L&T Infotech Q3 FY17 Earnings Conference Call Transcript
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Moderator: Ladies and Gentlemen, good day and welcome to the L&T Infotech Q3-FY17 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Mohta – Head of Investor Relations from L&T Infotech. Thank you and over to you, Sir.

Nitin Mohta: Thank you Janice. Good morning and good afternoon everyone. Thank you for joining us today to discuss LTI's Financial Result for the Third Quarter of fiscal 2017.

The Financial Statements, Press Release, and Quarterly Fact Sheet are available in our filings to the stock exchange and at the 'Investors' section of our website.

On the call, we have Mr. Sanjay Jalona – CEO and Managing Director; Mr. Sudhir Chaturvedi – President (Sales), Mr. Aftab Ullah – 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 a Q&A session.

As a policy, we do not provide specific revenue or earnings guidance and anything said on this call which reflects our outlook for the future, which could be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces.

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

Sanjay Jalona: Thank you Nitin. Hello everyone and wish you all a very Happy New Year. It was good to meet many of you last month during our Analyst Day and we look forward to continue the conversation this year.

As several major events shape the new world order, we have our ears to the macro-environment, yet we continue to keep our heads down and work towards solving complex challenges of our clients. 2017 promises to be an interesting year for the world, especially our industry. On one side, we believe the US spending would increase because of the proposed deregulation, investment in infrastructure, etc. but on the other hand, there is an anxiety on immigration policy as well as skill shortage at the same time. Over the next 15-20 minutes, Ashok and I will talk about the results we delivered in the previous quarter. We will leave the rest of the time to interact with you and answer any question that you might have about our performance.

Let me also take this opportunity to congratulate Ashok who has been recognized as the CFO of the Year 2016 for IT industry by The Institute of Chartered Accountants of India.

For a seasonally weak quarter for the industry, Q3 has been a great quarter for us on many fronts. We have signed three large deals with the cumulative net new TCV in excess of USD 100 million. We would see continued growth in momentum in Q4 as well as onwards. I shall talk about them in more details later.

We delivered another quarter of solid top line growth of 3.8% quarter-on-quarter in constant currency. This is on the back of industry leading growth we had in Q2. We inaugurated our MOSAIC experience center at Mumbai headquarters, which many of you visited last month. The experience center showcases our MOSAIC solution that accelerates digital transformation for our clients. We also completed the acquisition of AugmentIQ in this quarter. Its MaxIQ platform has now been integrated with our MOSAIC Decision platform. We have already initiated several interesting conversations with our clients that are looking for faster outcomes from their analytics investments.

Let me talk a little bit about headline numbers for the quarter:

We registered a 2.3% sequential US dollar revenue growth in Q3. In constant currency terms, this is a 3.8% growth. Digital revenues now account for 28% of our revenues versus 26% in Q2. This translates to around 10% quarter-on-quarter growth in our digital revenues. Our net profit margin for the quarter was at 14.4%.

We added 14 new logos this quarter and client mining efforts saw our clients in the (+$10) million band increase by 2 to 22. Our headcount as of 31 December, 2016, was 20,605 and we saw a 40-basis point decline in our attrition to 18.1%

Little bit on deal wins:

I am sure you would like some more details on the large deal wins we announced in our earnings release; let me give them to you. First, we won a strategic transformation deal to provide end-to-end infrastructure-managed services and cloud enablement for an international institution. This is possibly the biggest new account opening deal in LTI's history outside of India and in infrastructure space, so that makes it very interesting. We won this deal against fierce competition from our bigger peers.

Secondly, for a Fortune 10 energy corporation, we have been selected to provide end-to-end application-management services for their upstream businesses.

Thirdly, a French transnational company selected LTI as an exclusive partner for their critical and strategic ERP transformation program. LTI will help the client with complete infrastructure transformation from an on premise to AWS infrastructure. The project also involves maintenance support of AWS infrastructure and SAP applications for five years. What makes these wins more attractive is that these have come from different geographies - North America, Europe, and Australia - showcasing our broad-based sales focus. We also had a series of deal wins in addition to these three that I have talked about and we have highlighted some of them in our earnings release.

Coming to industry:

BFS: If you recall we had mentioned on the last earnings call that despite Q3 being a soft quarter due to furloughs, it would be business as usual for LTI. I am pleased to report a 2.6% quarter-on-quarter growth in BFS. As banks are transforming themselves to compete with FinTech, there is a major thrust on moving to DevOps and Cloud. We are seeing increased traction in these areas. We are helping our customers use smart analytics to help meet their regulatory requirement. Lastly, we continue to see an uptick in business process automation using a more holistic approach that leverages cognitive technology, machine learning, robotics and analytics.

In Insurance, we continue to remain confident about this business. Insurance companies are investing in customer experience, cloud, Internet of Things, analytics and Big Data. Legacy systems are being replaced by software products like Duck Creek, Guidewire, Surety, etc. We have announced a major new partnership with Duck Creek this quarter.

In Energy and Process, Q3 saw our Energy and Process vertical deliver a robust 7.2% quarter-on-quarter growth, impressive wins in this space over the last two quarters is a testimony of our differentiated capabilities in this sector. In terms of business outlook for this space, the cut in IT spends have stabilized, but budgets are not increasing yet. Even so we are seeing some spend in analytics-based projects to drive production efficiency.

In CRP – CPG, Retail, and Pharma segments grew 4.8% sequentially. We see Life Sciences companies to be truly leveraging the power of digital technologies to drive their businesses forward. Connected health products, wellness services, connected supply chain, crunching drug research cycles are some of the ways in which we see Life Sciences company transforming itself. We continue to focus on these change opportunities and are leveraging digital technologies to create a compelling customer proposition.

In Hi-Tech, Media, and Entertainment, the decline in revenues that you have seen this quarter is an aberration as we had a ramp down in one particular client. This ramp down is also visible in our APAC percentage drop in our geographical cut that you see in the fact sheet. While different sub-segments within Hi-Tech are demonstrating different trends at the uber level, we see Hi-Tech companies to be focused on converting opportunities that IoT, Cloud, On-demand consumption, models are creating. The consolidation in the semiconductor industry, the cloud focus of ISVs and the software and services focus of OEMs are the manifestation of that. Overall, we are seeing positive momentum in the US Hi-Tech business.

In Media and Entertainment space, the large well-established companies are investing heavily to build or buy the OTT capabilities, that is, Over the Top, and compete effectively with the newer players in the market like Netflix and Hulu. LTI is helping clients make this transition by leveraging the power of exponential technologies to transform the end-user experience.

Auto, Aero and others that also include Engineering and Construction, Plant and Equipment, Defense and government projects that we do, grew by 4.6%. On Auto and Aero particularly, positive sales momentum continues, clients are investing heavily in customer experience, vehicle autonomy and mobility as a service. Exponential technologies are playing a huge role in transforming the industry towards these horizons.

For industrial manufacturers – IoT-led digitization examples which include Product as a Service and field service transformation are driving renaissance in the industry. Companies are seeing opportunities both in internal operations as well as new revenue stream through smart connected products like smart elevators.

Engineering and Construction industry has seen pressure due to clamp downs in major capital projects, spending in Oil and Gas Industry, however, recent improvements in Oil and Gas climate as well as expected thrust by the US government towards infrastructure spending is likely to create positive momentum in the coming quarters.

Let me switch to an update on the service lines:

Digital technologies, as I mentioned, went up to 28% of our revenues in Q3. This has been helped by a strong 13% quarter-on-quarter growth in our AIM, Enterprise Integration and Mobility service line. This is a second consecutive quarter of double digit growth for this service line. We also had a double digit sequential growth in our Infrastructure Management Services in Q3. With our recent deal wins in this segment we feel good about growth prospects in IMS space.

A little bit on partnerships and alliances:

There are two new notable partnerships that I want to highlight for you from Q3;

Nutanix: With a partnership with Nutanix, LTI will provide a ready-to-use cloud solution for companies that want to fast track their cloud adoption strategy and achieve the benefits of consumption economies. For those of you who are unfamiliar with Nutanix, they have an enterprise cloud platform that aims to deliver the flexibility, scalability and ease of use of a public cloud to company's own on premise datacenters so customers can maintain the security, data protection and control within their own trusted environment.

Q3 also saw addition of LTI to Duck Creek Global Alliance Program. As a delivery partner, LTI will implement Duck Creek's suite of insurance software products composed of policy rating, billing, and claim solution as well as the latest data and digital components, which can be delivered via Duck Creek's on-demand SaaS or on premise models. This partnership will strengthen our capabilities to service existing clients on this platform as well as pursue new clients looking for Property and Casualty segment and the Duck Creek's expertise.

Some of the awards and recognition:

We are very proud that LTI was named a top-15 sourcing provider by ISG for the America's region. We are also pleased to be positioned as a leader in Forrester in their application outsourcing capabilities report of mid-sized offshore vendors.

Before I hand over to Ashok, let me address a topic that is on top of your minds. We are monitoring the steps being taken by the new US administration closely. It is noteworthy that we see a strong demand environment in the US, it will only strengthen given the new administration's push on deregulation and infrastructure investments. In parallel, there is a severe shortage of tech talent, hence our plan is to address the likely impact of various policies that have been mentioned in such a manner that we can also maximize our growth potential in the market. We have conducted a thorough internal analysis and have prepared plans based on many levers that are available to us:

#1. We have a detailed and extensive program on localization, both lateral and fresher hiring. We have been pursuing this journey for the last few years and we are expediting it now.

#2. We have strong client concentration on specific geographies, specific cities and states in the US, which would be beneficial to our localization program.

#3. Our onsite percentage is 24-24.5, which is amongst the lowest in the industry which demonstrates our ability to operate effectively with low onsite ratios. We can further increase our offshoring using technology such as video conferencing, collaboration, etc.

In addition, we have won some large deals and also have a strong qualified pipeline in Europe as well as Asia-Pacific markets. As a result, we are confident of seeing an increase in revenue share from these markets in the following quarters. That concluded my update. Let me now hand it over to Ashok for more details on financials and we will take your questions after that.

Ashok Sonthalia: Thank you Sanjay. Hello everyone. First of all, wish you all a very, very Happy New Year. Hope 2017 will bring out new opportunities for all of us. This time we are again back with another strong quarterly performance. While Q3 is known for being seasonally a weak quarter, we delivered an excellent quarter.

Let me start with some of the headline numbers again:

Our revenue in Q3 grew 3.8% sequentially on constant currency basis. In USD terms, it grew 2.3% to USD 245.1 million. In rupee terms, revenue stood at Rs. 16,667 million with a growth of 4% on quarter-on-quarter basis. The revenue share of digital has been growing steadily and now it stands at 28% of the total revenue up from 26% last quarter translating to 10% quarter-on-quarter growth.

On the profitability front, we maintained our PAT margin within the stated band at 14.4% for Q3 as against 14.3% in the previous quarter. Operating margin for Q3 stood at 17.8% as against 17.6% in Q2. EBIT margin excluding revenue related hedge gains in this quarter dropped by 80 basis point from 16.1% to 15.3%.

Let me give you a broad breakup of the different moving parts on the same:

We had 110 basis points drag because of calendar, which includes the impact of lesser working days, net of volume growth in the quarter. G&A optimization gave us 35 basis point benefit. The benefit from rupee depreciation was lost to minor drop in utilization and businesses mix.

Moving to employee metrics:

Our manpower productivity number with all the freshers' induction has kept on moving up quarter after quarter and now stands at USD 47,400. The utilization excluding trainee was at 80.5% and including trainee was at 78.1% compared to 78.7% last quarter. These numbers are within our targeted band. From Q3 a year back, we have made an improvement of more than 400 basis points in this important metric. Attrition also has come down by 40 basis point quarter-on-quarter to 18.1% in this quarter. Effective tax rate for the company was at 21.2% for Q3 compared to 21% for Q2. The last quarter saw lot of movements in currency markets due to hardening of US interest rates and cross currency movements were sharp. However, our disciplined hedging practice continued to work well for us.

Our cash flow hedge book as of 31 December stood at USD 796 million. In addition to that, we had on balance sheet hedges amounting to USD 78 million. The diluted EPS for the quarter stood at Rs. 14.24 compared to Rs. 13.37 in the last quarter. On cash flow front, we had a solid performance; the operating cash flow for Q3 stood at 34% of revenue and was at 236% of net profit. This was result of our strong focus on collection which resulted in our DSO improving to 64 days in Q3 versus 74 days in Q2, which is an improvement of 10 days. With improved working capital situation, cash and liquid investment as at December 31 stood at Rs. 10,156 million.

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

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Nitin Padmanaban from Investec. Please go ahead.

Nitin Padmanaban: Sanjay, thanks for the highlight around the environment in the US, but specifically wanted your views in terms of how are clients actually reacting to all these headline risks that is out there because yesterday we had your sister concern basically come out and talk about specific deal that got pushed out because of headline risk and you have Trump sort of tweeting about any kind of deal; from that perspective, how are clients reacting to this?

Sanjay Jalona: Overall, I have not seen anything being pushed out to next quarter because of this. In fact, we had a great Q3, one of the best Q3 that we have ever had despite being a soft quarter and we were able to keep up the revenue drive as well as close three large deals. Actually we have seen some quick decision making from our clients on one side. However, obviously there is some nervousness and anxiety all around, so when we talk to our customers, everyone is looking and trying to find solutions. So we are working closely with our customers in this geography to make sure that there are no challenges to the system and critical applications that we manage for them in times to come. We work very closely with them in a transparent way, in creating a plan. That is the only way you can actually counter this potential threat that everyone is seeing because our clients have businesses to run. There is a shortage of skill sets as I mentioned, so you work very closely with clients and that is exactly what we are seeing. It is very important to note that our top relationships are more than a decade old, so we have relationships which run very, very deep and when you have that trusted relationship, you can work on a model very closely with them.

Nitin Padmanaban: In the client six-to-10 bucket, it has been sort of coming off the last two quarters or so, is that specific to that Hi-Tech client that you were referring about?

Sanjay Jalona: Nitin, the mix of the six to 10 has changed a little bit. Some customers have moved upwards and some customers have moved downwards, so that is what you see. Clients in the Top 6 to 10 bucket in Q3FY17 are not the same five customers that you saw in the last year, nothing else.

Nitin Padmanaban: Nothing to worry about basically?

Sanjay Jalona: Absolutely nothing. Our focus is actually on the top 20 of them, we totally have great control, you have seen the numbers. The next 30 is what we are focusing on very strongly which will drive up the growth.

Moderator: Thank you. We take the next question from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: Congratulations on the strong deal wins and wish you all a very Happy New Year. Just wanted to get your thoughts on the headcount; so we see the development headcount has declined by about 2% year-on-year for 10% constant currency growth, now I understand that utilization is also significantly higher, but now that is in a desirable range, how do you see headcount going forward, do you see it increasing in tandem with growth expectations or do you see some productivity improvement or automation benefits that may dissociate this linkage?

Sanjay Jalona: If you really look at it, year-on-year at times gets very deceptive. On a quarter-on-quarter basis, we had an addition of around 850 people. We have used automation as a tool but that has not only been in the last quarter. We have removed something like close to 4% of manpower from things that could be automated, we have done that. Please remember that we do not have BPO as a service line, that is the place where you do highest amount of automation and we have been using that to go to our customers and cut down their BPO spends through BPA-RPA work, but overall if you look at it we are very comfortable with our utilization now. We are very, very comfortable and confident with our automation that we have done and using it across the company, and in times to come, you will see headcount increase as we grow.

Sagar Lele: Also just wanted to get a sense on how much the revenue from AugmentIQ would be during this quarter?

Sanjay Jalona: I think more than the revenues, the way I would look at AugmentIQ, it is a very small company from revenue standpoint. The impact that AugmentIQ has made to us is phenomenal. There are two-three points that I want to talk about here. It's MaxIQ platform is one of the kind open source platform with Hadoop, Kafka and so on and so forth. It is used by one of the credit bureaus in India to run their entire operations, leading banks in India are using it to run their customer 360 as well as fraud alert. Now, what we did was we embedded MaxIQ platform into our MOSAIC decisions platform, so we have an end-to-end platform. The impact, if it has to be measured, it will be as follows: number 1, for a leading Automotive company, we became their digital partner for the analytics business because we were able to show that we have end-to-end analytic capability which includes what came from AugmentIQ. Now here we competed with global SIs as well as Indian peers, to be the digital partner. Few weeks back, we had the final proposal defense with a large bank for their data scientist and analytics business and again we are strongly positioned there, the deal is not signed, so hopefully next quarter we will talk about that, but it is creating a different mindshare with the customer that is very important. It is influencing the revenues in many, many ways. That is the core reason why our analytics business is growing in a double digit manner for two quarters.

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

Ashish Chopra: Sanjay, while you did share that it looks like pretty much business as usual for now as far as the clients are concerned within the US, just wanted to know how would you characterize the progress around the budget cycles within your Top-20 accounts as they would naturally have a bearing on the growth?

Sanjay Jalona: Ashish, this whole phenomenon of annual budgets for at least last couple of years has not been the same. Actually, I do not get asked and so does most of the other companies do not get asked on annual budgets simply because the way the IT companies run their budgets is very different than what it used to be in the past. What is very important to note is that by default, the budgets are more or less flat and people are using the digital and exponential technologies to manage their additional things that they need to do in the same cost using the same amount of money unless there are some mergers and acquisitions or some extraordinary events where they need to change their technical system in a very defined way. So for top 20 customers, budgets are more or less stable. They are using new technologies, so the kind of work that is there, there is a lot of opportunities there for our customers. There are few of them who are embarking on M&A kind of work but otherwise it is okay. When you look at some industry reports like Gartner, for a five year term from 2015 to 2020, they are talking about IT growth CAGR of 3%. Now 2015 and 2016 has been a little tepid, but they expect a lot more to come in the next three years. So I think we are looking forward to the growth that is exactly what we see when we talk to our customers that is what you see in our numbers and that is what you see in our deal wins. We have a strong deal pipeline as well.

Ashish Chopra: To summarize the visibility that you may have from these accounts right now in addition to the deal winds that you announced and the pipeline, we should expect this fairly healthy momentum to continue at least in the near term?

Sanjay Jalona: Absolutely.

Ashish Chopra: Secondly, Sanjay, just wanted to also understand in the Energy and Process area what is the nature of work or what are the kind of deals that are really happening which is raising a fairly impressive performance for us while it is stabilized may be in the last quarter and what would you really expect to drive growth within that going forward?

Sanjay Jalona: Ashish, this is a sector especially the Oil and Gas part which has given us a lot of grief from being 22% of the company in FY14, it has come down to 12% that we have today. What I have been saying for the last two quarters is that spend freeze in this sector has plateaued. There is an acceptance to the oil price being at the level that it will be. They do not expect oil price to go at USD 100 anytime soon. It is most important that Oil & Gas companies need to find innovative ways of doing things and bring innovations in the market place. The areas where we are seeing spend are especially in the areas of upstream systems, we are seeing investments in the area of using analytics as a way to improve the efficiencies. We are seeing spends in doing IOT and so on and so forth. It is a little early to talk about this vertical leading growth or be ahead of other verticals, but at least it will not be a drag on our revenues in times to come.

Ashish Chopra: Where I was also coming from Sanjay was to know whether it is that the client's spending on IT has been improving or is there an exercise of vendor consolidation that has been going on where you would expect to be a beneficiary, so which of those two would it have been?

Sanjay Jalona: Ashish, vendor consolidation happened in the last three-four years and actually we were the beneficiaries there, because we are very differentiated especially given the parental heritage that we have on Oil and Gas. Now, definitely there are increases in the IT budgets and the customers are thankfully starting to spend money in this sector as well, so if you look at our number, there is a lot of discretionary spend which has happened on newer projects that got started in the last two quarters. We announced a large deal last quarter, we announced another deal this quarter, and we won a significant deal on a paperless office for an Oil and Gas major as well in this quarter.

Ashish Chopra: Just one last thing from my side, Sanjay, your peers couple of them have been citing their own assessment of hypothetical cost increase of visa-based employees let's say to a 100K which has been also tabled, but saying that may not necessarily have a huge impact or any impact on the profitability, so just wanted to know if you could also share a high level assessment of how does that particular scenario impact you?

Sanjay Jalona: Ashish, we are monitoring the situation very, very carefully. Overall, as I said we are seeing a very strong demand in the US. With the new administration focused on deregulation as well as infrastructure spending, we expect that demand to only increase. On the other hand, there is absolutely great shortage of talent in the US as well, and if you look at open positions, 97% of open positions in IT and technology areas get fulfilled compared to other industries at around 80 odd percentage. On the one side, you see demand, while on the other you see skill shortage, so obviously we are monitoring the situation very closely and looking at various steps that would be there. It is a little too premature to talk about what will be the impact on the margin because there are many steps that we have taken. There are many scenarios of what could possibly happen. Our average salary if you look at in the US versus peers is very, very similar. I suspect all the IT companies are operating at very, very similar levels. There are several levels available to us as well. One big advantage that we have is that over 50% of our people are in the tri-state area which is New York, New Jersey and Connecticut. Now, when you look at that one of the biggest challenge and adverse reaction for margins is the onsite utilization drop if you hire people in all over the place, but if you hire once your people in this tri-state area, you can utilize them across the various customers, so it actually helps us and we have got lucky here because of our size and our concentration of people. I am giving you a roundabout answer, but when we look at the median salary and average salaries of employees on visa in the US, we are in line with other companies, percentages of everyone is in line. We have an advantage because of our size as well as concentration and we are aggressively and in a much disciplined way going after finding a solution to that.

Moderator: Thank you. We take the next question from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: This is on your energy segment. I understand that post the financial crisis, BFSI clients developed a certain urgency to outsource and offshore and over the next few years at least we saw a lot of incremental IT spend from there, you think something similar could happen in the energy segment, could we be at the start of a major inflection point there?

Sanjay Jalona: Sagar, I do not know whether I want to call out a specific trend, but obviously Oil and Gas companies have to drive up the efficiencies of their operations in a very strong way. So we saw the last three years when there were absolutely no budgets, they did all the consolidation, but now they need to drive up the cost efficiency lever. We are seeing a lot of digital program using IoT, analytics, etc. to drive up all of that, but as the investments increase in infrastructure and as more, for example, oil field is opened up or deregulation happens in EPA environment, you will see investments go up there. There will be lots of new capital projects as well, that is how we look at it, but I do not know whether there is a trend which I can specifically point out saying this is going to grow very, very fast today.

Sagar Rastogi: Thanks Sanjay, just a follow up, from your commentary it appears as if you are looking more for the incremental or new investments in technology by these players, but could it not happen that they already have a large base of IT spending that is in high cost locations, you start gaining share there and that lift or shift happens to India?

Sanjay Jalona: This is something which has already happened Sagar in the last three-four years as they were under pressure. The consolidation happened, movement happened, and as you can imagine, we were beneficiaries in many ways. It could still happen in few clients, but I do not think there is a specific trend across the segment because you are asking segment wise, I do not think it is a segment-wise phenomenon anyway.

Sagar Rastogi: We saw significant growth from India in this quarter and that is typically a very volatile geography so in the next few quarters could that sort of dip?

Sanjay Jalona: I think India is an important geography for us. Sagar and those of you who attended our Analyst Day, you would have seen us talk a lot about CBDT, some of the really large programs that we are working in India are doing well for us, and we are continuing to bid for large programs, so India focus will continue but we expect it to be in the same 4-5 percentage points for our revenue.

Moderator: Thank you. We take the next question from the line of Aniket Pandey from Elara Capital. Please go ahead.

Aniket Pandey: I am just having a follow up question that energy uptake is there from just one client or you are seeing energy uptake from overall industry perspective?

Sanjay Jalona: We announced a large deal last quarter, we announced a large deal this quarter, these are two different customers. We are seeing growth, it is a broad-based growth globally across the segment. Actually, we announced one large deal and then there is another USD 7 million deal with another new Oil and Gas company as well.

Moderator: Thank you. We take the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, the top account has been delivering good growth in the last two quarters, could you talk about the share gains there and from within the captive vendors, how the distribution is happening?

Sanjay Jalona: Madhu, the top account has done multiple rounds of vendor rationalization and during our IPO process, you guys asked a lot of question on what is happening there. The customer has always said in the last two or three years' bulk of the incremental revenues actually came to us. We do a lot of mission critical work for them in their finance risk and compliance area, digital banking and analytics. Every year they talk about how our growth has been and they will probably talk about it in the next few months. I have last two years' data which says that we got bulk of the incremental revenue, our growth suggests that yes, the journey continues; I do not have a confirmation from the client but I think numbers are progressing well as you can see.

Madhu Babu: Sir, on a mission critical work how is the distribution between its captive in Pune?

Sanjay Jalona: We work very closely and complement the captive as well, so we have been working on both sides of the pond.

Madhu Babu: Sir, second question, in terms of perception management, would enterprises look to give a higher share to vendors like Accenture, HP enterprises compared to Indian vendors because of the perception about that Indian vendors are taking more of the jobs and all that?

Sanjay Jalona: I will request Sudhir to answer this.

Sudhir Chaturvedi: As Sanjay said earlier this has yet to play out, we have heard some commentary, but nothing in detail as yet. In fact one of the most recent thing that has happened in this administration's early days has been a case against a US-based global products company, so I do not think it really has a benefit to anybody in particular. As Sanjay said, we will see the detail of the policies, but speaking about ourselves, what we intent to do is deploy the levers in a way that we maximize our growth potential. This is not just a defense play, but also to see how do we grow significantly in the market which is also growing, I think that is the challenge that we are seeking to address.

Moderator: Thank you. We take the next question from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: We have seen the industry-wide shift in the ERP implementation from on premise to cloud as lateral reduction in deal sizes, so that is primarily because of low level of customization on any cloud products than on premise products, I want to understand that why this trend is emerging and what is the reason for low level of customization and cloud products versus on premise ERP products.

Sanjay Jalona: We have to fix up a meeting with some of the experts to talk to you about and explain you this, but I will give you a very quick high level answer. In a cloud-based environment, you are using shared infrastructure, shared product and operating at a commodity infrastructure for your compute power. That is one way and obviously you are using standardized things to do businesses, which leads to all the savings that come in there. Now, what used to happen, there was very little choice in the past, so if a global multinational which operates in, say Timbuktu, and probably does 10K of business, but still had to implement a SAP or an oracle in the past which used to be an on-premise kind of a solution which used to be very expensive, you would spend millions for 10,000 bucks of revenue. Today, there are opportunities for people on these peripheries to implement a cloud-based solution whether it is a Salesforce.com, Workday or HCM on the cloud from Oracle or SAP on the cloud from SAP, there are multiple options that exist for people to operate the fringe sides on some of the clouds, but lot of people will continue to invest on the on-premise SAPs and Oracle as well. Large conglomerates merging together will move from one SAP and one Oracle to one SAP or one Oracle and so on and so forth, that spend will continue. The deal sizes have dropped, as you rightly said, but what is very important for us to remember is that both parts will coexist. You need to have the capability, agility to understand the businesses and things to bear the architecture to them whereby you are able to solve and run the businesses for the company at an optimal price bringing a hybrid solution for large companies. Some places will have on premise solution and some places you will have a cloud solution. They need to talk to each other very efficiently, so we are seeing all kinds of solutions, total cloud adoption, total on premise and hybrid solutions at multiple places, but on your specific question on why does it cost less, a long session is required.

Sudhir Chaturvedi: Just to add to what Sanjay is saying, one the difference is between traditional ERP where you customize the ERP versus cloud applications, for example, in Salesforce it is that the customization actually happens in Force.com. It is not like it does not happen, it happens in a different layer, so the standardized layer continues which benefits all customers and as Sanjay said provides you a cost effective solution. You build customization using Force.com and several other accelerators and solutions that we have built in this area for our customers to leverage, because all said and done true competitive advantage actually comes from doing something unique, which requires customization. Customization in itself is not a bad thing, it is about how it is leveraged and in this case, it is done differently.

Vaibhav Badjatya: A follow up question was that, given as of now lower level of customization, are we seeing this trend happening or do we think that it may happen in future that customers will say that okay, this is not working for me because I am losing my uniqueness and so I want to go back to higher customization and does the whole trend reverse and come back and thus giving higher potential for Indian players and players like you?

Sudhir Chaturvedi: Vaibhav, what we see is that the investments in new technologies continue to be strong and what clients are doing is that they are looking at multiple new technologies at the same time, which is different from the past where it traditionally was strategy of having one solution end to end, so that is a major difference and as Sanjay mentioned earlier what they are doing is using the efficiency gains that they can get through more mature outsourcing, through automation and other areas to actually invest in these newer technologies. So we actually feel as the level of investment goes up, the spend will go up and all of these are not cloud-based technologies as Sanjay mentioned as well, so I think it is not just customization that will drive growth it is the adoption of new technologies, multiple new technologies by the same client that will drive growth in the future.

Moderator: Thank you. We take the next question from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: Just a quick one for Sudhir, it has been about four to five months since you have joined, any changes in the sales structure or approach post your joining?

Sudhir Chaturvedi: Well, Sagar, firstly thank you, it has been a very fascinating four months, very energizing time for me personally. We are making some changes but this is focused currently on Europe and Asia Pacific. As Sanjay mentioned, we have done large deals in these geographies recently and we see significant growth potential. We have a low base here, so we see a significant growth potential here and that is going to be the focus from a sales team perspective going forward.

Moderator: Thank you. Since that was the last question, I now hand the floor over to the management for their closing comments.

Sanjay Jalona: Thank you Janice. Once again folks we thank you for your time and hope to interact with you again in our next earnings call where we will also share our annual results for this financial year, Good luck and we will see you soon.

(This document has been edited for readability purposes.)

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