LTIMindtree

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

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 July 17, 2023

With reference to the captioned subject, please find enclosed transcript of the Earnings Conference Call held on July 17, 2023.

Kindly take the above on record.

Thanking you,

Yours faithfully,
For LTIMindtree Limited

LTIMindtree Limited
LTIMindtree
CS-PW-06-CO

(Tridib Barat)
Company Secretary and Compliance Officer

Encl: As above

"LTIMindtree Limited's Q1 FY'24 Earnings Conference Call"

July 17, 2023

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. Nitin Mohta *– Head, Investor Relations*

Nitin Mohta: Ladies and gentlemen, good day and welcome to the LTIMindtree Quarter 1 FY '24 Earnings Conference Call. Please note that this conference call is being recorded.

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 and Mr. Vinit Teredesai - Chief Financial Officer.

Let me outline the agenda for today's call. We will begin with a brief overview of the Company's quarter 1 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, Nitin. Good evening, and good morning to everyone on the call. Thank you for joining us today.

LTIMindtree is all about creating a bigger, better, and bolder future for all our stakeholders. Our recent inclusion in NIFTY 50, India's leading stock market index is a testament to our unwavering commitment to shaping a brighter future for our stakeholders. We are grateful for the trust you have placed in our vision, strategy, and ability to deliver exceptional results. This recognition has filled us with renewed enthusiasm and optimism for our journey ahead.

We are pleased to report that our revenues came in at a healthy USD 1.06 billion in Q1, a growth of 8.2% in constant currency and 8.1% in dollar terms Y-o-Y, despite a challenging ongoing macroeconomic environment. The growth was driven by strong performance across our major industry verticals and geographies. Our sequential revenue growth in dollar terms was 0.1%.

Adjusted for the seasonal pass-through that we had in Q4, our sequential revenue growth would have been 0.9%.

For the quarter, our Manufacturing and Resources vertical has achieved strong growth, registering a 14.9% Y-o-Y increase in dollar terms. BFSI, our largest vertical continues to grow, up 12.1% Y-o-Y in dollar terms. Furthermore, I'm pleased to share that our High-tech, Media and Entertainment vertical is at USD 1 billion run rate. These 3 verticals account for 75% of our revenues, and their performance gives us confidence to maintain our continued upward trend. Geographically, North America, which accounts for 73% of our revenues, registered a Y-o-Y growth of 10.2%, while Europe grew 7.3% Y-o-Y, both in dollar terms.

Our EBIT margin for the quarter came in at 16.7%, up 30 basis points sequentially, and our net margin was 13.2%, 40 basis points higher than the last quarter. We added 19 new clients in the quarter. We also increased our count of USD 10 million plus customers by 9 Y-o-Y, bringing the total to 88. Our order inflow for the quarter came in at USD 1.41 billion, registering a growth of 16.9% Y-o-Y and 4.9% sequentially. We continue to observe a growing trend in deals focusing on efficiency to allow companies to fund their ongoing transformation initiatives.

Our persistent efforts to explore cross-selling and upselling opportunities within our existing accounts have yielded positive results. I would like to call out a few important deals that we signed this quarter.

We won a large strategic 5-year deal to drive efficiency savings for a High-tech client. This was a vendor consolidation deal and required presence in multiple locations globally - Canada, Poland, and India. This deal win is a reflection of our current scale and our capabilities to service clients across multiple global locations and a wide set of capabilities.

For an insurance major, we won a large multiyear managed services engagement for cloud and infrastructure services, displacing the incumbent. This deal is a good example of our cross-sell capabilities across cloud, infrastructure, and security domains.

For a large existing client of LTIMindtree, we engaged with the marketing function to become the strategic transformation partner for their integrated media platform. This platform involves innovative media solutions and automated ad buying. This deal is an example of our upsell capabilities in the digital and interactive services domain.

Our Interactive, Data, Cloud and Enterprise Apps service lines remain significant drivers of growth as clients across the industries continue to invest in these areas for their transformation and efficiency needs.

Data, one of our largest service lines is fundamental to Generative AI which we believe will become the catalyst for the next phase of the autonomous enterprise. This technology will have a significant impact on our ability to serve clients across our offerings. To this end, we are proud to have launched Canvas.ai, a pioneering Generative AI platform designed to accelerate the concept-to-value journey for businesses. As clients across industry segments adopt our platform, Canvas.ai for their use cases, we are seeing encouraging early results. Application modernization use cases have shown 40% to 60% productivity improvement in large legacy code conversions for cloud. Campaign Management Solutions has seen lead times to launch new campaigns shrink from weeks to days. And document summarization has reached first-parse accuracy, previously impossible to achieve in a manual process. We continue to invest in the evolving Canavas.ai to be a secure and easy-to-consume Generative AI platform, leveraging several LLM solutions and enabling the creation of multiple industry-specific use cases in partnership with our clients.

With that, let me now turn to our industry verticals.

Our Banking, Financial Services and Insurance business grew 12.1% Y-o-Y. The Banking, Financial Services vertical is showing resilience despite the ongoing macro environment due to the nature of our engagements in core systems, risks and compliance. We have also seen new deal wins in this industry vertical from vendor consolidation initiatives. Some clients are continuing with their hiring freezes, and we see longer decision cycles and slower ramp-ups.

Our High-tech, Media and Entertainment business grew 1% Y-o-Y. With many of our large customers starting their fiscal year in the latter half of the calendar year, we anticipate increased spending. While decision-making timelines may be extended, this gives businesses a chance to explore new and innovative pricing models. Additionally, the need for efficiencies is creating an environment for companies to drive even more value for their customers.

The Media and Entertainment industry is experiencing a positive shift towards AI-based products that cater to consumers' personalized needs. This trend is further fueled by the need for cost reduction and vendor consolidation, enabling us to stay competitive in this space.

Our Manufacturing & Resources business showed a growth of 14.9% Y-o-Y. Manufacturing clients are continuing with their strategic investments in Industry 4.0 initiatives, supply chain modernization and pricing. Our strength in IoT, ERP and Data positions us well for these opportunities.

Energy & Utilities clients remain resilient as there is a significant investment in core systems modernization. Our strategic focus in the energy vertical lies in the SAP engagements and exploring valuable data opportunities.

Our Retail, CPG and Travel Transportation & Hospitality business grew 4.6% Y-o-Y. In our Retail and CPG vertical, we are seeing increasing commitment from clients to take on long-term programs and focus on strategic initiatives like modernizing and rolling out ERP systems. We are also pleased to see the industry shifting towards predictive analytics and composite platforms that integrate a variety of data sources and analytical tools. With our diversified offerings across ERP, data and cloud, we are well positioned to help businesses address their twin objectives of experience and transformation.

The Travel Transportation and Hospitality vertical is experiencing robust demand for leisure travel, although the demand for business travel is yet to catch up.

Our Health, Life Sciences and Public Services business grew 4.7% Y-o-Y. In the Life Sciences industry, big pharma companies are prioritizing divestment of lower-margin businesses. Cost headwinds from regulatory policies mandate a focus on efficiency. The medical devices industry is seeing growing interest in as-a-service models. From a technology perspective, clients are looking at a combination of automation, data, cloud and digital technologies to deliver their objectives of cost reduction, technology stack modernization and pricing transformation. The Healthcare industry continues to see significant investments in patient-centric programs, for example, value-based care. We are taking a unique approach of domain centered solutions here.

In terms of geographies, America contributed 73.1%; Europe contributed 15.2% and Rest of the World contributed 11.7% of our revenue. In Europe, our customers are carefully assessing their business needs and making strategic decisions about projects, budgets and IT spend. However, there is still strong demand for application management and SAP rollout and support deals.

For the quarter, our LTM attrition was 17.8%, down from 20.2% recorded last quarter. In-quarter attrition was at a similar level to that in the last quarter. And hence, we believe our attrition will continue to show a downward trend on an LTM basis. We are pleased to report that our utilization rate has shown a noteworthy improvement, reaching 84.8%. This was a result of our ability to deploy resources better as systems consolidation post-merger help improve visibility of available talent.

I will now turn over the call to Vinit for Q1 financial highlights.

Vinit Teredesai: Thank you, DC. Good evening, and good morning to everyone on the call. We hope you had a chance to go through our first integrated annual report, which provides comprehensive non-financial disclosures for you to assess our business model and performance. Let me now take you through the financial highlights for Q1 FY '24.

Our revenue stood at USD 1.06 billion, up 8.1% on a Y-o-Y basis. The corresponding constant currency growth was 8.2%. The Q-o-Q growth was 0.1% in dollar terms as well as in constant currency terms. EBIT margins continue to expand and came in at 16.7% compared to 16.4% in the previous quarter. We would like to call out that we had a reclassification of around 1,000 people from delivery to sales and support this quarter and this has contributed to an increase of 120 basis points in gross margin, 160 basis points in utilization and increase in sales and support headcount by around 1,000. This change is a part of the harmonization process, is in line with the industry practice and was effective 1st April 2023. Our sharp focus on managing our costs helped us deliver a 30 basis point Q-o-Q increase in EBIT margins. The bridge is as follows: increase in gross margins by 170 basis points, of which 120 basis points is on account of reclassification, 70 basis points due to operational efficiencies led by increased utilization and offset by seasonal visa cost of 20 basis points. A corresponding increase of 120 basis points in SG&A costs due to the reclassification and 20 basis point impact on account of increased marketing spend. I would like to reiterate that the impact of reclassification as mentioned above, is EBIT neutral.

Net Forex loss for the quarter was USD 1.5 million compared to a loss of USD 6.4 million in the previous quarter. Riding on our solid cash balances and increase in prices over all asset classes, we had an investment income of INR 135 crores this quarter. PAT margin for the quarter was 13.2% compared to 12.8% in the previous quarter. The effective tax rate for the quarter was 25% compared to 22.9% in Q4 of FY '23.

Basic EPS was INR 38.90 for the quarter compared to INR 37.70 in Q4 of FY '23. In Q1, the billed DSO remained at 60 days. The DSO, including unbilled revenue, was at 93 days compared to 91 days in the previous quarter. The operating cash flow to PAT has continued to improve to 89.8% this quarter as against 88.5% in the previous quarter.

Our cash and investment balances stood at USD 1.13 billion or INR 9,235 crores compared to INR 8,355 crores in Q4 of FY '23.

Return on equity for the quarter was 26.8% versus 28.6% in Q2. Our utilization, excluding trainees, in the quarter was 84.8% compared to 81.7% in the previous quarter. Also, as mentioned above, 160 basis points of this improvement is on account of the reclassification.

As of June 30, 2023, our cash flow hedges stood at USD 3.59 billion, and hedges on the balance sheet were USD 400 million. We are pleased to announce that both CRISIL and India Ratings and Research have reaffirmed their AAA / Stable long-term rating for LTIMindtree.

We were ranked 30th in the Financial Times "Climate Leaders Asia-Pacific 2023", amongst 275 leaders for our best performance in the "Reduction of GHG emissions intensity over 2016 to 2021 relative to revenue". Recognitions like these are testament to our deep and continued efforts on the ESG front.

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

Debashis Chatterjee: Thank you, Vinit.

We continue to see good sales activity and a healthy win ratio across our key markets and industry verticals, resulting in a robust deal pipeline. At the same time, we continue to see delays in decision-making and hiring freezes. However, we remain confident about our value proposition, along with the prospects of cross-selling and upselling to our existing accounts, especially with dedicated efforts towards our Focus 100 initiative. We are already seeing multiple deal conversations and wins through these efforts. As an organization, we have strategically positioned ourselves to help our clients in their transformation as well as efficiency agendas. Our ability to play effectively in both these areas gives us the confidence to continue our profitable growth trajectory even in the current dynamic market situation.

Let me now open the floor for questions.

Nitin Mohta: Thank you, DC. The first question is from the line of Sandeep Shah.

Sandeep Shah: The first question is, DC, the first quarter has gone as per anticipation, or is there any negative surprises versus what we anticipated in terms of growth at the start of the quarter? And if yes, will it impact our target to achieve a double-digit constant currency growth? Do we still reiterate the same? If yes, don't you believe the ask rate of 4.5% in the next 3 quarters is a very high ask rate? And just wanted to know the margin target for the full year.

Debashis Chatterjee: You've given me a question and as well an answer. So first of all, Sandeep, if you ask me how did the Quarter 1 play out. I think the Quarter 1 played out the way we expected. We expected Q1 to be soft. But what Quarter 1 did not play out well is, we thought that some of the aspects of the delays and some of the aspects of the hiring freezes that our clients had, especially in BFS, where clients had put a freeze on onboarding, so we thought that some of those things will go away by end of Q1. And that is one area where things have not improved, things have not changed, which makes us believe that some of the planning that we had anticipated earlier, that is not going to be working the same way. And I will tell you the reason behind it. You must have heard us say that most of the deals these days are longer-term efficiency deals. And what happens in these efficiency deals, they are longer tenure, but they also have a transition involved. And only after the transition, you get into the revenue cycle. So, it is important to close those deals sooner so that you get the benefit of those revenues for the rest of the year. So, a long story short, I think Q1 played out the way we wanted from an overall revenue perspective, but Q1 did not play out the way we wanted in terms of the slowness in decision-making as well as the freezes, which tend to be continuing, which is where we feel that the growth targets that we have said earlier, that becomes challenging. But at the same time, we will always have it as an aspiration. So that's the first part of it. Sudhir, do you want to add anything?

Sudhir Chaturvedi: Yes. I'll just build on one thing there, Sandeep. I think what was positive in the quarter was the increase in the pipeline. So our pipeline went up 10% Q-o-Q from Q4 to Q1. Our large deal pipeline also went up significantly. So as DC said in his opening remarks, the sales activity continues to be strong, notwithstanding the fact that we saw some deals move from Q1 closures to Q2, but overall activity increased during the quarter.

Debashis Chatterjee: Vinit, do you want to take the margin?

Vinit Teredesai: And Sandeep on the margin target, while the growth obviously is one of the important factors to support the margin. We are still working on the efficiencies that need to be driven down into the organization. So we are still confident that we should be in the 17% to 18% EBIT margin range as a part of our exit for FY '24.

Nitin Mohta: The next question is from Manik Taneja.

Manik Taneja: Vinit, just wanted to understand our hiring plans for the year as well as the wage increments that we plan for this year, given what we've heard from some of your peers.

Vinit Teredesai: So let me talk about the hiring plans. For the last 3 quarters, we have been very focused in terms of ensuring that the bench that we have from a combined organization standpoint, we need to leverage the bench, and that was the priority that we put in place and the hiring was based on how we utilize the bench and what you see right now is a healthy utilization, which is a testament to the fact that it's working well the way we anticipated. Now as far as hiring is concerned based on the opportunities in the pipeline, it is not going to be any different. We'll continue to hire as it is required. And as far FY '24 plans are concerned for hiring freshers, that also will be as per plan. So I don't think there is any change to that. But we are in a comfortable position right now. I don't think we have any constraint on the supply side at this point of time. And as far as wage increase is concerned, we had planned wage increase in July, and we have enough confidence in ourselves in terms of going ahead with the wage increase. So we are going to do the wage increase in July, and we are not going to change any of our initial plans.

Manik Taneja: Okay. And if you could help us with the quantum of the wage hikes for the year?

Sudhir Chaturvedi: That will be in line with the industry standard. So it will be pretty much as per the plan that we had laid down at the beginning of the year.

Nitin Mohta: The next question is going to be from the line of Kawaljeet Saluja.

Kawaljeet Saluja: A couple of questions, most are related to your order book. First is – just trying to react to your order book because deal wins seems to be trending, but the announcement that you have made seem to be overwhelmingly towards managed services, which have a longer tenure for execution. And the other aspect related to order book is that typically, there has been a seasonal bump or strength in the order book resulting from Mindtree's seasonal strength historically. Does that seasonality still remain, or it has become too large for that to play out?

Debashis Chatterjee: Hi, Kawaljeet. Let me answer the second part first, yes, I mean, what you said is right. The account that you're talking about is part of LTIMindtree and its still a significant account. So that seasonality will always be there. But I can only say that initially, those deals, say 3 years back, used to be renewed every year, but there is a more TCV factor in those renewals as well. And as far as the order book is concerned, you are right. I think we have called it out earlier as well that the order book, the deal flow is more in terms of efficiency oriented. And in some of these deals, it's a combination of efficiency and transformation. And we had announced one deal last quarter, which is onsemi, where the clients are willing to sign up for efficiency. And at the same time, they're willing to use those dollars, which can be coming out of efficiency deals over a longer period and continue the in-flight transformation as well. So, we see a flavor of those kind of deals more and more. The only characteristic about these deals are their longer tenure, which is good. But in terms of the revenue realization, it takes a little bit of time because it always involves a transition from a potential incumbent or from the client directly. So that's one thing which we need to keep in mind when we talk about these deals. Anyone want to add anything?

Sudhir Chaturvedi: Kawaljeet, if you look at both last quarter with USD 1.3 billion order book and the USD 1.4 billion order inflow this quarter, when you combine the 2 quarters, that's quite a healthy mix across all our verticals and regions. And in fact, the 3 verticals that contribute to 75% of our revenue, which is the BFSI, High-tech, and Manufacturing & Resources also account for a majority of the order book. So yes, it's correct that the order book is vectored more towards longer-term managed services deals, but it is broad-based, and there is a good concentration in our 3 core verticals.

Kawaljeet Saluja: Sudhir, can you share some ACV trends because that will be useful. And the other part of the question related to your deals is that while in the "I" part of BFSI there were plenty of deals. The press release was conspicuously absent of any mention of banking deals.

Sudhir Chaturvedi: So DC just talked about a banking deal in our prepared remarks right now, which is a good example of our cross-sell opportunities. In fact, our Insurance vertical is going strong. In fact, we're seeing some good core modernization programs underway in the Insurance vertical. You can also see it reflected in some of the product companies in the insurance space, and we are benefiting from that. So insurance actually is doing well for us at an overall level.

Kawaljeet Saluja: And any sense on the ACV trends if you can just throw some light on it that would be very helpful.

Vinit Teredesai: So Kawaljeet, typically, as we have mentioned in the past that depending upon, obviously, the portfolio of clients and the sectors in which it happens, whatever deals we signed in the first half, around 60% to 70% of that translates into the ACV in the next 4 quarters. So that trend continues.

Nitin Mohta: We'll take the next question from the line of Mohit Jain.

Mohit Jain: My question was related to BFSI. Now we have seen this marginal drop this quarter, say minus 1%, and you guys have also ramped up a little bit on deals. And in your opening remarks, you spoke about some benefit or some clients at least opening up the execution part, while some continue to be in pause. Now as we enter 2Q, 3Q and some of the clients are also looking at almost half the year gone by with, let's say, 4 months in pause. So what are your expectations here? How are talks progressing from July onwards? And what should we expect specifically in this vertical?

Sudhir Chaturvedi: Yes. So I'll take that. So if you look at BFSI grew 12% Y-o-Y for us. And I think Mohit you actually raised an important point. What we are seeing is, for most of our clients, they work on a calendar year basis, right? So for 6 months, this calendar year, their own spend has been muted. So we are seeing some signs where they're looking to see for the rest of the year, what are the programs that they continue to fund. But I think as of now, I mean I hate using the word budget flush, but there is nothing in that direction, just to give you a sense. So people are looking to do programs, where the ROI , where there is clear benefit that the business is getting or where there is a need from a risk and compliance perspective, those are the programs that are getting funded. But what we are seeing is that what DC talked about, the continuing hiring freezes still continue. I think it's about the next couple of months where we'll figure out whether they will continue to stay for the rest of the year or they will start to ease off in this quarter, rest of their calendar year.

Mohit Jain: Yes. And second one was this reclassification of 1,000-odd employees. Does their job profile change? Or do they continue to do the same work. It is a change in reporting wherein these 1,000 guys are now calculated as part of SG&A?

Nachiket Deshpande: The job profile doesn't change. As we were bringing both the companies together, each of us had sort of slightly different way of categorizing certain functions. So as part of our merger synergies, we looked at industry standard practices and adopted those. So what they were doing or what the functions they are part of remains the same. It's just that those functions are now reported consistently to the rest of our peer group in how they are classified.

Nitin Mohta: We'll take the next question from the line of Sudheer.

Sudheer Guntupalli: My first question is to DC. It looks like there is a very sharp growth recovery in the top account. Is this possibly related to any budget flush in that account given their fiscal closes in June? Or is it more sustainable and broad-based High-tech recovery, given this vertical probably witnessed earliest onset of a downturn and a lot of pain related to that might already be in the base. Also any color from the top account on how the budgets were, how their new fiscal year is shaping up, given it sets the tone for a lot of tech activity?

Debashis Chatterjee: Well, Sudheer, first of all, we don't talk about any more top account because that's not fair because we have our top 5 accounts which we want to focus on. And I can only say that if you look at the top 5, there is a decent growth in terms of the top 5 accounts. And as a part of our top 100 program, we are going to stay very focused in terms of the Focus 100 accounts and which will also reflect in the growth of the top 20 as well as top 40 accounts. So that's what we should be looking at. But to your specific questions, in terms of High-tech, I would say, first of all, some of the fiscal years are July to June. But overall, in terms of High-Tech, we can see very good momentum, including all the accounts that is part of that portfolio.

Sudheer Guntupalli: Got it, DC. Second question to Sudhir, an extension of what I think somebody asked earlier. The divergence between the strong order booking and weak revenue booking for almost 3 quarters now. Some part of it obviously can be explained by the change in deal mix, tenure, etc. Some part is being attributed to the delays in ramp-ups because of the macro overhang. If I look at the 2, 3 global banks, which reported results so far, suggest tech spends continue to be healthy in June despite the banking panic. The crux of the problem lies in ramp-ups, not keeping pace with the order booking and parallelly, there are no material budget cuts, is it fair to expect 1 or 2 lumpy quarters of ramp-ups going ahead, which may translate into sharp pent-up revenue growth, for LTIM and of course for the industry as well.

Sudhir Chaturvedi: The combination of revenue that we have is a combination of what we have from an annuity or a multiyear spend perspective as well as the discretionary spend that tends to happen usually within the year, right? So as you know, I think discretionary spend generally has been under pressure across the industry. BFSI is similar. So what we are seeing is, I think we are seeing a good long-term trend in terms of us, as I keep going back to not just our order book, but also our pipeline, the size of our pipeline, overall pipeline, the number of large deals that we're chasing and the value of the large deals that we are now participating in, that sets us up for good multiyear growth -- as DC said, yes, these deals tend to have a lag , will have a lag because they involve slightly longer closure time lines as well as transition time lines, etc. So at that point, it's just a question of seeing when the entire set of deals start to materialize in terms of the revenue contribution that they make as well as we'd like to see some return of discretionary spending because then there is no headwind towards the growth that we get from these large deals.

Sudheer Guntupalli: Sure, Sudhir. Just one last question. Any budget cuts that you are seeing in your broader portfolio of key clients, let's say, the top 100 clients?

Sudhir Chaturvedi: Actually, what's interesting is in the recent Gartner article, they have talked about a 5% growth in budgets even in this year. I think the thing is the budget on paper exists, but the decisions are going to the board, and they are taking more cautious decisions in quarter as they wait to see what -- see, it is a paradoxical time, right? Where governments are looking to see what they can do about inflation. So central banks, whereas unemployment is lower, you know whereas other indicators suggest that demand is healthy. So I think clients are also trying to figure out this paradox and taking decisions accordingly. I think we see a stability in interest rate regime, which we are likely to see, then I think clients will have a lot more confidence in terms of releasing the budgets that they've already actually planned for during the financial year at least as per projections that the likes of Gartner have made.

Nitin Mohta: The next question is from the line of Sulabh Govila.

Sulabh Govila: So first one is with respect to the growth that we envisage for this year, which is FY '24. So do you expect the remaining quarters growth to be paced out equally across the quarters? Or would you say that 2H would shape up with a stronger growth momentum versus what you think about 2Q?

Debashis Chatterjee: Well, I think as you can make out, as we have indicated that some of the concerns that we have are more in terms of the freezes in terms of onboarding that we see in some of the BFS clients as well as the delay in decision-making. Now that's something which we will hope that by Q1, it should be easing out which did not. And I don't think we can predict in terms of where it will be , but otherwise, there is nothing for us to believe that our second half will be any different from the second half of last year, for example. So I think the only thing we are hoping is some of the freezes go away and some of this decision-making is faster. And I think that actually help us in terms of looking into the rest of the year.

Sulabh Govila: Understood. And just a quick follow-up, as you mentioned on the banking side of it, so you mentioned last quarter that there were several deals which were in the final stages of closure. And given that we've seen continued caution with respect to freezes and the decision-making and based on your recent conversation, would you say that some of these deals could come through in 2Q? Or do you think they can take much longer?

Debashis Chatterjee: Well, we are hoping . I know at least a couple of those deals have already come through. We closed them in the end of Q1. But we are hoping that some of the other deals also will come through, hopefully, if there is no further delay in terms of our decision making. But it's anybody's guess now. As Sudhir rightly pointed out, this is really a paradoxical time. I don't think any client is talking about cutting their budgets. There is a significant activity in terms of deals. It's quite healthy activity. You have seen our order inflow, but the delays that we are experiencing in some of the decision-making as well as even after closing the deal, the ramp-ups are also not happening the way we expect. It's much slower than we anticipated. So these are the kind of things which are paradoxical. And we are just hoping that it will all clear up and it's something that we have never seen in the industry, to be honest.

Nitin Mohta: The next question is from the line of Vibhor Singhal.

Vibhor Singhal: DC, my question was on the 2 verticals, High-tech and the Retail as well. So just wanted to delve a bit on the High-tech vertical. After 2 consecutive quarters, after a very sharp sequential decline, we've seen a good recovery in this quarter. So just some color on that, do you believe this is something more of a reflective of the trend that we could see going forward as well. And you could maybe call out that maybe the high-tech vertical has bottomed out for us, and we could see continuance of the growth that we saw in this quarter. And on the retail vertical side, just wanted to pick your brain, this was a vertical which probably saw the impact of the macro weakness first. Any green shoots there? Any signs of recovery there or any client conversations that would help you to gauge that, okay, this vertical could probably start recovering in the next maybe whatever time frame that you would like to call out.

Debashis Chatterjee: Vibhor let me just for now answer the second question on the retail and then I'll request Sudhir also to provide some color. See, as far as retail is concerned, it is still a lot of apprehension over there. I guess this is one vertical, which is also connected to the overall inflationary pressures in the system. So retail still continues to be an area to wait and watch and see. I don't think I can see any signs of something radical happening over here in the next quarter as well. But as far as High-Tech is concerned, definitely, there are some closures that we had in the last 2 quarters, which are resulting in terms of revenues in Q1 as well as we'll continue to show the revenue realization or translation will happen in Q2 as well. So overall, I think the amount of deal activity in High-Tech is pretty healthy, including some of the larger clients we have in High-Tech. So overall, I'm much more bullish in terms of High-tech at this point of time in terms of the activities that we are seeing. Sudhir, you want to add anything?

Sudhir Chaturvedi: No, I think you said it DC. The activity levels in High-Tech are strong. And I think if you look at the overall market, if you look at High-Tech stocks globally tend to be, at least the majors are at new highs. Most of them, as DC said earlier, start their financial year in July. So we'll look to see how the they pan out their spending for their financial year in the coming months.

Vibhor Singhal: Got it. Just one last follow-up on the retail segment in terms of the travel vertical. So as you mentioned in your opening remarks, that continues to see strong demand. So I mean, is the demand again in the travel vertical across the board? Or are we seeing the airlines and hospitality part also pick up now, which, as you had mentioned, are still, not maybe back to the pre-covid levels a couple of quarters ago.

Debashis Chatterjee: Well, I would say travel and hospitality is seeing good traction and the business travel is not back to the same levels, but otherwise, we can see very good traction in terms of travel as well as in the rest of the hospitality, the hotels, etc., hotels as well as the restaurant chains, etc, all these things are definitely showing good traction.

Nitin Mohta: The next question is from the line of Ravi Menon.

Ravi Menon: Sir, 2 questions. One is on the employee costs. So headcount is down about 2% quarter-on-quarter. But despite that, employee costs are flat to slightly up. This is even with an effort to shift slightly offshore by about 10 basis points. So I want to check if there are any one- off costs in employee costs this quarter, such as bonus for people or some sort of wage adjustment as part of the integration.

Debashis Chatterjee: No, Ravi, there is no one-off cost involved into it. This is partly driven by some of the policy harmonization that we do as part of these 2 companies coming together. And also, there is a slight increase in the on-site, while the net headcount has come down, there's an increase in the on-site headcount versus the offshore headcount, this is the new incremental headcount that comes in.

So that has resulted into the cost being a little bit higher. But no alarming thing, nothing to worry about that.

Ravi Menon: And second question is on this ROW. We usually have a seasonality with the pass through going away, but this seems a bit more than usual. So is there anything that's vertically specific, client specific in ROW?

Sudhir Chaturvedi: Yes. ROW is client specific. See for us, the 2 biggest markets, which contribute 90% of our revenue are Europe and the U.S. and both are U.S. is up 10% Y-o-Y and Europe is up 7.3% Y-o-Y. So this is client specific. The business in this region tends to be much more project specific. So as projects get over, those kind of changes. We have also been careful about some of the programs that we're entering, especially in the India market, being cautious to make sure that we choose the right projects to bid.

Ravi Menon: And one last question on the cross-sell. Are you starting to see larger TCV deal wins in your cross-sell upsell kind of opportunity?

Sudhir Chaturvedi: The answer is yes. In fact, what we are seeing with our increased scale and increased set of capabilities, in one of the High-Tech deals, that we talked about in our opening remarks, required us to have firstly presence in multiple countries across the world, right from North America to Europe to Asia to provide services, not just out of India, but multiple nearshore locations for this client globally. And it required a more extensive set of capabilities across essentially the entire space, the applications and infrastructure stack. So that combination is what we are certainly seeing. We're seeing it in terms of larger deal sizes we are being invited to by deal advisers increasingly. And also in terms of the ability to do structured deals, we have some of those also on the anvil that again are a reflection of the health of our balance sheet.

Nitin Mohta: The next question is from the line of Mukul Garg.

Mukul Garg: So DC, sorry to again nit pick on your aspiration for FY '24 growth. But just wanted to get some sense on how we should look at it realistically. Even if we aspire or build in a good growth pickup from Q2 onwards, you seem quite far away from the double-digit growth, which you guys were earlier looking for.

Can you give us some realistic sense in case in the deals which got delayed kind of play out in Q2 or in Q3, what can be the upper or lower bands of growth aspiration for FY '24.

Debashis Chatterjee: Mukul, we are watching the space very closely. The behavior is quite unprecedented where the deals are closed, the start days are delayed or the decision-making process itself, which was supposed to close in a months' time, clients are still sitting on it, and they want to delay the decision-making or closure of the deals. So I think this is something which is difficult for us to control. But I can tell you with reasonable confidence that we still want to look at our overall objective of profitable growth. And that's something which we have been always talking about. And I would like this profitable growth to be in the leader quadrant. And that's all I can say at this point of time. And that's something which the team is pretty confident about.

Mukul Garg: Sure. And if I may ask another question, either DC or Nachiket can answer that. This is slightly longer term. If I look at your headcount for development team, it has been declining for the last 3 quarters, even adjusting for the 1,000 reclassification, the utilization levels have picked up. Now given that the deal flow continues to be really strong. Are you at all concerned about return to high attrition in FY '25 as demand picks back up and are there any steps we are undertaking to avoid that scenario. This is something which is not just happening for you. It is happening across the industry.

Debashis Chatterjee: Nachiket, do you want to take it?

Nachiket Deshpande: So I think you're right that the nature of the deal and the type of the deal is shifting, right? And I think we talked about that. So what it also does on the talent front is, it actually provides us a better lead time to plan as compared to shorter tenure discretionary spend based growth that we had seen in the previous 2 years. And because that allows me to plan for skills better, it allows me to build certain skill sets instead of purely relying on hiring those from the market. Overall, both the lead time as well as costs for ramp-up for us, we can manage a lot better in current deal environment and which is why we have been comfortable taking the utilization up because each of these deal conversions allows us to do that correct planning and hire as needed in time. Of course, the availability of the talent is also improved, so need to hire ahead of time has also gone down. As regards to its impact on attrition when the growth comes back, I mean, of course, it's very difficult to predict. But again, if you look at the nature of the demand, right, I think it's not just for us, but for everybody, it gives better time to plan talent. And as all of us with this nature of demand, are able to plan the talent better we can operate at the attrition levels that we operated pre-pandemic, right? I think the last 2 or 3 years, I would say, is an aberration. But as industry used to operate at a certain attrition level with a certain growth rate. And with this type of deal flow, we feel confident that we can do that for FY '24. So, FY '25 is hard to predict, I think it all will again be a function of nature of the deals and the kind of pipeline we get into. But based on today's visibility, I think this allows us a better talent planning.

Nitin Mohta: The next question is from the line of Nitin Padmanabhan.

Nitin Padmanabhan: My question was around 2 things. So one is you mentioned that sometimes, there are delays in the start. In addition, the deals that you have won, you also have a transition period and revenues will probably accrue post that. And the third was that I think the freeze on spending by some of your banking clients still continue. In that context, does it feel like Q2 would be softer than normal and one should actually anticipate a pickup in the second half and Q2 can actually be softer than what we originally thought, that was the first one. The second was on the margins, considering that we have wage increases, and we'll also have transition costs. Would it mean that we will see a dip in margin? And then the makeup in the second half, you also have higher pass-through revenue. So does that make it difficult to achieve the 17%, 18% exit, does that become difficult? So those are the 2 questions.

Debashis Chatterjee: So let me answer the second question first and then get to the first question. See, as far as margin is concerned, it is not something which you can achieve just in one quarter. It's a program that you need to run. You have to have a margin program running across the organization. And once we started bringing the two organizations together as a part of our harmonization, we also rolled out the margin program. We'll look at the various levers that we can use for margin. I mean it's not a rocket science, like you can only use so many levers in our industry. So we know how to do it. And based on that, we are very confident that at this point of time, the way we see the business, we should be able to improve margin over time. And in spite of taking in the wage hikes and all those things, the exit could be still 17% to 18% as we have told earlier. As far as the specifics, I think you articulated very nicely in terms of the 3 trends that we are seeing. One is the delays in onboarding. The second is even after the delays in terms of ramp-ups, the revenue profile will be also different for some of these deals and then the freeze that we had in some of the BFS accounts. So given all these scenarios, I think we have to again watch this space. But if the delays continue for too long, which we don't know, it's not something that we have a good visibility into it, but if the delays continue for too long, then obviously, we have to look at how these delays impact Q2. But otherwise, on the other hand, and this is what we mean by paradoxical things. On the other hand, the amount of activities we have in terms of deals is also quite significant. So we have to just wait and watch and see. But obviously, our hope is that we should definitely have a better Q2 compared to the current Q1 and we have to just leave it there for the time being. Sudhir, do you want to add anything?

Sudhir Chaturvedi: No, I think DC you've covered it. I think we are well positioned because with the new scale, I think our market positioning of having the capabilities which are similar to the larger peers and having the speed and the agility and nimbleness that was there in the DNA of both the organizations would still exist. I think that combination suits us well to continue to be a challenger to the larger peers as well as to be a leader amongst the pack when it comes to some of the other deals which involve some of our smaller peers.

Nitin Padmanabhan: Perfect. Very helpful. Just one last one. Would it be possible to call out what proportion of the deals were new this quarter?

Debashis Chatterjee: We don't give a color of that, Nitin.

Nitin Mohta: That was the final question. I'll hand the floor to DC for the closing remarks.

Debashis Chatterjee: Thank you, everybody, for joining the call. I have one more announcement to make. I would like to take a moment to welcome Vinay Kalingara as the Head of Investor Relations for LTIMindtree. Vinay is taking out from Nitin Mohta, who has decided to pursue opportunities outside the company. On behalf of LTIMindtree, I thank Nitin for his contribution to the company and wish him all the best. This concludes today's call. Thank you for joining, and I look forward to speaking with you all next quarter. Thank you.

(This document has been edited for readability purposes)

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