



L&T Technology Services Business Update Conference Call Transcript

March 26, 2020, 17:30 hrs IST

**MANAGEMENT: DR. KESHAB PANDA – CEO,
MR. P. RAMAKRISHNAN – CFO
MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS**

Disclaimer: *Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve number of risks, and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. L&T Technology Services Limited (LTTS) does not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.*

Moderator: Ladies and gentlemen, good day. And welcome to the L&T Technology's 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 this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I would now like to hand the conference over to Mr. Pinku Pappan from L&T Technology Services. Thank you and over to you, sir.

Pinku Pappan: Hello, everyone. And a warm welcome to all of you from L&T Technology Services. I am Pinku from the Investor Relations team. As a practice, we don't talk about the quarter in progress. But you would all agree with me that the current times are quite exceptional. Given the uncertainty and the volatility in the environment, we thought we should provide an insight into how we have progressed in terms of coping with the COVID crisis. This call is for 45 minutes. We will try to wrap the management remarks in 10 minutes, and then open up for Q&A. The audio of this call will be available for replay on our website one hour after the call ends.

On today's call, you will hear from Keshab Panda, CEO; and P. Ramakrishnan CFO. We will begin with Dr. Panda providing an update. Let me now turn the call over to Dr. Panda.

Dr. Keshab Panda: Thank you, Pinku. And thank you all for joining us on the call today. I hope and pray that all of us can stay safe and healthy in these testing times. I am happy to share with you that 100% of our employees are safe. I also want to thank all our employees for working tirelessly and seamlessly despite the challenges that come in our way. And more importantly, adapting to ensure that our business can continue with minimum disruption. As Pinku explained, the reason for having this call is because we believe it is fair on our part to give you an insight on how we are managing this difficult situation. I will start with how our delivery operations has geared up to handle business continuity. Then I will touch upon how we see the demand environment in our five business segments. Lastly, I will also talk about the nature of ER&D services and how in such times the support LTTS provides to its customers is of a very critical nature.

Let me begin with how we are managing our delivery operations.

- We have secured approval from customers to work from home in about 98% of our onsite business and 95% of our offshore business. And we are working to get the remaining approvals done as soon as possible. Our customers have been willing to go the extra mile to ensure work is not impacted by providing us permissions to access equipment, labs, and in some cases their servers as well.
- In terms of work from home enablement, at onsite, most of our billable employees continue to work for the customers either from the office or from home. And at

offshore, we have been able to enable more than 80% of billable employees to work from home as of today. We believe we will be able to take this upward to 90% or so in a week's time or so.

Now, let me talk about our business segments, starting with **Transportation**. Given that a large part of our pipeline is in the newer areas like autonomous, electric car, safety systems, entertainment, etc., which involves more of software work, we are in a better position as most of the work can be done remotely, barring for specific areas where the hardware is also required. And for such areas that require hardware, we are working with our customers to get access to lab and equipment wherever possible. In March, we closed and started work on a deal with a Tier-1 and other large deal discussions are also happening even today. We are in a good position to win once the situation becomes normal. Having said that, we are seeing furloughs and pause requests from some of our Tier-1 auto clients, and we are assessing the impact of this. These are, however, going to be temporary in nature.

In **Telecom and Hi-Tech**, we don't see any major work disruption. We have been able to work remotely with almost all our customers. This is true for Telecom, Semicon and all the sub-segments. Our large deal conversations are on track. In Media and Entertainment, we are seeing bright spots as internet traffic is going up due to increased work from home and operators are seeing higher demand for their services. In the first week of March, I am happy to share with you that we won a large deal with a media and entertainment customer which we will shortly announce on the exchange.

In **Industrial Products**, things are so far holding up with some challenges in specific sub-segments of machinery and power, while building automation subsegment is showing growth, as we see today. We are seeing decisions on new projects being delayed and this may create some challenges in this segment in the near term.

In **Plant Engineering**, we are seeing softness in the Upstream oil and gas side with oil price slipping to sub \$30. In the short term, we expect some cuts in Upstream while Downstream should be okay. In CPG and Chemicals, we are likely to see some acceleration in deal activity - as the sales of essentials are seeing good uptick. Similarly, chemical companies will benefit as their raw materials costs go down. Industry 4.0, Plant Automation, etc., are top priorities for customers as they can get value quickly. We have some discussion going on even now.

Medical continues to be a bright spot and we are seeing incremental opportunities as hospitals are likely to order more equipment's like ventilators, hospital beds and also invest in virtual solutions. Digital and compliance work continues to grow strong.

Before I wrap, let me share some insights into how our customers think about ER&D, which I think will help you better appreciate this industry and how we fit in in it. ER&D spend is core to a company and is part of its long-term strategy. So a contraction in business typically does not translate into reduction in R&D spend, especially when the contraction is temporary in nature. This is a time when customers are investing in technology to make sure that they remain

relevant in the long-term. Product roadmaps and R&D investment plans are strategic decisions, and they cannot be risked because of short-term disruption.

The rapid disruption in technology has driven a change in behavior of many of our customers - they are rethinking core operations and relying more on our partners for the newer technologies. Our focus on digital and leading-edge technologies has thus enabled us to become a strategic vendor to many of our top customers. It is in this context that many customers are choosing to opt for vendors that are scalable, stable, and have competencies across both legacy engineering and the new age technologies.

With that let me sum up:

It is a bit premature for us to quantify the COVID-19 impact as the situation is still fluid. We have been working to minimize the impact of the restrictions imposed and that journey continues. We have proactively initiated BCP conversations with our customers to ensure business continuity, so we secured work from home approval of 98% at onsite and 95% in offshore, that's the good news. And our work from home enablement is 80% currently, and we will take it up to 90% by next week.

Few of our customers have declared furloughs or have paused work, but this is temporary. These customers are not cancelling any projects, but just taking a pause to tide over a difficult time, looking at the cash flow situation and so on. In many of these cases they are keeping critical areas still alive or are shifting to an on-demand model instead of shutting down completely. We have a task force that is working on high impact, high ROI projects for customers, as they look to come out of this crisis stronger. Our view is this crisis is going to have a temporary impact and customers are looking at projects through which we can create short-term value for them.

In terms of our business segments, we expect some impact in Industrial Products, the Oil and gas sub-segment in Plant Engineering and partially in the Auto segment in Transportation. Rest of the segments like Telecom and Hi-Tech, Medical, CPG and Chemical sub-segments within Plant Engineering and the Aerospace segment within Transportation are doing relatively okay. Having said this, our commentary is based on what we see on the ground today. It is still not clear when this crisis will end. If there is a silver lining in this crisis, it is the fact that we work with the marquee names in every industry and every geography, and we see an opportunity to support our customers in their BCP activities and be a part of strategic discussions around factory re-purposing, supply chain shifting, process automation etc. This is thus a time for us to strengthen our relationships further with our customers. And in the last one month, I have personally written and communicated with many of our customer CEOs to give them comfort about the steps we have taken as a company on BCP. And we also talked about how we are available 24/7 for any support our customers need.

So we can now open the line for questions.

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 Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Dr. Panda, good to hear that the management and the workforce are all safe. Hopefully it continues to remain the same. Just wanted to start with a clarification, what percentage of your work requires client hardware versus the whole end to end process being on software?

Dr. Keshab Panda: As I said, I think next week we are going to be 90% work from home. The other 10%, I think I won't say 10% completely, on the hardware side, partly hardware, partly required because of data sensitivity and so on, we are working with the customer. 90% of them is a non-issue which can be done work from home, which we have already implemented, more or less.

Mukul Garg: Okay. So the remaining 10% would require employees to be in office locations for them to continue or have you already started some of these going into a pause during this whole Coronavirus phase?

Dr. Keshab Panda: Dialog is on with them, some of the cases I think still we have not got approval from them to go ahead. As you can see client approval is there, they have agreed 98% onsite and 95% offshore to do work from home. But what happens is, now when you go into detail, if I do work from home, this is what I need, that dialogue is still on with the customer. Today that 10%, can we do 5% of that 10% can we do that? Maybe possible, and that dialogue is going on. The 90% is very clear now, we have implemented, it is going to be there. So nothing has stopped there, like people are doing work. Are they productive working from home without having a lab access, are they productive not having access to the server for some particular data for a particular product line? That is a question we are debating, discussing with the customer. And you also have to appreciate, most of the customers are also working from home. That's where they are right now. So this uncertainty of 10%, I am not sure 100% possible, but more or less we will get close to that. It is not that bad as we think at this time.

Mukul Garg: Understood. And the second question was, while we understand and appreciate that I think most of the work is still on, is this visibility same if we kind of assume a worst case scenario of Coronavirus extending beyond April? And client's basically factories remains closed, do you think there will be some cutback in the R&D spending which might impact us?

Dr. Keshab Panda: See, there are a lot of question marks here. Yesterday U.S. government announced \$2 trillion package, which industry is going to get. And the news what you see from some of the companies, that could be the reason they are saying this because they want to get a pie from this \$2 trillion, lot of dynamics there. Number two, one thing we know for sure is that, see, if I look at Engineering business as a whole, 70-75% of business which we do is business which has to continue, because it is lights-on business, right, the other 25% to 30% is discretionary spending work when you talk about that is again a different component. What our task force is right now looking at are projects when I go to customer today and say this project is a high impact project for you from an ROE point of view in the short-term. Everybody is looking at a quarter or two

quarter temporary impact, but also how the benefit can be derived so that they don't reduce their employees, they are going to be competitive in the market and geography they operate. So I think our priority number one is for the employee safety; number two, working on the high priority project with quick ROI.

And there are few things, digital when we talk about, there are some part of digital that can maybe get delayed, but they are going to focus on those areas which are going to create more value for them. So I think it is a very, very dynamic situation at this time. I can only tell you that what response we get from the customers so far, we have all the executive team in touch with the major customers, all the main customers, it has been very encouraging. I think the business model which is going to come out after this Coronavirus goes away is going to be a little different. It is not going to be business as usual what we think, it is not going to be. But it's also an opportunity for companies like us, when you are working on engineering, can I think about doing a different business model? So I think we are doing everything possible to see that.

Moderator: Thank you. The next question is from the line of the Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, my question, just have two questions from my side. Sir, one is, because of this entire work from home thing that we are doing and all of us are forced to do, do you see any significant change in the onsite offshore mix for us? That maybe we start doing more on offshore and hence the onsite presence is reduced to some extent?

Dr. Keshab Panda: You know, only time would tell. I think this is a great opportunity for the offshore companies to demonstrate...we are looking at multiple parameters. One is, making sure that employees are safe and then we work from home. We are also measuring productivity from work-from-home. And then the data security, when employees are working from home, how much secure is the data? So we have a security platform which we use for many of our projects. So these parameters if we prove it by the time next two months' time or six weeks or eight weeks, whatever time it goes through, this is a great opportunity to demonstrate that a lot of work can be done offshore. If you can do from home, we can do from any of the development center. So there are a lot of points we are trying to test here and clear, it's an opportunity for companies like us to demonstrate that critical engineering design work or technology work can be done from India.

Vibhor Singhal: Sure. But as of now, at least in next couple of quarters we don't see any sizable or a significant shift, it should be business as usual as it was before?

Dr. Keshab Panda: I think, as I know today, yes. And you know, the COVID-19, you see what is happening in New York City, California and New Jersey where I live, it is terrible. The fact is that. And I am grateful to my employees who are willing to go the extra mile to do, and I am also grateful to my customers. You know, it's not easy. Do you know what's going on last few weeks, or every day we go through, making sure employees are safe in every location and talk to customers to see continuity and work done out of India. It is a factory with all the members of the executive team working day and night to make that happen. So I think, as I see today, I think quite

encouraging. Is anything going to change tomorrow? We don't know, because I think let me not give you hope, because world is at a very difficult stage what we are going through.

But to me, I think if you are able to work, if you are able to deliver, and we have been able to do that, this should not be any problem unless a customer in a particular segment, some segment because of the sales going down is there any different model they want to do. And how is this \$2 trillion package going to come? Is there going to be one more \$2 trillion going to come one month from today, two months from today? Is U.S. going to do that? India announced this now. So I think we will have to watch, every hour you have to refine your model. Continue to do that, how dynamic you are, how well we look at 360 degrees and think about it, we have no time to relax. Every day all executives - we talk at least six times a day to go through what has changed from last hour to this hour, and how differently our model should be and what we should communicate to the customer.

Vibhor Singhal:

Sure, sir. I can really imagine how difficult it would be in these times. If I could just ask one more question, sir, which is probably not related to the COVID scenario right now. So, on the Plant Engineering segment, as you mentioned that the upstream oil and gas companies might be showing some signs of weakness and that might impact some of our business. So just basically wanted to understand how, I mean, how bad or how basically negative could it be? Because if you remember, 2015-2016 period when the crude was at lower levels, those couple of years the Plant Engineering segment had remained quite weak. So do you envisage a similar kind of a thing or have we come a little bit ahead of those times and now our business is more insulated in terms of basically dependence on the crude prices per se?

Dr. Keshab Panda:

See, unfortunately or fortunately for us, the oil price of \$120 came to around \$50, then a lot of oil and gas companies started dialogue with companies like us to do engineering from offshore. When crude was \$100+ they had a lot of money and they didn't care about it. Now today it has come to a worse situation, it is \$30 per barrel, and in that situation these oil and gas companies are also, you know, if you see all the top five oil and gas companies, exclude China, if you try to look at it, look at their market cap, it has come down to half, one-third. So in this situation now they are evolving right now...how many employees they are going to keep, how much they are going to do from a supplier like us or a partner like us. So, this is an evolving process. Is that going to be a great opportunity for us? We are always looking at it, then what else we can do. And how many of the shale gas companies in America, how many of them are surviving, how much money are they going to get from the government bailout package? So lot of questions we need to watch and see. But what we see today we communicated. Because \$30 oil price is a disaster situation.

And then we also look at adjacent industries, right. Now with oil and gas price going down, the suppliers - like the machinery suppliers to oil and gas companies, likewise there is a lot of ecosystem if you see, who will be impacted if oil price remains at \$30. So I think we are looking, opportunity and threat both we are looking at very, very carefully and very closely.

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

Nitin Padmanabhan: The first is, if you look at the transportation vertical, it's been the largest and strongest kind of vertical for us in terms of share growth and scale. When you mentioned furloughs and so on and so forth, so just wanting your thoughts in terms of how large are these in terms of the context of the vertical, what proportion of the vertical would be sort of impacted by furloughs, how do you think about it?

Dr. Keshab Panda: See, the good part is, the customers have not cancelled, and they are looking at right now saying that next two weeks can your employees work at 50% productivity, they continue to work but I can only afford 50% of this for two weeks. And some customers say can we do for one week, in auto side Tier-1 which I talked about. So there's no cancellation happening there. And we can understand when we have a dialogue with them and say, "Why are we delaying this?" Because you can see Tier-1s, some of the Tier -1s who are not more into software side, they go through a difficult time, it's not easy for them. And some of the Tier-1s who are more into software side, they are quite stable. There is one deal when I talked about in Auto Tier-1 where we won a deal, and March onwards I think we already started some part of it, we will continue to scale up. But there are some other Tier-1s where we thought we are going to scale up big, and they could have furloughed in this slowdown. So what is going to be the impact after a month from today, three weeks from today? We don't know at this time. But other segments in Transportation if you see, the other side is doing reasonably okay. In the Aerospace side, the type of work we do in aerospace side, we don't see any impact there so far, we have not seen anything. So overall, I think it looks okay.

Nitin Padmanabhan: Sure. Sir, the second question was around, I am sure this month would have been extremely strenuous with trying to move people to work from home and so on so forth. Just wanted your thoughts on do you think that the impact of potentially lower ability to work in terms of number of days and so on so forth going forward maybe into next quarter do you think that's something that would worry you at least for a quarter or so going forward? Or do you think things actually this month is over and things should actually start normalizing in terms of employee productivity and overall total days that you have in the quarter for working?

Dr. Keshab Panda: Actually if you see productivity in terms of employees working - the number of days or number of hours, if you are able to establish...team managers talking to the employees couple of times every day, they have team meetings, different technology they use have team meetings. If this continues, productivity and number of days working should not be an issue, I think. I don't see any issue in terms of what they can do from office or what they can do at home. And a lot of tools available for the meetings. But you know, one more thing I can tell you, because we are proving this now, this is not what we have done in the past, thousands of people working from home doing a design work in engineering, this is something never done before. And we are attempting to do that and we have been successfully delivering it and our customers supported that. So I believe whether monthly or whether we get 23 days billing, or we get 21 days billing, I don't think that work from home should have a problem in that.

And one more thing, with most of the customers the percentage of sustenance engineering is going to increase. The customers are saying, my employees are not available now to work from my site, can your people take over and control the sustenance engineering from home, can they deliver it? So I think there is more opportunity in these areas as well. But I think to give you an answer, do I know that exactly what is that going to be next month? I don't know yet. But we believe once you prove this model, this will continue for coming months as well. That's what I would look at. You don't know when this is going to be over. At least till April 14th, India is closed, we can't do it. And here U.S. is closed, whether it is April 14 again in U.S. are they going to open, it is going to grow? It still is increasing even today in New York, New Jersey, California area, and it's gone to Louisiana now the same problem. It's going to start in Texas, I think Georgia, these states again started growing. So I would think at least till end of April this will continue, it is not going to be over in the next two weeks or three weeks' time.

Nitin Padmanabhan: Sure. And sir, just one final question from my side. From whatever you are seeing in the market in terms of, let's say, the way captives out of India, engineering captives have been able to manage the situation versus outsourcing vendors. Do you have any sense about whether outsourcing vendors have been able to manage the situation far better than captives? Or do you think that it's been pretty much the same?

Dr. Keshab Panda: You know, I didn't have time to look into what captives are doing right now. Frankly, right now I am looking at how do I protect my employees, and how to take care of the customer work we have to deliver. At the end of it, how well we execute...how well you execute from home, how safe is your data when a lot of engineers work from outside their respective locations, how do you manage that? I think it's going on a war footing. I have no comment to how captives are doing it.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Kotak Mutual Fund. Please go ahead.

Ashish Chopra: Dr. Panda, thanks for the update. I just had a couple of questions. So firstly, you mentioned that some customers in transportation have only paused some work and gone into furloughs. So if you could just help us understand, so would it be a big portion of the transportation segment or would it be a sporadic one or two projects? What would be the magnitude at this point?

Dr. Keshab Panda: Right now one or two projects, not a big portion of transportation as a whole. But once you start it, is something going to come today, is something going to come tomorrow? We are always open about it. And we also have our own assessment about which customer is going through the financial difficulty, which customer could ask for it and what should be our response to that. In furloughs, in offshore how do we manage compared to furloughs onsite? It is not too many in numbers, there are two of them who have asked for it and for a short period of a week to two weeks. So it's not a long-term furlough. So I think this is very dynamic now at this time.

Ashish Chopra: Fair enough. And when you mentioned that roughly around 10% of the business is where there is a difficulty in working from home because of maybe client approvals or hardware or data

sensitivity etc. So currently in those projects is the work at a pause because of the lockdown or are those employees continuing to travel to office to continue on the delivery side, what's the situation there?

Dr. Keshab Panda: Yes, some employees are working from office, they go to labs now. I think from a safety point of view we are providing all the support required. And now the India shutdown has again created a little more problem for us. But yes, I think they are working. Nothing is cancelled so far. Only thing we are negotiating with the customer saying that how do we take this, what access we need to have to their lab or our lab, how well we manage, that discussion is on. And it may soon happen that a week from today we will come back and say 90% has gone to 95% which the customer has agreed to, and there is the other 5% which cannot be done, it cannot be done as the employees are going to go to office to work on this, how safe they are and how legally can we allow them to go there. So those aspects of it that and that 5% uncertainty will always be there. We are confident that some part of the 10% will be taken care of, and that's a positive thing at this time.

Ashish Chopra: Got it. And lastly from my side, as far as the strengths go that you are witnessing on the ground, are the regional dynamics any different, given that you have almost a fourth of your revenues from APAC, would that stand to be worse off than maybe the North America or Europe?

Dr. Keshab Panda: I won't say geography point of view. I think it so happened that, as you know, I think Coronavirus thing started in China and Japan. Fortunately for us, we have no exposure to China, that's a very positive part of it. And then next is Japan and Korea...Korea, we have very little exposure locally, and Japan we have a big team. Japan is a big market for us. Temporarily we had some impact there and things are coming back to normal. India, so far we have a small portion of people working in the captive centers. We only support captive centers for those customers that we support globally. Those cases also we have not seen any cancellation or any furloughs, that has not happened so far. See, whether we like it or not, still America is 60%, 60-plus percentage of business. And it is a big market for us and the growth what we expected in western world, before this COVID-19 when we were planning for our future, growth was much more. And this is slowing down, some of it is getting delayed, some of these decision getting delayed, customers not come to office. I think that's a big thing. And again, everyday morning first thing I do is make sure that employees are safe globally, whatever location they are there. So I think that's where we are. PR, would you like to add anything?

P. Ramakrishnan: So, thank you, Dr. Panda. So maybe, I think as a company, the way we are looking at this, we have a set of established practices, we work with a set of good clients across select domains, across the five domains which we talked about. And today, I think what we would probably are doing or thinking, I mean, we are doing in the way is that employee safety is paramount. Compliance to regulations is also paramount. And also engaging with the client, all our key clients on a day to day basis in terms of how do we enable work from home faster, which we have already done. And how do we engage with them in their course of disruption, how do we engage with them proactively to ensure that the engagement momentum is maintained. And once this whole COVID situation, obviously, fades off, then probably we get into the next growth

momentum, because we have stayed with the client along with our employees, and that's how I guess is the right thing to do, given the situation.

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

Sandeep Shah: I actually had a problem in terms of connecting through contactless dial-in number, so excuse me if I repeat the question which might have been asked earlier. Dr. Panda, I think, just to understand your business, I think quite different than the enterprise IT business. So correct me if I am wrong, there would be some significant portion of your business which may require high computing kind of a work. So working from home may not be optimally possible each project or many significant part of the projects. So what percentage of your business where you require a high computing kind of environment, which may not give you optimal productivity to work from home. So is the answer to that question is 10% which you have said earlier? Or that 10% is only for the environment like Centre of Excellence where the employees are working from the clients' network? Is it fair to say that the risk is beyond that and it's also for the work where the high computing kind of a task cannot be worked from home?

Dr. Keshab Panda: You know, I think engineering design when you conceptually look at it, I am doing product design and conceptualize the product to the prototyping if I do that, and the process completely goes through, high computing is very minimum. What happens is, either you are doing a software that has to be integrated with some other pieces to run this, that happens later. But only thing is, when you are building the blocks, therefore engineering the final product...so the whole supply system when you look at it, high computing is very less. But what happens is, accepting the data, if I am designing sitting at home, server is sitting somewhere else, speed at which I access data or speed at which I upload data. If the speed is slow my eight hours of work which I do, if it takes a long time to get the data from server for me to design a product, or getting engineering drawing or I look at it software component I want to get it, so that is the only issue, speed at which I get that.

And you can see world over, billions of people all at home, schools, colleges, everybody's sitting at home, working from home. And with all these together, the speed at which you get it, that's the only bottleneck, okay? We are trying to work around that to see how we distribute in a way the productivity remains high. It is a non-issue about computing data. Today you can use servers around the world and sitting somewhere and you can do the complete computation. I am familiar with that when you do a fluid analysis and that type of analysis we do, quite high computation is required. Now, let's say, you do a simulation work, and the simulation work, running on the server is a non-issue. Today, thousands of people are working from home accessing data...how much speed they can get, that's the only issue which we are working on. Productivity is based on only that more than anything else.

Sandeep Shah: Thank you. And just last question, any discussion happened in terms of managing margin in this kind of an environment? Because there would be additional cost for that, but at the same time there would be additional savings through lesser travel and maybe in the initial part you can keep the currency benefits as well.

P. Ramakrishnan: Okay. I mean, you yourself gave partly the answer. I guess at this stage the fact is, the positives from a cost stack perspective is obviously the currency and also a lower travel cost. But also we have to see that there are implications like we have to ensure, in case of whatever Dr. Panda talked about temporary furloughs, wherever it is onsite we will have to still keep people. But having said this, it would be a little premature for me to talk about where the margin stack will go, and that too especially when we talk about the subsequent quarters starting, I guess. But yes, there are positive levers and there are some things which we need to factor. But it's too early to aggregate all of this and give you some sort of a guidance on the margins.

Dr. Keshab Panda: Listen, I think the way I look at right now, how do I keep morale of my employees high at this time? How do I continue to innovate, this is a technology engineering, they are not doing IT. When they are doing engineering design, technology and the innovation of new ideas, how do I talk to my employees to innovate more in this situation where customers' business model itself is changing, they are looking at ROI in a short term, how innovative we are going to be in that situation. I think that's where we are going through. If your business model is strong, it can have an impact on the margin for a short time. But you are going to come back to that parameters if you understand those parameters, it will come back again. So I think priority is employee morale at this time, I would continue to do whatever it takes for them to remain wherever they are, not only in India, there are thousands of employees everywhere in the world. So how do we maintain that? How do we communicate with them? Yesterday I sent a mail to all 17,000 employees, telling them about what we are doing as a company. And we have sent emails to 130-plus customers, talking to them not selling to them, but telling them about what we as a company stand for, and what we do for our employees and I think all those parameters. And in these difficult times we believe that the challenges they go through, how they are doing it. So I think those things are going on at this time. And of course, I think when you are running a business, we should know the impact on margins, we are working on that in parallel. We will have more clarity maybe in few weeks' time.

Moderator: Thank you. The next question is from line of Ritesh Rathod from Nippon India. Please go ahead.

Ritesh Rathod: Yes, since you have done your studies on your client base, can you help us understand what proportion of client is very leveraged, or the leverage levels are very high that if they don't get funding from the central government they may be under existential risk?

Dr. Keshab Panda: See, in our segments if you see, all these five segments, industrial customers do they need government? I don't think so. Some of the customers in telecom, hi-tech do they need government support? I don't think so, the telecom, hi-tech is doing reasonably okay. If you go to the medical customers, do they need the government support? I don't think so. So I think majority of customers they are not waiting for the bailout package,. What happens is, when the money is on the table, you know, we are not into retail segment, we are not into logistics segment, right, those segments we are not there. So, there are customers like, some of the customers we go through, the oil and gas customers, you know, shale gas some of the engineering, let's say, we are doing it for them, or some of the oil and gas upstream area, I think oil price going down is there any package they are going to get? We don't know yet.

But I think as far as we are concerned, impact of that to our segmental business, we don't see. If I look at top, let's say, top 80 customers last quarter contribute almost 84% of our business. The top 80 customers do they need that government bailout to survive? There are some of them, out of 80 maybe two or three of them may have problem, they may have survival issues, customers who are small. If you see top 80 customers, many of them are few billion and plus. So many of them are different geographies. So I don't see a major customer waiting for government package to survive, I don't think so. They are all in a strong financial position. The first thing we do is, one thing I do and my CFO does, every time we look at the balance sheet of these people, all the customer if I see the balance sheet and look at it, what challenges anybody can go? Do I have a debt which is not going to recover? That's also a parameter we should look at. What is the finance or cash flow situation of these customers? All that we see one by one. So, I don't think there is something to worry that a major part of our customers will go out of business and they will have a cash flow problem unless they get money from government. But whole ecosystem, and feel good factor in the economy as a whole is going to change, it will have some impact. And we don't want anybody to lose their job.

And one more thing you will see what is going to happen is, this is an opportunity for some of the customers to be more efficient. They might reduce the number of staff they have, they might, depending on which geography and which product line they are prioritizing. There are customers who will think that this is a product I think a company like LTTS can do better and much cheaper, better and faster than what we have been doing it, there are multiple business models are going to come into play, there is no doubt about that.

Ritesh Rathod:

Okay, sir. Maybe one more question. Since you spoke about, there could be high probability of offshoring, but how about the existing context, how the pricing will behave once there is a new normal in the coming months? Would customer take this opportunity and ask for a price or productivity gain or price cut from you?

Dr. Keshab Panda:

You know, last 10 years I have been doing this, the engineering business last 10 years, many difficulties we have gone through. What happens to currency, the dollar rupee is that going to be an issue? Is there going to be issue in terms of customers going to come back and reduce if they are going through a difficult time? See, engineering usually, when you talk engineering services or technology services what we do, product engineering or process engineering, procurement plays a very small role in that, it's mostly decision-making engineers, because this is their bread and butter. If the company doesn't do this product, and that is what the business they are in and how are they going to do it. And unlike IT, in engineering not too many suppliers are there.

If you see all my customers if I look at it, many customers either have one supplier or maximum two suppliers. If one or two supplies are there, then in that case there is dependency of the customer on you, they are not worried about that \$1 per hour, they are worried about how well you can deliver, how stable you are. Tomorrow new technology is coming in, are you in a position to get in? Do you have muscle power to make an investment and create a team of 500 to a thousand people, can you do that? Do you have a brand value which I can count on to create

something, if I want to create in India, Europe or anywhere in the world, can you do that? So those questions I think comes more than price or reducing per hour rate or cost. We have not seen last 10 years, not even once. A few years ago, the industry was going through a difficult time, and in some cases, customers were willing to give a rating increase also. It all depends on the value you create in the segment.

Ritesh Rathod: And sir, you said to customers have taken a pause, so have you called out a percentage of revenue what proportion, would it be less than 1%, would it be fair to assume?

Dr. Keshab Panda: Yes. I think, today yes it's less than 1%.

Ritesh Rathod: Okay. But this situation is very dynamic, there could be more customers who can take a pause and this can evolve and it can also, like they can come back also?

Dr. Keshab Panda: Listen, what happens is, I would be worried if a customer says I am not going to do that. But I can only tell you that the way it is going now and if you see the news, I believe it is quite scary and becomes the number is increasing, this is going on, anything could happen. I cannot tell you right now that everything is fine. But it's important for us, only thing I can give you comfort that we are looking at every hour what change is happening in the world and how our model should be refined, that equation which you wrote we must refine every hour to make sure that it's relevant. So I think this is very, very dynamic

And percentage point of view, today, I think not too much to worry about it at this time. But there are opportunities. We are winning orders, even in difficult time we are winning orders also. So I think both are on.

Moderator: Thank you. The next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Dr. Panda, I just two, three quick questions. Firstly, just taking forward from what Ritesh was asking around pricing. Will there be a case for higher DSOs in the near-term? And will you have some liberty around accounting, whether the days go up by 20, 30 days and you give a better deal to the customers, on payment terms at least?

Dr. Keshab Panda: PR, would you take that question please?

P. Ramakrishnan: Okay. So, Yogesh, there are some enquiries which are coming up wherein customers are seeking for extended payment terms. All of such kind of situations are being addressed by myself and my colleagues. And what we are typically doing is, it all depends on the extent of engagement we have with the client and what is the strategic purpose we have, and also the clients' financial position. So, we believe that there could be, if this whole crisis goes into predominantly beyond April, there are expectations especially in the transportation side where customers may come up for extended credit periods. But that I would believe, we will have to optimize that in a way that it does not impact significantly the working capital position and the cash flow position for a services company like ours. So, I would say that we will have to dynamically play between a

combination of maybe extension of credit periods or some sort of temporary cost reductions. So, that's the way I guess probably we will work on.

Yogesh Agarwal: Okay, fair enough. And secondly, any of you may answer. What percentage of the business will be new customers in any particular year or quarter? Like usually for IT services it's around 4%, but for you guys how much will it be approximately?

Dr. Keshab Panda: See, I think a new business could be from existing customer, or new business from new customers. New business from new customers is very, very small for us. See, we take T30, N20, and X30 - total 80 customers I talked about...these customers itself if you see, the ER&D spend is a big number - \$275 billion to \$300 billion. So existing customers new business, that's what we look at, and not the new business from new customers. So, overall point of view, every time engineering services when you say, if I am designing a product, I am doing a sustenance engineering for one particular geography or plant, and that is going to roll out to multiple plants. So that is again new business for me. But I have done this well for this plant, I am going ahead with this plant, next plant, we have demonstrated this in this geography I take it to the next geography, this is the business for us.

And one product I design a component, then I design three more components for that particular product for the product to go to market. Or there is a product where I have done the cost take-out, there are thousand products, I have done three of them and designed the cost takeout plan for three products and other 900 products will be done, how do I go about doing it? So those types we call it as new business. So I think visibility point of view and in a conceptual sense in engineering services, I would say 75% to 80% is clear that you know this is going to happen. Other 25% to 30% if you see, that is the new business. And in this 30% new business, more or less if your relationship is good with the big customers, sizable customers which we have, the top customers we have, then out of 30% we will have 15% visibility always there, other 15% we have to work on. So this is how the engineering works in conceptual sense.

Yogesh Agarwal: Okay. And just lastly, Dr. Panda, theoretically R&D happens in the development environment and IT services is a large part which could be on the production environment as well. So, one would assume that work from home is a lot more potentially possible in R&D versus IT services. And therefore, if the lockdown continues for longer, R&D outsourcing should do much better than the overall IT services industry. Is that a fair generalization?

Dr. Keshab Panda: I don't think so. I don't think so, because IT also if you divide, there are multiple parts of IT, right? Whether you are doing ERP, or doing development, you are doing support, or you are into CRM or ADMS, or whether you do development or maintenance, there are many parameters in IT as well. Only thing I would say engineering point of view, even engineering when you talk about are you doing a new product design, are you doing a component, you are doing a cost take-out, you are doing a software, you are doing hardware and prototyping, interfaces, manufacturing? So, I don't think it's so simple to say that ER&D is in a much better position or IT is a better position, no. But only thing I know for sure, if the companies have to do IT, they have to survive as a company, right? They have to sell their product to get revenue to support

IT. IT is a support function. Engineering is a core function, P&L function. So the P&L has to do well therefore to get more revenue to spend in IT they have to spend. If they don't do that, long-term they are not going to be competitive in the market, they will lose their market share, then they will lose the business as a whole. So, conceptually when we look at it, if I am doing well for an engineering company, I understand their business model, I know the technology, the product line well, the competitive product I have an understanding, then there is no reason I should not continue to be relevant long-term with them. That's how I look at it.

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

Pinku Pappan: Thank you all for joining us on the call today. We hope we were able to answer most of your questions. If you have any follow-up queries, please reach out to me on email. We look forward to meeting all of you on the other side of COVID. Goodbye and stay safe.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of L&T Technology Services, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Note: This transcript has been edited for clarity and accuracy.