LTI
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LTI/SE/STAT/2018-19/65

November 2, 2018

National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex
Bandra (E), Mumbai- 400 051
NSE Symbol: LTI

The BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400 001
BSE Scrip Code: 540005

Dear Sirs,

Subject: **Transcripts of Earning Conference call for Larsen & Toubro Infotech Limited ('LTI') for quarter ended on September 30, 2018.**

Please find attached the transcripts of Earnings Conference Call organised by the Company on October 25, 2018 for the quarter ended on September 30, 2018 for your information and records.

Thanking You,

Yours sincerely,
For Larsen & Toubro Infotech Limited

Manoj Koul
Company Secretary & Compliance Officer

LARSEN & TOUBRO INFOTECH LIMITED
MUMBAI
INDIA

Encl: As above

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“Larsen & Toubro Infotech Limited Q2 FY19 Earnings Conference Call”

October 25, 2018

MANAGEMENT:	**MR. SANJAY JALONA – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR** **MR. SUDHIR CHATURVEDI – PRESIDENT (SALES)** **MR. ASHOK SONTHALIA – CHIEF FINANCIAL OFFICER** **MR. NITIN MOHTA – HEAD, INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to LTI Q2 FY19 Earnings Conference Call. As a reminder, all participants' 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 for 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, thank you for joining us today to discuss LTI's financial results for the second quarter of fiscal 2019. The financial statement, 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) 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 to you about the results. Over to you, Sanjay.

Sanjay Jalona: Thank you, Nitin. Good morning, good afternoon everyone. Welcome to our earnings call for the second quarter of FY19. Let me walk you through the headline numbers. Our Q2 revenues came at $328.5 million, up 2.7% Quarter-on-Quarter and 21.4% Year-on-Year. In constant currency this translates into quarterly growth of 3.5%. We are pleased with our performance in Q2. This growth is driven by our digital services offerings.

Analytics, AI and Cognitive grew at 20% plus Quarter-on-Quarter and Enterprise Integration and mobility also grew at 25%. Last quarter I had shared with you details on several industry tech analysts' recognitions that we have received on our digital technologies. I am happy that our quarterly numbers are corroborating our early mover advantage in these areas.

What is really heartening is that our revenue growth in the digital domain is pervasive and not restricted to select accounts. The widespread penetration of these technologies across our client base is encouraging and bodes well for our future. Digital is now 37% of our revenue, up from 34% last quarter.

I have earlier shared with you three pillars of our revenue growth strategy. One, winning large deals. Two, opening marquee new logos and third, effective client mining. Our Q2 results saw us delivering on all these three accounts. Talking about large deals, in Q2 we won a deal with a global pharma major to be their transformation partner as the client embraces IoT and smart manufacturing across its global manufacturing facilities.

The client deeply appreciated our manufacturing shop floor expertise and our engineering mindset. This win embodies the convergence of physical and digital world and how LTI is uniquely positioned to take advantage in this new world order. Q2 marked the third consecutive quarter for us winning net new TCV in excess of $50 million.

Now let me share with you two marquee new logos that we have opened in Q2. We won a hardcore digital engagement with a Global Fortune 500 Life Sciences company. The customer selected LTI as a strategic partner in its robotics process automation journey leveraging UI path as its automation platform and SAP as its core business process tool.

Similarly, we won a Fortune 100 energy logo to automate the client’s finance processes leveraging automation. With the addition of these two new logos, we now serve 61 Global Fortune 500 companies. On client mining, our growth momentum in top 20 accounts has been strengthened by the success of our client mining programs like Minecraft and ADEA (Analytics and Digital in Every Account). This is evident in the growth beyond top 20 customers punching above company average and acceleration in share of digital service lines that I elaborated earlier.

Let me now give you the growth statistics and color on each of our key verticals. Before I begin, I would encourage you to look at the constant currency revenue growth figures for different revenue cuts. The cross currency has been very volatile in the last quarter and Quarter-on-Quarter growth in USD terms has masked the underlying business momentum in some cases.

Let me begin with BFS. Revenue growth was down 0.9% Quarter-on-Quarter. Based on Q2 results and our visibility on the book of business, I want to reiterate that BFS is on track to have a record year in FY19. The vertical has grown Quarter-on-Quarter in constant currency terms and this sequential performance has come after four consecutive quarters of good growth overall.

What do we see as driving growth for us? We continue to see expansion of tech spending in this sector across multiple areas. Technology-led operations is a big business driver for large clients and we are also witnessing APIfication of the application landscape to drive simplicity.

Insurance vertical grew by 0.5% sequentially in Q2. We need to work on accelerating growth in this vertical and you will see some more focused efforts from us on that.

We have a sequential growth of 0.6% in the Manufacturing vertical. Cloud adoption is now mainstream and we are witnessing a major acceleration in ERP modernization initiatives. In Q2, a leading designer and manufacturer of mass transport systems engaged with LTI for transforming its operations, accelerating time to market and digitizing internal processes using S/4HANA.

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The Energy and Utility vertical registered an 8.4% quarterly growth. The commodity prices have recovered well and oil companies are reporting strong financial performance. We continue to see signs of industry spending opening up. While spending is recovering, it is mixed with some caution as energy clients wish to keep the cost structure lean.

CPG, Retail, Pharma - This vertical continues to power our growth with an outstanding 15% Quarter-on-Quarter growth. With clear focus on differentiation in digital solutions, we continue to win new business in this segment. The large deal wins that we have announced in Q1 and Q2 are also from this segment. As highlighted in my opening remarks, we have opened a Global Fortune 500 Life Sciences logo as well in Q2.

There are umpteen ways to see Life Sciences companies transforming themselves. Whether it is connected supply chain, raising the bar on manufacturing quality or crunching drug research cycles. Our strategy for Life Sciences verticals is to focus on this change opportunity.

High tech and Media vertical reported a 1.8% quarterly growth after double digit sequential growth last quarter. This segment continues to demonstrate rapid growth and we envisage this to continue through the course of this year. Our growth in this segment stems from our focus on building platforms, data and intelligent systems and cloud related technologies. In Q2, an American broadcaster selected us for its enterprise wide CRM consolidation, design and deployment of Salesforce platform.

In summary we continue to execute diligently to deliver on our ambition to be the company in the top quartile of growth. We have had two excellent quarters so far and I have no doubt that LTI shall deliver another year of industry leading performance in FY19.

Let me now handover to Ashok to share the financial highlights of the quarter.

Ashok Sonthalia: Thank you, Sanjay. Let me take you through the financial high points for the quarter. In Q2FY19, our revenue at $328.5 million grew 2.7% Quarter-on-Quarter and 21.4% Year-on-Year. The corresponding constant currency growth was 3.5% Quarter-on-Quarter and 22.9% Year-on-Year. The reported INR revenue of Rs. 23,312 million was up 8.1% Quarter-on-

Quarter and 33.1% Year-on-Year. The Rupee topline growth was aided by sharp INR depreciation during the quarter.

Now looking at profitability, the EBIT for the quarter was Rs. 4,424 million which grew 16.1% sequentially and 74.4% on Year-on-Year basis. EBIT margin for Q2 stood at 19% versus 17.7% in Q1. Operational efficiencies, lower visa cost and tailwinds from INR depreciation during Q2 helped us expand our margins by 130 basis points sequentially. This was achieved after absorbing the annual wage hike effective July 1st.

The reported PAT for Q2 stood at Rs. 4,003 million, up 10.9% Quarter-on-Quarter and 46.7% Year-on-Year. This implies PAT margin of 17.2% versus 16.8% in Q1. Given the depreciating currency environment, we saw a lower hedge gain compared to Q1 resulting into EBIT margin gain moderating to 40 basis points sequential improvement at PAT level.

Now moving on to the employee metrics, utilization has improved from 79.7% last quarter to 80.4% in Q2 including trainees and 82.3% as compared to 81.2% last quarter excluding trainees. We continue to grow our strength and our net additions during Q2 were 1,264. The total manpower now stands at 26,414 and production associates were 94.4% of the workforce. For the quarter, attrition inched up slightly to 15.3% as against 15.1% last quarter.

Now moving on to Forex and hedge book position, our cash flow hedge book as at 30th September stood at $1,020 million versus $924 million as on 30th June. While the on balance sheet hedges stood at $114 million versus $140 million last quarter. We continue to execute our hedging strategy consistently. This quarter, the effective tax rate was 25.4% versus 25.5% in Q1.

Now moving on to the DSO, cash flow and working capital - As stated last time, during Q2 certain large programs achieved milestones and we invoiced them to the client resulting into significant reduction in unbilled revenue. Our overall DSO billed as well as unbilled registered an improvement of 5 days compared to Q1. However the billed DSO at the end of Q2 stood at 75 days, up 2 days Quarter-on-Quarter. DSO including unbilled was at 108 days down from 113 days in Q1, helping us deliver a significant improvement in our working capital situation. The net working capital stood at 21.3% of revenue, an improvement of 2.2% over the last quarter. Net cash flow from operations was Rs. 3,864 million, which was 96.5% of the net income.

This was despite the fact that our annual incentive payments were made in Q2 like every other year, putting additional pressure on operating cash flows. We closed the quarter with cash and liquid investments at Rs. 17,160 million.

EPS for the quarter was Rs. 23.14 per share while the diluted EPS stood at Rs. 22.60 per share. EPS for the last 12 months stood at Rs. 75.9 per share as on 30th September 2018. You would have also noticed that the company has declared an interim dividend of Rs. 12.5 per equity share which approximately translates to 35% payout of the first half yearly profit.

Now, with this I would like to open the floor for questions.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session.

The first question is from Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: Sanjay, just a couple of questions on growth and basically what you're seeing on the client side and also the supply side of things. First, in conversations with lot of our manufacturing clients do you see any worries in terms of their ability to spend going forward in the context of the trade wars and the consequent impact on the margins and earnings? The second question is quite a few companies, your peers, have been talking about supply side issues sort of hurting their ability to execute. How do you see that playing out because when I look at our own utilization rates, it seems to be at an all-time high and finally you have always spoken about reinvesting incremental margins and with margin sort of having such a strong pull through this quarter how should we look at margins going forward?

Sanjay Jalona: When you look at manufacturing customers and whether we are seeing them curtail any spends because of the trade wars, honestly speaking, when we talk to our customers we have really not seen any of that so far. I also saw the release that Caterpillar and 3M gave out, they are getting affected but, on the ground, when we look at the spend patterns of our manufacturing customers, we have not seen any customer having a cut down on their IT budgets.

Again as I say, if you have solutions which can help them either cut cost or improve their coverage for customer and help their revenue lines, they will find money. On the supply side issues, you look at us adding around 1,264 net new additions for Q2 and where we sit today, we will continue to add more people. It has always been a challenge to get talent in this industry, it was 30 years back, it's been a challenge last year and obviously as the market heats up this challenge will continue. But where we are with the offshore ratios that we have, India has a large pool of talent and we just need to find the right talent and we continue to grow there.

So while there would be challenges but they are no different from the past and we just have to be innovative as we go along. We are confident that we will keep adding people in times to come as well.

On your third question on margin outlook and investing back into the business, you got to see us as a growth-led company and we will continue to do that with a sharp eye on the margins. Now the margin - we were very pleased with the superior execution in this quarter and that added to the INR depreciation benefit. Our actual margin delivery in the last two years has been better than the guidance and we hope to maintain that track record in FY19 as well.

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

Sandeep Shah: Overall if I look at the net addition, it has been linear with the volume growth as a whole. Most of the midcap companies have also started seeing some automation benefits, where the employee growth is lagging the overall volume growth. So do you believe for LTI also automation could be a big margin lever going forward and when will it start getting into numbers where the net addition or the employee growth is lagging the revenue growth or volume growth?

Sanjay Jalona: If you look at our four quarters, there will be some quarters where our revenue is at a higher peak than the volume and there are some quarters where the volume is at a high. Automation, artificial intelligence, cognitive are areas for us to win more, bring value to our customers and be competitive in the marketplace and we have been doing that in a very meaningful way.

When you guys ask us on whether there are a lot of price discussions with the customer or customer is asking, do we have a discount because of rupee depreciation, none of that is as important as the benefit that can come from automation, artificial intelligence and cognitive work and that is the focus for the company. That is where we have invested tremendously, that is the value we are able to bring and that is what is leading to probably a superior growth that you see from us.

Sandeep Shah: And second just a follow up on the supply side issues. I think for LTI versus the other midcaps there is one strong trend i.e. most of our growth has been coming through offshore leverage rather than some of the other midcaps depending more on the onsite leverage. Do you believe this trend will change where onsite dependence could be higher for growth which can lead to a bit of a supply side issues which are especially coming on the onsite efforts?

Sanjay Jalona: No, I do not think, Sandeep. We will continue to be range bound onsite. Some quarters will go up a little bit, but our efforts are always to do as much work as we can do offshore, use all kinds of technologies that are available to do that. It does not mean that we have not added people onsite. We have been adding strongly onsite as well and we will continue to grow on both sides. But our focus will always be to increase the offshore if we can.