LTI
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January 27, 2022

To,

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

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

Dear Sir/Madam,

Subject: **Transcript of Earnings Conference call for Larsen & Toubro Infotech Limited ('LTI') for quarter ended December 31, 2021.**

With reference to the captioned subject, please find enclosed the transcript of Earnings Conference Call which was organized by the Company on January 19, 2022 for the quarter ended December 31, 2021.

This for your information and appropriate dissemination.

Thanking You,

Yours sincerely,
For Larsen & Toubro Infotech Limited

TRIDIB KUMAR BARAT
Digitally signed by TRIDIB KUMAR BARAT
Date: 2022.01.27 17:06:51 +05'30'

Tridib Barat
Company Secretary and Compliance Officer
ACS: 12247

Encl: As above.

"LTI Q3 FY22 Earnings Conference Call"

January 19, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to LTI's Q3 FY'22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Sunila Martis, Head, Investor Relations. Thank you and over to you Ms. Martis.

Sunila Martis: Thank you Faizan. Hi everyone and thank you all for joining us today to discuss LTI's Q3 FY'22 earnings. The financial statements, press release and our quarterly factsheet are all available in our filings with the stock exchanges as well as on the investor section of our website.

On the call, we have with us today Mr. Sanjay Jalona -- CEO and Managing Director; Mr. Sudhir Chaturvedi – President, Sales, Mr. Nachiket Deshpande -- Chief Operating Officer and Mr. Anil Rander -- Chief Financial Officer.

Sanjay and Anil will give you a brief overview of the company's performance to start with and this will be followed by the Q&A session.

As a policy, LTI does not provide specific earnings or revenue guidance, and anything said on this call, which reflects our outlook for the future, which can be construed as a forward-looking statement must be reviewed in conjunction with the risk that the company faces. Let me now hand over to Sanjay to start with the results.

Sanjay Jalona: Thank you, Sunila. Hello, everyone. Wish you all a very Happy New Year. And I hope you and your loved ones are staying healthy and well. It was good to see you guys in December for our Analyst Day. Since we recently talked about our view on the market and six reasons why we are confident about the future, I would not dwell much on these today.

Let me quickly walk you through our Q3 numbers. We are happy to report 9.2% quarter-on-quarter and 30.1% year-on-year revenue growth in constant currency. This translates to growth of 8.7% quarter-on-quarter and 29.3% year-on-year in USD. This is our best sequential growth since listing. Our Q3 performance once again brings to fore the strength of our portfolio as we have witnessed wholesome growth across verticals, service lines, as well as geographies.

While we are seeing increased inflation, supply chain challenges and Omicron spread leading to shortage of people for companies globally, our optimism is still underpinned by conversations we are having with our customers on their digital transformations.

Let me share some highlights from Q3 that exemplifies our optimism:

BFS, our largest vertical continues to show strong growth with over 38% year-on-year growth this quarter. Our Manufacturing vertical grew over 30% year-on-year, our Hi Tech and Media and Entertainment vertical grew over 44% year-on-year, while the Others vertical which include some of our marquee clients and services sector grew over 37% year-on-year.

On the service line front, our Analytics, AI and Cognitive service line grew over 37% on a year-on-year basis and Enterprise Integration and Mobility grew over 36% year -on-year, with the rest of the service lines also growing double-digits on a yearly basis.

All our geos also grew over 25% on a year-on-year basis. Our Europe geo has turned around very well over the last few quarters and has grown 30% YTD

We added 27 new logos this quarter including one Global Fortune 500 logo, taking the total Global Fortune 500 count to 72. On a YTD basis, this is the highest number of new logos we have added since our listing.

We also opened a new logo in our pharma vertical in North America with a large deal TCV of US$32 million

All top client buckets whether it's top 5, top 10 or top 20 grew by about 25% year-on-year and we added one more client to the US$50 million bucket.

Our hiring engine continues to drive our growth momentum. We increased our fresher intake to 5,500 for FY'22 and we have proactively hired around 1,000 people under our Hire, Train, Deploy or HTD model in Q2 and Q3 in the one to two years' experience band. Post the three-month training on new age capabilities like data and cloud, these 1,000 HTD resources are now ready to support our growth plans in Q4 and beyond. We continue to hire ahead of the curve while balancing our utilization to capture the robust demand we see in the market.

Moving to the performance of our verticals:

BFS continues strong near double-digit growth at 9.7% quarter-on-quarter. This vertical has seen holistic growth during the quarter across all geos and service lines. We talked in detail about key growth drivers and how banks are responding to the great restructuring during our Analyst Day.

On Insurance, we saw 2% quarter-on-quarter growth. This vertical has traditionally been a laggard over the past several quarters and saw some pick-up in the last quarter with 5.6% growth. Even so, some work still remains to be done on this vertical.

Manufacturing saw growth of 18.3% quarter-on-quarter. H2 is stronger for this vertical due to the presence of higher pass-through in one of our India engagements. Our reported company level revenues of 8.7% quarter-on-quarter includes about 2% quarter-on-quarter growth on account of these pass-through.

Energy and Utilities grew at 6.7% quarter-on-quarter. While this has been a good quarter and all prices are high, we expect cyclicality to continue in this vertical.

CPG, Retail and Pharma grew at 7.2% quarter-on-quarter. We see a consistent trend of leveraging data and supply chain resilience for optimization.

Hi Tech and Media grew at 3.0% quarter-on-quarter and has had a strong year-on-year growth of 44.5%.

Others which largely include professional services, Government of India ministries and other global enterprises in public services registered 10.7% growth quarter-on-quarter.

Let me now move to the outlook. FY'22 is shaping up to be one of our highest growth years since listing. Where we are today, we continue to be excited about our conversations with our customers, the pipeline, revenue momentum and broad-based nature of our performance. We remain confident to deliver on our promise of being in the leader's quadrant for growth with stable PAT margins in the 14% to 15% band.

Now, let me hand it over to Anil for further comments.

Anil Rander: Thank you, Sanjay. Hello, everyone. It is great to be back with you all with another quarterly earnings. And I wish you all safe and healthy days ahead.

Let me take you through the financial highlights for the third quarter of FY'22 starting with the revenue numbers. In the third quarter of FY'22, our revenue stood at US$553 million, up 8.7% sequentially and 29.3% on a year-on-year basis. The corresponding constant currency growth was 9.2% quarter-on-quarter and 30.1% year-on-year. Reported INR revenue of INR 41,376 million was up 9.8% quarter-on-quarter and 31.2% year-on-year.

Now coming to profitability, EBIT for the quarter was INR 7,426 million, translating into an operating margin of 17.9% as compared with 17.2% in the previous quarter. The margin walk is as follows: Tailwinds of 40 basis points from growth and operational efficiencies and 30 basis points from currency.

Reported profit after tax was INR 6,125 million this quarter, which translated into a PAT margin of 14.8% as compared with 14.6% margin in Q2. We remain comfortable with our guided margin band of 14% to 15% for FY'22.

Moving on to the people front, utilization without trainees was at 81.4% as compared to 83.7% last quarter, and utilization including trainees was at 80.3% versus 81.6% in Q2 FY'22. We continue to strengthen our workforce and during Q3 we added 1,818 people on a net basis. The total manpower stood at 44,200, of which our production associates were 95.4%. In this quarter attrition is at 22.5% versus 19.6% last quarter on LTM basis.

On forex and hedge book, our cash flow hedge book stood at US$1,715 million as of 31st December '21 versus US$1,586 million as at 30th September '21, while on balance sheet hedges stood at US$94 million versus US$88 million last quarter.

Moving on to DSO, in Q3, the billed DSO stood at 66 days as compared to 61 days last quarter. The DSO including unbilled revenue was at 100 days compared to 98 days last quarter.

For the quarter, the net cash flow from operations was at INR 4,303 million, which was at 70.3% conversion of the net income as compared to 91.3% conversion we had in Q2. This was largely impacted by the licenses which were booked on the last day of the quarter leading to increase in DSO.

At the end of the quarter, cash and liquid investments stood at INR 36,142 million as compared to INR 38,403 million last quarter. The effective tax rate for the quarter was 25.6%. This is same as Q2 FY22.

Earnings per share for the quarter stood at INR 34.9 as compared to INR 31.5 in Q2 FY'22. The diluted earnings per share were INR 34.9 versus INR 31.4 last quarter.

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

Moderator: We will now begin the question-and-answer session. First question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: If you compare the supply side issues which are there in the industry and the level of urgency which client has to implement the projects, where do you see these both metrics matching? Is the urgency of the client to implement the project much higher than the supply side constraint, which is there in the industry? So, basically want to understand how open the client is to take additional cost on their books and allow the execution to happen.

And number two, where do you see from here next two to three years? I'm sure the environment right now is very good. But when you see the kind of cost which the clients are incurring on developing IT infrastructure, what is your sense, is it very longish, at least 10 to 12 quarters kind of thing, which it will take to complete those projects, or it is more like digital projects where the durations are shorter but very frequently, the deals are coming from, what kind of activity are you seeing on that front?

Sanjay Jalona: On the first question, on urgency that we are witnessing amongst our customers, across verticals, we have seen a lot of serious efforts because the world is not the way it used to be. This is where following the Great Depression, Great Recession, we have coined the term of Great Restructuring for the industry, because the nature of every industry has changed. Because the way you and I are operating is very different than what we ever did in our lives. The future of work, workforce, workplaces, everything has changed from people coming to work to work moving towards people. Every industry has to adapt itself to that, otherwise they'll perish. I've given many examples in the past. But the simple example that all of us deal with is if retailers did not have the ability to order online and pick up at the curb side, they would actually face extinction. So that urgency continues to be there. In order to deal with that urgency, we all need to scale up. There is a lot of demand. We need to hire a lot of people. That's where you see the demand really going up in the marketplace. Industry has not created enough people in the last few years. So that's why I believe it will take the next three to four quarters for supply to really come to bear. That's why we took our call of hire, train deploy of 1,000 odd people in Q2 and Q3. So just to create the pipeline for ourselves to meet the ever-growing demand that we see in our marketplace.

And the second question, how long do we see this demand to be there? I'm not one for crystal gazing because our industry changes very, very quickly. Three reasons we gave on Analyst Day: one is Great Restructuring. Second is new areas of spend that is coming to marketplace like ESG, which is nothing else but workflows and data, business growing in a meaningful way. And the third is Great Resignations, because the customers are also facing double digit attrition, and they believe that we need to support them and do more work offshore. Maybe that's why you're seeing offshoring increase for every organization as well. So, these are reasons we believe that give us the confidence over next three to five years there will be this continued demand as companies cater to their digital needs.

Moderator: The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: I think there isn't much doubt left in the stupendous numbers delivered on the revenue and margins front. This one question that I had. And this is basically I think this is something which we are seeing across the board for almost all the companies and for ourselves also. One is that the onsite/offshore mix, of course in terms of the effort mix, more and more going towards higher offshore. In this quarter, we also had around 84%. So just wanted to basically pick your brain on where you think this will eventually stabilize at let's say, two or three or four quarters down the line? Or do you think these numbers are sustainable or do you think they'll go back to pre-COVID levels, or somewhere in between?

And a similar kind of question on DSO days. We have seen the DSO days for ourselves, and of course, for all other companies as well, increase over the past two to three quarters. Of course, our number in this quarter was also an outcome of the license sales, which you mentioned at the end of the quarter, but overall, there has been an increase in DSO days over the past two to three quarters. Is it something to worry about in terms of we are growing so fast? Clients may not be making payments on time? And is that something we should be concerned about? Or do you think those also should come back to the gradual normal level, in maybe a couple of quarters time?

Sanjay Jalona: Let's talk about onsite/offshore mix. I think we are very comfortable with where we are. If you were to ask me before 2019, if the world will continue to operate and will continue to grow like we have done now for IT services, I would have said absolutely not. No one ever imagined that the world will work as seamlessly. People will actually communicate on these tools and platforms that do not go down, whether its Teams, WebEx, Zoom, there are many collaboration tools. And if you recollect, two to three years back, the world said, the new age full stack developers and projects can only be done when people are sitting together. And all those myths we have been breaking. We have always talked about you can do these full stack work also offshore if you have the right sets of tools, if you make infrastructure investments and so on and so forth. And I think today that is what is happening. Actually, people are working, in our case, maybe from 40,000 offices, because everyone is at their own house. So why can't it continue? So, we are very comfortable with where we are. We need to sometime go back to meeting people, as we are all about social fabric and there is obviously a lot of merit to it. But I hope we don't go back to the model of a lot more travel because these platforms are the good things that we need to continue. To talk to more people using these platforms and customers are ready to do that. That's why I think we are comfortable with the offshore mix. And I think it can still continue to move a little bit more offshore.

On the DSO days, this actually started in 2007 - 2008 timeframe when after the financial crisis, people started to increase the payment terms. And that problem is what has continued. I don't think it's a recent phenomenon at all. So that's why if you look at DSOs, it has been more or less stable for most of the companies.

Vibhor Singhal: So, a follow up to both these parts. For the first part, as you mentioned, you are comfortable with the kind of onsite/offshore mix that we have today. With your conversations with the clients, do you see them also probably being comfortable with if not similar then maybe slightly lower numbers, but then changing their mindset and becoming more and more comfortable with this higher offshore mix?

Sanjay Jalona: Work is moving to people. Future of work is changing in place of people moving to work. Work globally is moving to people. That is a fundamental change that has happened. So, I think customers are more than happy. That's why everyone is growing.

Vibhor Singhal: The second question is DSO days have been gradually increasing, but I think we've seen a sharp increase not just for ourselves, but for industry over the past three to four quarters. Is it somehow related to COVID or is it something that you think is the normal course of business and might basically correct?

Sanjay Jalona: I don't want to comment on others. But for us, we are at the same level as before, if not a little better from pre-COVID.

Vibhor Singhal: So overall, net-net, for us at least COVID hasn't led to any change in payment terms or erosion of any other payment cycle?

Sanjay Jalona: That is absolutely right.

Moderator: The next question is from the line of Mayur Patel from IIFL Asset Management.

Mayur Patel: Congratulations for the excellent set of results. Execution has been really good. Just one question. The revenues from India as a mix in the overall scheme of things, is it higher in this quarter and what is the reason behind it?

Sanjay Jalona: So, this is the time in Q3 and Q4 we have pass throughs and around 2% of our growth is coming from there and is also associated with manufacturing and with India. In addition to that, we have seen growth not only in India projects, but some other services to companies and global banks that are classified here and having contracts with India.

Mayur Patel: When we see specifically some numbers around the cloud business, that is in addition to the cloud related work, which is being done in individual verticals, is the understanding right?

Sanjay Jalona: Yes. This is what we explained to you guys last quarter also, but I think we will have a reclassified service line breakup, effective Q1FY23 onwards. But right now, I'll request Nachiket to explain what we explained last time also.

Nachiket Deshpande: As you rightly said, the revenue reported under CIS service line largely captures only the infrastructure part of our business. If you combine the overall hyperscaler business in LTI, it is actually growing faster than the company average, and we continue to see very good demand driving growth for us in quarters to come.

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

Sulabh Govila: So, I had a couple of questions. First is on the pricing. Do you see that incrementally coming in and supporting growth rates for you in the coming quarters? Something which is echoed by peers as well? And if there has been a positive realization impact on revenue and margins in this quarter, which was not there earlier?

Sanjay Jalona: So, pricing more or less is stable. We have seen pockets where there has been price increase as the demand is much higher than the supply. It's logical for us to have the flexibility to have a positive impact, but broadly, as we keep saying we are a growth company, look at us as a growth company. This is the time when we want to capture as much market as we possibly can. Pricing you take it as stable with a positive bias.

Sulabh Govila: If you could provide some qualitative color around the book to bill ratio in terms of how it is trending for you guys over the past several quarters?

Sudhir Chaturvedi: As we explained even during our Analyst Day, the pipeline is up significantly over last year. It's north of the company growth rate, which gives us confidence. I think the key thing as Sanjay also mentioned is the changing nature of demand, especially for three verticals, banking, insurance and hi tech is becoming a lot more pod model oriented. These pods are made up of 10 people. That model which is essentially people requirement-based model in pods to deliver a stream of essentially transformation projects has a differing nature of demand compared to the typical RFP based demand. I think when you combine the two i.e. overall pipeline as well as the resourcing demand pods, that is significantly ahead, which is reflected in Sanjay's commentary and where we see confidence. There is growth in the environment for the next three years at least that we can foresee.

Moderator: Thank you. Next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: A couple of questions. First - about the one new logo in pharma which you said. I missed the number. If you can provide more detail about nature of work which we are likely to do for the client. Second question is large deal related. Earlier, we indicated we are having very strong pipeline and H2 is expected to be better. Do we think those pipelines are getting converted or you are still seeing clients are deferring some of these decisions and we are seeing good flow, but from large deal perspective, it might be likely to remain relatively less than what we might have expected maybe three months back?

Sanjay Jalona: I'll answer your second question. I'll request Sudhir to answer the first question and give you details on the new logo. Pipeline is not necessarily equal to large deal. On Analyst Day, we tried to explain to you the changing nature of demand and every call we are telling you the changing nature. And I'll tell you something a lot of debate went into. Previously we used to report large deals in my quote itself. I intentionally did not report it this time. The importance of large deals, while it continues for the industries, the nature of demand has changed so dramatically. That it is one of the things that drives growth, but not necessarily the only thing that drives it. Pipeline is very, very strong. Large deals also continue to be there. But that is not necessarily the only way to grow in this market today. It's about capturing the market of digital transformation, which is coming in small and discreet projects and pods that Sudhir talked about, and that's what we are trying to capture.

Sudhir Chaturvedi: The large deal is with a company, which is a subsidiary of a very large global organization. This is a multi-year deal for infrastructure management services. The US$32 million is all net new

TCV for us. This is a new logo addition. So, we're making an entry into this account as well. This company is embarking on a multi-year transformation program in addition to this outsourcing program, where they are looking to modernize their infrastructure and move to the cloud as well as modernize their application infrastructure. So, we see headroom for future growth beyond what we have already contracted in this account.

Dipesh Mehta: What typical kind of competition, let's say in a new logo we encounter and how we differentiate ourselves, if you can provide some perspective?

Sanjay Jalona: It varies but on this particular deal it was the two largest companies in the sector.

Dipesh Mehta: So, what played out in favor of LTI?

Sanjay Jalona: Everyone is looking for a very customized solution for their needs. If you understand, listen to them, be disruptive, challenge status quo, show the urgency and help them meet the urgency that they have in the marketplace, these are some of the differentiators that we bring to bear. The strength of solutioning is very important. Focus on a few customers, few verticals is very important, because you cannot do digital transformations on a generic vertical that you don't operate in. These are the things that continue to operate and differentiate us in any deal. And nothing is different here. And this is how we are able to open some of these large Fortune 500 companies because customers are also not sourcing for scale, but for expertise. That is what differentiates.

Sudhir Chaturvedi: The days of people providing these predictable cookie-cutter outsourcing solutions are over. As Sanjay said, you need to provide a highly customized solution delivered at speed. And I think that changes the game significantly when it comes to the new age of outsourcing.

Dipesh Mehta: Considering the changing nature of demand, do you think some of the metrics which you might start providing us as a lead indicator, maybe either total deal intake or anything which you think maybe from next fiscal year onwards?

Sanjay Jalona: We'll provide you better revenues.

Moderator: The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: In terms of interaction with the client entering into CY'22, any color in terms of IT budgets where you believe there could be some shave off related to pent up demand in CY'21 or when you say three to five years the growth momentum what we have seen in FY'22 has the potential to continue for the industry as well as LTI as a whole? Some initial color will help us to understand the nature of the demand. Is it more pent up or is it more structural which will help in terms of a multi-year growth?

Sudhir Chaturvedi: I shared this data with you during the Analyst Day in December. This is a Gartner forecast, that we are going to see a budget growth of north of 6% this year across all sectors and in the key sectors that we operate in, our largest sectors are between 6% and 10% actually. That is the Gartner prediction. We haven't seen anything right now that changes it, but I think there are a few factors that are emerging from a global macro perspective. And I request Sanjay to also add to this, but there are concerns around inflation, it's very high right now both in the US and in Europe, in key markets. There are issues with supply chain predictability and that is impacting some sectors. And the third thing is on Omicron, we are waiting to see what exactly the impact will be. Right now, of course, things seem to be getting better, but we'll have to wait and watch. But I think clients are undertaking transformation journeys which are multi-year. So the nature of that work will continue like it continued during the pandemic year, it will continue this year as well. But there are certain macro factors to look out for.

Sanjay Jalona: I'll just add a few things. Your question was pent up versus new. I don't know whether you can call this the traditional, where for the last 30 years we have talked about pent up demand and budget flushes, those don't apply anymore. This is the nature of the way the world is operating in the new normal and there's a lot of work, everyone is still discovering what is the best way to connect to customers who are operating differently. How do you talk to millennials who just don't want to even own a car? So how do you communicate to them? Their investment philosophies are very different. The way they take insurance is very different. So that work will continue to be there for some time. And these three things that Sudhir talked about, these are not new as well, right. But one has to be watchful because these will have an impact in the marketplace, but based on the conversations that we are seeing, we still believe there is a positive bias towards the spend continuing to be strong for the next at least three to five years.

Sandeep Shah: Last thing on a bookkeeping. Treasury income generally used to be between INR 40 to 60 crores per quarter. This time, if I'm not wrong, it is INR 28 crores. Anything to read as an aberration in terms of the FMP-related investment income booking which happens on a volatile basis?

Anil Rander: No, there is no aberration as such. Our corpus reduced slightly, as I mentioned in my speech itself, where our cash and liquid investments stood at INR 36,142 million versus INR 38,403 million last quarter. And there's been hardening of yields by the end of the quarter which has an MTM impact on the revenue report.

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

Manik Taneja: Sanjay basically wanted to get your thoughts on the trend towards expansion in tier two and tier three locations by company. And while we have seen significant offshore expansion, there is concern around the increasing cost of talent in India as well. So, with the increasing shift in terms of delivery centers in tier two and tier three locations, do you think that will negate some of the cost pressures and probably provide some margin leverage to the industry as a whole?

Sanjay Jalona: So I'm going to let Nachiket answer this question, but I think you got to look at this answer as more from where is the good talent going to be rather than from a cost perspective.

Nachiket Deshpande: As Sanjay said, the whole work moving to talent phenomena is happening within India as well and within all geographies. And especially in the current climate, I think the location of people is becoming an irrelevant data point, because people are still working from home in whichever city, they are already in. So, for us, we also looked at where people who are already working with us are, and where we have a good supply of talent. We have invested in bringing our new facilities in Coimbatore, that we inaugurated just a few weeks back. We have also inaugurated our facility in Hyderabad. And we are also expanding in Kolkata. For us, the strategy is largely driven by where we see our existing employee base already operating from today and what's the preference those employees are talking about. We want to provide that flexibility to them as we start to operate in our hybrid model. So, we have expanded into these three cities. And we will continue to reach out to multiple locations in India as we roll out our hybrid model.

Manik Taneja: Do you think that provides some sort of a cost leverage to the industry as a whole or it's just the ease of finding talent and ease of delivery?

Sanjay Jalona: One easy way to look at this is when people are drifting towards their hometown so to speak. If people are in Bangalore, in Mumbai, in Pune, and the commute is killing them, in many of these places. If somebody has over the last two years shifted to Indore or Lucknow or Kolkata or Coimbatore for all matters. What typically happens is they like a better lifestyle, they're closer to their families, the attachment to the city is far, far stronger on many, many fronts. And that gives longevity for them in the company itself. So, the attrition levels hopefully are going to be a lot less as well. So those are the things which definitely should help. But right now, focus is on where the talent is going to be and how do we actually get that talent because there is so much demand. That's what our focus is on.

Moderator: The next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

Madhu Babu: There have been a spate of acquisitions in the recent six months from Indian IT companies, especially TechM, Wipro and even in the midsize space, Mphasis and Persistent. We have been a bit slower on that front. What are your views there and any targets we are chasing?

Sanjay Jalona: Madhu, we have done seven acquisitions in the last six years. We have always said we will never do acquisitions for revenue; they will all be capability driven. These are acquisitions which have created really cool pieces of work, products on data, for example, the data products on Fosfor that we launched, they have created great capabilities on middleware and digital integration capabilities. They have given us the ability. Today, we are Partner of the Year for Temenos, for example. The strong partners and alliances, etc., continue to be there. Last acquisition we did was Cuelogic. These are a bunch of 300 people, all about digital engineering, lots of different ways of supporting, enhancing the ability that we take to our customers. At any given point of time, we are always looking at capabilities that we lack, and we will continue to do that. But our focus will always be on shareholder value. This is not our personal money, this is shareholder money. We will be wise in making sure we do all analysis to find what is the way to build the capabilities. If acquisition is the right way and we find an asset which is at the right price point, we will definitely look at it. I spend significant time on it. We are evaluating the companies. All the niche things that you hear us say and talk on where customers are spending, we will continue to look at. But will only be done if we get a right price for it.

Madhu Babu: Second one on the fresher hiring. So, how are we seeing the trends on the freshers who are joining? I mean, is the attrition higher in this bunch, especially considering that they're working from home? How is the overall attrition in the freshers especially in that zero-to-two-year category?

Nachiket Deshpande: We are not seeing any specific spike or any specific pattern on fresher attrition. It's not picked up at all. It's in a way similar. We have actually seen typically a higher attrition in three to six years bracket for us and probably for all of the industry and no specific pattern on the freshers.

Moderator: The next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Sanjay, you referred to spending after the earlier recessions. And one of the data points is the uptick in the multi sourcing which happened post GFC. So, anything on the ground that you are seeing differently from clients today, those comments could be helpful? One of the data points which ISG reported is the increase in multi sourcing by customers, especially after a downturn. Are you witnessing anything this time is my question?

Sanjay Jalona: This is where we use the term that customers who used to typically choose size and the scale as the ways and means to source their partner in multisource model as well have moved away to sourcing for skills and expertise. This is what ISG is also trying to say in their own way. Because the project sizes have shrunk, expertise on verticals is why companies like us are able to record number of new logos as well. That's what is helping us. Speed of execution, agility, etc., all makes a difference in today's time and is a very critical factor in the evaluation of who they want to partner with.

Moderator: The next question is from the line of Abhishek from Nomura. Please go ahead.

Abhishek Bhandari: I have a question around your SG&A expenses. If I remember correctly, you had indicated last year that in your efforts to scale up your cloud and data vertical, you would be probably stepping up the SG&A expenses by one percentage point as a percentage of sales. However, if I look at last nine-month data, not only this quarter, we're kind of flattish, at 11.5%. Ways of working has not changed. Travel is still restricted. I'm just curious to know are the spends what you had planned on these focus verticals panning out in the way as they are? Even if I look from an absolute spending point of view, the SG&A expenses growth is only 20% compared to the top line growth of close to 30% in last nine months. So, your thoughts will be helpful.

Sanjay Jalona: SG&A is not what we want to increase. What we want to increase is sales and marketing. As we grow, G&A portion has to logically keep coming down. And as you drive efficiencies that has to continue. Our investments have been as per plan in cloud and data products. We could have done even more. But talent scarcity is everywhere, not only in delivery. Finding the right talent anywhere is a challenge. But we are continuing and committed to investing in all these new things that we talk about in times to come as well. The way to look at it is our sales and marketing is going up. G&A, we keep trying to bring it down, and as our revenue base increases G&A is expected to decrease anyway as a percentage.

Abhishek Bhandari: My second question is on some markers towards your billion dollar ambition on cloud, which you wanted to achieve in next three years' time at the end of FY'24.

Sanjay Jalona: We are progressing well towards that, Abhishek.

Abhishek Bhandari: Just one small request. Sanjay, you said at the start that the cloud classification of services probably does not give the correct picture. Maybe if you could correct it, it will help us know how this vertical is progressing.

Sanjay Jalona: We will be able to give you something more on that effective Q1FY23, but it will still not be there yet because cloud is also embedded in enterprise solutions and a whole bunch of things. It will be a gradual process. But we will definitely be able to add cloud engineering, which you don't see at all in our report today. It is a major portion of growth. It goes into ADM. The discussion does not even start or finish without talking about cloud to drive growth and expandability for an organization.

Sudhir Chaturvedi: Across any of our service lines or verticals or customers. It's a must.

Moderator: The next question is from the line of Debashish Majumdar from B&K Securities. Please go ahead.

Debashish Majumdar: Thank you. I have couple of questions. First is related to attrition and second related to the passthrough revenue. So, although we have seen on the LTM basis our reported attrition as a percentage has gone up, I wanted to understand that whether actual number of churning of people has stabilized or reduced, how we have seen in the last few months? The sense that I want to get is that whether we are close to the peak as far as the attrition percentage is coming down?

Sanjay Jalona: LTM basis, it shows what it shows in the fact sheet. But if you look at quarterly annualized, the number has just marginally gone down from the previous quarter. But I won't take anything to the bank as yet for two things. One, in Q3 traditionally, because of the holidays like Diwali, Christmas, New Year, traditionally, organizations go a little slow in hiring. Number two, an event like Omicron spread also puts people in a shell and they go to the natural secured calm of working with the existing company. But obviously, the numbers have marginally come down. But the next two quarters will determine which way it is actually moving. So, I don't know what else to say except that we have intensified engagement with our clients. We have also gone ahead of the problem to hire people in advance in Q2 and Q3, with Hire, Train, Deploy (HTD) model and increase number of HTDs to be prepared in case that problem continues. But today as we stand, Q3 quarterly number has gone down. We will know more in Q4 and Q1.

Debashish Majumdar: The second question I had was around pass through, the 2% incremental growth that we have spoken about. Is it a kind of continuity or it's like a one-time pop up that we got in this quarter, and it will not continue in Q4, how one should read it?

Sanjay Jalona: It's seasonal. If you've been following us, it's there every year for the last six years, it continues. It comes in every Q3 and Q4.

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

Sanjay Jalona: Thank you, guys for being on the call. It was great to see again all of you in December. Thank you for joining the call today and we hope that you and your families will continue to stay safe. We look forward to seeing you next quarter. Till then, take care. God bless. Be well.

Moderator: Ladies and gentlemen, on behalf of LTI, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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