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National Stock Exchange of India Limited,
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The BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

NSE Symbol: LTIM

BSE Scrip Code: 540005

Dear Sir(s)/Madam,

Subject: Transcript of Earnings Conference call held on April 24, 2024

With reference to the captioned subject, please find enclosed transcript of the Earnings Conference Call held on April 24, 2024.

Kindly take the above on record.

Thanking you,

Yours faithfully,
For LTIMindtree Limited

Angna Arora
Digitally signed by Angna Arora
Date: 2024.04.26 10:35:45 +05'30'

Angna Arora
Company Secretary and Compliance Officer

Encl: As above

“LTIMindtree Limited's Q4 and FY'24 Earnings Conference Call”

April 24, 2024

MANAGEMENT: ***Mr. Debashis Chatterjee*** *– Chief Executive Officer & Managing Director*
Mr. Sudhir Chaturvedi *– President, Markets*
Mr. Nachiket Deshpande *– Chief Operating Officer*
Mr. Vinit Teredesai *– Chief Financial Officer*
Mr. Vipul Chandra *- Chief Financial Officer, Designate*
Mr. Vinay Kalingara *– Head, Investor Relations*

Moderator: Ladies and gentlemen, good day and welcome to LTIMindtree Limited Q4 FY24 Earnings conference call. Please note that this conference is being recorded. I now hand over the conference over to Mr. Vinay Kalingara, Head Investor Relations, LTIMindtree. Thank you, and over to you, sir.

Vinay Kalingara: Thankyou Zico. Good day, everyone, and welcome to the LTIMindtree Quarter 4 and FY'24 Earnings Conference Call.

Today on the call, we have with us:

Mr. Debashis Chatterjee – Chief Executive Officer and Managing Director;

Mr. Sudhir Chaturvedi – President, Markets;

Mr. Nachiket Deshpande – Chief Operating Officer

Mr. Vinit Teredesai – Chief Financial Officer, and

Mr. Vipul Chandra - Chief Financial Officer, Designate

We will begin with a brief overview of the company's quarter 4 and FY'24 performance, after which we will open the floor for Q&A.

During the call, we could make forward-looking statements. These statements consider the environment we see as of today and carry risks and uncertainties that could cause our actual results to differ materially from those expressed in today's call. We do not undertake to update any forward-looking statements made on the call.

I will now turn the call over to DC for his opening remarks.

Debashis Chatterjee: Thank you, Vinay. Good evening and good morning to everyone on the call. Thank you for joining us today.

Before I begin, I'm pleased to welcome Vipul Chandra as our new Chief Financial Officer. His extensive experience will be invaluable in steering our financial strategy towards continued success. I also want to extend my deepest gratitude to Vinit Teredesai for his outstanding contributions during his tenure. His dedication and leadership have been instrumental in the company's growth and financial health. We wish him the best in his future endeavours.

During FY24, the economic landscape was marked by unprecedented uncertainty and caution. Despite these challenges, we closed FY24 with a revenue of US$4.3 billion, marking a 4.4% growth in USD terms.

Our dedication to align closely with client needs is mirrored in the significant order inflow recorded this year. We achieved a Q4 order inflow of USD 1.4 billion and a total FY24 inflow of USD 5.6 billion, representing a 15.7% year-on-year growth. This demonstrates our ability to shift our portfolio from a relatively higher discretionary mix towards longer-term, efficiency-driven deals.

We added 9 new Fortune 500 clients over the year, expanding our portfolio to 104. Additionally, in FY24, the USD 1 million-plus client band has increased by 11 to 394 clients. The USD 5 million-plus client band increased by 7, USD 10 million-plus clients by 10, and our 20 million-plus clients have increased by 2.

Our disciplined execution helped offset the impact of discretionary spend slowdown, driving growth across all our verticals, year-on-year. Our commitment to customer centricity is evidenced by our improved Customer Satisfaction (CSAT) score, which saw a 5-point increase from the previous year, surpassing industry averages. This quarter, we were honored to receive the 'Service Advocate of the Year' award at the 3rd Annual Microsoft Supplier Prestige Awards.

While our performance is in line with how the industry has performed, it falls short of our aspirations.

A marked reduction in discretionary spend, where our portfolio has traditionally been skewed, resulted in a higher-than-anticipated impact on revenue. Additionally, some of our Top 40 customers experienced a decline in growth due to market dynamics and client-centric factors. Despite these ongoing challenges, we have successfully capitalized on emerging opportunities across verticals. Some of our recent key wins include:

As part of a multi-year engagement, a leading financial services firm specializing in loans and mortgages has selected LTIMindtree as their primary engineering partner to meet their regulatory timelines and enable seamless operations of their application landscape through a ‘Remediation-as-a-Service’ and ‘Operations-as-a-Service’ engagement.

A multinational financial services corporation has awarded LTIMindtree a multi-year contract as an exclusive assurance partner for their transformation journey by implementing a centralized Quality Engineering organization.

A global leader in insurance brokerage services and risk management solutions has chosen LTIMindtree as their primary partner to establish a new technology platform as they create a new operating model in their digital transformation journey.

A leading energy company in the Middle East has awarded LTIMindtree an end-to-end infrastructure-managed services contract for five years.

A leading producer of frozen products in Sweden has awarded LTIMindtree with a full-scope infrastructure contract for Cloud Transformation. This is a new logo for LTIMindtree.

Our focused efforts in expanding our capabilities and account mining have resulted in substantial growth in three Service Lines, of which two have shown double-digit growth.

Let me cite a few examples to showcase our increasing penetration through cross-selling into our existing accounts:

LTIMindtree has been chosen as the transformation partner to deploy S/4 HANA solutions for a global technology leader. This innovative '*software plus services*' engagement leverages our robust SAP capabilities.

As a Customer Experience partner for an automotive solutions major, LTIMindtree delivered a mobile application with a revamped User Experience and User Journey, helping them move away from their current platform.

For a US-based insurance and retirement major, LTIMindtree has been chosen as the transformation partner to modernize their hybrid cloud operations with a converged ops model through Canvas.AI OPS-driven automation and Gen AI solutions to deliver 70% improvement in issue resolution and service experience.

In FY24, LTIMindtree enhanced its partnerships through various initiatives, including co-branding, co-marketing, and co-investments, focusing on key priority areas. Our joint venture with Aramco Digital is a notable example. This JV is a testament to our commitment to forge transformative partnerships. It broadens our geographical reach and opens new avenues for growth, particularly in the thriving Saudi Arabian market.

The advent of GenAI and the potential it holds for transformative applications across industries is poised to revolutionize the way we approach problem-solving, innovation, and productivity. Our strategic partnerships with industry giants like Microsoft, AWS, Oracle, Snowflake and NVIDIA coupled with our pioneering initiatives, including signing an MoU with Eurolife FFH to establish a first-of-its-kind Gen Al and Digital Hub in Athens and dedicated facilities in Poland and Mumbai, position us at the forefront of this revolution.

We are proud of our commitment to service excellence, which has been acknowledged by some of the most reputable global partners in the industry. We secured the 2024 *Google Partner of the Year* title for Industry Solution Services for Manufacturing. In addition, we were recognized as an *Amazon Connect Service Delivery Partner*, highlighting our expertise in delivering top-notch customer service solutions.

Beyond these accolades, our commitment to sustainability and social responsibility remains a cornerstone of our business philosophy, as demonstrated by our recognition in various awards for sustainability, DEI, and LGBTQ+ inclusion.

Our success is attributable to the dedication, expertise, and innovation of our 81,000+ professionals. Their contributions have not only earned us recognition as a *Great Place to Work*™ in multiple countries but also laid the foundation for our future growth and innovation.

Regarding our industry verticals, we have renamed some of them. However, it is important to note that there have been no changes in client distribution or the financials. All growth numbers for both the verticals and geographies are on a full-year basis.

BFSI vertical declined by 2.8% on a quarter-over-quarter basis. This was primarily due to cancellations of 2 projects as clients reprioritized their spend. This also had an impact on the margins. However, on a yearly basis, our Banking, Financial Services, and Insurance vertical grew 2.2%. Client priorities continue to revolve around regulatory commitment and data transformation for better reporting and decisions.

The renamed Technology, Media and Communications business grew 1.7%. While our strategic clients continue to do well, this vertical had a higher component of discretionary spend, and that played out throughout the year.

The Manufacturing & Resources business showed a strong growth of 14.6%. Demand was driven by ERP transformation, Data estate modernization, supply chain modernization, and Industry 4.0 initiatives.

Our Retail, CPG, and Travel, Transportation, and Hospitality business, now renamed as Consumer Business, grew 2.3%.

Our Health, Life Sciences and Public Services business grew 6.1% year-over-year.

In terms of geographies, for the full year,

North America grew 5.9%,

Europe grew 3.5%, and

Rest of the World declined by 3%.

I will now turn over the call to Vinit for the financial highlights.

Vinit Teredesai: Thank you, DC. Hello, everyone, and thank you for joining the call.

Let me take you through the financial highlights for the fourth quarter and Financial Year 2024, starting with the revenue numbers.

We ended the fiscal year 2024 with a revenue of US$4.3 billion, registering a growth of 4.4% in dollar terms. The corresponding constant currency growth was 4.2%. EBIT margin for FY24 was 15.7% compared to 16.2% in FY23. The absolute PAT for the full year was INR 4,585 crores, an increase of 4.0% over FY '23, while the PAT margin was 12.9% compared to 13.3% in FY '23. EPS for the full year was INR 154.90, compared to INR 149.1 in FY '23.

Cash generation for the year improved significantly in FY24, with the Operating Cash Flow-to-PAT at 123.7%, compared to 70.2% in FY23. Free-Cash-Flow-to-PAT came in at 105.5% compared to 49% last year. Given our continuing focus on operating efficiency and working capital, we expect our cash generation to remain strong going ahead.

For the fourth quarter of FY24, our revenues stood at USD 1.07 billion, up 1.1% year-on-year in USD terms. The corresponding constant currency growth was 1.2% year-on-year. Sequentially, revenue declined by 1.3% in dollar terms as well as in constant currency terms.

EBIT margins for Q4 came in at 14.7% compared to 15.4% in the previous quarter. The key moving parts for the margin are: 70 basis points tailwind from the partial reversal of furloughs, higher working days, and lower pass-through, offset by a headwind of 80 basis points from project cancellations. Higher SG&A and depreciation had a further impact of 60 basis points.

Supported by our healthy cash reserves, we realized returns of ₹189 crores from our treasury operations.

The effective Tax Rate (ETR) for the quarter was 24.0%, compared to 24.3% in Q3 FY24.

PAT margin for the quarter was at 12.4% as compared to 13.0% in Q3 FY24.

Basic EPS was ₹37.2 for the quarter as compared to ₹39.5 in Q3 FY24.

Through our steadfast collection efforts, we have achieved further progress in reducing our DSO. Our billed DSO further reduced to 57 days, versus 62 days in Q3. We have made significant progress and have brought down the total DSO by 11 days during FY24. In Q4, the total receivable days, including unbilled DSO, was 80 days, an improvement of 5 days sequentially. We continue to progress towards our aspiration of reducing the total DSO to about 75 days.

Our cash conversion metrics in Q4 continued to drive the strength of our balance sheet. The Operating Cash Flow-to-PAT was 158.4% as against 155.7% in the previous quarter, and 88.5% in the same quarter a year ago. Free-Cash-Flow-to-PAT conversion held its strong trend and came in at 131.5% compared to 143.7% last quarter, and 77.7% in the same quarter a year ago. We hope to continue with this momentum going forward.

We closed the year with an all-time high cash and investment balance that stood at USD 1.38 billion or ₹11,525 crores compared to ₹10,116 crores in Q3 FY24. Return on equity (ROE) for the quarter was at 25.0%.

As of Mar 31st, 2024, our cash flow hedges stood at USD 4,027 million, and hedges on the balance sheet were USD 281 million.

In our endeavor to build bench strength, we reduced our utilization (excluding trainees) to 86.9%.

Our attrition continues to be stable. For the quarter, our TTM attrition was 14.4%, compared to the 14.2% last quarter. We onboarded another 500+ freshers this quarter.

The Board of Directors has recommended a final dividend of INR 45 per share, subject to shareholders' approval, taking our overall dividend for the full financial year to INR 65 per share.

Our ESG strategy continues to propel positive impact on society through our ongoing initiatives. For example, LTIMindtree scored 10 out of 10 in Travel Smart Campaign 2024's annual ranking worldwide. We are placed among the top 25 leading global companies striving to reduce travel-related emissions sustainably.

LTIMindtree has been selected as one of the 320 organizations from over 46 countries listed as Early Adopters of the Taskforce on nature-related financial disclosures.

LTIMindtree has scored an "A-" in the 2023 Climate Change Ranking by Carbon Disclosure Project (CDP). Out of the 23,000+ global companies, we are in the 5% that have made it to the Global Leadership League.

These awards affirm our commitment to creating a sustainable future for all our stakeholders.

And finally, I want to express my deep gratitude to all of you for your unwavering support. It has been my utmost privilege to engage with all of you through the years. My best wishes to Vipul as he takes over as the CFO.

I now hand it back to DC for the business outlook.

Debashis Chatterjee: Thank you, Vinit.

This quarter was an one-off. We will return to growth in Q1.

The positive outcomes of our positioning as an organization with scale, expanded capabilities, and stronger partnerships continue to reflect in our order inflow and pipeline. Through the year, we have pivoted our portfolio to align with the current spend areas and are positioned well to capture the discretionary spend wave when it returns.

We have entered FY25 with a stronger foundation to drive the revenue synergies. As we reflect on our achievements and look to the future, we are confident that the insights we have gained and the strategies we have implemented will enable us to execute better.

We are excited to see what the future holds and committed to making the most of every opportunity that comes our way.

With that, let me now open the floor for questions.

Moderator: The first question is from the line of Nitin Padmanabhan from Investec.

Nitin Padmanabhan: I had a couple of questions. So one is, how are you looking at the discretionary spend environment and the BFSI portfolio as we look out into next year? So that's the first one.

The second is, how should we think about margins because even if I look at the current quarter, it looks like there are a couple of moving parts, which need some context. One is that the employee costs have gone up on an absolute basis despite headcount having come down. And from a balance sheet perspective, it looks like the right of use assets has gone up by almost INR

600 crores sequentially. So just wanted some context on both these things, along with the broader view on discretionary, BFSI and margins.

Debashis Chatterjee: So as far as discretionary spend is concerned, at an overall level, I think there is still the same level of caution that we have seen in the last financial, but at the same time, we feel that we are well positioned in terms of the portfolio that we have and the capabilities that we have in terms of bouncing back as and when the discretionary opens up. There is still caution as far as discretionary spend is concerned, 80% of the pipeline that we have are still cost takeout, consolidation kind of opportunities.

As far as BFSI specifically is concerned. Again, it's continuing to be cautious owing to seasonal and macro uncertainties. There is focus on regulatory and market compliance and then those things can get into a long-term transformation as well. And as we called out, there is a onetime impact of 80 basis points this quarter due to 2 project cancellations where clients reprioritized their spends.

In terms of margins, we had called out last quarter itself that we had to pause on the margin expansion plan. It does not mean that we don't want to get there. We still have a robust margin program in the organization. Given the fact that we did not see the revenue line coming the way we expected. We felt that it will not be appropriate to follow the margin plan because it will impact our growth.

But all that I can say is that over a period of time, we will again get back to the same trajectory that we had, but it will take a while because we do feel that it's important to focus on the growth as well along with the margin. But I just want to give you the assurance that the margin is of paramount importance, and we have a plan in terms of focusing on the margin, which we will see as we go along.

Just to highlight one more thing - that as far as the margin program is concerned, this is kind of driven at the highest level in the organization. And in terms of the employee cost and the other question you had, I will request Vinit to answer.

Vinit Teredesai: Yes. Nitin, as far as the employee cost is concerned, there have been 2 factors to it. One is the fact that there is a little bit of an uptick on the on-site headcount as a result of which there is a little bit of a higher cost. Secondly, there is also a little bit of a seasonal effect of some of the benefits getting aligned at the on-site level at the beginning of the calendar year. So, these are the 2 factors.

And third, we also need to remember at the end of the day, while the net headcount is coming down, the replacement headcount that comes into the organization doesn't come at the same cost. So there is a little bit of inflationary pressure that always comes in. So that's the 3 factors that are basically driving down the employee cost on a higher side.

Operator: The next question is from the line of Sulabh Govila from Morgan Stanley.

Sulabh Govila: My first question is on the deal wins. So this Y-o-Y deal win number that we reported this quarter is a bit softer than a 20% growth that we've seen in the last 3 quarters. So is there a further change in the client behaviour that you saw in this quarter? Or is it just a quarterly anomaly that will sort out over the next quarters?

And if you could also comment on - given the divergence of deal wins and the revenue growth due to the changing nature of the deals that we are winning, at what growth levels of these deal wins, do we think that there could be some meaningful sequential growth that we can report in revenue?

Sudhir Chaturvedi: Yes. So coming to the order inflow point, Sulabh. If you look at it on a full year basis, right, we've touched $5.65 billion of order inflow, that's almost 16% up year-on-year. I think that's a better way to look at that number because Q3 is the quarter of renewals. So that's why it tends to be the higher quarter because most renewals happen in the October-to-December period.

I think the overall order inflow, if you see, it reflects a good mix, as DC said, of our pivot to having a much higher share of the efficiency-led, cost takeout deals, which means that we have a more balanced portfolio of revenues to look forward to from both a good mix of discretionary and long-term efficiency-led revenues.

Sulabh Govila: Understood. And at what point in time should we expect this divergence between deal wins and the revenue growth to sort out?

Sudhir Chaturvedi: Yes. As the deal wins ramp up, as you can see in the full year, we've announced about 20-plus deals in the large-deal space. And we are seeing them all ramp up by the new financial year. So Q1 onwards, we will see that coming through.

Sulabh Govila: Understood. And my second question is with respect to the margin profile. I know you mentioned that the margin aspiration is sort of pushed out and given the softer growth in the near term, that looks difficult. But I just wanted to understand that from a Y-o-Y perspective, the outlook for FY '25 margins, could it be the case that they are similar or lower than F '24 numbers? Or do you think that is the number that you can maintain?

Vinit Teredesai: Yes. So Sulabh, our aspirational margin of what we have laid down both at the time of merger as well as in the short-to- medium term, that continues. As the business environment and the growth comes back into action, I think the margin will also continue to see an improvement. Right now, for FY 25 we don't want to comment anything on FY '24 versus FY '25. FY '24 was a year whereby there was a 4.4% growth. And comparatively, obviously, with the initial impact of merger cost, etc, that were there, the margins had an impact. But as we get into FY '25, it's a business as usual, the growth, etc, as it returns, you will also see an improvement in margins coming back. I just want to reiterate the fact the 17% to 18% target still remains the same, and our overall aspirational target, what we had laid out at the time of merger, also remains intact.

Operator: The next question is from the line of Manik Taneja from Axis Capital.

Manik Taneja: Just trying to prod you further on the Financial Services vertical performance through the course of FY '24. What we have seen is that our revenues have come off through every single quarter, while in the current quarter, you highlighted the impact of 2 certain projects. But how should we be thinking about this particular vertical on a go-forward basis? Because in the past, you have talked about certain consolidation deal wins in the industry, which should probably be helping your cause. That's question number one.

The second question was with regards to the High-Tech vertical. How should we be thinking about the fact that our top-client performance has extremely been good through the course of FY '24, while you've had challenges at an industry level?

Debashis Chatterjee: So Manik, as far as BFSI is concerned, we did have a onetime impact due to 2 project cancellations where clients reprioritized their spends. And because it is one-off, there is nothing for us to believe that we won't get back into growth as we get into the Q1. As far as High-Tech is concerned, the top client continues to grow as we have seen. And there is enough opportunities to leverage the expertise that we get with the top client and then take it to the other clients. And that is something which is going on. And with that, we should be able to channelize the growth in High-Tech as well. So I don't think there is any reason for us to get worried about those 2 areas.

Manik Taneja: DC, my question was with regards to Financial Services through the course of the year. I do understand that this quarter, essentially, we had certain project cancellations. But Financial Services has been weak through the course of FY '24 every single quarter, and we have been talking about deal wins and consolidation wins for us, and that's the reason to essentially check with you on how should we be thinking about Financial Services growth in FY25.

Debashis Chatterjee: So I think I misunderstood your question. If you look at the Financial Services per se for the full FY '24, we have actually grown at 2.2%. So from an overall full year perspective, it has been a growth story for BFSI. And barring the impact that I talked about in Q4, I don't think there is any reason for us to believe that there is any specific softness. In fact, there is a lot of work that we do in the regulatory space, which still continues. Yes, discretionary spend is not yet back. But as and when it is back, it will only help us and benefit us in the long run.

Manik Taneja: Sure. And just wanted to get your thoughts around some of the leadership exits that we've seen at the company through the course of recent months, there was an indication that the organization was beginning to stabilize post the merger, but we've seen an increase in terms of recent exits. So how should one be reading this?

Debashis Chatterjee: Well, I think the merger is pretty much behind us. As of first of April last year, it is LTIMindtree. And in any organization, you have exits as part of BAU. I don't think we should read beyond that. And please understand that when these 2 companies came together, we had significant leadership bandwidth. So essentially, in spite of whatever exits you have seen, we have been able to grow year-on-year basis, and there is a strong team on the ground, and we are very confident in terms of our future as well. So I don't think we should attribute these exit to anything other than normal BAU, and we are well geared to deal with any of these changes.

Operator: Our next question is from the line of Ravi Menon from Macquarie.

Ravi Menon: As we look at LTI pre-merger, you used to have a seasonality in Q3 in Manufacturing, and we had thought as a combined company the seasonality should reduce. But this quarter, it looks like that's actually magnified. Could you explain a bit what happened in Manufacturing in this quarter?

Debashis Chatterjee: Well, as far as Manufacturing is concerned, the seasonality that you saw, some continues. There was a significant amount of pass-through, which was there in Q3, which was not there in Q4, and that is part of Manufacturing. So beyond that, I don't think there is any other factor. And by the way, just on a full year basis, Manufacturing has grown almost 15% year-on-year.

Ravi Menon: This quarter, when you look at the growth across client tiers, except for the top 5, it looks like there has been a decline in the top 6 to 10, top 11 to 20 and beyond that as well. So is there a broad-based slowdown still happening? Are there clients still cutting back on projects? Or do you think we are at the fag end of this?

Debashis Chatterjee: So I think if I understood your question correctly, when we talk about some of the pass-throughs that we had, that is kind of impacting some of the clients in the 1 to 40 segment as well. But what you need to understand is that the top 40 has grown slightly higher than the overall company average for the full year. And we have pretty much seen growth across most of the top 40 clients, on a year-on-year basis. So I don't think there is any change to the strategy that we had, and our strategy has worked out fairly well.

Ravi Menon: Just a follow-up on that. This pass-through should have been for a very specific client or perhaps 2 clients at most, right? Because this is a seasonal thing, and we have that every Q3 with probably an Indian manufacturing client. But this is a slowdown that we see beyond that as well in each segment when we look at it individually, top 6 to 10 or top 11 to 20. And beyond that, we're seeing a Q-on-Q decline this quarter. So that's why I was wondering...

Debashis Chatterjee: So I think there are 2 things. One is the pass-through is probably a few more clients rather than just 1 client. That's number one. And number 2 is that I don't think we should look at quarter-on-quarter. We should look at the overall year-on-year. And if you see the year-on-year data, it is looking pretty positive for us.

Operator: The next question is from the line of Vibhor Singhal from Nuvama Equities.

Vibhor Singhal: Two questions from my side. One question, DC, just wanted to check. As you rightly mentioned, our top clients have actually grown higher than the company average. And that's true for FY '24 as well as fourth quarter as well. So just wanted to pick it the other way around. The growth has actually been dragged by the long tail or, let's say, the remaining part of the client bucket. So I mean, what is it that we are seeing there, which is kind of making this revenue overall drag than the top 40? I mean, I'm imagining that the top 40 clients' performance would have been impacted by the project cancellations you mentioned in Q4. But despite that, the non-top 40 clients, apart from, let's say, the discretionary spend that you mentioned, any other thing that you believe is impacting them? And do you see some of them reversing in the coming quarters? And then I have a follow up for Vinit.

Debashis Chatterjee: So Vibhor, as I said, I don't want to kind of focus on quarter-on-quarter. But if I look at the overall full year picture, if I look at the year-on-year FY '23 vis-a-vis FY '24. The top clients, the revenue contribution has actually increased slightly compared to FY '23. So I think our strategy of account mining and focusing on the top clients and focusing in terms of cross-sell, upsell, I think that is working out fairly well. Now obviously, the macro conditions did not allow us to do anything more than what we could have done. But our strategy is pretty much in place, and we will continue with that strategy. And along with that strategy, if there is an opportunity for us to do a tail rationalization at some point of time, we will also do that. And the client base has also expanded. Each client base has also expanded each vertical has also grown. So let's look at those aspects. I will let Sudhir also add on.

Sudhir Chaturvedi: Just one point in terms of the program that we've been running in the company, the Focus 100 program that we talked about. So we've gradually rolled out that program. We began, as you can imagine, with the top 50 accounts. That was our first priority. Now we've rolled it across the 100. And now as we have experience of rolling out the program, we will also now bring in the rest of the clients that we have, especially the $1 million-plus clients. I think we have 394 clients that are above $1 million. So we will use the best practices learned from this rollout to cover the rest of the accounts as well.

Vibhor Singhal: Got it. I just have one follow-up question for Vinit. So Vinit, on the margins front, of course, this quarter, you mentioned the impact of one-off things and all. What is the fresher-hiring target that we have for FY '25? And do you believe that could actually impact margins basically negatively in the near term, taking that into account and given that utilization is already 87%, what could be the incremental margin levers for you from current levels?

Vinit Teredesai: See, there is a senior-level margin improvement program that is being launched with multiple aspects of it and freshers is only a part of the strategy. As we have stated in the past, our pyramid rationalization, adding more people to the bottom level is something which we are doing. Secondly, in the current context, we are also working out on the right role, right pricing and the red programs, whereby the margin needs to be improved over a period of time. All those things, we are working on. And at this point of time, those are going to be our levers on which we will focus.

The third important aspect is growth. At the end of the day, the growth will drive the margins. I don't think we need to make that much amount of investment on our SG&A. Our SG&A is much stronger to support a larger growth that will be coming in. And I will leave it at that, at this point of time.

Operator: The next question is from the line of Kawaljeet Saluja from Kotak Securities.

Kawaljeet Saluja: DC, my first question is for you. See, it does not look like in FY '25, discretionary spending outlook would improve. So with that being the case, should your growth be similar to what you saw in FY '24, or are there any specific interventions that you have made in terms of cost takeout, deal participation, et cetera, which could change your growth outlook for FY '25 even in a challenging environment?

Debashis Chatterjee: So Kawaljeet as far as the growth is concerned, I think the one thing which has happened in FY '24 is the deal profiles have changed significantly from a discretionary to more of cost takeout. And typically, what happens in this cost-takeout deals, they are multiyear. And initially, for the first couple of quarters, there is always some transition involved, etc. So the revenues normally kick in when you have kind of ramped up fully in those deals. So there are quite a few deals in which we have completed the ramp up. Some of the ramp-ups were actually delayed as well. But the confidence that we have, and as I said in my opening remarks, this was a one-off quarter when we'll get back to growth. That confidence comes from the fact that many of those deals have kind of ramped up and we should see the revenues kick in.

Now if you look at the pipeline that we have, 80% of the deals in the pipeline are also very similar-in-nature deals. So which means that they need to be closed, they will have transition and then the revenues will ramp up. So the big positive is that there is a much more stickiness in terms of revenues as we go along.

The discretionary situation has not changed significantly. And I don't think we can say that the discretionary situation is any different at this point of time, but it cannot be remaining forever. But we are well prepared to adapt to the scenario where discretionary spend comes back, and we should be able to leverage that as well. So that gives us the confidence of growth. But at this point of time, I'm not going to get into a comparison of growth. But definitely, we are on the right trajectory as a team.

Kawaljeet Saluja: Okay. That's helpful perspective, DC. The second question that I had is for Vinit. Vinit, this onetime impact of 80 basis points due to project cancellations, how does this play out? Was there a revenue reversal or was there basically transition costs that you were carrying, which you have written off? How will this show up in the P&L?

Vinit Teredesai: So the project cancellation, we had anticipated this revenue to come in. And against that, we have done the ramp-up and allocation of people, which then didn't translate into revenue by the end of the quarter. And as a result of it, the impact on the P&L was felt, on account of the revenue not coming in, but the cost continuing and the margins sort of getting impacted. Now these people have been sort of redeployed to the other projects. In Q1, you should see a good amount of this returning back.

Kawaljeet Saluja: When you show the utilization number, it's adjusted for this or the utilization is on a gross basis, which is including the project cancellation resources and other resources which were used on programs which got eventually cancelled?

Vinit Teredesai: As I said, that till the fag end they were allocated. So for us, they were into that billable position. So for us, they were considered to be in utilization. We have not adjusted the impact of that.

Nachiket Deshpande: And Kawaljeet, I'll just add one point here. These were sort of a software plus services type of projects. So there were some license write-off that was also involved. It was not just the headcount-related part. So you'll see that both in the revenue and the margin.

Kawaljeet Saluja: Okay. That's helpful. And the third question and the final question that I had, Vinit, is on your hedges and Forex income. Now I mean logically, the rupee has been stable. So rupee is stable. Normally, you end up booking your forward premium effectively, you end up realizing that into your P&L. But when I look at FX income for FY '24, actually, there was a Forex loss, which seemed to be a little bit unusual because even now when you sell contracts in the forward market, you do get a premium on a 1-year, 2-year, 3-year basis. So what contributed to that Forex loss when you look at FY '24 or rather negligible profit, Forex gain as such. And should this number start normalizing as we move into the next year?

Vinit Teredesai: The hedges, what we have and the impact what you see, these hedges have been taken over a period of time in the last 2, 3 years. We effectively run almost 3 to 5 years forward-looking hedging program. So these just have been taken at different points of time. Secondly, while the Forex from an average monthly perspective sort of doesn't show that much amount of volatility, the hedges get settled towards the fag end of the month, whereby there is a volatility, and that's where the sort of impact of the losses come in.

The third, hedging strategy is always supposed to balance out and not necessarily to reflect on our P&L as a gain or loss. We look at it as a balancing approach whereby on the one hand, we get a benefit of volatility on the rupee or an EBIT level, and that gets offset by the hedges that we take on. If that happens in synchronization, you will see absolutely 0 impact on the P&L. But as I said, the cost gets incurred on an average throughout the quarter, but it just gets settled towards the fag end of the quarter, and that's where the difference comes into play.

Kawaljeet Saluja: Vinit, what is the realization you're carrying for FY '25 book of forward contracts?

Vinit Teredesai: That's there in our OCI, if you'd see.

Kawaljeet Saluja: That will be for a 3-year period, right...

Vinit Teredesai: Yes. So I won't specifically comment on it because the hedges, what we have today, plus we will be taking over a period of time depending upon how the Forex movement happens.

Operator: The next question is from the line of Dipesh Mehta from Emkay Global.

Dipesh Kumar Mehta: Just want to get sense about the wage hike cycle, if you can help us understand by when do we plan to give salary hike in this year? Second question is about utilization. What would be our comfort range in terms of utilization? We are currently closer to 87 percentage. So if you can give some sense about it because our headcount continues to taper off, but we are expecting now growth trajectory to start from Q1 onwards. So if you can just help us understand how one should look at it?

And last question is about Rest of World. Now one can understand about U.S., Europe, some kind of macro challenges impacting the performance. But for us, the Rest of World, even if I look from a full year perspective, seems to be weak. So if you can provide some comment around it.

Debashis Chatterjee: Okay. I'll let Nachiket start, and then I'll chime in as required.

Nachiket Deshpande: So on the utilization front, I think, as we've said, 85% to 86% is our comfort zone, balancing sort of growth and the efficiency ambition. So we are right now slightly higher than our comfort level. So as we see the growth coming up, we talked about Q1, you will see that we will probably end up taking utilization down by 50 to 100 basis points.

As far as our salary revision part is concerned. I think during the year, we do that on the basis of the competitiveness that we see in the marketplace, the individual performance and, of course, tenure of people in the company. Even this year, we'll go ahead with the similar approach in terms of how we roll out increments. The timing of that is still in the planning process. But at the same time, we are on track to pay our bonuses. We do half-yearly bonus payout. We paid the first half on track, and we are on track to pay the remaining part of the bonuses also after the results.

Debashis Chatterjee: As far as your question on ROW is concerned, the decline that you see in ROW, the reason is that there was a significant pass-through that we had in Q3. And that is the only reason why we had a decline. But otherwise, we are still confident that the growth that we will be seeing should be broad based as we go along across geographies as well as verticals.

Dipesh Kumar Mehta: DC, I was referring from fiscal '24 perspective, not for Q4 perspective.

Debashis Chatterjee: Yes, that's right. The degrowth that you see in terms of ROW is primarily because of a significant pass- through that we had in Q3. And some impact in Middle East as well, I think it is linked to the same BFS that we are talking about.

Operator: The next question is from the line of Mohit Jain from Anand Rathi.

Mohit Jain: Sir, 3 questions. One is on TCV. So if I adjust for the BFSI deal cancellation that you spoke about, our TCV growth for FY '24, is it still 15%? Or should we look at it say, 14% or 13%? That's the first question.

And the second is on CapEx. Like our CapEx is still high, while for the whole year employee addition is not there. So what should we expect there in FY '25?

And third is on BFSI decline. Like can you share services growth in this segment for the quarter? Because last time you spoke about very high pass-through component in BFSI.

Debashis Chatterjee: Sudhir, do you want to take the TCV?

Sudhir Chaturvedi: Okay. So on the TCV point, the number we reported is net of the cancellations that DC spoke about. Your BFSI question, do you mind repeating it?

Mohit Jain: So last quarter, you spoke about a significant pass-through portion in the BFSI segment revenue. Is it through now? The revenue number that I'm looking at 4Q FY '24, BFSI segment, is it services or what would be the services growth number for Q4 on a sequential basis?

Sudhir Chaturvedi: Okay. So I think I'll ask Vinit also to add to this, but I don't believe there was a significant pass-through in BFSI in Q3. These 2 cancellations are primarily services. There's some license element, but it's primarily service.

Vinit Teredesai: So Mohit, I don't think, we ever said that there was a pass-through component in the BFSI per se alone. What we said was last quarter, we had a significant portion of pass-through and that was spread across all the verticals, including BFSI. But it's not that the BFSI was driving down the significant portion of cost. It was in the Manufacturing sector as earlier called out.

Mohit Jain: Manufacturing, sir, I'm aware of. So BFSI growth, whatever you have reported, that is the services growth for the quarter as well.

Vinit Teredesai: That's right. Absolutely. That's correct.

Mohit Jain: Okay. And the last one was on Capex, like Capex is still high for the year versus employee addition. So how should we look at it from an FY '25 standpoint?

Vinit Teredesai: After the pandemic breakout, you have seen that in the first 2 years, we have not spent on Capex. As now we are asking people to partially return back to office, we had to create capacity because now we have people spread across multiple cities. So on an overall note, there is enough capacity in each individual cities, there is a deficit in certain cities, which we are sort of building out.

I think so for the next year to 2 years, you should anticipate that the Capex will be on a higher side because we are building that Capex from a forward-looking perspective at the same time also to bridge this deficit, whichever is there. On the other hand, we should also keep in mind that as we build some of these Capex, there are certain lease cost also that will start coming down as we start surrendering some of these leases. So you have to look at that from a net-net perspective.

Mohit Jain: So the number you report in the cash flow statement, that is net only, right? Or will it be gross Capex number?

Vinit Teredesai: It's a gross Capex number. That's why I said, we will incur Capex in the next 1.5 years until we sort of build up the capacity and build that deficit that we have in certain cities.

Operator: Our next question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: DC, in your opening remarks, you also alluded that apart from macro issues, there were some client-specific issues in the top 40 clients. So how many such clients you have faced the client-specific issue? And most of them are largely behind? Or do you still witness entering FY '25, especially if you can speak about the top client in the BFSI.

Debashis Chatterjee: Yes. So I think the only thing we called out is the 2 clients, which we talked about or the 2 projects, I would say, not client, 2 projects in BFSI, which had the impact in terms of revenues reducing in BFSI. And apart from that, I can only say that some of the discretionary spend in the clients have declined, which we have been talking about for a while. The macro environment has not been the most conducive in terms of clients to get back on discretionary. And there has been also some in-sourcing that we have seen in the top 40 clients.

In spite of all these things, still at an overall year-on-year basis, the top 40 clients still grew 4.5%, and which is in line with the overall organization growth. So overall, I think we are in a good place. In spite of so many challenges, we still have managed to grow the top clients the way we wanted. And we are well positioned in terms of further growth as and when the discretionary comes back.

Sandeep Shah: And just further to that, any outlook in terms of growth expectations from a top client in BFSI in FY '25?

Sudhir Chaturvedi: We'll talk more about the overall BFSI level. So as DC mentioned, we've been announcing deals at BFSI. In fact, even in this quarter, we had 2 large deals in the BFSI space. It's a good combination of cost reduction deals, plus some core transformation deals, especially in the payments platform transformation space or the lending platform transformation space. And we have a good pipeline in the existing accounts. We had a good new logo addition also that happened this quarter in BFSI and as I said, the large deal pipeline in BFSI continues to be strong. So I think overall, BFSI, if I were to look at it from Q1 onwards, we should start to see a good return to growth, reflective of the work that has been done or the order intake that has been done in FY '24 and what we are seeing currently in the pipeline.

Sandeep Shah: Okay. And just last few things. Just clarity on this 80-bps impact on the overall revenue because of project cancellation. Is it the revenue being reversed, which was booked in the quarters before fourth quarter or this was an anticipated incremental revenue to be booked in fourth quarter, which has not happened?

Vinit Teredesai: It was an anticipated revenue to be booked in Q4, nothing of the past quarter.

Sandeep Shah: Okay. And this won't reoccur in the coming quarters, right? It's cancelled?

Vinit Teredesai: No, it won’t.

Sandeep Shah: And Vinit, last thing, we are exiting with an EBIT margin of 14.7%. The full year margin is 15.7%. The first quarter, we may have a headwind coming through visa and second quarter, if we give a wage hike, it will have an impact on the margin so earlier commentary about outlook to improve margin on a Y-o-Y, don't you believe it's a difficult task? Or we are expecting some tailwinds to emerge in the second half? And all the best Vinit and congratulations Vipul.

Vinit Teredesai: See, again, some of these costs, what you are talking about, visa, etc, are all planned cost. So there is no surprise on that in our planning exercise that has all been factored in. As I said, there are 2 important factors that will play out in Q1. Some of these one-offs that we called out are not going to be there. And then the growth is the other aspect, which will sort of help us in terms of mitigating some of these headwinds. As growth comes in, all these will be taken care of.

Operator: The next question is from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: So we did mention this in the call, of the change in the nature of deals that led to the disconnect between bookings and revenue growth. So my question really is that do you think the current levels of book-to-bill is adequate to accelerate growth? Or in your opinion, booking velocity needs to go up and improve from here?

Sudhir Chaturvedi: Yes. Firstly, the order intake is up 16%. Even the book-to-bill is a healthy 16%, 17% above our quarterly revenue run rate. So I think that way we are fine. What you should look at is how we've grown all the pyramid. We've grown every bucket of the pyramid or every layer of the pyramid, we've added clients as well as grown across them. And I think that's what gives us that confidence, as DC has also been saying, about broad-based growth across verticals, across client buckets.

Apurva Prasad: Yes, just wanted to clarify on this point. So what you're essentially indicating is that if the book-to-bill remains at these levels, you could potentially accelerate from the 4% growth rate?

Sudhir Chaturvedi: Okay. Potentially, but a lot of it depends on market conditions. It is still a cautious environment out there. The only thing is, as I said, we've built up a good order book, which is why we have confidence, which we know will flow into FY '25 revenues. Yes, thereafter, as the market conditions improve and if there is a return to discretionary spending, as we mentioned in our opening remarks, we will start to see an uptick.

Apurva Prasad: Got it. And just finally on margins, is margin expansion for the year premised on growth acceleration? Or you do see that happening irrespective?

Debashis Chatterjee: See, margin is not a 1 quarter phenomena. If you talk about margin expansion, it has to be a discipline that you need to have within the organization, and we have done that in the past. And we would have done that in FY '24 as well, but it is also dependent on how the revenue line comes in. The reason why we changed the course because if you only focus on margin, then obviously, the top line also gets impacted. So we wanted to just take a pause. We still have the program, which is running as far as the margin program is concerned, driven right from the top, I'm personally monitoring that program. So margin has to be part of the hygiene, it has to be part of the discipline. It is just that given the current circumstances, we feel that whatever we had planned last year, that did not materialize but that does not mean that we are going away from the overall game plan that we had. So if it all goes fine, then you will actually see a little slow gradual uptick in terms of margin as we go along in this year as well.

Operator: The next question is from the line of Sudheer Guntupalli from Kotak Mahindra AMC.

Sudheer Guntupalli: Yes. DC, this is just a clarification on your earlier point that the leadership and sales attrition is just business as usual. So are you implying or sort of confirming that these exits are not costing us any growth because if macro and, let's say, the discretionary stays, where they are, if you look at it as a lowest common denominator for all companies, still, a company of our size should have grown a few percentage points higher than what we have delivered this year. So is there a need to acknowledge that sales attrition, leadership attrition is costing us and this needs to be fixed immediately?

Debashis Chatterjee: Well, the short answer is absolutely no because as I said, when we did the integration and past the integration whatever happened as of first week of April last year, we are pretty much done with the integration. So whatever has happened is all part of the BAU. And the good news is that we had enough leadership bandwidth on both the erstwhile organizations, which is now combined together.

So I can assure you that whatever you see in terms of the organization in FY '24, it is more the macro and the overall scenario that we have seen, but it has got nothing to do with the leadership attrition. And whatever we talk about attrition as we go forward, it's part of BAU, which is absolutely normal.

Operator: The next question is from the line of Ashwin Mehta from Ambit Capital Private Limited.

Ashwin Mehta: Two questions. So DC, as we look to chase growth, do we need to relax some of our operating parameters like we run at almost the highest offshore effort at around 85%. Our SG&A levels are more like 12.5%, which is towards your historical lows. So do you need to invest here? And thirdly, in terms of utilizations, do we need to take them down? And the second question is around the right of use assets. What has driven the more than 40% sequential increase in terms of the right of use assets?

Debashis Chatterjee: Look, I mean, utilization where it is right now, I think Nachiket has alluded to it. Our healthy utilization range is 85% to 86%, in that range. And as we get on with growth, we are always willing to get the hiring engine pumped up. And at this point of time, it is not a difficult situation for us to ramp up faster if you need to. So given all these conditions, all this criteria, I don't think there is any problem from our perspective in terms of the overall operating model, which will help us to chase growth.

And also, when you talk about and if you look at FY '24 when we talked about that we want to just slow down on the margin goals. The idea was exactly what you were talking about. Idea was that let's look at what we have. And we don't want to take margin up just like that unless we also can grow the top line. So we are now already in a situation where we are confident about the growth. And even you have to accelerate growth, if the discretionary comes back, we should be able to do that in the current scheme of things. Nachiket, do you want to add anything?

Nachiket Deshpande: And in terms of the offshore on-site efforts you asked, we don't target a particular number. It's not a sort of a margin lever for us. It's a reflection of the nature of the work and the kind of deals that we have with the customers. So it's not that we are targeting a particular number there.

Vinit Teredesai: And your second question on the right to use. It's basically related to the Capex question which was asked earlier. It is basically a capitalization of 2 leased properties that we have recently got into our portfolio, and that's the reason of that jump.

Ashwin Mehta: Okay. And just a follow-up to what Nachiket mentioned. So in terms of our deal pipeline, which is skewed towards more cost takeout kind of deals. Is there more people or asset takeover involved in terms of deals versus what we would have done in the past?

Nachiket Deshpande: So not all deals have that asset takeover or people takeover component. Some deals do. We continue to be cautious about the kind of deals that we want to get in from a longer-term perspective and the margin impact of that and so on and so forth. Our strategy remains the same that it was in the past as well.

And as far as the offshore effort part is concerned, I think that is a reflection of the type of deals that we are talking about. Typically, multiyear long-term cost takeout deals tend to have higher offshore leverage as well. Hence, you see the effort mix in the way you see it.

Operator: The next question is from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: On BFSI, the 2 deals that were mentioned, is that restricted to the top account? Or is it beyond that?

Sudhir Chaturvedi: Okay. So it is beyond that. I think folks, please look at it as 2 isolated projects. Which were closed within the quarter, and there is no impact going forward for it. So we're going back to the answer that I gave you regarding the order intake that we already have in BFSI, the wins that we have and the pipeline that we have, and that gives us the confidence of how we see it returning to growth in Q1.

Operator: Thank you. Ladies and gentlemen, that was the last question. On behalf of LTIMindtree, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited for readability purposes)

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