

LTI/SE/STAT/2020-21/89

January 28, 2021

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 December 31, 2020.**

Please find attached the transcripts of Earnings Conference Call organised by the Company on January 20, 2021 for the quarter ended December 31, 2020 for your information and records.

Thanking You,

Yours sincerely,

For Larsen & Toubro Infotech Limited

Manoj Koul
Company Secretary & Compliance Officer

Encl: As above

Larsen & Toubro Infotech Ltd.

Technology Tower 1, Gate No.5, Saki Vihar Road, Powai, Mumbai-400072, India
T +91 22 6776 6776 | F +91 22 2858 1130

Registered Office: L&T House, Ballard Estate, Mumbai 400 001, India
www.Lntinfotech.com | E-mail: info@Lntinfotech.com | CIN: L72900MH1996PLC104693



A Larsen & Toubro
Group Company



Let's Solve

“Larsen & Toubro Infotech Limited Q3 FY2021
Earnings Conference Call”

January 20, 2021

**MANAGEMENT: MR. SANJAY JALONA – CHIEF EXECUTIVE OFFICER &
MANAGING DIRECTOR
MR. SUDHIR CHATURVEDI – PRESIDENT (SALES)
MR. NACHIKET DESHPANDE – CHIEF OPERATING
OFFICER
MR. ASHOK SONTHALIA – CHIEF FINANCIAL OFFICER
MS. SUNILA MARTIS – HEAD, INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to LTI's Q3FY21 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 Ms. Sunila Martis - Head, Investor Relations. Thank you and over to you.

Sunila Martis: Thanks, Stanford. Hi, everyone and thank you all for joining us today to discuss LTI's Q3 FY21 Earnings. The financial statements press release and quarterly fact sheet are available in our filings with the stock exchanges and on the Investor section of our website.

On the call today, we have with us Mr. Sanjay Jalona – CEO and Managing Director, Mr. Sudhir Chaturvedi – President (Sales), Mr. Nachiket Deshpande – Chief Operating Officer and Mr. Ashok Sonthalia – Chief Financial Officer.

Sanjay and Ashok will give you a brief overview of the company's performance which will be followed by the Q&A Session.

As a policy, LTI does not provide specific revenue or earnings guidance and anything said on the call which reflects our outlook for the future or which can 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, Sunila. Hello, everyone. Wish all of you a very happy new year. I hope you're staying safe and healthy. Here's wishing that 2021 is a better and brighter year and we get to meet and hug family and friends.

When we last spoke in December, we did talk about how the events of 2020 have dwarfed all other challenges faced by our industry. We also talked about the opportunity available for those who are prepared to take it. We see a massive opportunity on improving resilience, changes related to new operating models, direct to consumer interactions and workplace modernizations with our customers.

We remain focused on two simple goals that we have outlined in the past as well – one, fulfilling our commitment to clients. And two, keeping our employees safe. The framework outlined by our 3x3 strategy detailed during our earlier earning calls on customer first thinking, resilience in operations and protecting our P&L will continue to guide our decision-making process throughout the year.

Before I move ahead, let me take a minute to thank Ashok for his immense contribution to LTI over the last six years. He has been an integral part of the leadership team and I have enjoyed working with Ashok to drive our dream and vision for the company. He is a committed leader and will be remembered for his positivity, strong growth focus, balanced views, emphasis on governance and ability to take tough decisions.

Like all great leaders, he leaves behind a world class team and robust systems and processes in the finance function. We respect his decision to pursue his professional goals and wish him success in his role in a different industry with a Nifty 50 company. All the leadership team and I will be celebrating and applauding his accomplishments in the future from the sidelines.

Let me now walk you through our headline numbers. We delivered revenue of \$427.8 million, a growth of 5.8% quarter-on-quarter and 8.5% year-on-year. In constant currency terms, this translates to growth of 5.3% and 7.4% on a quarterly and yearly basis.

All the pillars of our revenue growth strategy - growth accounts, invest accounts, new account openings and large deals have performed well this quarter.

We had two large deal wins this quarter. Those of you who tuned into our analyst day last month would recall us talking about our win with Injazat. Injazat is part of the Mubadala Group and is currently partnered with G42. This makes them the number one cloud provider in the UAE with significant cloud and AI-led operations capabilities. Our partnership with Injazat is to provide digital transformation services in the UAE. We will start with infrastructure, applications and ERP services for 50-plus clients. The deal tenure is six years and the deal value is estimated at \$204 million.

Our second large deal win is with our Global Fortune 500 Energy company. LTI has been chosen as primary partner to create and consolidate a business aligned IT services delivery platform across the organization and reduce total cost of ownership. It's a five-year deal with net new TCV of \$74 million.

Our win rooms continue to be busy and we are seeing broad-based demand across our verticals. We added 22 new logos during the quarter.

I'm also happy to state that we added a new Global Fortune 500 logo to our list of clients, taking the total Fortune 500 customers to 69.

The Grit Alliance, as introduced to you last month, gives us a great framework to have some incredible conversations with our customers. This framework brings together our IP and the combined grid of LTI and that of our customers to programmatically help them navigate the new normal.

We are also constantly thinking about building and scaling differentiated capabilities for the future. The two separate units that we carved out for cloud and data products will be critical growth engines for LTI in the next three to five years. We're already working with some of the largest companies helping them get more from cloud and data leveraging our IP. Some of the investments we made over the years in both these areas are bearing fruit now.

Testimony to that is the highest level of partnership we enjoy with all the hyperscalers. Additionally, LTI is now an elite level partner of Snowflake, a data cloud company. We have become the maiden partner for Snowcase, a program that Snowflake is launching to develop and market industry-specific solutions to accelerate the cloud data transformation journey of enterprises.

On the data product side, a global banking and financial services company would use three product licenses of our Mosaic ecosystem - AI, Decisions and Catalog to bring about efficiency in their reporting with the regulators. Mosaic will serve as a unified data analytics platform, enabling consolidation of all credit risk models and will be hosted in a hybrid cloud set up, thus demonstrating the comprehensiveness of our platform as well as the ability to compete and win against top product companies. As part of the deal, LTI will be a one stop shop providing the product IP as well as deploying, integrating and testing services.

Let me now provide you with some color on the performance of our verticals.

In BFS, we grew 8.4% quarter-on-quarter. Our top client continues to grow and we also see good growth from some of the new logos that we have added during the past quarters.

We see three growth drivers for our business here. One, is the investment in core infrastructure like accounting, reporting and governance which is predominantly data driven. Second, is the investment in building for utilities like Google Pay, etc. Third, are investments in platforms to support retail wealth because of the global stimulus and liquidity. Public cloud adoption is also seeing a lot of traction and will be a long-term growth driver here.

In Q3, in partnership with Temenos, we also launched a digital banking platform in the Nordic region. This is a very strategic partnership for both the companies where we would create a joint sales effort to capture the market. This Cloud-based SaaS platform will modernize legacy core banking systems enabling financial institutions to be more agile and scalable while reducing operating costs. Banks will also be able to leverage the platform to launch new products and services faster.

Moving to Insurance, insurance vertical saw a marginal sequential decline. Some of the one-time COVID related commercial concessions have tapered off in Q3 and we will see some recovery in this vertical in the coming quarters.

Manufacturing grew 9.6% quarter-on-quarter. H2 is stronger for this vertical due to presence of higher pass-through in one of our India engagements. The quantum of pass-through revenue remained similar to the previous year. I also want to share with you a key client recognition that we have received in this vertical. LTI has been recognized by Honda in the outstanding category as a supplier providing the most value.

Energy and Utilities vertical was almost flat quarter-on-quarter. One of the large deal wins that we have announced this quarter, with a net new TCV of \$74 million, is from this vertical. We remain cautious on this as sector spends would continue to be impacted in the near future.

CPG, Retail & Pharma grew at 4.7% quarter-on-quarter. The Global Fortune 500 client which we have added belongs to this vertical. We are developing a centralized master data governance system for finance, leveraging SAP for them. This would enable streamlining and accelerating their financial reporting whilst bringing about data consistency and accuracy.

Hi Tech & Media grew 5.8% quarter-on-quarter. Injazat falls into this category.

Others which includes Defense and Professional Services registered 11.4% growth quarter-on-quarter. This growth is being driven by the scheduled ramp up of our earlier announced deals.

Talking a little bit about outlook, we see our growth momentum continuing into the fourth quarter as well. Our pipeline remains healthy. We are seeing broad-based opportunities in the marketplace and we continue to execute well. We have closed a couple of large deals in this quarter and we are excited about the incredible conversations that we're having with our customers. We remain on track to deliver high single digit growth for FY21.

With that, let me hand it over to Ashok.

Ashok Sonthalia:

Thank you, Sanjay. Hello, everyone. Hope all of you had a great start to 2021. Let me begin by thanking Sanjay for his kind words. I feel privileged to have been a part of the LTI team during this period. I would also like to thank all of you, the investor community, for your continuous support and trust in us.

Let me now, one last time as the CFO of LTI, take you through the financial highlights for the third quarter of FY21, starting with the revenue numbers. In the third quarter of FY21, our revenue stood at \$427.8 million, up 5.8% sequentially and 8.5% on a year-on-year basis. The corresponding constant currency growth was 5.3% quarter-on-quarter and 7.4% year-on-year. Reported INR revenue of 31,528 million was up 5.1% quarter-on-quarter and 12.2% year-on-year.

Now coming to profitability, EBIT for the quarter was INR 6,502 million, translating into an operating margin of 20.6% as compared with 19.9% in the previous quarter. Our margin

benefited from our programmatic focus on enhancing productivity, further improvement in our offshore mix and efficiencies in SG&A. These factors helped us more than offset the negative impact from lower working days in Q3. Reported profit after tax was INR 5,193 million, which translated into a PAT margin of 16.5% this quarter compared with 15.2% in Q2. Increase in operating profit and exchange gain have contributed to this improvement. Where we stand today, we feel comfortable about our FY21 net profit margin guidance.

Moving on to the people front, utilization without trainees was at 84.1% as compared to 82% last quarter, and utilization including trainees was at 81.1% versus 80.5% in Q2. We continue to strengthen our workforce and during Q3 we added 1,528 people on a net basis. The total manpower stood at 33,983, of which our production associates were 94.7%. In this quarter, attrition has come down to 12.4% versus 13.5% last quarter on LTM basis.

Our cash flow hedge book stood at \$1,296 million as at 31st December 2020 versus \$1,030 million as at 30th September 2020, while the on-balance sheet hedges stood at \$69 million versus \$115 million last quarter.

Moving on to the DSO, in Q3, the billed DSO stood at 63 days. The DSO including unbilled revenue was at 93 days, an improvement of one day compared to Q2.

For the quarter, the net cash flow from operations was at INR 6,049 million, which was at 116.5% conversion of the net income. At the end of the quarter, cash and liquid investments stood at INR 38,560 million compared to INR 35,472 million as on 30th September 2020. The effective tax rate for the quarter was 25.8%. Earnings per share for the quarter stood at INR 29.7 as compared to INR 26.1 in Q2. Diluted earnings per share was INR 29.5 versus INR 25.9 last quarter. On LTM basis, diluted earnings per share was INR 103.5 versus INR 95.5 in Q2.

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

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli:

Sanjay, even for FY22, are we confident about industry leading growth or growth in the leadership quadrant? We understand that LTI is a little mathematically disadvantaged from a high base standpoint in FY21 compared to a number of other industry players. But how do you see the outlook, especially in the backdrop that barring the \$278 million we announced in net new deal wins in this quarter, in the previous quarter deal wins have also been slightly lower as per your own expectations. How do you look at FY22 outlook?



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Sanjay Jalona: I want to reiterate our commitment, our aspiration, our dream for the company and that is to be in the leader's quadrant of growth, if not be the leader. Mathematically, many things will fall more or less the way that you have articulated. But we are very excited about the conversations, the large deal pipeline and tremendous opportunities and growth in new accounts, invest accounts and in the large growth accounts as well. So, from where we stand, we want to keep our focus on being seen as a growth company, focus our investments in creating new capabilities that we can take to our customers and continue to drive growth to be in the leadership quadrant.

Sudheer Guntupalli: Regarding the large deal in UAE, projects in this geography may have a different return margin and working capital profile. Any risk that we potentially anticipate here going ahead?

Sudhir Chaturvedi: As Sanjay described in his commentary, the deal is across multiple areas with Injazat. The first is the best shoring of existing operations from an applications and infrastructure perspective. The second part is the journey to cloud. So, all these 50-plus clients are on a journey to the cloud, and we are the partner for that. The third is the ERP modernization, i.e. many of these clients are on ERP systems, which will get modernized in the future. So, the multiplicity of the different types of revenue streams and the nature of work gives us confidence that there is good growth. Obviously, when we do any large deal, we are very conscious about the margins that we do and the same parameters apply in this deal as well.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: I just had one question, that is on our strategy with respect to hyperscalers. We've heard a lot of industry players talking about how they're improving their partnership with all the hyperscalers and LTI too has been quite vocal about the same. If you can highlight what is different about LTI here versus peers at this point in time?

Sanjay Jalona: We were one of the first ones to invest in building capabilities on the hyperscalers. We did an acquisition of Powerupcloud, which gave us a lot of born in the cloud capabilities early on. It's a complex journey that you take your customers from infrastructure, app modernization, ERP moving on to cloud. So, we created a separate unit which focuses on cloud and created four different units within that – one each for AWS, Microsoft, Google Cloud and IBM. The net result is that we are at the highest level of partnership everywhere. We have also created partnerships with companies like Snowflake, which are data on cloud companies. We are one of the first ones if not the first one to have a partnership with probably the hottest company on data on cloud today. Our focus is to continue working on fewer things, help create specific solutions for customers in the verticals, because verticalization and digitization is very key as they move on to the cloud journey as well. A case in point which I can give you and it relates to what we had done with Snowflake – one of the large companies was separating one division and creating a separate company, we did their entire system, including their ERP and data in flat nine months.

With building these capabilities and focus on the verticals, we are able to accelerate their journey to be independent, functional and efficient a lot quicker.

Vimal Gohil: What are the costs that you see will normalize going ahead? Are there any structural savings that you've seen in this pandemic maybe benefits of work from home, or other costs that you feel that probably could not be at the same level as they were before the pandemic hit us?

Sanjay Jalona: If you look at the last five-six years, our story has been very consistent. The way we look at the company is to look at it as a growth company with stable margins in the 14% to 15% band and invest back into businesses. There are many levers and in doing that we want to operate as efficiently as possible, making sure we don't leave any wasted money on the table. When you grow faster, it gives you incredible opportunities to save more money and increase your margin and we want to invest it back. So, we continue to work on this virtuous cycle to be seen as a growth company and be in the leader's quadrant, keeping the margins within the stable band of 14% to 15%. That's where our focus will continue to be.

Moderator: Thank you. Next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: If you see the last five years of Indian IT industry and the next five years of Indian IT industry, how do you see the future both from the industry perspective and from our perspective? Do you think that the level of growth slab itself will move up quite substantially or do you think it is too early to call on that? And secondly, on the hyperscalers, can you give some more sense on the initiatives that we have taken till now, they are at which stage in terms of integrating completely with the client ecosystem?

Sanjay Jalona: Things are changing very rapidly. A lot has been written. I've done nothing else but technology work for the last 30-plus years. IT industry has been written off many times and we have always bounced back. The investment, the government support, the bright people that serve this industry have always had ways to come back and bounce stronger. Now, if you look at the opportunity in the marketplace, it is incredible. Every industry needs to adopt a new normal and do many things differently. They need to save money from operations, they need to fund these transformations for a retailer to operate where you do more online, a CPG company, a manufacturing company to connect directly to customers, you need investments for an insurance company to operate in a model whereby they are doing remote claims, remote subscription of policies, you need to have the ability for banks to onboard clients completely in a remote model. I think the opportunity is where you can continue to work with a customer, understand the problem efficiently and solve for the future. You need to be able to do workplace modernization, because everyone is working very differently compared to a year back. Opportunity is there across verticals. What has separated and what has worked for us is our incredible focus on capability building, focus on fewer things, keep going deeper and deeper and keep bringing back these capabilities to our customers. So, I think opportunity is bright. Coming to your second

question on hyperscalers, we are at the highest level of partnerships, we are having incredible conversations with our customers as we move them on to cloud. Cloud is part of literally everything that we do with our customers.

Moderator: Thank you. Next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Over a longer time frame, four to eight quarters, it appears that the top clients are not contributing that much growth in absolute terms versus the non-top-10. So, our growth story is different pre-pandemic and post-pandemic between the two set of clients. Now that client concentration has come down and is more in the comfortable range, in terms of outlook, do you expect top clients to also start contributing to growth at the company level or do you think these may remain relatively at a slower number compared to the non-top?

Sanjay Jalona: Look, this year has been an aberration of sorts. But if you look at top-10 clients / top-20 clients, there were some impacts because of COVID in the start of the year. We need to look at it from a long-term perspective, so from FY16 to FY20, CAGR for top-20 clients have all shown double-digit growth. We don't give top client numbers separately, but if you look at top-5 clients, they have grown at 10%+; top 6-10 clients have grown at around 11%; top 11-20 accounts have grown at 16% CAGR for four years. If we look long term, we don't see a problem with the top-20 accounts, we still believe there are opportunities. We need to keep investing in capabilities, take new offerings to them, find new ways of opening cost centers with them and bringing new ideas to them. We're optimistic, but obviously given the size and where we are, we have to keep working on the other three aspects of our business - invest accounts, which need to grow faster, we have to open new logos and we need to crack some large deals as well. These four things always go hand-in-hand for us.

Mohit Jain: Second, on the Mosaic deal - is there a license revenue component in it? And what is the nature or what would be the quantum of license revenue in such deals?

Sanjay Jalona: We do not give the quantum on licenses.

Nachiket Deshpande: This deal does include a license component. The deal is about providing a platform to consolidate all their risk models and regulatory reporting on this platform. The deal that we have signed includes the platform licenses, as well as the services to integrate that into the bank's ecosystem and working with them to continue to build out the models. We expect that as this portion is successful, there will be future opportunities of consuming this platform in other parts of the bank as they see the value.

Mohit Jain: So right now, this piece of license revenue is getting clubbed into enterprise solutions, is that correct?

- Nachiket Deshpande:** It is part of the Analytics, AI and Cognitive service offering.
- Moderator:** Thank you. Next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** The deal flow number that we have reported is very strong at \$278 million. What kind of practices are we following in terms of reporting these numbers? These have been quite sporadic, quite low numbers that we reported last quarter. I understand it was boosted by a large deal in this quarter. So, is this a number which we can compare on a Q-o-Q and a Y-o-Y basis, and use that to project our revenues going forward? What exactly is the methodology that we are taking about reporting these numbers every quarter?
- Sanjay Jalona:** Methodology is very simple, as we close the deal, we report to you. In the last few quarters there were not as many deals, but this quarter we closed two deals. We only report net new TCV, that's an important difference that you will see with us. And specifically, on these two deals, you will start seeing the revenues come in from Q1.
- Ashok Sonthalia:** Just to add to Sanjay, we only report net new on large deals, just to clarify. It is not the overall deal inflow for the company.
- Vibhor Singhal:** Related part to that - the volatility that we have seen in the deal flow numbers this year, the last quarter was significantly lower than the number that we reported. Is it a peculiar thing about this year itself being struck by pandemic or do you believe there is a seasonality impact to it, which could probably be there in future years as well?
- Sanjay Jalona:** Large deals is a matter of when you close them and the deals that you are participating in. So, it would vary from one company to another. In our case, we report only net new TCV. In the Analyst Day, Sudhir did talk about the overall large deal pipeline that continues to be robust. We have seen few deals during the 2020s which got delayed or extended or where the decision making was a little slower. We would have expected some of these deals that we announced to close a little earlier. But such is life, this has happened in the past and I won't give too much credence to it.
- Vibhor Singhal:** On the margins front, we reported historically high margins for this quarter. I understand there's a lot of positives, deal wins coming up and we will probably have headwinds coming in terms of salary hikes and maybe travel costs coming back. Do we expect margin profile to maybe dilute a bit over the next coming quarters because of all these coming back? And would there be any kind of a band to which we could guide, and we would be able to maintain our margins, despite all the headwinds that we are expecting in the coming quarter?

Sanjay Jalona: You talked about the wage hike, which we have given effective 1st January, covering 97% of our employees, which will have an impact. During our Analyst Day, we also talked about further investments in sales and marketing. We talked about investments in cloud and data product units. We have made investments in the Nordics, partnering and buying the licenses and creating an infrastructure for all financial services companies to operate on a SaaS platform in Nordics. All these are done simply because we have to invest into the business to drive up future opportunities with the customer. So, as we have guided for the last five years, we want to be in the narrow band of 14% to 15% and focus on investing in capability building and in businesses, as we go along to drive the quarterly growth. That is where we feel comfortable, that's where we want it to be.

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

Manik Taneja: We have seen the offshore revenue productivity increase significantly or sharply this year, as compared to the trend seen through FY 2018 to 2020. While it is good to see that, just wanted to understand what's driving that. And do you think that with the work from anywhere essentially gaining more currency, we could be headed for a phase wherein clients would be open to paying based on skill-based pricing rather than rather location-based pricing?

Sanjay Jalona: During 2020, all the services companies have expanded their offshore ratio. Everyone is working from home as far as you can have some overlapping hours and if you can work efficiently, yes, why not? You want to go where the best talent lies. But if you really look at our five to six year profile from the IPO time or even before, we were typically at one of the lowest on-site ratios as compared with other companies. In the last five years, we have always mentioned that we want to do more from offshore with cautious calls on using technologies to deliver even more value for our customers, bringing the best talent, and not be dependent on immigration, visa, etc., as well which goes on and off again. This has been a conscious journey, obviously aided by what 2020 and COVID has brought on. But I think we are at a good number and we want to keep it at that number. The most important thing due to COVID is that customers' work is moving to where the good talent is. I think we are at a number where we can continue to keep optimizing here and there but we are happy where we are.

Manik Taneja: So does that mean that from an offshore perspective, we probably see better pricing as well? Should that be the expectation?

Sanjay Jalona: I wouldn't worry about pricing too much. I think it's hyper competitive out there and it's about what value you can create. If you are doing things very differently, if you have accelerators, if you have product platforms, you can win more or you can price yourself better. Again, bottom-line for us is, how do we win more, how do we accelerate the growth so that we can continue to invest back in the business.



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

Sulabh Govila: Congrats on another large deal win that you have announced. My question is regarding the construct of our four growth engines that we talk about. So, on an average of last few years, if you were to attribute the contribution of each of these four engines to our overall growth profile, what would that be? And has that contribution changed materially over the years or has largely been in the same ballpark? So, while I understand that these client accounts would be moving from one bucket to another over a period of time, but if you could provide any color on those lines, that would be very helpful.

Ashok Sonthalia: More or less they are similar with minor variations year-on-year. Sometimes existing accounts mining helps you more and new accounts are contribute slightly less or sometimes in case of large deals, the contribution varies - depending on what type of deal it is and when the flow happens. But over four to five years, there is a good trend that has set in for LTI and more or less they contribute in the proportion and that helps us to predict and forecast our performance internally – on how we are going to perform based on these four parameters.

Sanjay Jalona: Sulabh, if I can state with a different view, how we look at revenue as we do our planning for the years. Suppose you want to grow by a fictitious number, let's say 20% growth. Then the top-20 accounts which by their nature have been accounts for 10/15/20 years and you have seen a lot of growth in there, will typically grow between 12% to 15%, 20% being the company growth when you are on the plan. The invest accounts are typically accounts where you have had them for 12/18/24 months but there is tremendous opportunity for us to expand and explore there based on the investments that we will make. These are the accounts which probably need to grow by 30% to 35%. In any year, for a company of our size, we look at \$100 million to \$150 million coming from net new logos. This gives us a trajectory and large deals actually change the trajectory and move it to a totally different plane of trajectory and growth. That's how we look at the businesses overall.

Sulabh Govila: My second question is a little bookkeeping question for Ashok. If you look at the increase in CapEx that's reflected in the cash flow this quarter, it's quite a bit of an increase. So, if you could highlight the investment that you have taken this quarter?

Ashok Sonthalia: I will just look at this specific number. To enable work from home, we are buying end-user laptop equipments, etc., and there are investments on some of the security parameters. We club our sale or purchase of assets and investment, and the CapEx number, so, all the sale and purchase of our investment which we do from mutual funds also gets clubbed there. I don't think we have done any major CapEx in this quarter.



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- Moderator:** Thank you. The next question is from the line of Divyesh Mehta from Dolat Capital. Please go ahead.
- Divyesh Mehta:** Can you share the free cash flow for the quarter and for the last nine months?
- Ashok Sonthalia:** As far as free cash flow for the quarter is concerned, we had INR 561 crore of free cash flow. And for the nine-months, this was roughly about INR 1,600 crore of free cash flow.
- Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.
- Nitin Padmanabhan:** On Injazat - do we have any revenue recognition in the current quarter? And by when do you think it should reach a full revenue run rate that they have sort of estimated?
- Sudhir Chaturvedi:** We are in the transition period now. There are multiple revenue streams at Injazat. But we will start to see the pickup from Q1 onwards.
- Nitin Padmanabhan:** The overall utilization, not only for us but for the entire industry, is at a significant high. And in that context and the kind of demand that we are seeing, it appears that there will be a lot of hiring. How would you think about the salary inflation that would happen going into next year? And would you think that margin management not only for us but for the industry itself would be slightly little more difficult going into next year, considering the wage pressures?
- Nachiket Deshpande:** From a utilization standpoint, you're right, for us as well as for everyone, utilization is probably slightly higher than where we would like it to be. Yes, there is an increased demand from all the players in the marketplace, but I don't see that having any significant impact to our overall model; because we will have to look at portfolios, there are different market-based cost elements to different skill sets. We are also doing a lot of up-skilling, cross-skilling, as well as our fresh graduate intake is going to be higher than the previous year as we start to build that capability within our organization. So, we will manage that as an overall portfolio, we don't see that to have a material impact on our ability to manage our margins.
- Nitin Padmanabhan:** Considering that margins are at an all-time high and clients are trying to fund new investments, do you think it's time to start investing in deals at the expense of margins to accelerate growth? Is that a call that one would take strategically, is that how you think about it?
- Sanjay Jalona:** I think it's all a balancing act and if you look at our story for the last five years, we have been very particular about being seen as a growth company. We want to be in the leaders' quadrant, we want to invest back in the business, we want to build capabilities, we want to improve our win ratios, etc., but it's all about a balance. We look at it at a portfolio level, we look at our company and what the priorities should be and make selective decisions on where we want to be. That's not to say we see a need to just buy bad business. So, it will always be a balancing act.

We look at opportunities for value creation for customers and for the company and our shareholders in the long run.

Nitin Padmanabhan: Post GFC the entire industry was heavy on time and material, and this time around I think it's the other way around, there is more fixed price. And with this whole shift to offshore, how much of this passes on to clients and how much of that is sort of retention from an industry or even our perspective? And do you foresee clients asking for some sort of cuts at least from an industry perspective going forward? How would you think about it, or do you think the notion is wrong?

Sanjay Jalona: There are many constructs, there are time and material, there is fixed price, there are transaction-based, value-based pricing, there are function points, there are storyboards delivered, there are many constructs that would continue to be there and there will be many places where you will use one versus the other. I think what customers are looking for is total cost of ownership - how can you bring it down? How can you launch my products and platforms a lot faster than what we typically did in the past. And that is where the journey is typically taking them. So, we will continue to have those conversations, we continue to invest in businesses and continue to build capabilities and bring those values for the customer.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: If you look at your Q3 exit margins, you are at 16.5% PAT margin. Now, we understand that there will be an investment into team building with more fresher intake. So, given the double-digit industry-leading growth which you will have in FY2022, the gross margin should not be the factor for the margins to go back to your 14% to 15% range. So, should we assume that these sales and marketing costs next year will be probably closer to what you used to spend in terms of percentage of sales back in 2016 to 2018 period versus what you have seen in the last two years? Is that the right way to look at increased investment, will there be a meaningful pick up there?

Sanjay Jalona: We talked about some of this. We have salary hikes from effective January 1st in Q4 that will have an impact. Higher utilization at these levels - we wanted it to be brought down, so we will hire more people. We already talked about increasing the investments in sales and marketing. World is a different place and we need to do a lot more at these times. We talked about new units and investments that we need to make for data products and cloud investments - these are all new areas. We talked about investments in Nordics SaaS. All these take investments and some of these take time to fructify and bear the fruits, like we are seeing on data products today. Our patient desire will be to be in that narrow band that we want to operate in and funnel and fuel strong growth on top of it.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: If you were to look at over the last two quarters, our growth is largely offshore-volume-led. And given that traditionally offshore utilizations have been lower than onsite, is largely the utilization improvement offshore led? And has there anything changed for us to run at a much higher utilization offshore versus in a scenario where people were tied into a particular center and now there is work from anywhere?

Nachiket Deshpande: Our utilization improvement is both onsite and offshore. Both utilizations have gone up, resulting into the total utilization going up. The main contributing factor for the offshore utilization going up was not related to work from home but sharper recovery in our business in Q3 where the billability for the resources picked up much faster and we are kind of now hiring aggressively in the market to make sure we get into comfortable levels given the planned growth we have for FY2022 as well.

Ashwin Mehta: So would we be running at materially higher on-site utilizations, given that there has been very little volume growth there? And as things normalize from a COVID perspective, do you see that also coming off as you go into the second half of the next year?

Nachiket Deshpande: Our onsite utilization has been in the same sort of traditional range. We had seen a drop in Q1/Q2 with COVID related impacts, and that's sort of gone up again. But it is in the same range that we have traditionally operated in. We don't see the offshore leverage in any way helping or impacting our onsite utilization levels. Some bit of investments in our U.S. delivery centers, that we had talked about last year as well, will have some temporary fluctuations in our onsite utilization but we will continue to maintain it in the same band that we have traditionally done in our onsite utilizations as well.

Ashwin Mehta: In terms of the 4Q wage hike, what is the range of wage hikes that we have given and what is the impact that we see in terms of margins because of these wage hikes?

Ashok Sonthalia: The wage hike offshore is about 6% to 7% and in some cases slightly more. Onsite has been 2%. The impact on P&L is 160 to 170 basis point for Q4.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sanjay Jalona for closing comments.

Sanjay Jalona: Thank you, friends. Stay safe, and we will see you again next quarter. Take care. God bless.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of LTI that concludes this conference. We thank you all for joining us. And you may now disconnect your lines.



Let's Solve

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(This document has been edited for readability purposes)

Contact Information

Investor Relations:

Sunila Martis, Head of Investor Relations
Email: investor.relations@lntinfotech.com

Registered Office:
L&T House, Ballard Estate,
Mumbai 400001, India
CIN: L72900MH1996PLC104693
<https://www.lntinfotech.com/>