



Let's Solve

**“Larsen & Toubro Infotech Limited (‘LTI’) Q4 FY18 Results
Conference Call”**

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Moderator: Good day ladies and gentlemen and welcome to the LTI Q4 FY18 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 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: Hello everyone. Thanks for joining us today to discuss LTI's financial results for the fourth quarter & full year fiscal 2018. The financial statements, press release, and quarterly fact sheet are available in our filings to the stock exchanges and at the Investors Section of our website.

On the call we have Mr. Sanjay Jalona – CEO & 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 that the Company faces.

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

Sanjay Jalona: Thank you, Nitin. Hello everyone, thanks for joining us today to discuss our Q4 & FY18 Results. Let me walk you through the headline numbers:

Our Q4 revenues came up at \$309 million which is up 5.3% quarter-on-quarter and 21.6% on a year-on-year basis. We are extremely pleased with this performance as this came on back of a strong 8.5% sequential growth that we delivered in Q3. With this we have closed FY18 at industry leading 16.7% growth.

Friends, we have made rapid progress on our LTI 2.0 transformation journey. Before I give you more color on revenue for FY19, let me spend some time to share our reflections on the year gone by.

1. We unveiled our brand positioning and visual identity in FY18. The LTI brand is resonating well with all the stakeholders. Our clients found it refreshing. Our employees were rejuvenated and associated with our new vibrant and colorful brand identity. This positive sentiment is also reflected in our steady customer satisfaction rating for 2018 that we conducted recently.
2. We are extremely pleased with the multifaceted nature of our FY18 growth. The robust performance has been driven by multiple engines. For example, five of the seven verticals have grown at double digits. Two of our strongest performing verticals were BFS which grew at 23.5% year-on-year and CPG, Retail and Pharma which grew at 30% year-on-year. Four of the

seven service lines have recorded growth of more than 20%. Analytics, AI and Cognitive led the growth and stood at 40% year-on-year followed by the Enterprise Integration and Mobility at 26%. IMS also grew upwards of 20% and Enterprise Solutions also grew at 20% plus on a year-on-year basis. All our geographies have grown at mid-teens or higher rate.

3. This superlative performance has been driven by our relentless focus on client centricity. Our clients' business is getting impacted at an unprecedented speed due to world of digital and exponential technologies. We have made proactive investments in digital technologies bringing our in-house expertise together under the MOSAIC platform and enhancing these offerings through acquisitions like Augment IQ. Our digital business has grown at a record 42% in FY18, with an exit run rate representing one-third of revenue for us being digital. Today, enterprises want to work with partners that are agile, can declutter new technologies that exist today and co-create solutions with them.
4. On large deals and new account openings, our winning streak continues. At our Analyst Day we had talked about large deal momentum over the last 6 quarters. We continue on that path with two more wins that we have announced this quarter with net TCV in excess of \$50 million combined. We also opened seven new Fortune 500 logos in the year and revenue acceleration in these accounts would power our growth in times to come.
5. We have adopted a four-pronged approach to enhance our capability:
 - A) Build in-house expertise. For example, we launched our 6th MOSAIC offering this year which is MOSAIC Security.
 - B) Augmenting our chosen focus area or addressing the white space in our portfolio through M&A. This is where we did Augment IQ as well as Syncordis for core banking, digital banking implementations.
 - C) Forging multiple partnerships and alliances to provide best possible solutions to clients. Example in Q4, LTI joined Enterprise Ethereum Alliance, the world's largest open source Blockchain initiative.
 - D) And last but not the least, co-creating with customer. For example, in FY18 we launched REDaxis, our accounts receivable analytics suite that we co-created with P&G.

But most importantly we continue to invest in building our sales force. We have made multiple senior hires to beef up our presence in the market today. In today's world you need consultative skills that combine deep domain knowledge and digital capabilities to deliver amplified outcomes to clients. Our factsheet has the detailed growth rates for Q4 and the full year FY18. Let me anyway provide you some color on the yearly performance.

In BFS, we delivered 23.5% growth, Tech spending across banking sector is expanding and there is an increased thrust towards digital only banks. This would require major investment in the areas of AI, Chatbot, Analytics and Mobile Platforms. For one of the global Fortune 100 banks, LTI has been chosen as the preferred partner to deliver multiple digital initiatives and empower client's broader Fintech ecosystem. In Q4, we also opened a global investment bank as a new logo in the analytics space.

In Insurance, after growing at double digit last year, we grew at 8.5% this year. The Insurance vertical has been hurt by high catastrophic cost worldwide. For example, US was hit by hurricanes Harvey and Irma and Europe witnessed spring frosts causing agricultural losses. When such calamities happen, the claim amount goes up and typically we have seen the spend coming down on these verticals. But we feel optimistic about spend on insurance coming back. Customers expect IT partners to deliver significant savings leveraging automation in these times. We are proactively having these conversations with our clients. As an example, in Q4 for one of the largest global P&C insurer, we used MOSAIC automation platform to drive cost efficiencies for them.

Coming to Energy and Utility, we grew by 23.1% year-on-year. From a technology adoption standpoint, Energy companies have taken institutional steps to prioritize digital transformation by setting up dedicated digital transformation functions. These steps give us confidence that there will be capital allocations to large scale digital initiatives in times to come. Obviously, oil is at \$70 and this is where we expect capital investments to be made which will benefit our investments and differentiation in this vertical.

CPG, Retail and Pharma, we had called this vertical out to drive growth for us in FY18, and it has delivered 30% year-on-year growth. As regards the CPG companies, the industry is battling cost in market performance especially due to competition from new entrants, local players and e-commerce companies. Increased efforts are on to leverage exponential technologies to directly reach consumer and enhance customer experience. We are working with one of the oral care customer on implementing SAP Hybris e-commerce to facilitate seamless customer self-service with enhanced visibility of order system. For another global Fortune 500 CPG logo, that we opened in FY18 we are driving data driven transformation to increase the addressable market size by 40% in emerging markets.

While I am not covering other verticals in detail here, we grew 7.5% year-on-year in Manufacturing, 17.5% year-on-year in Hi-Tech and Media and Entertainment and 12.7% year-on-year in others.

Coming to service led performance, as I mentioned earlier our digital service lines were the anchor of our performance in FY18. Analytics, AI and Cognitive and Enterprise Integration and Mobility grew by 40% and 26% and Enterprise solutions grew by 25% year-on-year. This pickup is driven by new economy products whether it is SAP HANA, S/4 HANA, Oracle on Cloud, Salesforce, Success Factors etc.

All of these are driving a new generation of growth within our clients' core modernization initiatives. On the geographical front, our largest geography North America continues to grow at a healthy 15.3% year-on-year. Growth in ROW and India geography were driven by ramp up in large deal wins for a few accounts that we have largely talked about.

Before I wrap up, let me share with you some broader comments for FY19. We have always strived and consistently delivered industry leading growth for each of the past 8 quarters since our listing. We grew at 17% for FY18. We grew significantly higher compared to the pace of the industry. We have always maintained that we would be in the leader's quadrant, if not the leader when it comes to growth. Based on the large deal momentum in FY18, revenue momentum in new logos and healthy deal pipeline, we are confident of reiterating our aspiration to deliver top quartile growth in FY19 as well. With that let me hand it over to Ashok to give you the financial details.

Ashok Sonthalia:

Thank you, Sanjay. Hello everyone. This is Ashok here. Overall FY18 has been a good year for LTI and we are quite satisfied the way it has turned out to be. Let me quickly run you through the quarterly and the annual financial points starting with the revenue numbers.

After delivering a strong 8.5% sequential revenue growth in Q3, we had another good quarter. Our revenues in Q4 grew 5.3% sequentially and 21.6% YoY and stood at \$309 million. This corresponds to constant currency growth of 4.5% on quarter-on-quarter and 18.7% on year-on-year basis. The reported revenue in INR terms was Rs. 20,012 million.

Annual revenue for FY18 were at \$1,132.3 million growing at 16.7% which corresponds to constant currency growth of 14.7%. In Rupee terms, the full year revenue was Rs. 73,065 million.

Now moving to the margin performance, you are aware that our Q4 reported financials included Rs. 617 million under direct cost towards one-time settlement with a client. Whenever in our commentary or in Q&A we refer to adjusted figures, it would exclude this one-time charge. Now giving you the margin numbers, our reported Q4 operating margin stood at 12.8%. Adjusted operating margin, after removing this one-time impact improved by 100 basis points and stood at 15.9% versus 14.9% in Q3. SG&A costs and currency helped improve Q4 margin. Higher number of working days also helped the margins.

Full year reported operating margin was 14.1%. The adjusted FY18 operating margin stood at 15% versus 16.2% in FY17, down 120 basis points year-on-year. There were several moving parts but adverse currency movement in FY18 was the primary reason hurting our operating margins. We could offset increase in employee cost by improved rate realization and higher utilizations and also partially offset the currency headwind.

Reported Q4 Profit After Tax stood at Rs. 2,894 million at 14.5% margin. Adjusted PAT margin for Q4 was 16.9% versus 15% in Q3 which is an improvement of 190 basis points. Our full year reported Profit After Tax margin was 15.2% and the adjusted PAT margin for the year stood at 15.9% against 14.9% in FY17.

Talking about employees:

Our Q4 utilization stood at 79.9% including trainees and 81.1% without trainees, down by 40 basis points quarter-on-quarter. Full year utilization including trainees stood at 79.4% and without trainees at 80.4% which is up by 130 basis points and 80 basis points respectively. We continue to add resources and net addition for Q4 stood at 745 people and for the full financial year we added over 3,000 people. Attrition for the year was 14.8% which is an improvement of 210 basis points over FY17 attrition of 16.9%. For the Quarter also attrition was 14.8%.

Now moving to our FOREX and Hedge book:

Cash flow hedges as at 31st March 2018 stood at \$730 million, while balance sheet hedges stood at \$119 million. We continue to execute our hedging strategy consistently which has helped Company's P&L to remain protected in a volatile currency environment. While our full year adjusted operating margin came under pressure and declined by 120 basis points, primarily due to adverse currency movement, at net profit level, we were fully protected and delivered 100 basis points margin expansion.

Effective tax rate was 21.3% for Q4 as against 23.4% for Q3 and effective tax rate for the full year FY18 was 22.9% as against 21.4% for FY17.

Our DSO for Q4 was at 70 days as against 69 days in the previous quarter and 66 days a year back. Operating cash flow conversion stood at 70.7% of net income for the quarter and for the full year the number stood at 75.9% of net income. We ended the year with cash and liquid investments in our balance sheet at Rs. 16,277 million.

Moving to EPS and Dividend:

EPS for the quarter was Rs. 16.84 per share while diluted EPS stood at Rs. 16.52. Full year EPS stood at Rs. 64.93 and diluted EPS was Rs. 63.48. The board of directors in their meeting have recommended a final dividend of Rs. 13.5 per share. This brings the total dividend payment for FY18 at Rs. 21.5 per share including the interim dividend of Rs. 8 per share announced in November 2017. This takes the total payout ratio to 40% compared to 35% of last year. Return on equity stood at 31.8% and continues to be an industry leading number.

With this I thank you for listening and I would now like to open the floor for questions. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.



Sudheer Guntupalli:

FY18, if we introspect, we started off the year hinting at industry leading revenue growth and we exited the year at more or less the same rate. So in the hindsight if you can help us understand what are the two or three specific things that L&T InfoTech has done differently from the tough competition both in terms of our sales and delivery effort which has possibly resulted in your growth rate delta over competition? I understand you have highlighted few pointers in your prepared remarks like co-creating with clients, etc., but these are also things which are being spoken about by most of our competition. And as you enter FY19, how sustainable are these competitive advantages?

Secondly, what is your thought process on capital allocation? We have almost Rs. 1,850 crores on balance sheet in terms of cash and short-term investments. Are there any plans of stepping up the dividend payout ratio or M&A activity or is the company exploring other options like buyback etc?

Sanjay Jalona:

Okay, so I will break it into two parts. One, why is growth better than industry, that I will talk about a little bit and then request Ashok to cover on the capital allocation. Look, I think this is in my prepared remarks, I talked about the transformation that we went about and today we want to talk about the performance of Q4 in FY18, but I will make it little shorter. There is a whole lot of transformation that we did from sales transformation, marketing transformation, capabilities transformation and people transformation. I think we have made significant progress way ahead of time of what we had planned to do on all of these four items, which at the end when you put clients at the center of our universe, I think it has worked very well.

Frankly, the customer's expectations from the partners have changed over the years. And I think our growth can only come when we are giving them what they actually need. So what do customers need today? I think that part we probably have understood a little better than most people and funneled our resources to that effort. So what do customers need? One, they need deep domain expertise and we have said we are the company which focuses on fewer things. So we have focused on fewer verticals, we have focused on micro verticals, In Insurance for example, we say we will do P&Cs and that does not mean that we will not do life, but our focus is there. Then within that we said products like Duck Creek, Guidewire we have built deep capabilities in there. In banking we said capital markets, within that we said finance risk and compliance not to say we do not do other things. We also brought Syncordis at the same time. That focus brings in our ability to actually have a meaningful dialogue with the customers on particular verticals.

Second thing, customers are looking for the ability of the partners to declutter the number of technologies that exist in the marketplace. And this is where Sudhir has led from the front bringing different sets of people, people who are from consulting background, people who can cocreate an IP with the customer, who not only talk about solutions but also talk about the problems that exists today, because that is a big problem today. So I think that has helped us,

helped declutter the technology thing and focus on amplified outcomes. Too many people are talking about platforms, nobody is talking about outcomes.

Third thing which is important for the customer, as these technologies have evolved people have typically talked about only growing in IT and I think in today's world it is IT plus Operational technologies. The companies which know these two things together are the companies which will differentiate themselves. This is where we drive our strengths on a few verticals from L&T because we get ahead of our times, ahead of every competitor in experimenting and bringing those digital technologies to our parent organization itself. That becomes our ability to deliver and when you can take that solution for example to manufacturing companies and say, we can help you to increase your EBITDA margin by 1% and we have done it, it's a big thing. We have a believable story because we have done it. So these are some of the things that probably differentiate us today. What performance we are seeing today is not what is the reflection of what we have done in the last 90 days, this has been in the building for the last three years. So strategy is not something which changes from year to year. So we will continue to have an inordinate focus on fewer verticals, fewer customers, deep knowledge and deep capability. We continue to evolve our ecosystem of partners, we will continue on the path of acquisitions, we will continue on the path of co-creation with the customers and so on and so forth. And that is probably what will probably keep us in good state in times to come. I will let Ashok to talk about capital allocation.

Ashok Sonthalia:

Thanks, Sanjay. Sudheer, our cash balance and liquid investment on balance sheet is Rs. 1,628 crores and while you asked about buyback possibility, let me tell you we are right now looking for liquidity events. Our Parent has already diluted 2% of shareholding. They are yet to do the remaining to reach the statutory shareholding limit of 75%, so at this point of time we will be looking more for the liquidity event happening rather than considering buyback. Now the point on dividend payout, you would have noticed the increase from 35% last year to 40% this year, considering that we have comfortable cash balance on our balance sheet which can cater to all our growth requirements and which gives confidence to us that not only we can sustain this payout comfortably but also possibly improve it as we go forward. But M&A is going to be a very strong strategic lever for us in our journey, led completely by our capability and we still consider that we are a growth company and hence we require some cash in our kitty to continue on that journey. Our return on equity remains important consideration for us. Therefore we will keep balancing whether we are able to put our cash to productive use. If it starts becoming clearer to us that we do not have productive use of cash and we are hurting our ROE quite adversely, we will take dividend decisions accordingly. But at this point of time I do not think we have exhausted our M&A ambition. We need to do much more than what we have done so far.

Moderator:

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

Sandip Agarwal:

Sanjay, I just wanted to understand it has been mentioned that 42% of our business is now digital, so are these all deals which comprise 42% of the revenues recently won or in last two to three years or is there some component of earlier large deals which have come out with a digital component now? One, I wanted to know how this has been accumulated. And secondly, what is happening in the BFSI segment because there is a very contradictory data which is coming. Some people are facing a lot of challenge in that space and companies like you are doing extremely well. Is it again because of the digital factor or it is something else which we are doing right?

And my final question is on this 42% of digital business. Digital is a very new thing in the world and growth is expected to go up very significantly. So don't you see a massive acceleration in growth rate for the industry and for companies particularly like you which do not have any legacy issue?

Sanjay Jalona:

Let me clarify on your first point on digital. Just to clarify folks, 33% of our business is digital as of Q4FY18. 42% is year-on-year growth that digital has seen compared to FY17. What has led to the growth is basically, the first answer that I gave to Sudheer that when the customer is spending on newer things, exponential technologies it is to try to do things differently, I think we have had a point of view that digital is not about technology alone, we call them exponential technology, it is about ways of working and our entire strategy on the platform that we built with MOSAIC strategy, is a rock-solid engineering that we have built and we are able to use that as a platform of differentiation in the marketplace. So again, to clarify one-third of our revenue today is digital which has seen a growth of 42%, so from some 22% it has gone up to 33%.

Thirdly on digital, will it continue? Absolutely. Customers will continue to invest money in newer technologies. Basically, they are using technologies and let me just step back and say our point of view on LTI's Digital WOW. WOW stands for Ways of Working. There are fundamentally four things we believe new technologies need to do for customers. One, help them go into newer areas of operations. Newer adjacent areas.

On one of the payment companies that spoke last year in our Analyst Day from Nordics, we helped them go from being a pure play payments company to sell solutions for media houses using Blockchain. So, using new technologies going into areas that they were not going and they were not addressing before. Second thing that happens in digital ways of working is driving revenue growth for our customers. A case in point very close to home is the large analytics work that we are doing for CBDT on helping them grow their tax revenue.

The third thing is better connect with the customers, new technologies to help. We do not buy things from CPG companies, Unilever, P&G but we buy from retailers. But the CPG companies also want to know the buying behavior, they want to understand you and I. So we are helping one of the companies, through Chatbots, helping them understand what product is better for your skin or your hair. So they can be in touch with them.

So that was not possible in the past. And last but not the least how do we use digital technologies IoT, Analytics, etc., to drive next generation operations. So once you do all of these four, you are using all the newer technologies across the verticals to help do new things for the customer. So yes, we do expect digital technology and the businesses to continue to grow. So I will pause there on digital, let me go through your question on BFS.

Now look on BFS our commentary has always been that we do not see a shortage of demand. We have opened one Fortune 100 logo last year, we just announced one new investment bank that we opened this year. We announced the largest deal won in history of \$120 million which was also for a banking customer. We also announced Syncordis acquisition which is also into banking. So we continue to be positive on banking sector. Everyone is spending more and more on digital banking, analytics, front end work and I think if you have the capability, if you have the wherewithal to give new ideas, the customers are lapping up on to that. So anything else Sudhir you would like to add on BFS side?

Sudhir Chaturvedi: I think again just to reiterate the point on focus in BFS, it is a very large segment. Based on what I see in the market, the clients in BFS are seeking scale and expertise and not just the traditional approach. Where they are seeing our assets both in terms of domain and solutions and the focus we have in addition, that is the clear differentiator that we see in this space.

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

Sandeep Shah: First question is, Sanjay, if I look at the whole of FY18 there is a broad based growth across industry segments, but the two industry segments which is Insurance and Manufacturing were laggards versus the company average growth. So I think on the insurance you are saying the spend will come back. Any comments in terms of the manufacturing how you are looking because that is a differentiating position of LTI versus peers because of the parent advantage?

Sanjay Jalona: On manufacturing as well, we are very optimistic. And we are very positive about the whole thing. Oil and Gas companies, also we expect them to use the high cost of \$70 per barrel to start putting money on the capital projects. That will also drive the pipeline and as you rightly said, since we are differentiated, if money is there, customers are going to spend money.

In terms of few areas that I wanted to specifically call out in Manufacturing, we have seen some cool stuff happen. One is on response to supply chain, second is a big opportunity where we are seeing S4/HANA implementation all across and lastly the one I talked about i.e. IT plus OT. All the industry smart factories, smart shop floor, man and machine talking to each other, etc., are the big bets in Manufacturing that we see as great opportunities ahead.

Sandeep Shah: Last quarter we said that we are chasing close to \$800 million worth of large deals at a very advanced stage. So can you throw some light how this number looks like at the end of FY18?



- Sanjay Jalona:** I think I would like Sudhir to answer this question. But he clarified them that this was the qualified pipeline that he is chasing. Not advanced pipeline. But anyway, you have seen two of them, cumulative net new of \$50 million TCV that we have announced. One with Exxon and another with an existing customer in banking space and I will think we will chase more. We will continue to work on increasing the winning percentages at the same time.
- Sandeep Shah:** Just a book keeping question to CFO. I think this year as a whole, there is a good growth both in revenue as well as earnings but when we look into the FCF generation, it has been tepid and when I look into the reasons, it looks like the DSO including the unbilled has been as high as 111 days versus 90, 92 days last year. So how should we read that because the cash flow generation is good for the company in terms of a long-term positioning?
- Ashok Sonthalia:** You are very right in your observation. We are also looking at it. But let me just tell you the way I look at it that there were two, three large programs, couple of them in India where there were milestones linked payments at certain stages, but we have moved to invoicing stage in all these plans. So going forward whatever unbilled revenue you have seen, I would assume we are kind of at the peak stage and gradually we should start containing it and bring back the cash flow conversion as we go forward. Maybe another one quarter or more and after that you will see us making good progress around that.
- Moderator:** Thank you. The next question is from the line of Vikas Ahuja from HSBC. Please go ahead.
- Vikas Ahuja:** Sir, just trying to understand that LTI continues to grow at much higher pace compared to the larger peers. Is that to do with that we have better digital capabilities than the larger companies? And secondly, you also talked about the industry leading growth. What would be the rough inorganic contribution in that because you talked about acquisition as well?
- Sanjay Jalona:** Inorganic revenue contribution is \$7 million out of full year revenues of \$1,132 million, insignificant in my view. So it is mostly coming on organic side.
- Vikas Ahuja:** Sir, the second question was regarding digital. I mean do we have better digital capabilities than larger peers that is helping us to do better growth?
- Sanjay Jalona:** Yes. I spent some time talking about what digital really means. It is not necessarily only the technologies but a way of working. And I think you need to relate to what customers are doing today. Using new technologies for solving those basic things that they want to do. Four things that they want to do that I talked about. In order to do that, there are three things that the customers are really looking for. One, deep focus on verticals people who understand verticals. Second thing, ability to declutter the technologies. Thirdly have the capability to do both IT and OT. Not only IT but Operational Technologies as well.

Rather than saying we have better digital technologies and capabilities because we are talking about companies which are 20 times, 30 times, 40 times our size, I think as Sudhir mentioned, in the past when people used to just work with you only for the quantity of a book of business that you have done in the past, people are now looking for expertise and I think this is where we have built capabilities and with the combination of knowing the vertical very well, having the capability of doing both physical and digital, that is where I think we are differentiating ourselves.

Moderator: Thank you. We move to our next question which is from the line of Ayush Abhijeet from White Oak Capital. Please go ahead.

Ayush Abhijeet: I wanted to get your additional thoughts on the Insurance vertical which has declined sequentially and it is remain soft for the year overall. So two parts. One is what are the key reasons for this softness and how does your pipeline look here related to BFS? Also, what is the outlook for this vertical going ahead given that some of the expertise where we are in P&C that Sanjay you alluded to earlier have been growing quite well. So when does this vertical start tracking those growth rates?

Sudhir Chaturvedi: As Sanjay mentioned in his opening remarks, in Insurance there has been a slowdown in spending primarily on the back of catastrophe losses that they have been suffering over the last couple of years. But what we are seeing is that at least from a future perspective there are three areas that all insurers are looking at. Firstly, they are looking to modernize the core. Most insurers have a combination of policy admin systems, lane systems and other billing systems. So this is where Sanjay spoke about Guidewire and Duck Creek capability which is really in the core modernization space.

The second part is that this industry is also being impacted by other Insure Techs. So the digital experience that we provide to their customers especially in the P&C space includes the entire stack through seamless processing and not just processing policy but the entire claim process as a whole. All that is becoming extremely important.

The third is how do you actually make more underwriting profit. Because interest rate regimes are low so they are not making an investment profit anymore. So underwriting process has become very important. So that is really about how do you use analytics and also how do you actually use the whole store of data that most insurance companies have over many years to become better and faster. So essentially it is to better price the risks and be more productive to improve the underwriting productivity.

So those are the three areas that insurers are focusing on. One thing that I like about our insurance business is that we actually have very good assets. This is solution assets in each of these three spaces. And I think as the spend starts to come back and as per plans if we look at these areas we will start to see growth in this vertical.



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

Ashish Chopra: Sanjay, just one question from my side was that while the overall growth has been very healthy and even the top clients have grown in double digits, the growth over there has been well outshined by the rest of the pack. So just wanted to know your color on that as to, is it just impacted by may be a couple of accounts or is it to do with the may be the maturity and saturation of some or you expect a different contribution to the overall growth by the mix of top accounts and from the outside bucket?

Sanjay Jalona: So Ashish, thanks for your comments. As I said our top accounts are also biased heavily with insurance customers. Similar to those accounts, there are some manufacturing customers as well. So you also see a reflection of that. So on a net basis, there are some things which happened but I will not relate and make it like an oil and gas problem which was an expanded problem for many, many years. It was just a problem with excessive catastrophic losses in the last year.

And we are already seeing a lot more discussions and we are seeing M&As and investments are happening in the insurance vertical, which will bring things back. On the other hand, I think there are some accounts where we have to invest a little bit more and we are going to do that. We are going to make sure that we grow in the top accounts as well.

Ashish Chopra: So the rebound in insurance you expect it to be immediately in the beginning of this fiscal or should we expect it to be a little bit more gradual?

Sanjay Jalona: Ashish, based on the numbers that we are posting as I said, it is a gradual process. So I do not know whether I can tell you it will happen overnight, nothing happens overnight in this life and in this world but we definitely are seeing positivity there.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Couple of questions. One on the hedging side. So while our revenues were up almost 16% - 17% this year our outstanding hedge position has gone down by almost 15%. Just wanted to understand is there any change in the hedging policy that we have taken and what is the realizable value for the current outstanding hedges?

Ashok Sonthalia: You see there is no change in the hedging policy because we have always been reiterating that consistency is the name of the game. But we also explained that we operate in a band and given the currency where it was in Q4, it made sense to operate at the lower side of the band. We created opportunity for us so that we can now take advantage of current weakness. Since we were operating at the lower end of the band and now is the time we will certainly move it up.

But policy remains same and just to help you think through our hedging with some examples, say if on an average INR/USD in FY18 was about Rs. 65 and we made whatever we made on the revenue related FX gains and if you believe that Rs. 68 is going to be the norm for FY19 it is a drag of Rs. 3 per dollar. As we shared, \$730 million was the outstanding hedge as of Q4 and ~50% of it is maturing in FY19 because of higher weightages on the first four quarters. So about \$350 million, multiplied by Rs. 3, to that extent hedge gain would be lower in FY19 but the entire depreciation will get captured in revenue and expenses and our EBIT will see a better improvement than reduction in hedge gains. And that is how we say that we are able to insulate our profit and operating performance and profit after tax performance. So there is no change in the policy. We will continue to execute it consistently.

Rishi Jhunjhunwala: So I guess your current hedging would actually be a much higher number than what it was on 31 March, is that the right assumption?

Sanjay Jalona: We cannot disclose that but we are taking advantage of current weakness.

Moderator: Thank you. We will move to our next question which is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: The question was specific to the ExxonMobil deal and wanted to understand two things. One is within the overall deals that we do and the broader spectrum, how many deals do we really do joint go to market with our sister concern LTTS? And two, I think LTTS sort of suggested that they do \$20 million in the first year. And we report something else, so I was just trying to understand considering the deal is the same and we are doing it together, do the contract values reported by each of you pertain to the individual? And basically how much more is it within the first year as compared to LTTS?

Sudhir Chaturvedi: So I will first focus on the ExxonMobil deal and then I will come to the broader question that you mentioned. So this deal is about digitizing data that Exxon has collected over many years regarding their results so that Exxon is able to better understand their oil reserves and actually then look at how they can get more effective in their exploration or increase the productivity of the current operations. So this is the program that they are doing. This involves actually looking at various pieces of data so graphs, logs, seismic data.

So some of these data we will essentially digitize and interpret. So it is not just digitization, it is also interpretation on behalf of the client so that the geologists can then act on it. So some parts are related to our areas of expertise which is what we will take care and some parts were related to the LTTS' share of expertise that require more difficult type of engineering knowledge. But the platform that we were using to do this is MOSAIC. So LTI platform is being used to run this and we have plans in place over the next 5 years. So I would not give you a sense of what our share is but I think that will give you an idea as to what we are doing and what LTTS is doing.

So we work with LTTS together in several accounts. It is essentially in our manufacturing verticals across several accounts jointly and that continues to be. In fact, we do our joint collaboration meeting every year and Amit Chadha, Sales Head of LTTS and I speak very regularly. So there is a joint go to market that we have. We have a proactive plan around existing accounts and new accounts. But this is based on very specific propositions where there is IT plus Engineering Services and the combination provides some exponential outcomes to the clients.

Moderator: Thank you. We will move to our next question which is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Sanjay, On the overall technology spend, we have heard in multiple forums that last three years was all about spending happening on the peripheral layers of the technology. For the first time we are seeing it is moving to the core and clients are now transforming the core. Would you agree with that and what is your view around that? And secondly given that we have made significant progress in digital, do you think our competition set has changed compared to what it was three years ago?

Sanjay Jalona: Gaurav, actually to your first question, sometimes I do not understand what this core and non-core, etc., means. For the last three years, we have always been talking that there is no shortage of demand in our view. And I continue to say that. It is just the nature of demand has actually changed in terms of using new technologies to drive, new ways of working that I talked about and that impacts all the verticals. It is not only on banking but also in insurance as Sudhir explained the three things happening in insurance vertical.

So to the question of demand I think the demand is not a problem. I think there is always a demand if you have a story to tell, if you have a point of view, if you have a solution that you can take to customers. In terms of your question on has the competition changed, for LTI we are winning against all the larger Indian peer players as well as global players. I would say it is a gradual progression on our part and we are competing with more and more specialized companies, niche players and it is a different kind of feeling that you get once you start playing in that group of people. I would leave it at that.

Moderator: Thank you. The next question is from the line of Ruchi Borde from Bank of Baroda. Please go ahead.

Ruchi Borde: As you talked about the changing client expectations over time and in that LTI offerings and approach workout perfectly. Could you talk us through how the deal dynamics for LTI has changed in this journey be it in terms of deal sizes, LTI's participation rate and the competitive landscape?

Sanjay Jalona: Ruchi, your line was a little feeble, so I will try to explain how the deal sizes have changed and how we are getting invited more etc. I will start talking about and if something gets missed out

please do ask again. As an industry if you just step back and look at say infrastructure, in 2000 timeframe IBM did a deal with one of the largest banks and it was an \$8 billion infrastructure deal. Most of the Indian companies were one-eighth, one-tenth the size of the deal itself. But that changed over a period of time and the deal sizes in infrastructure shrank to \$500 million and not asset intensive. And certainly, few Indian players including us got an opportunity to start playing with that. For LTI, a company with less than a \$1 billion how do you bid for a singular deal of \$500 million. But today with the advent of cloud, newer technologies and exponential technologies, the deal sizes have shrunk tremendously again. And today when the deal sizes are \$50 million to \$100 million, a right sized company like us, where we also have our playground to compete against others can cause disruption. But our landscape of the deal has definitely improved as the sizes have come down given the balance sheet that we have. Obviously we have worked very hard in creating a really next gen marketing engine. So for example from our website, for last year we got 290 leads in the system itself. In addition to that we have good relationship with advisors like ISG, Everest, etc. Everest called us the number one challenger company. This categorization is from less than \$2 billion revenue companies and this is global. So across global companies, the number one challenger company is LTI. And that is also helping us get invited to the deals.

Some of these deals are still very large and we need to make sure that customers believe that we have the wherewithal, the hunger and the aspiration to be able to fulfill them across multiple countries and that is what they are seeing. But there is still some work in progress and we will continue to do. Net-net, we are getting invited to a lot more deals from these advisors, the deal sizes have also shrunk and we are bringing disruption to them and it is a great opportunity for us.

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

Abhishek Bhandari: I had two questions. First, if you could explain the provisioning you have done for the client this year, is it linked to any kind of bankruptcy or is it just a dispute on a normal business transaction? And do you see it as a kind of a recurring thing because some of your peers have been talking about client bankruptcies impacting their margins. So it is unforeseen but it keeps happening in their lines of business at least. I will come to the second question after this.

Sanjay Jalona: Abhishek, so this is not related to any bankruptcy. This is a dispute pertaining to our past period and in the interest of our longstanding relationship with a client, we have agreed to a onetime settlement. Just to give you the contour of that, we accounted for the entire \$10 million in Q4 itself while the payment structure is staggered over a period of two years. So that should give you the comfort that this is not any of those cases, it is a relationship decision and this happened in the way past period.



Abhishek Bhandari: And my second question, Sanjay is that right now things are extremely well aligned for us in terms of past deal wins giving us very good momentum and visibility for the revenue growth in FY19. We have ramped up our US desks significantly in terms of hiring over there. But are there any obvious risks which you have in your mind which could derail the momentum over here barring any global event but any specific risks within your own portfolio that you are trying to work on?

Sanjay Jalona: Abhishek, I think barring something that will equally impact all the companies globally, we are running operationally a very sound company. We have one of the lowest onsite ratios as a company. So the impact there will be a little less for us compared to everyone else if there is a change in any country's decision in terms of protectionism.

Overall, things that I lose my sleep on, is the quality of talent and our ability to attract the best. This has not changed in the last 20 years. We have been able to attract the best talents in the last three years. You all have witnessed the talent in the leadership team that we have built here. And hence the risk that I have always lost sleep on, is that we should be able to continue to hire the best talent in the marketplace.

Abhishek Bhandari: And my last question is to Ashok actually. It is very nice to see that the dividend payout has improved from 34% to 40%. But ideally the cash balance is too high and we are still generating much more. So would you like to push your case to the board again for raising the dividend and make more returns for the shareholders?

Sanjay Jalona: He is actually pushing me to acquire more companies.

Abhishek Bhandari: Yes, either way you should be using the cash.

Sanjay Jalona: Absolutely agree with you.

Abhishek Bhandari: So that was a more of a comment.

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

Sandeep Shah: Just one question Sanjay, on the Energy and Utility, looking at the crude price, do you believe there could be some short-term blips where the investment may not be that big and may impact the demand? Can you give us some outlook, how you were looking at this vertical and budgeting within your overall outlook for FY19?

Sudhir Chaturvedi: So actually Sandeep, as oil prices go up and potentially things happening like in Iran may lead to even a further constraint in supply and price will go up. What we are saying is that, just over \$50 share becomes a very viable alternative but even then the demand for oil is at an all-time

high. So actually Sanjay already mentioned that we expect to see major capital projects and what we are now seeing is the whole advent of what people call digital refineries or digital oil wells. These are very different ways of working. So that is a combination involving essentially more capital projects and we are doing these projects with a much heavier technology component than before and we actually see good growth. And this is where again if we refer to Sanjay's earlier point on IT plus OT, this is knowledge of operational technology which counts. If you see the Exxon deal, I think we were in such a special sweet spot on that deal. Very few companies out of India would be able to compete with us in that area.

Sandeep Shah: And Ashok, just one thing, Rs. 1,042 million which has been shown as the other long term non-current liability, what is the nature of this?

Ashok Sonthalia: This relates to earnouts for Syncordis' payment that is a long-term liability and what they will earn will depend on their performance over the next three to four years.

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

Sanjay Jalona: Thank you very much and I thoroughly enjoyed your questions and the conversations with you like we do every quarter. Look forward to being in touch next quarter.

Moderator: Thank you. On behalf of LTI, 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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