LTI
Let's Solve

LTI/SE/STAT/2021-22/55

July 21, 2021

National Stock Exchange of India Limited	The BSE Limited,
Exchange Plaza, Bandra-Kurla Complex	Phiroze Jeejeebhoy Towers,
Bandra (E), Mumbai - 400 051	Dalal Street, Mumbai - 400 001
NSE Symbol: LTI	**BSE Scrip Code: 540005**

Dear Sirs,

Subject: **<u>Transcripts of Earning Conference call for Larsen & Toubro Infotech Limited ('LTI') for quarter ended June 30, 2021.</u>**

Please find attached the transcripts of Earnings Conference Call organised by the Company on July 16, 2021 for the quarter ended June 30, 2021 for your information and records.

Thanking You,

Yours sincerely,

For Larsen & Toubro Infotech Limited

Manoj Durganath Koul

Digitally signed by Manoj Durganath Koul
DN: c=IN, o=Personal, pseudonym=6a0c5a6190bc1e15a1fc3b07477a3bd9e90224eb14d07e2ee7fbf5cc725301a3, 2.5.4.20=83c2be2787a07fc24a8935e8db87901508b097b7e1edb3231a4981649b23c091, postalCode=411014, st=MAHARASHTRA, serialNumber=304d3a459759d31c13fcc9b1848c624590e81da232f1d54394030b9a893caa50, cn=Manoj Durganath Koul
Date: 2021.07.21 12:06:22 +05'30'

Manoj Koul
Company Secretary & Compliance Officer

Encl: As above

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

A Larsen & Toubro Group Company

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

"LTI Q1 FY22 Earnings Conference Call"

July 16, 2021

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 Q1 FY22 Earnings Conference Call of LTI. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sunila Martis, Head of Investor Relations. Thank you, and over to you Ms. Martis.

Sunila Martis: Thank you, Margaret. Hello everyone and thank you all for joining us today to discuss LTI's Q1 FY22 Earnings. The financial statements, press release and quarterly fact sheet are available in our filings with the stock exchanges and on the Investor section of our website.

On the call, 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 during the quarter, which will be followed by the Q&A session.

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

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

Sanjay Jalona: Thank you, Sunila. Hello everyone. Hope you all are doing well. This is an exciting time to be in the tech industry and it's really wonderful to speak to you again. This quarter marks the completion of five years since our listing. We went public in an IPO that valued us at a PE ratio of about 12x to 13x. The company had just ended FY16 with an annual revenue of $887 million and a net profit of INR8,365 million. Since then, we have delivered revenues at a CAGR of 13.5%. Our net profit has more than doubled and on the PE front, all of you would be tracking it much more than I am.

LTI has gone through a transformation in these years, creating its own unique brand and identity, built one of the strongest teams and applied focus on building capabilities and partnerships. Today, we compete and win against the world's best companies. My team and I are filled with deep gratitude for all the support, faith and trust our stakeholders have reposed in us. We will continue to do our best in the years ahead.

Our board has declared a special dividend of INR10 per share to commemorate the completion of this five-year journey.

During our call last quarter, we talked about the public health crisis and its impact, especially in India. At LTI, we have vaccinated over 14,500 employees and their family members through vaccination drives at our offices. We have and will continue to fight the pandemic with our grit and resilience.

Coming to our results, we are pleased with our broad-based performance in Q1 that once again brings to fore the resilience and well-diversified growth engine that we have built over the years. We posted our best ever Q1 with revenues of $470.2 million, growing 5.1% QoQ and 20.4% YoY. The holistic nature of our growth stands out, whichever way you slice our performance. All verticals, service lines, client buckets and geographies have grown well.

All our verticals have grown this quarter, but our largest vertical BFS grew an astounding 39.4% YoY. We had two more verticals – High-Tech, Media & Entertainment and the Others, which includes some of our marquee public sector wins, also growing in excess of 30% YoY. We also see ourselves move in the right direction on Insurance and Energy & Utilities, which have been a little soft in the past.

On the service line front, we had superlative performance from Cloud Infrastructure & Security growing at 32% YoY with the rest of service line also growing double digits on a YoY basis.

We added 23 new logos during the quarter. We are also excited to note that this strong performance is powered by growth across our Top-5, 6-10, 11-20 client buckets. This is also reflected in addition of one more client to our $50 million bucket and three each to our $10 million and $5 million buckets.

Let me now give you some color on the nature of demand that we see today. During the pandemic, we have seen digital adoption pick up strongly. We see this trend continuing and accelerating. During the last quarter, we introduced this era as the Great Restructuring, because we see restructuring around workforce, workplace, future of work and every industry's need to operate in the new normal and restructure themselves. When I reflect across our customer base, we are seeing a secular demand around their digitization efforts across each of our 400-plus customers. Frankly, I have not seen this kind of opportunity in the last 10 years. The nature of demand and expectations around execution are also changing. We see discretionary spend increasing with demand for projects to be executed in offshore-based agile pods with shorter deal cycles. Pods are small, self-sufficient agile teams, ranging from four to eight members, responsible for a single task, scope or requirement. Work packets that got predominantly executed from onsite before the pandemic are now mostly executed from offshore as everyone is remote anyways. This manner of execution ensures speed-to-market, which is very much the need of the hour for our customers today.

We are also scaling up supply like we have never done before. We are looking at hiring 4,500 freshers for the year, which is much higher than what we have done in any year in the past. We added net of 2,000 people last quarter and net of 2,300 plus people in Q1 as well.

We remain focused on building and scaling differentiated capabilities to cater to this accelerated demand. Digital engineering is a significant market opportunity and I am happy to announce the acquisition of Cuelogic Technologies, a digital engineering and outsourced product development company. We welcome Cuelogic to the LTI family. This marks the seventh acquisition by LTI since we listed.

Strong capabilities and a bias for strong vertical orientation are the only way we can be better partners for our customers. Q1 is incredible as we got some of the most sought-after recognitions in the marketplace. LTI Syncordis has been recognized as Partner of the Year by Temenos. LTI did not operate in the core banking space till a couple of years back. We are now the second largest partner in the Temenos Ecosystem.

Snowflake also recognized LTI as the Global Innovation Partner of the Year. Snowflake, the data cloud company is one of the hottest technologies and this recognition represents a key milestone, which will strengthen collaboration between the companies.

Our data products continue to see strong market validation and recognition from the analyst community during the quarter. One of our products, Leni was featured in Gartner's Market Guide for Augmented Analytics Tools, as well as in the Forrester Q2 Tech Tide Report for Customer Insights Methods.

Let me provide you with color on the performance of our verticals:

BFS was very strong. We saw a 9.6% QoQ growth here. This was driven by our existing clients as well as our large deal win announced last quarter, which involved a banking transformation for a large Islamic bank using the Temenos T24 platform.

Moving to Insurance, we saw 5.3% QoQ growth here. This is due to some of our recently added logos, ramp up of our large deal announced last quarter as well as our existing clients. We are seeing positive traction here with our refined insurance strategy, ongoing growth of our partnership ecosystem and new leadership driving opportunities in the marketplace.

Manufacturing declined 6.6% QoQ. Please note that our services revenue grew this quarter and this decline in quarterly revenues is only because we had pass-through revenues in Q4. The absence of this pass-through revenue is also reflected in the sequential decline in the Enterprise Solution service line as well as the India revenues. Demand environment remains healthy in Manufacturing with continued momentum and opening up of discretionary spend.

Energy & Utilities, we grew 4.7% here, largely driven by good growth in the utilities space. Over the past few quarters, we have been sharing our expectations on how spends in oil & gas will continue to be volatile. Our large deal announced in Q3 FY21 with a Global Fortune 500 energy company is going as per schedule and we expect to see further ramp up in the deal in the coming quarters.

CPG, Retail & Pharma grew 4.4% QoQ on the back of some of our large deal wins announced previously as well as our existing logos.

High Tech & Media grew 13.1% QoQ. Our large deal win with Injazat continues to progress well here.

Others which include professional services, Government of India ministries and other global enterprises and public services, registered 0.5% growth QoQ.

Let me now move to the outlook. After delivering a near double-digit US dollar growth in FY21, we have had a very strong start to FY22. Our pipeline remains healthy, our client mining engine is working well and our conversations with our customers continue to give us the confidence to deliver yet another year of strong growth, positioning us to be in the leaders' quadrant in FY22 as well.

With that, let me now hand it over to Anil Rander.

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 first quarter of FY22 starting with the revenue numbers.

In the first quarter FY22, our revenue number stood at $470.2 million, up 5.1% sequentially and 20.4% on a YoY basis. The corresponding constant currency growth was 4.8% QoQ and 17.8% YoY. Reported INR revenues of 34,625 million was up 5.9% QoQ and 17.4% YoY.

Now coming to profitability, EBIT for the quarter was INR 5,682 million, translating into an operating margin of 16.4% as compared with 19.4% in the previous quarter. The margin walk is as follows: wage hike – 340 basis points, absence of PDD provisions write-back – 120 basis points, investment in S&M for business development and marketing – 60 basis points. This was offset by 140 basis points benefit from productivity improvements and 80 basis points benefit from forex and absence of pass-through in Q1. Our SG&A is back at about 12% of the revenue as guided in the last quarter.

Reported profit after tax was INR 4,968 million this quarter, which translated into a PAT margin of 14.3% compared with 16.7% in Q4. Other income pertaining to Q4 FY21 included a write-back of certain earn outs payable towards an earlier acquisition amounting to INR 571 million. As guided earlier, our PAT margins will be in the narrow band of 14% to 15% for FY22.

Moving on to employee metrics. On the people front, utilization without trainees was 84.1% as compared to 82.2% last quarter, and utilization including trainees was at 83.7% versus 80.8% in Q4. We continue to strengthen our workforce and during Q1 we added 2,307 people on a net basis. The total manpower stood at 38,298 of which our production associates were 95.1%. In this quarter, attrition is at 15.2% versus 12.3% last quarter on LTM basis.

On forex and hedge book, our cash flow hedge book stood at $1,403 million as of 30th June 2021 versus $1,354 million as of 31st March 2021. The on-balance sheet hedges stood at $77 million versus $65 million last quarter.

Moving on to the DSO in Q1, the billed DSO improved by one day and stood at 60 days as compared to 61 days last quarter. The DSO including unbilled revenue was at 98 days, increasing by four days QoQ.

For the quarter, the net cash flow from operations was INR943 million, which was 19% conversion of the net income. This was impacted by three factors: first - payout of our annual incentive, second - increase in DSO including unbilled revenue, third - on the pass-through license revenue that we book in H2, we had negotiated favorable payment terms and hence the cash outflow to the licensed vendor was booked in Q1.

If you look on LTM basis, OCF to PAT conversion remains healthy at 92.1%. At the end of the quarter, cash and liquid investments stood at INR43,314 million as compared to INR43,877 million last quarter.

The effective tax rate for the quarter was 26.1%.

On EPS and dividend, the board of directors at the meeting held yesterday have declared a special dividend of INR10 per equity share to commemorate the 5th anniversary of LTI's IPO. Earnings per share for the quarter stood at INR28.4 and diluted earnings per share was INR 28.27.

Before I end my presentation, I wanted to highlight that we have published our maiden Integrated Annual Report for the year FY21.We have so far been publishing a comprehensive sustainability report on our key non-financial pillars, such as our people and our impact on the planet since our listing. We have embraced an elevated level of reporting and disclosure with publication of an integrated report to meet the evolving expectation of our stakeholders. Other than our financials, the report will provide in-depth insights on our environmental, social and governance performance, for example, we are committed to becoming carbon-neutral for our India operations by 2030. Embarking on the integrated reporting journey, we hope to amplify the value we create for our stakeholders.

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 Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: My first question is on data products. Can you kindly throw some color on how the go-to-market and monetization work here – are we selling them as standalone products or are these cross-sold along with the services that we are offering to customers? Secondly, we have noticed these four-five products like Leni, etc. on marketplaces like Microsoft AppSource. So, how does the monetization work on these platforms?

Sudhir Chaturvedi: The data products have a separate sales team at the company level. We also have a separate pre-sales and solution team. So, it has an independent go-to-market, and it works along with the LTI sales organization and various other channel stakeholders, such as our hyperscaler channel stakeholders to go to market. The pipeline is built independently. This is a product which has seen selection processes against products of a similar nature. This is where Sanjay has also highlighted the Gartner mention that we've got. This all plays a part. So, the sales and marketing engine for this is separate, but works together with the LTI account teams as well.

Sudheer Guntupalli: Given that, historically we have not been very active on the product side, how has the initial traction been? And how are we seeing if at all there is any scope for some synergies between our services account management teams and the new go-to-market team for products?

Sudhir Chaturvedi: The synergies that we are currently seeing is that the current license customers as well as the customers that we have in our pipeline currently are with our existing clients. We have some good traction underway in this space. Clients see the benefits. This is augmented analytics for data when I'm talking about Leni. Mosaic has a very comprehensive data ecosystem. So, depending on clients, data needs are constantly evolving along with cloud and is the biggest area of investment and spend for clients. So, we are seeing this as part of both, where clients are looking to select products for data-related activities as well as where they are looking for solutions, where we can bundle our products along with our service.

Sudheer Guntupalli: Given that we are religiously spending or investing on the data products this year, so by FY23, do you have some target in mind as to some percentage of our revenue should be coming from this segment or some share of growth should be contributed from all these data products kind of a business line?

Sanjay Jalona: There is something in mind. But the important thing to note here is that we are in the business of reducing the cycle for our customers journey from data to decisions. And typically, when you look at product vendors, they tend to be just a products company or a horizontal company. Our entire business and thesis is built on the fact that we have the capability of a product, but we can actually shrink the time and create a fit for purpose analytics for different businesses, because we know the verticals that we operate in. So, a lot of growth that you see is also driven based on using our products to actually do this. We will continue this journey of investing. We see great traction in the marketplace. It's still early days, but we are seeing some incredible conversations that we were not having previously.

Sudheer Guntupalli: You mentioned that wage hikes had an impact of 340 basis points. So, between direct costs and SG&A expenses line item, how is this 340 basis points wage hike accounted for?

Anil Rander: I think this will be roughly in the range of 320 basis points in direct cost and 20 basis points in SG&A.

Moderator: The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Two years back, Sanjay, you took very bold decisions and sacrificed near term gains to get your business future-ready and it's reflecting in your outstanding performance of business in last two years. Now, when I study your business in detail. I think last two quarters, again, you have taken very bold call. One, you have pulled all the best resources from different business units to build your cloud unit and you have brought in good resources as well. And this quarter, I am surprised and very happy to see that you have not got carried away by managing growth, margin and everything like most of the other companies have done. You have in fact taken another bold decision of allowing your margins to slide down to retain your key talent. The question which I want to understand is, how are you able to convince first of all yourself, then your board, your management to take such bold decisions? And if you are able to take these decisions, how much of this decision is data-driven, hunch driven or client interaction driven or it is a combination of all? And will it be fair to assume that these bold decisions that you are taking and which are showing a little bit of pain on your financials right now are getting you future ready for next two to three years, again, the way you did in last two years? Is it a fair reading?

Sanjay Jalona: We always have to be honest to who we are. We have to be honest to our customers, and keep talking to them, keep ideating with them, keep discussing with them on how their spend patterns are. Where are they spending, what is their need and what is hurting them. And that's what leads to the strategies that we deploy. I have always maintained, and you may have heard me many times that revenue is actually a lagging indicator. The leading indicators are how you invest in the right conversations with the customers and how do you build capabilities. The salary hikes, if I reflect back, it seems a little bizarre at times that you give two salary hikes in two subsequent quarters. But it is also a reflection of what we saw in the marketplace. We saw the marketplace heating up and we saw attrition climbing up for everyone. And having gone through Covid and performing well, it felt like the right thing to do. L&T as a predominant shareholder has been very supportive in everything, otherwise it would have been very difficult. So, in summary if I were to reflect back, these are never easy decisions, but we do this as a unit together. The entire leadership gets on a call and we may not agree, we fight like crazy. But when you put the client in the middle and when you put employees in the middle, you will never go wrong, and I think that is what is working. I hope in times to come, this will work as well. This is the purpose and an existential question for an organization and we hope that we are making the right moves.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: In the past, you have indicated your revenue growth depends on new client addition, mining your existing client and large deals. While the first two are doing well, somehow the momentum on large deal seems to have slowed down for us in the last two quarters. And you've also said in the past that it might be to do with the deal closure timelines which are getting longer because of virtual methods. But if you could share some thoughts on how we see the pipeline, how do we see conversions happening, because that is one of the key parameters on which your premise of doing better than industry growth rate or being in the quadrant one depends on.

Sudhir Chaturvedi: Overall, we have a strong pipeline, including a strong large deal pipeline. We are seeing demand across all verticals, all geos and this mix is actually reflected in our large deal pipeline as well. So, we are very confident about the large deals that we are currently working on. We are very comfortable as to where we are on those deals at this point in time from a large deal perspective. Another element that I want to draw your attention to is that, as we see this strong all-round growth, this growth is coming across deals of all types and all sizes. And what we are seeing is also a model change in the industry to a pod team based delivery model. The best way to understand this is to see how this is reflected in our all-round growth as well as in our people addition. We have hired 2,300 people net this quarter. We are adding 4,500 freshers in the year, which is one and a half times what we did last year. So, when we look at all verticals, all geos, and in fact all categories of clients in the pyramid, whether it is 1-10, 10-20, 20-50, 50-100, they have all grown. So, we are seeing all round growth. We have got a very strong order book. We have got strong open positions, strong large deal pipeline. So, we are very confident as to where we are at this stage regarding the business.

Sanjay Jalona: Just to summarize, all four drivers of growth continue to be important. We are confident on large deals.

Abhishek Bhandari: Sanjay, my second question is, in the Analyst Day, sometime in December, you mentioned your ambition to touch $1 billion dollar revenue from the cloud and data products in next three to four years' time. Can you share some markers over there, how are you progressing on that number and how is your competitive positioning in that particular segment, given that it is a growth driver for the entire industry, and most of the deal seems to be predicated on cloud for everyone?

Sanjay Jalona: I think cloud is all pervasive and as I keep saying, do not look at cloud as just moving from on-premise to something on the cloud. It is business transformation on steroids, as we call it. And it is everywhere, it is all pervasive. As Sudhir keeps telling us and reminding us, if we were to do an organization restructure today, you predominantly will have three units only. You will have a data unit, you will have cloud infrastructure support unit and you probably will have digital engineering, there is nothing else that you would have. That is the change that is actually happening in the marketplace, and that is why we are investing like this. It is getting as difficult to call out the cloud revenue as it used to be for digital as well, because it becomes all pervasive. But it is moving very, very fast and no discussion either starts or finishes without discussions on how do we use cloud to help the customer drive the business transformation that they are doing.

Moderator: Thank you. Next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Congrats on solid growth in terms of the revenue, despite the pass-through sales declining as you have told. Sanjay, the question is, in terms of last three quarters, the revenue growth momentum has been really great. But if you look at the core earnings at EBITDA level, there is a decline. So, it shows the incremental revenue is not coming at a good margin as a whole. So, here if you look at utilization, it is an all-time high for you. Your offshoring revenue is also at an all-time high. Also, if you look at going forward, if the lockdowns are removed, then there could be an adjustment and discretionary spend may come back. So, in this scenario, you believe pricing is the requirement where you can maintain your margin, or you believe you have enough levers for you to build out your margins going forward. So, some color on this will help.

Sanjay Jalona: Folks, please look at us as a growth company, with stable margins. The big picture takeaway from this quarter's financial performance is that despite headwinds from two successive wage hikes, we have delivered a PAT margin of 14.3%. In a normal year, we get a few quarters to absorb the impact of wage hikes, which of course is not the case in FY22 for us right now. I do not think there is any other element, but the timing and transient nature of how wage hikes take time to get absorbed in P&L. Our margin performance is in line with our expectations, and what we have shared with you in last quarter.

Again, I reiterate, look at us as a growth company with stable margins. We are determined to be industry growth leaders with a PAT margin at a stable band of 14% to 15%. That is the only guidance that we give, and we are determined to make sure that we definitely meet or beat that.

Sandeep Shah: But Sanjay, any discussion with clients where they are slightly open for pricing renegotiations?

Sanjay Jalona: All kinds of discussions are happening. But as supply and demand varies where supply is in short and demand is very high, bulk of the conversation is why does it take ten people, why can't you do with four people using technology, AI, ML, ops and all the investments we have made? Pricing has not been an effective pro and con for a while now. It is how do you use technology and how do you execute it well in these times. So, I am confident where we stand today, that we will be able to do 14% to 15% net margin in this year as well.

Sandeep Shah: It is good to see that despite no major large deal wins, our growth is not getting impacted, that implies that we are participating in getting growth through small and medium sized deals as well. But chasing so many small or medium sized deals, Sanjay, you believe that the spend and the feet on the ground has to be higher, which may lead to slightly higher sales and marketing spend going forward?

Sanjay Jalona: I will let Sudhir give more details on what he feels. I think we will continue and not shy away from making investments in order to do the right thing. Revenues will come if you make investments, if you have the right conversations. We are very comfortable with where we are. We will keep doing the right things and are confident on the only guidance that we give. Sudhir, if you want to add anything.

Sudhir Chaturvedi: I think the only thing I will add Sandeep is that we are seeing deals of all sizes. There isn't an "or" between smaller deal sizes and large deals, there is an "and". So, we are seeing deals of all sizes across the spectrum, including large deals. And as Sanjay said, we are very confident about where we are on deals of all sizes.

Sandeep Shah: And Sudhir, in the Analyst Day you said, that the large deal pipeline is robust and the decision making is slightly postponed to the second half of this calendar year. So, we have entered the second half of this calendar year, so you believe the decisions have now started happening or you still believe clients are taking longer time to make decisions on the large deals?

Sudhir Chaturvedi: So, there are two parts to this. There is traction in the market especially from a transformation perspective. A lot of our clients are going through a fundamental business model transformation, which is about the whole digital transformation and journey to cloud transformation. We are also beginning to now see decent traction from ERP perspective. So, these are the drivers of spend. Some of the paperwork elements are taking a little longer, because getting contracts and legal work, etc signed does take longer. But I think the cycle of demand is actually accelerated. I will reiterate, we are seeing deals of all sizes, including large deals and we are very comfortable as to where we are and how they will all contribute to our growth in the coming quarters.

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

Vibhor Singhal: Wanted to get your perspective on weakness in the India business this quarter. I think a couple of other players are also facing the same kind of weakness in the India business, in this quarter. So, was it led by the second wave of Covid? And is it just postponement of revenue that has happened because of this or is it some revenue loss which we will not take back in the coming quarters?

Sanjay Jalona: This is absolutely because of Covid. You have seen the government rightfully investing in making sure that the country moves forward on vaccinations, and so on so forth. All the funding is diverted towards that. In due course of time this will come up. We have a good business going there, we execute some critical programs. We also finished a few programs in these times. I am not worried about India at all. We are being selective as always, we will continue to be selective about the kind of programs. We will typically do only data and ERP led programs there. It is just the pipeline on government expenditures which is not there, which is reflected in the business. Also, it is the absence of the pass through that we typically had. As I mentioned in my speech, manufacturing, Enterprise Solutions and India, all three cuts are impacted by the absence of licensed revenue in Q1 for us every year. That is why also India is down.

Vibhor Singhal: The next question that I wanted to harp on is on the supply side issues. So, just wanted to get your perspective on how good or bad the supply side is at this point of time. I mean, we have heard competitors giving tremendous salary hikes. We have given two consecutive quarters of salary hikes. I know LTI is a very employee friendly company, but this looks to be more like driven out of the need to retain talent and even then we had an attrition jump to around 15% in this quarter. So, as of now, post the salary hikes that we have given, how do you see the supply side issue playing out? Do you think that this crunch for talent is going to continue? And not just us, the industry will have to probably come to terms with higher incentives and salaries overall for the industry? Or do you think it is maybe a passing phase and as supply comes through, we could ease it out? I mean, I am not necessarily asking you for a margin impact. I am just asking you from an industry perspective, where are we heading in those terms?

Nachiket Deshpande: Attrition has definitely gone up and is a cause of concern for everybody in the industry. But how we are trying to manage from a supply side perspective - I think it is important for the talent creation engine to kick in across the industry and that is where we are also investing. Sanjay talked about us significantly increasing our fresh graduate intake. We are also running programs where we are hiring people between one to two years' experience and upskilling them on cloud, data and digital. We will hire close to 1,500 through that channel as well. So, from a medium to long term perspective, I think investing in creating the talent supply is the only way to solve for this and I think all the companies are investing in that. That is how we feel confident that we should be able to manage. In the short term, we have enough measures taken as well as the supply side created for us to be able to deal with our demand situation in the short term.

Vibhor Singhal: And if I were to just maybe summarize that or extrapolate that. Would it be correct to say that in the short term there would still be supply side challenges, not just for us but for the entire industry?

Nachiket Deshpande: Yes, in the short term there will be challenges, of course. But we are ensuring that we do enough so that it does not affect our demand pipeline.

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

Mohit Jain: This question is for Anil, specifically. So, I was looking at the cash flow and you spoke about the incentive etc. being paid out in first quarter, so this is from a YoY comparison perspective. The cash flow appeared particularly weak, and more so on account of working capital. So, was there some change in payment terms where this would have resulted into lower cash flow for the quarter? Or do you think it is pretty normal from a YoY perspective?

Anil Rander: Thanks, Mohit. I think that the lower cash flow does not worry us, and this is basically pertaining to this particular quarter only. This is not to be referred to from a trajectory perspective. Three events have happened in this quarter. There has been an annual incentive payout. Then there are pass-through revenues which were actually booked in H2 of last year and we negotiated favorable terms where we have to make the payment to the vendor in Q1 of this year. So, that has been an outflow. There is an element of DSO increase by four days. Going forward this will improve and has been higher on account of Covid challenges, as we were not able to open one of our branch offices. As Sudhir mentioned, the demand is quite robust and there is paperwork which we are on the course of completing, which has actually resulted in that increase in DSO days. So, these are three factors which are more pertinent from this quarter perspective.

Mohit Jain: Second one was for Sudhir, did I hear it right that you are saying deal sizes in general have become smaller over the last few quarters, or are you saying that the large deals will continue to be the way it was till FY20? Because we saw some lack of activity in 2021.

Sudhir Chaturvedi: What I said was, we are seeing deals of all sizes. But what I will reiterate is, and again on the large deals front, we have a strong pipeline, stronger than it was a couple of quarters ago, so very confident about that. But the nature of the demand is also changing. These pod-based models of deployment of people for transformation programs and digital programs are essentially run in three-month sprint cycles. So, each of these sprint cycles have pod teams of 8 to 10 members, multiple pods. So, essentially, that is the nature of the demand and we are very keen that this demand is something that we can capture significantly. That is why I said, deals of all sizes across all verticals and across all regions, including large deals. So, it is an "and" and not "or".

Sanjay Jalona: I want to just maybe summarize and reiterate something. We are confident on all the four pillars that we talk of for our growth. But please understand when we speak about an era of Great Restructuring, there is fundamental change and restructuring that we are seeing across with every vertical. This is why in my speech I reiterated, that across 400 plus customers, we see a secular demand across their digitization efforts for them to deal with you and I working from home and not how we worked all our lives. That is leading to a lot of demand of different kinds and also needs to be captured. It comes in all shapes and sizes, some small, some large, some medium, and so on so forth. So, we are confident of that and at this point, I think Nachiket has done a fantastic job and his people supply team has done a fantastic job of hiring the talent that we have been able to hire. We are not worried about the demand right now as it is very, very strong demand all across, including large deals.

Mohit Jain: Anything that you can share on total TCV growth or something that we can look at from a 1Q versus 1Q perspective?

Sanjay Jalona: In December 2021.

Moderator: Thank you. The next question is from the line of Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: First of all, compliments for taking a bold step in these times when everyone is placing a very strong demand outlook. So, it is a real entrepreneur kind of approach by a high growth company, so I appreciate that. Just one simple question, you have defined the current demand outlook as era of restructuring. So, how long do you think it will last? Is it a short-term trend of six months with very strong demand momentum or a year, or is it going to be a couple of years kind of secular era of restructuring? Any comments more directionally?

Sanjay Jalona: Given what we have been seeing for the last many years, and where we stand today, the conversations we are having, I do not think this is going to subside at least for four to five years. It is a bold statement to make, because spend patterns are very different than what were for the last 30 years. But the demand is so high and the change that is required and the marketplace is so big that we expect it to be there for a while.

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

Manik Taneja: We have seen our onshore revenue productivity, that metric has seen a sharp increase over the last three years, while our offshore revenue productivity increased by about 3.7% in FY21. Just wanted to understand what's driving some of those changes there and how should we be thinking about these metrics from a go-forward standpoint?

Sudhir Chaturvedi: So, for the past three years, the mix of the business has changed significantly. We have seen that data has been our fastest growing business and now, some of the more cloud and transformation work has been picking up. I think onsite revenue productivity has gone up because of the nature of the consulting work that is done or program management work that is done onsite is different. Our offshore percentages are higher than our peer group. That offshore productivity has really been driven by a lot of tool-based automation. Nachiket, if you want to add to that on the offshore bit?

Nachiket Deshpande: So, as Sudhir said, offshore revenue productivity is largely a function of automation and the other productivity levers that we are applying along with the mix of the business that we are seeing as well. We continue to focus on that continuous improvement cycle from our overall delivery productivity on an ongoing basis.

Moderator: Thank you. We will take one last question from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: So, first question is about Cuelogic acquisition. Can you help us understand the overall rationale behind the acquisition? And how big is our digital engineering practice currently? And how you expect it to play out over the medium term? Second question is about the margin headwind, if you can help us understand what are the headwinds and tailwinds over next three quarters? What do you foresee from margin perspective? Thank you.

Sanjay Jalona: On margin, our utilization has gone up with demand that we have seen. As we articulated, we are going to pump in significant talent in the subsequent quarters as well, so we will need to see where utilization ends up. But obviously, we want to bring it down a little by bringing more talent, because we see significant growth opportunities in front of us. But for the year, again I will reiterate, growth company with a stable 14% to 15% net margin. That is what we target, and we invest back into business as quickly as we possibly could. Nachiket, if you could answer the Cuelogic rationale.

Nachiket Deshpande: Sudhir mentioned the nature of the demand is shifting. One of the things that we see with most of our clients, as they look at their transformation and digitization agenda is that instead of looking at a traditional application development type of approach, they are transforming themselves to a more productized IT approach. They are looking at key platforms and developing them as products and focusing on that methodology to continue to bring agility and speed to the features they bring into the market for their consumers. So, as that change happens, one of the things is that your conventional IT is also transforming to a more productized IT for us as well as service providers.

Cuelogic brings that experience of delivering outsourced product development largely in the digital space. We had also been going through that transformation ourselves. Through Cuelogic, we get access to over 300 people who are very well versed in delivering in that model and have delivered in that sort of team configuration for a while, which allows us to use that as a base and scale it disproportionately. This will become an integral part of the digital engineering transformation at LTI, and we will use this core team and their best practices along with the scale we have built to scale up even further as most of our clients move to this productized IT way of delivering.

Moderator: Thank you. 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: Folks, thank you for your time and following the company so closely. As always, you have kept us on our toes in this session. But frankly, this is truly an amazing time to be in the tech industry and we are very excited that we have this opportunity to make a difference. My team and I are grateful for your generous support for LTI in the recent institutional investor survey as well. Thank you for that. Till we talk again, we hope that you and your loved ones stay safe and healthy. And we will see you on the other side. Take care, guys. Good luck. God bless.

Moderator: Thank you. On behalf of LTI, that concludes this conference. Thank you for joining us and you may now disconnect your line.

(This document has been edited for readability purposes)

Contact Information

Investor Relations:

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

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