchain platform. This project would enable the client to keep unutilized inventory of their books, lower cost of on-boarding suppliers and provide transparency and auditability to the whole purchase order placement and modification process.

Secondly, for a global CPG major, we are bringing end-to-end visibility into their supply chain as the raw material goes from the farmers to the manufacturing plant by on-boarding all the external parties like the suppliers, forwarders and shippers and customers on a common Blockchain based platform.

This visibility provides the buyers and planners the tools to bring down the cost of inventory and take preventive measures in case the material is stuck with any particular participant in the supply chain.

I just wanted to give you a flavor of Blockchain solutions being used outside of BFS. Therefore, CPG and High-Tech manufacturing companies' examples are very relevant. Blockchain is gaining relevance outside of BFS.

All these wins and recognitions in digital technologies are also translating into financial performance as you can see the traction in our digital service offerings in our quarterly fact sheet. Digital now represents 32% of our revenues, up from 29% last quarter.

Our focus and capabilities on five key areas of analytics, digital, automation, IoT, and cloud are getting recognized by the tech analysts as well. Some of the key recognitions we had in Q2 are

a recognition as an “Azure Emerging Partner of the Year” and being recognized as a “Major Contender” in Everest Group 2017 Automation in Application Services PEAK Matrix.

Coming to industry specific numbers and trends:

Let me give you a highlight, starting with BFS:

We delivered 6.3% quarter-on-quarter growth in BFS. Our revenue performance for H1 validates the optimism we have shared with you for BFS in the last three to four quarters. The anxiety towards FinTech and Blockchain has subsided to a certain extent as banks see these as technology enablers rather than mass disruptors.

BFS plan continues to be a part of the transformation, creating new revenue streams for banks and optimizing costs. Our long association with key clients, understanding of their business and investment in account management teams through programs like Minecraft and ADEA has positioned us well.

The work in BFS is gradually moving to digital-led agile models and we see digital and data driven technologies powering our BFS growth going forward. We had a robust book of business in our largest client on cognitive RP. Also, for one of our European BFS clients, we are developing micro payment solutions using Block Chain.

Moving on to Insurance:

We saw 4.5% quarter-on-quarter growth. Life Annuity Insurers are focused on digital, optimized workflow and operating efficiencies as they face changing customer expectations and continuing interest rate margin pressures. Property casualty insurers are focused on analytics and speed-to-market as market competition and threat of adverse selection drives their need for better and faster product deployment. During the quarter, we added a leading global health care research services organization as a new client for maintaining and transforming their network infrastructure.

Moving to Manufacturing:

We witnessed, 1 percentage point quarter-on-quarter growth in this vertical. We had called out manufacturing to be soft in Q1 and Q2, which was expected. Our expertise in this space is second to none.

For example, for L&T itself, we are implementing a large scale IoT and analytics project that is one of the biggest in this part of the world. We are working across three high value themes, manpower, machine and material and using the digital technologies to improve productivity of

labor and assets, providing visibility into utilization of these assets and in turn, help increase profitability.

Energy & Utilities:

We had a steady sequential growth of 7.2%. You would recall three large deals that we had announced earlier fall under this vertical and those deals have started kicking in now. There is some improvement in this sector yet we still witness a cautious trend in spending by our oil and gas clients in North America. Discretionary spending is opening up a bit. But the focus is on selective projects that deliver early results.

Moving to CPG, Retail and Pharma:

Multiple new accounts that we opened over the last 12 months have started to contribute to our revenue momentum, as evident in the 10.4% sequential growth in this vertical. CPG would be our innovation focused segment as the industry is facing twin challenges of competition and cost pressure and clients are receptive on automation, smart manufacturing and digital supply chain solutions.

High-Tech and Media:

Another vertical where we have double-digit sequential growth in Q2, similar to our narrative on CPG space. Some of the new logo wins in High-Tech have started contributing strongly to our revenues.

For Media and Entertainment:

It is the age of connected and smarter media. Delivering interactive content for IoT-enabled ecosystem, adoption of Blockchain technology for increased accountability across various production stages and driving transparency in the area of customer engagement, rights and royalties is on the rise.

AI is driving companies to evolve newer business models to build better metadata to monetize content. Direct-to-consumer models are bringing media companies much closer to their consumers.

Our Others vertical includes clients present in the areas of defense, travel and logistics and services. For one of our India based projects we have reached towards the end of the implementation phase. This has resulted in de-growth of revenues for this vertical in Q2.

Some color on service lines. Analytics, AI and cognitive service line led the growth for this quarter with a solid 17.8% increase quarter-on-quarter. Similarly, we witnessed double-digit

growth of 12.5% quarter-on-quarter in enterprise integrity and mobility service lines as well. All our service lines with the exception of IMS grew sequentially in this quarter. As flagged earlier, the end of an India based project has skewed the reported performance for IMS in Q2. We expect the IMS service line offering to do well for us in FY 2018 with H2 performance to benefit from the large infra deal we had announced earlier this year.

Before I hand over to Ashok and he shares with you the financial details for Q2, let me share some broader thoughts on FY 2018:

We are very happy and satisfied with our pace of revenue growth that is being driven by increased penetration of digital technologies in our accounts.

Our point of view on automation, digital, AI, IoT, and cloud is resonating well with the clients and helping us win large deals. After an industry leading double-digit growth in FY 2017, we are well on track to beat the benchmark in FY 2018.

On the margin front, we did have a soft Q1 and despite the wage hike headwinds, we have delivered on our promise in Q2 to improve our profitability at the operating level, excluding the hedge gains.

At net profit levels, we remain committed and fully confident of delivering FY 2018 net profit margin in the 14% to 15% band.

With that, let me hand it over to Ashok to give you the financial details.

Ashok Sonthalia:

Thank you, Sanjay. Hello, everyone, on this call. It is great to be back to all of you with another good quarter which is sixth post our listing.

Let us go through the headline numbers in detail. The revenues in quarter two stood at USD 270.6 million, growing 4.4% sequentially and 12.9% on a year-on-year basis. This corresponds to constant currency growth of 3.5% and 11.7%, respectively.

Reported revenue in INR terms was Rs. 17,508 million. If you look at the last five quarters, our year-on-year revenue growth has consistently accelerated from 7% in quarter two FY 2017 to 12.9% in the current quarter which reflects the good growth momentum we have been able to achieve.

Our quarter two profit after tax came in at INR 2,730 million, which is up 2.2% on quarter-on-quarter basis and up 17.4% on a year-on-year basis, clearly outpacing our revenue growth. PAT margin for quarter two was at 15.6%.

Our operating margins improved by 10 basis points to 14.5% versus 14.4% a quarter ago. Revenue growth, disciplined project execution, and relentless cost management helped us deliver sequential improvement in margins despite absorbing full impact of wage hikes and promotions in quarter two.

I would like to call out some of the factors that impacted margins. Increments and promotions contributed negative 180 basis points. Improved utilization contributed 70 basis points. Absence of Visa costs contributed about 20 basis points. Better realized rates and revenue mix explains the balance improvement and mitigation of headwinds due to lower working days.

Now moving on to the employee metrics.

You can notice a remarkable uptick in our utilization in quarter two. For the quarter, it stood at 79.6% including trainees and 80.7% without trainees which is up by 190 basis points and 240 basis points respectively on a quarter-on-quarter basis.

Net employee additions during the quarter were 233 and for the full first-half it was 1,531 employees. Attrition for the quarter was 15% on an LTM basis compared to 14.7% in quarter one.

Now moving on to our FOREX and hedge book. We continue to execute on our well defined hedging strategy. It has served us well during appreciation of INR over the last two quarters and has kept our PAT margins in good health. Cash flow hedges stood at US\$ 779 million and balance sheet hedges stood at US\$ 120 million as of 30th September.

Effective tax rate was stable at 23.2% for quarter two as against 23.4% for quarter one. EPS for the quarter was at Rs.15.95 per share while diluted EPS stood at Rs.15.6 per share.

We are glad to announce that the board has recommended an interim dividend of Rs. 8 per share which translates to a payout ratio of 30.5%.

Now coming to DSO.

DSO for quarter two stood at 76 days as against 67 days in the previous quarter which is a drop of nine days, due to a combination of operational reasons. We are working on it and expect it to show improvement in quarter three.

While increased working capital is the key reason for deterioration in operating cash flows, seasonal factors like payment of annual incentives and advance tax also hurt us in quarter two.

Operating cash flow stood at 1.9% of total revenue for the quarter. With our focus on cash collection and efforts to bring back DSO to normal levels, we expect cash generation also to

improve in quarter three. Cash and liquid investments as on 30th September stood at INR 13,368 million.

With that, I would now like to open the floor for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: My first question pertains to the outlook on the large accounts. I mean, how should we really look at it going ahead in terms of concentration? So I mean, is it fair to assume that we will be looking at some form of de-risking ahead or do we think that we can continue to grow that portfolio at company average or higher based on pipeline and wins?

Sanjay Jalona: See, the way we are looking at all other customers with focus on Minecraft, analytics and digital in every account, we are seeing tremendous opportunity all across. But where I sit today, and I look at top 20 accounts - top 30 accounts we will have a consistent growth in these accounts. I do not see accounts ramping down at all. But at the same time, with the large deals that we have announced, we also see an opportunity with some of these new accounts that we have announced to start ramping up and growing much faster than the company growth. So we are all positive on the large accounts.

Apurva Prasad: Great, all right. And on the margins, I mean, how should we really be looking ahead on that in terms of levers to improve profitability at the operating level?

Sanjay Jalona: So we have given a guidance of 14% to 15% net margin and that is the one that we are sticking to. Whatever we are able to derive from the operational levers, we want to invest back into the business. We want to be seen as a growth company. But we will continue to operate at the highest level at our operational levers as well. Be it utilization, be it role ratios, be it on-site ratios, offshore ratios, we want to be the best in there. But whatever is available to us from these levers we want to invest it back in the business.

Apurva Prasad: Right. And I think, I missed the TCV of the second deal.

Sanjay Jalona: So there are some sensitivities involved with that TCV. So if you can give us a few weeks, there will be a Press Release on that. The sensitivity is with the customer. There will be a Press Release on that, so give us a few weeks but you will get all the details there.

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



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- Nitin Padmanabhan:** Sanjay, I actually had two questions. The first one is the African Bank deal, was it a win against an existing incumbent when you gained share?
- Sanjay Jalona:** Yes. We are not incumbent in that part of the business.
- Nitin Padmanabhan:** Yes. And the second was, from a digital perspective it has grown nicely to 32%. Just wanted your thoughts in terms of whether clients are more amenable to rate increases today?
- Sanjay Jalona:** So Nitin, I think overall, rates are stable. It is more about value delivered and total cost of ownership rather than what rate, how do you use the digital levers that you have, be it automation, etc., to reduce the costs but at least provide well. So I would leave it at flat and stable rates while the momentum is shifting to using new technologies in everything that they do.
- Nitin Padmanabhan:** Okay. So it is not that there is a tightening of supply and thereby you are able to price higher. That is not the case as of now?
- Sanjay Jalona:** We are getting some price points increases but it is not everywhere, right? So, there is nothing to specially call out and say there is yes, price increase right now.
- Moderator:** Thank you. We will take the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.
- Ashish Chopra:** Sanjay, just as a follow-up to the previous question. I do not think, you disclose the billing that happens between fixed price versus time and material. But just to get a sense given that most of your growth seems to be having an embedded digital element. If you could just share some thoughts on the popular choice of pricing models that you are going out in the market with and typically what is really the standard in terms of the business models or the pricing models within these newer areas of businesses?
- Sanjay Jalona:** Yes Ashish, all kinds of pricing models are prevalent. We are seeing definitely a move and we ourselves feel very strongly towards providing outcome based models where our remuneration is linked to the value that we deliver to the customer. Time and material continues, fixed price continues, but you know obviously because of DevOps and Agile kind of model you are seeing a lot of contracts converting back to time and material as well. But they are outcome based models as well at the same time.
- Ashish Chopra:** Okay. Is that a significant portion already or would that be relatively negligible in the overall mix today?
- Sanjay Jalona:** Not negligible, not a large number as well but it is increasing.



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- Ashish Chopra:** Okay. And secondly, though you have touched upon it a couple of times but I just wanted your thoughts on Europe as a region. Would that in part be coinciding with the slight softness in manufacturing for you?
- Sanjay Jalona:** No. Europe overall, as I have said is an invest geography for us. We had announced a new leader, new Chief Business Officer in Europe -- Satya, joining us a few quarters back. As we are in the invest phase there. But in the meantime, we have announced two large deals, one in Q3 of last year, we announced the utility company in Continental Europe, Second, this quarter, we are announcing a \$50 million CPG company where we are doing SAP and AMS. So you would see Europe putting their weight behind in the growth in subsequent quarters as well.
- Ashish Chopra:** Got it. And just lastly from my side, so how do you view the seasonality in the wake of growth from newer segments? Do you see enough opportunity for you to probably offset that given that the businesses won in digital, should continue to grow? Or you expect to be hit in the second-half just because of the furloughs?
- Sanjay Jalona:** You are talking about seasonality between H1 and H2 or seasonality in some verticals?
- Ashish Chopra:** No, mainly in H1 - H2, and I was just wanting to know whether your momentum in digital can help offset that.
- Sanjay Jalona:** We have always said H2 will be strong and we continue to maintain that H2 will be strong.
- Moderator:** Thank you. We will take the next question from the line of Sandeep Shah from CIMB. Please go ahead.
- Sandeep Shah:** Just on large deals, I think, it is very pleasant to see that on an ongoing basis we are announcing the same. Sanjay, just wanted to understand, is it a deliberate effort behind the large deal and will it help to carry on this momentum? So, can you give us what are three or four different things you have done to chase the large deal and win the large deals?
- Sanjay Jalona:** I will request my colleague Sudhir, to answer that question.
- Sudhir Chaturvedi:** Hi, Sandeep. So, I think, from a large deal perspective what we are seeing is two areas that are driving large deals for us. One is the enterprise solutions business and let me just cover this first. So in enterprise solutions, what we are seeing is the new economy products and whether it is SAP, or it is Oracle, or Salesforce, they are actually driving a new generation of growth within our clients' core modernization initiatives. I mean, the clients are looking to modernize the core, this is giving us growth opportunities. So that is a key area of focus for us. That is a traditional area of strength for us. And our proactive investments in building capabilities, in new technologies, are helping us secure some of these deal wins against global majors and larger industry peers. The second is on the application side and the infrastructure side. This is where it

is essentially automation-led largely. So with our entire story around our Mosaic platform and how we are approaching this with an automation-led efficiency vision, we are actually helping clients understand that we have a very strong proposition in this area. But we are not just leaving it there. What we want to do whilst we automate and make this application infrastructure services provision more efficient, we are also looking at the personas that we provide these services to. This entire persona-based approach of providing a really high-quality customer experience with high levels of efficiency is helping us create a proactive go-to-market message that is helping ourselves in the market. And the third aspect, which is there is belief in the organization that we can do these large deals, as you said, we have been consistent in announcing them. So what we are seeing is, that is also adding to the multiplier effects within the company as well as within the community that we are a player in the space.

Sandeep Shah: Okay. And just if I am not wrong I think one year back around similar time, we have announced the TCV of large deal we are chasing. Can you update what is the TCV we are chasing now?

Sanjay Jalona: Sandeep, I mean, you do remember what I said back in the Analyst Day last year. So yes, I had mentioned a number of \$250 million of large deals. And I think, what we have done is delivered on what we had said we would do. When you attend our Analyst Day this year, I will give you some more flavor as to what we could expect next year.

Sandeep Shah: Okay, fair. Just one question on the book keeping. On the depreciation side and amortization, with a lot of intangibles also on the books I think that number on a Y-o-Y basis has been going down. So is this is a normal run rate to expect going forward? Just a view on that.

Ashok Sonthalia: So in answering first part of your question. The intangible mostly comes from our platform in Canada where a lot of development work happens and those are the intangibles. I think the current run rate is a good indication that this is what is going to be there. Last year quarter two depreciation which was slightly on a higher side if you look at it was because of comprehensive review of all the intangibles and investments we have taken. And wherever we had a view that they do not have future benefit, they were taken off the books. But now, I think, we are at a normal and stable level.

Sandeep Shah: Okay. And just last one on African logo, where we are not an incumbent. So the incumbent was an Indian vendor or a global vendor?

Sanjay Jalona: I think, Sandeep, it does not really matter. So we were not the incumbent. It is net new revenue for us. But it is not a new logo for us, right? Just to be clear. The new logo for us is a European customer. Here, we are not incumbent in this piece of business that we are announcing today, and we just took it over from somebody else.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.



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Gaurav Rateria: Hi, two questions. Firstly, do you think automation has now become table stakes for winning the infra and application deals? Or do you see some resistance from the incumbents with respect to automation because that is going to cannibalize their own revenues?

Sanjay Jalona: No. I think, Gaurav, you know these technologies are very prevalent all across. So if an incumbent is pushing back on automation he will be incumbent no more. I think this is very clear. We need to eat our own businesses. We need to bring in automation, provide value to the customer, as and when things keep moving; do more with less. And normally, what we have seen when we have gone with newer ideas to customers on automation, the customer has typically said, "Okay, you are saving me money here. I need something else to be done. Can you do that as well?" So we do not see a drop on that. So this is approach that we are seeing, taking with our customers. But overall, automation is totally our table stakes in support infrastructure kind of deals.

Gaurav Rateria: So Sanjay, question is that how is it helping you to win new clients? If it is kind of a table stake and the incumbents would also be willing to eat their own business then how does it help you to win new clients, especially in the infra and applications?

Sanjay Jalona: So the way it works, Gaurav is - do you have the right tools yourself, do you have the right knowledge of the industry where you can apply these tools. Whether you are partnering with the ecosystem of players, bringing the best of theirs to automate, and provide an experience for customers? All this is relevant. Now, everyone will not have the same sets of tools. Everyone will not do the persona-based experience you design for people who we are supporting. So when you do provide that kind of an automation tool set in the solution and bring it with the persona-based superior experience for the stakeholders, that is what helps us win the deals.

Gaurav Rateria: Sure. Last one from me. Sanjay, where do you think we are in the whole cycle of digital refresh? Do you think this cycle is going to last for another few years? Or we are already kind of penetrated to some extent and it is another one year - two years and then it starts becoming more commodity kind of work?

Sanjay Jalona: See, I do not know what is commodity, what is digital, what is exponential. It is basically in the good old days, it used to be Mainframe, .NET, Java, Client-server that kind of a thing. Today, you have IoT, cloud, social, mobile, augmented reality, virtual reality, and I can just keep naming things, right? There are newer ways of doing things. All of us carry supercomputer of sorts in our pockets and you know that was not available 20 years back. So the ability to compute with nodes is making these technologies relevant and even this tectonic shift of doing things in a way. And as things keep coming in, right and newer ways of doing businesses continues to evolve you will see continuous usage of these technologies, these megatrends to be incorporated in the oldest of industries and that is actually what is happening. The L&T example that I gave, this is digitalization of the largest EPC companies in the world. And where you are looking at how do

you do the plant machine and material digitization, right? And that is just the beginning. And how do you take that to even an EPC company is quite phenomenal. So this shift will continue.

Moderator: Thank you. We will take the next question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: I had a question on these enterprise solutions. It is good to see that after a long time, this ailing service line for us has started coming back on growth track. Do you think this is sustainable, from a medium-term, like this is again growth company level average if not higher?

Sanjay Jalona: Look, I think we feel strongly about enterprise solutions and I have mentioned in the past as well, that enterprise solutions for us will continue to grow. I do not have a very clear answer on how it will grow but I will give you a flavor of what is happening. Our growth in enterprise solutions is driven by new economy products, software, product vendors like SAP, Oracle, Duck Creek, Guidewire, and Salesforce are investing in new economy products. And we are seeing faster adoption of these products as part of our clients' own modernization efforts. Our proactive investment in building these capabilities, sales and consulting, and implementation capabilities is helping us win these new deals. These deal wins are at an early and consulting stage. Now as time progresses, some of these will ramp -up. As what happens in project based economies, some of these will come down. But we feel strongly that it will not decelerate for us. It will not be a burden for us and we feel strongly about that.

Abhishek Bhandari: All right. The second question is outlook for second-half. If I recollect correctly, you had mentioned that the ramp-up of the large deal wins will continue and H2 would be better than H1. So does it mean that H2 could grow on a year-on-year basis higher than 12.5% what you are tracking on H1?

Sanjay Jalona: We feel strongly about it. So let us just leave it at that. Yes, momentum is there but you have furloughs. But we still feel that we are well-placed for H2. Year-on-year growth will continue to be strong, it will accelerate.

Abhishek Bhandari: Sure. And my last question is on payout. It is good to see that there is an interim dividend of Rs. 8, has there been any rethink at the board level to step up the dividend payout to reward the shareholders?

Ashok Sonthalia: I think this call will be again, taken when we close the year and we will report full profitability growth to the board. So at that point of time, the subject will come up. Last year, you remember, we had done 35%. So from there, where do we go, I think, Board will discuss and that would happen only at the close of the year.

Moderator: Thank you. We will take the next question from the line of Rahul Jain from Emkay Global. Please go ahead.



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Rahul Jain: Yes, so one question on the non-digital piece of the business. If we see this business, constant currency basis has been flat or rather flat to down from a Y-o-Y basis as well. So how we see this trend for us going forward?

Sanjay Jalona: I do not know what you call as non-digital business. I am assuming you are referring to ADM part of the business. Is that what you are referring to?

Rahul Jain: So I am saying, when we say 32% of the business is digital, the rest of business is what I am talking about.

Sanjay Jalona: No, but that is growing at a good clip as well. You got to look at it as a service line, right? Either you take a service line view. When you take a look at service line view, ADM will not grow at the company's pace at all, right? But enterprise solution is growing, analytics, cognitive work will continue to grow at fast clip. Last year, we grew 35%. This quarter, we have grown 17% quarter-on-quarter. Enterprise integration, API application in this new digital economy will continue to grow at double-digit numbers. IMS for us will grow in double-digit numbers. Enterprise solutions will grow but might be less than the company average. That is the way to look at it. Now even in IMS, you will do cloud work, you will do New Age, SAP, Oracle work, which are very digital in nature, so on and so forth. So you have got to look at it maybe more from the horizontal side.

Rahul Jain: Okay. And off late, we have seen more traction from an offshore volume perspective. Is it a one-off thing in the last couple of quarters, is there some trend in terms of how projects are maturing?

Sanjay Jalona: No, I do not think there are any changes on onsite, offshore ratio. There is a marginal change in ratios but that happens when some projects ramps-up in one part of the world. It is stable for us.

Rahul Jain: Okay. And any colors you could give in terms of any new initiative that we have added of late? For example, the implementation partnership with Apttus or any other thing that may have happened?

Sanjay Jalona: So there are many partnerships and working with start-ups that we continue to do at any given point of time, Rahul. And as I said, the future belongs to companies that bring the best of what is existing in the world to our customers. Apttus is one of them. But there are many-many more that keep happening. I think we have published in the past on MIT, our partnership with MIT's Center for Information Systems Research and we did have a few of our customers go and meet the kinds of projects that are going on there. We want to bring best of innovation happening in all parts of the world through our solutions we bring for our customers and make them aware of what is happening. We talked about the Minecraft program for mining accounts. We talked about ADEA for analytics and digital in every account. We are also looking at how do you drive more \$1 million account and move them to \$5 million to \$10 million to \$20 million accounts as well.



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Rahul Jain: Right. And lastly, on this one Mosaic license that you spoke about, how it changes things for us now?

Sanjay Jalona: It is a testimonial on our investments on IT. I still believe there are too many platforms in the marketplace and everyone talks about platforms whereas, we should all be talking about outcomes. So the focus and larger pivot for our organization is on outcomes. We want to use all of the tools, the platforms and solutions that we built, but provide outcomes to our customers. But what is important at times is for customers when they evaluate multiple platforms that are available to them be it the Indian peers or the global majors and then they evaluating our platform as the choice for them, it is a testimony for us that we are investing in the right things. It is a testimonial that we understand what is actually happening in the marketplace. So it gives a lot of belief and confidence to us to keep investing in these differentiators.

Rahul Jain: So I mean to say, when this project actually goes live, which would probably may help further to leverage this?

Sanjay Jalona: Rahul, we do not give project specific details. This was an important aspect for us to share with you that we are even seeing some traction in the IP that we use, normally as an enabler to provide outcomes to our customers. Don't look at it from any other perspective. It is just a belief that customers have on our differentiated capabilities and IPs.

Rahul Jain: Sir, just maybe you can tell me that does it make a real big difference once any such project is live from a customer belief perspective?

Sanjay Jalona: Of course, it makes a difference. The customer is going to save a tangible amount of money using this platform.

Moderator: Thank you. We will take the next question from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Yes, just to follow up. I think, Sanjay, in the television interview, you said that you are also confident for the CY 2018 or FY 2019. So is it based on a current book of business? Or you believe that the momentum on the large deal wins will continue that will also give you a better FY 2019?

Sanjay Jalona: Sandeep, I thought you were going to wait for me to talk to you rather than listen to the TV media. Overall, we are positive. I think, the momentum that we see on our accounts, the solutions that we are taking to them, the pipeline, the order book, as well as the two large deals that we have announced, give us the confidence not only on this year i.e. FY 2018 but also FY 2019. Last year we did 10% revenue growth. And what we see ahead of us, I think we are confident on doing better than last year in FY2018. With the two large deals, I think, the next year will probably be even more interesting.



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- Sandeep Shah:** Okay. And just the top 11 to 20 accounts in this quarter is almost like a flat to a marginal growth. Anything to read because we are adding a lot of new logos, a lot of large deals, and there is a good progress in terms of decentralizing from a large account?
- Sanjay Jalona:** No, I do not think you should read too much. See, for a company of our size, some of the large India based projects also end up being in the top 11 to 20. And I do not know any other way to depict them because they are at that revenue in that quarter, right? And some of these India based projects come to an end because you implement and then you move on. It is not as if you will keep doing projects after projects like a global account. So that is what actually typically happens.
- Moderator:** Thank you. We will take the next question from the line of Ashish Agarwal from Principal Mutual Fund. Please go ahead.
- Ashish Agarwal:** Sir, most of my questions have been answered. Just wanted to get a sense on this hedging gains, how should we look at hedging gains going forward? Because it is a substantial chunk of our PBT. Just wanted to get some idea on that?
- Ashok Sonthalia:** Okay, Ashish. We have articulated earlier also that our hedging strategy is slightly differentiated compared to our peers. We run a hedge book of 12 quarters on a rolling basis and with different weights attached to those quarters like how much net exposure will be hedged in those quarters. So what it does is gives us a long road to be protected from the appreciation of the currency and gives the time to the management to adjust other levers of business to protect the margins. But yes, we have a long road, as you would know, we are hedging three-year, 12 quarters. So we are quite nicely placed on our hedge book in H2 as well as FY 2019.
- Ashish Agarwal:** So is it fair to assume that even in FY 2019, all things remaining constant, mainly the currency, you will still be able to do a net profit margin somewhere between 14% to 15%?
- Ashok Sonthalia:** We will talk about our margin guidance shortly in the beginning of FY 2019. But from a hedge book perspective if currency stays where it is then our book would continue to support that and protect our margin.
- Moderator:** Thank you. We will take the next question from the line of Duby Rex from iThought Financial. Please go ahead.
- Duby Rex:** My query is on the working capital. So one of the reasons, sir, we could find out is the DSO has increased. But if you see year-on-year the DSO just increased by two days but that seems to be a big impact on the working capital. Is it due to some other reason also?
- Ashok Sonthalia:** No, I do not read any seasonality in DSO. I think, I would rather go on a quarter-on-quarter basis in DSO. And as I mentioned in my initial speech that this was more operational reason, there is

no structural reason due to which I can say okay, structurally now DSO has deteriorated. Some large payments slipped to quarter three, some of the client related issues, where invoicing happened a little bit delayed. So these are pure operational issues and I think in quarter three, we are confident to show some improvement from here.

Moderator: Thank you. We have Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Sanjay, just wanted to understand the contribution of Mosaic into the new business which you are getting and your comment that automation is now becoming table stakes. So does it mean that the automation platform which you guys are bringing is being accepted more at existing clients or is it also helping you to win new logos? And in case, it is helping you to win new logos, what sort of competitors you are generally winning against? Is it small local vendors who are struggling to match the capability or are you also winning against larger peers?

Sanjay Jalona: Mukul, you have asked many questions, so I will start from the back and if I have forgotten some of the earlier questions, please remind me again. On Competition, these are very large deals and the volume in these large deals is not as much as it used to be many years back. So you can easily imagine that all the big players, global majors, all India larger peers, we have competed against all of them and still winning. Typically, the customers that we have they are typically Fortune 500 and Fortune 1000 customers. And when you are in those accounts, you typically run into all players, but mostly large players. So our competition is extremely high and with global majors as well as the Indian larger peers. So that is one part of the question. Second thing that you asked is on the acceptability of Mosaic. Mosaic, overall, it is five things that we do, right? Whether it is IoT, which we call as Mosaic Things, Mosaic Decision Sciences, Mosaic Experience, Mosaic Artificial Intelligence, and Mosaic Automation. We use all these things, towards providing a solution and outcome to our customers, right? And it is not as if we are going to use it only as one particular kind of a thing. How do you actually take the entire suite to provide solution to the customer and in most cases, how do you move it towards - Yes, this was the kind of outcome that we can guarantee with that. So we are seeing a lot of Mosaic in everything that we do. When our customers visit us, they are excited about spending time with us at our Mosaic Experience Center. Some of you would have spent time last time when we did our Analyst Day. I would encourage you, when you are here this time, we will try to make them available as well and seeing is believing in some of that. When you see it, you will actually like what we have built.

Mukul Garg: Okay. Sanjay, just to reframe the question, I was more interested in understanding this in view of adoption of automation or the Mosaic part of automation at clients. Is it easier to sell it to existing clients where you are already working with them and you can use that as a margin lever? Or are you seeing it as a tool which will help you win new logos even against larger peers who have their own automation platforms?



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- Sanjay Jalona:** I think it is all across the board. You do it to your customers, you will do it with your new customers and I just want to make sure that we are a little clear that we also bringing in a lot of external tools as well. We get that embedded into our Mosaic Automation tools as well. So it is not one solution at times, right? There are these standard tools but you also end up with newer tools to get the data and bring value to the customers.
- Moderator:** Thank you. We will take the next question from the line of Madhu Babu from Prabhudas Liladher. Please go ahead.
- Madhu Babu:** Sir, retail and CPG that has been doing well for the last couple of quarters. So what is the portfolio there? Is it more towards the new gen e-commerce company?
- Sanjay Jalona:** So we do a lot of work on digital operations, digital supply chain. For one of the largest CPG companies we are doing S/4HANA, doing a lot of work on Design Thinking, on persona-based work, that is the kind of work that we are doing.
- Madhu Babu:** And second, within a top client, which is also the large bank. So how is the outlook there and whether the growth in BFS was coming from that account?
- Sanjay Jalona:** Growth is all across multiple places but large account is also growing.
- Madhu Babu:** Okay, sir. And lastly, on the ROW which is a geography? I mean, in the last three consecutive quarters, it has been a strong growth there?
- Sanjay Jalona:** Other geographies include Middle East as well as Southeast Asia. Australia, also we announced one large deal if you recall last year that had started ramping up. So Australia, Middle East, Southeast Asia, all are contributing.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference back to the management for their closing comments.
- Sanjay Jalona:** Thank you, everyone. You would have received the invite with the save the date for our Second Annual Investor Day on 13th of December. I request you to please take time and visit us again. We have a lot more to show and many-many things to talk to you. We look forward to seeing you. Thank you very much for joining us today. God Bless. See you soon.
- Moderator:** Thank you. Ladies and Gentlemen, on behalf of LTI Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

(This document has been edited for readability purposes)



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