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Mumbai - 400 001

**NSE Symbol: LTI**

**BSE Scrip Code: 540005**

Dear Sir(s)/Madam,

**Subject: Transcripts of Earnings Conference call held on October 15, 2022.**

With reference to the captioned subject, please find enclosed transcripts of the Earnings Conference Call held on October 15, 2022.

Request you to please take the same on record.

Thanking you,

Yours faithfully,

**For Larsen & Toubro Infotech Limited**

**(Tridib Barat)**

**Company Secretary and Compliance Officer**

**Encl: As above**

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A Larsen & Toubro  
Group Company



## “LTI Q2 FY23 Earnings Conference Call”

**October 15, 2022**

**MANAGEMENT: MR. SUDHIR CHATURVEDI – PRESIDENT, (SALES)  
MR. NACHIKET DESHPANDE – CHIEF OPERATING  
OFFICER  
MR. ANIL RANDE – CHIEF FINANCIAL OFFICER  
MS. SUNILA MARTIS – HEAD, INVESTOR RELATIONS**

**Moderator:** Ladies and gentlemen, good day and welcome to the LTI Q2 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sunila Martis, Head, Investor Relations, LTI. Thank you and over to you.

**Sunila Martis:** Thanks, Aman. Hi, everyone, and thank you all for joining us today to discuss LTI's Q2 FY'23 Earnings.

The Financial Statements, Press Release and Quarterly Fact Sheet are all available in our filings with the stock exchanges as well as on the Investor Section of our website.

Today, on the call we have with us Mr. Sudhir Chaturvedi – President, Sales; Mr. Nachiket Deshpande – Chief Operating Officer and Mr. Anil Rander – Chief Financial Officer. Management will give you a Brief Overview of the Company's performance during the Quarter, post which we will do a Q&A Session.

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

**Sudhir Chaturvedi:** Thanks, Sunila. Hello everyone. Thank you all for dialing in, especially on a Saturday to discuss our Q2 results. We truly appreciate your time with us today. I know it's been a hectic week for all of you because of the earnings season and I hope you have a restful Sunday.

So, let me start with our headline numbers. We are happy to report 4.6% Q-o-Q and 21.6% Y-o-Y revenue growth in constant currency. This translates to growth of 3.6% Q-o-Q and 18.1% Y-o-Y in USD terms.

We are also happy to continue our large deals trajectory and have closed four large deals with a net new TCV of over US\$80 million during the quarter. Three of these are with existing logos - one is a Global Fortune 500 client, and one of these is a new logo.

Similar to previous quarters, these deal wins are broad-based and are spread across our portfolio - Insurance, Hi-Tech, Manufacturing and Services. Post these wins, our large deal pipeline remains similar to our previous quarter, that's approximately US\$2 billion. And we look forward to sharing more such wins with you in the second half of the year.

On the new logo front, we added 22 new logos with the highest number of new logo additions coming in our BFS vertical. We also had double-digit Y-o-Y growth across all our top client buckets and also added one client to our US\$50 million bucket.

Let me give you some color on demand. We continue to see some challenging economic indicators as marked by high inflation and geopolitical issues. We have seen both the pace of decision making as well as the nature of demand change since the pandemic. During the first year of the pandemic, organizations needed to reimagine their operating models and to embrace digital technologies in order to ensure that they continue to do business. So, decision making cycles were accelerated driven by the need for survival.

As we progressed into the second year, we saw the pace of digital transformation accelerate. The nature of demand and expectations around execution also changed. Discretionary spends picked up as clients invested in modernization and broadening of revenue generating streams and undertook transformation journeys in order to enable this. Speed was the biggest differentiator here, and hence the key driver for these journeys. Now that we are in the third year, we are seeing a little more regular decision making cycles, although even this is still faster than what we used to see pre-pandemic.

So, with that backdrop, it is reasonable to assume that the overall macroeconomic environment and the anticipation of recessionary trends that we are seeing, will have some impact on clients spending, especially as we enter CY'23. While we at LTI, have not seen any outright cancellations, there are signs that there are clients looking to spread out their investments in technology.

Customers, more importantly, want to bring control to their run spend. They have made significant investments in cloud, data and digital and this new stack over the last two years. Many of these implementations were done at high price points because speed was of the essence. There is now a need for organizations to go back and meet the planned business cases for all these programs. And therefore, there will be an efficiency play on the new stack.

During this time at LTI, we are staying close to our clients to understand their needs. Business-driven transformations are still a priority with clients. So, dollars allocated to business growth will continue. But when we look at what they seek to do with a new growth stack, we see that they will programmatically run value realization programs to help them meet their business case, and also use those monies to fund the strategic transformation initiatives.

Moving to the performance of our industry verticals, geographies, and service lines during the quarter:

BFSI portfolio now accounts for 48% of our total portfolio. BFS grew 29.1% in constant currency and overall budgets in our clients continue to grow in GRC, Payments and Commercial banking. We have a strong pipeline across our key clients mostly due to our presence in these programs, which are going ahead as planned.

Insurance, we saw 15.8% Y-o-Y growth in constant currency. You all know that our growth numbers in this vertical have seen improvements over the last few quarters led by both large clients and several new logos that we have added in the sector since we added new leadership to run our insurance business in the US.

Manufacturing grew 11.9% Y-o-Y in CC terms, and we are seeing some caution in the environment here. With rising inflation, customers are looking to reduce their spend on discretionary items. Hence, expense management is going to be critical and there will be a focus on operational efficiency and outsourcing. Our pipeline is building up in these areas. And we feel that we are well positioned both on strategic discretionary spend, as well as the imperatives that they have in the efficiency space.

Energy and Utilities grew 29.9% Y-o-Y in CC terms. Demand environment continues to be strong here. We see large scale ERP, Data and Cloud projects underway or kicking off and clients are not revisiting these decisions.

CPG, Retail and Pharma grew 21.8% Y-o-Y in CC terms driven by the growth in our large accounts and our large deals announced last year.

Hi-Tech and Media was flat Y-o-Y or slight negative. This was on account of one of our large engagements transitioning from a fully onsite mode to offshore, moving to a global delivery model as part of the original deal structure.

Others had a strong Y-o-Y CC growth of 48%, as our marquee services customer continues to ramp up sequentially. This account is on track to be a US\$50 million account for us.

On our geographies again, we saw broad-based growth: North America and European markets continue to be key drivers expanding by over 21% and about 30% respectively Y-o-Y on a constant currency basis. Excluding impact to currency, both of these will continue to grow well for us. In Europe, a large part of our growth is driven by continued large deal traction and new logo wins. We see a strong demand for our key capabilities around ERP, Data and Cloud and we are monitoring the situation. Going into Q3, we will continue to remain close to our clients and see how spend patterns emerge.

I now request Nachiket to talk about our Service Lines and Supply Side. Over to you, Nachiket.

**Nachiket Deshpande:**

Thank you, Sudhir.

On our service lines, both Analytics, AI Cognitive and Enterprise Integration & Mobility have grown well at about 44% and 38% Y-o-Y respectively in constant currency terms. These reflect the strengths of our data and digital engineering sub-service lines, with revenues from both of these practices doubling over the last three years. Performance of these service lines also ties in

with what Sudhir said earlier on demand where we see several clients reviewing their business case for their cloud migration and data journey. We talked about this opportunity last quarter, where we are trying to solve for efficiency expectations of our clients in these large investment areas that they have made in new digital stack. Our proven expertise in the efficiency play with our deep seated and premium partnership with hyper scalers is helping us to see continued traction in the space. LTI remains well poised to capture this opportunity. Post the merger with Mindtree, this will further strengthen along with their expertise in customer success and digital transformation.

To further build on this momentum, we continue to make investments along with our strategic partners. We opened our Joint Insurance Innovation Lab with AWS in Hartford, Connecticut. We already delivered one joint solution from this center between AWS and LTI. We were also named a Launch Partner for Salesforce Automotive Cloud, which is the new product offering from Salesforce, unveiled at the recently concluded Dreamforce Event.

Now moving to the supply side, we are proud to have crossed 50,000 headcount mark this quarter. Our hiring engine continues to work well, and we are not planning for any moderation in our hiring plans in Q3. Our net headcount addition at over 2,100 people in Q2 has been in line with our earlier quarters, and we continue to build momentum for demand and growth going forward.

On attrition, we are seeing some softness in hiring premiums and cool-off in resignation numbers. We are likely to see some moderation in attrition numbers in H2. But for certain hot and niche skills, supply/demand mismatch will continue, and will take several quarters to be bridged.

Before we look at business outlook, I want to talk about the progress on our merger with Mindtree. We are happy to be on the last leg of required regulatory approvals and should be able to combine forces by end of calendar year '22. As we explained earlier, the merger rationale is essentially a revenue synergy-based rationale. The business case is around 2 fast growing companies coming together to grow even faster. As this merger offers an exciting and broader growth platform to all of our employees, we also see a lot of excitement amongst our workforces. We have been working to ensure speedy and seamless integration through our steering and integration committees, focusing on interoperability in the first quarter and then accelerated consolidation of key systems and operating models is our primary focus. The majority of integration activities are expected to be concluded by Q4 FY'23.

Now moving to outlook on Q3 and FY'23. While macroeconomic indicators point to a near-term softness in market volatility, we see these challenges also as an opportunity. We remain close to our clients across all levels to understand and align our investment plans. We continue to execute well and deliver in a challenging and changing environment as demonstrated in the past. We expect our Q3 performance to be as strong if not better than our Q2 as it has historically been.

We will continue to be in the Leaders Quadrant for growth with a stable PAT within the guided band for FY'23.

In the near term, while we are not immune to the impact of global economic events, we feel we are much better positioned than earlier to address any future shifts. Both LTI and Mindtree are growth leaders and post-merger as a combined entity, we will leverage our scale to move from being a best challenger to tier-1s to setting the foundation for leadership.

With that, let me hand over to Anil.

**Anil Rander:**

Thanks, Nachiket. Hello everyone. It is great to be back with you all with another Quarterly Earnings.

Let me take you through the financial highlights for Q2 FY'23 starting with the revenue numbers:

In the second quarter FY'23, our revenue stood at US\$601 million, up 3.6% sequentially and 18.1% on Y-o-Y basis. The corresponding constant currency growth was 4.6% Q-o-Q and 21.6% Y-o-Y. Reported INR revenue of 48,367 million was up 6.9% Q-o-Q and 28.4% Y-o-Y. We are very happy to have crossed the 600 million revenue milestone.

Now coming to profitability - EBIT for the quarter was INR 7,809 million, translating into an operating margin of 16.1% as compared with 16% in the previous quarter. Increase in employee cost and moderation and utilization was offset by currency benefit and working day impact. Reported profit after tax was INR 6,798 million, which has translated into a PAT margin of 14.1% compared with 14% in Q1. We remain comfortable with our guided PAT margin of 14% to 15% for FY'23.

Moving on to people front, utilization without training was 82.1% as compared to 81.8% last quarter, and utilization including trainees was 80.3% versus 81.3% in Q1. We continue to strengthen our workforce and during Q2, we added 2,215 people on a net basis. The total manpower stood at 50,981, of which our production associates were 95.5%. In this quarter, attrition was at 24.3% versus 23.8% last quarter on LTM basis.

Our cash flow hedge book stood at US\$1,938 million as at 30th September '22 versus US\$1,795 million as at 30th June 2022. While the on-balance sheet hedges stood at US\$140 million versus US\$108 million last quarter.

Moving on to the DSO, in Q2, the billed DSO stood at 62 days as compared to 61 days in last quarter. The DSO including unbilled was at 99 days as compared to 100 days in last quarter.

For the quarter, the net cash flow from operations was INR 3,608 million, which was at 53.1% conversion of net income. At the end of the quarter, cash and liquid investments stood at INR 32,636 million as compared to INR 38,824 million in the last quarter.

Earnings per share for the quarter stood at INR 38.75 as compared to INR 36.13 in Q1. Diluted earnings per share was INR 38.7 versus INR 36.08 in the last quarter.

On the ESG front, we remain steadfast at reducing our environmental footprint and becoming a carbon and water-neutral company by 2030. In Q2, LTI has been certified as a water-positive company based on third-party audit. With a positive index of 1.87, LTI is one of the top water savers.

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

**Sudhir Chaturvedi:**

Folks, before we take questions, I just wanted to say that this is likely to be our last call with you as standalone LTI. It's been a fascinating journey since our IPO to now being an established player in the industry. We are thankful for the constant support that we get from the L&T group, AMN, SNS and RSR, who are actively involved in enabling every part of our growth journey. I want to thank the L&T Board for their mentorship. And I want to take this opportunity to also thank Sanjay Jalona and Ashok Sonthalia who are an integral part of this journey. I would like to thank our employees who have always gone the extra mile, as our employee numbers went up from 19,000 during the IPO to over 50,000 today. And as always, we want to thank our clients for the faith they have placed in us at all times. There have been some difficult times and otherwise to deliver their most difficult programs and drive their growth agenda. We look forward to building on all of this together as LTI-Mindtree and seek your support and advice in the exciting journey ahead.

We can open the floor for questions. Thank you.

**Moderator:**

Ladies and gentlemen, we will now begin the question-and-answer session. First question is from line of Sandip Agarwal from Edelweiss. Please go ahead.

**Sandip Agarwal:**

Your commentary looks little measured in the sense that on one front you are highlighting the risk of the macro which you are probably also seeing the way the whole world is seeing. And at the same time, you are also acknowledging the fact that if risk to economies or the macros environment worsens from here, then the need to optimize cost will accelerate which obviously implies that people will use the cheapest possible option to achieve their goals which is obviously outsourcing in the technology stack. So, I am trying to understand a little more clearly whether you are more inclined towards the macro uncertainty, how you see today or you are more inclined towards the opportunity which it will throw up. In the sense, obviously inclined will be towards the opportunity, but what I'm trying to understand is today as you see which side you are seeing the whole environment tilting?



**Sudhir Chaturvedi:** I think if I step back and look at the conversations that we're having with clients. Clients are spending money. They are either enabling business growth, where there is revenue growth, in many cases, multi-year programs, that spend is continuing as planned. The efficiency is coming in places where some of the money was spent, perhaps not as judiciously, because it was spent for speed, in enabling cloud, data and digital journeys. And those consumption costs have risen, as a service cost have gone up. So, they're thinking to rationalize spends to get back to the business case.

Those are the two trends that we are clearly seeing, and we feel well positioned to do both. If you see our large deal track record, most of our large deals have actually been in the outsourcing space. We are actually well poised for that spend pattern to shift. It's really a question about chasing the right digital growth dollars and chasing the right outsourcing dollars, and we think we are in a good position to do both. Frankly, volatility, I know we're seeing some now, but nothing compares to the volatility that we saw in March 2020. If we could deal with that and grow 9.5% even in a pandemic year. Compared to that, this is an environment where we have runway to have discussions with clients and if they need to change their spend patterns, we will make sure that our strategy is in line with where the dollars are being spent. We have handled bigger crisis. We are very confident about this one.

**Moderator:** The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

**Ashwin Mehta:** So, wanted to get a sense on why our cash generation is so weak and what is the outlook on the same because our FCF to PAT is just 14% in the first half, our CFO to EBITDA is just about 34% and even in the last year the FCF to PAT was weak at around 34%. Just want to get a sense in terms of while earnings growth numbers are very strong if I look at your FCF over a two year duration on an LTM basis, there's a 40% CAGR decline. So, just wanted to get my head round why the cash generation is so weak?

**Anil Rander:** I think there are a few key reasons why and these are more I would say transient here. In last quarter, we did have an incentive payment on which there was a TDS liability. This was paid during the current quarter. In terms of the advance tax, the overall quantum is higher as compared to the last quarter. So, that is another reason. There is also a premium payment for one of our insurance policies, which fell due on the last day of the quarter. And that is also a key reason why this cash generation has been lower though it's been higher than Q1. We are confident that we will pull it back in Q3.

**Ashwin Mehta:** Just a second clarification, we did talk about that Q3 would be similar or better. So, do we expect that typical seasonality wherein our second half is generally better?

**Sudhir Chaturvedi:** Yes, Q3 will be better than Q2 and second half will be stronger than H1.

- Anil Rander:** Ashwin, just on FCF also, you had raised a question. There is an investment which we are making into our own premises in Mahape. And that investment is also going in and that's the reason why FCF is low.
- Ashwin Mehta:** What is the kind of capacity increase that we are doing in Mahape?
- Nachiket Deshpande:** It's about 8,000 seats
- Ashwin Mehta:** This is happening over the last year and this year because our CAPEX last year was also elevated.
- Nachiket Deshpande:** Yes. So, we've just inaugurated that facility last week, and it would be ready to occupy from January onwards.
- Moderator:** The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** How should we look at margins because that is one metric where we are relatively lower, or at par compared to pre-pandemic? So how do you guys see this going forward in the second half? And a second related question, should we consider some merger-related expenses in second half of FY'23?
- Sudhir Chaturvedi:** We always guided that our margin will be between the band of 14% to 15% and we're sticking to that. I think the important thing for us is that, as you can see a broad-based growth environment. You see our growth across verticals, even this quarter, other than Hi-Tech, which we had a client-specific reason, every other vertical has grown. We have grown in North America, we have grown in Europe. So, our focus is making sure that we exploit the growth opportunity that is there. So, if you see our net employee addition continues to be strong, you see even our net operating expenses, things like our travel, etc., has gone up, because we want to focus on making sure that the growth that is there in the market is achieved. And we think that is the right strategy in this environment to adopt. Because ultimately, we, together with Mindtree, will offer even more scale benefits. So, I think the margins over a period of time as we scale will improve, but we have to ensure that the best way to do that is to ensure that our growth momentum continues to be unaffected. So, we will always invest for growth.
- Nachiket Deshpande:** And in Q3 and Q4, there would be some one-time expenses that could come up because of integration. As I said, we are looking at a very speedy integration and all our systems and processes will be consolidated by end of financial year. So, these two quarters you might see some one-timers coming in for the integration costs.
- Mohit Jain:** So, any quantification there?
- Nachiket Deshpande:** We're still in the process. Once we get all the regulatory approvals, we'll have the clarity on exact timelines, then we can quantify.

**Mohit Jain:** One follow up on Hi-Tech. If you adjust for that one client shift that you spoke about, what kind of growth rate and outlook do you have for Hi-Tech vertical?

**Sudhir Chaturvedi:** Consistently, if you look at the last two years, Hi-Tech on average is at 20% plus Y-o-Y business for us. And we continue to see that. In fact, one of the large deals we announced with a Global Fortune 500 company is also a Hi-Tech player. So, it's really one client one quarter.

**Mohit Jain:** So, from your perspective, the outlook has not changed in Hi-Tech vertical?

**Sudhir Chaturvedi:** Not at all. In fact, we are seeing some good growth there. As I said, the combination of service lines, because the number of deals that we're doing together with Mindtree, has also gone up significantly. So, now we're able to bring sort of a much wider array of service lines to clients, and that is also something that we are leveraging in this vertical.

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

**Vibhor Singhal:** As you mentioned in your opening remarks about the macro headwinds that we're facing that clients are kind of facing at multiple levels. So, just wanted to dig a little bit more into it. Any specific pockets in terms of verticals that we are seeing more, concern or more pushback on some of the verticals? So, these are B2C companies tend to feel the heat of these dwindling demand and economic downturn or recession earlier than the B2B companies. So maybe retail or BFS, are we seeing that trend also here, any color that if you could provide on that?

And secondly, our margins have definitely fallen much below over the last couple of years, even if I remove the travel benefit that we have during the pandemic time, pre-pandemic also our margins are basically down from those levels. So, now that I believe the multiple wage hike that we had to give is behind us, attrition also as mentioned in the opening remarks is expected to cool down, do we expect margins to expand significantly in the coming quarters. On a standalone basis do we expect the margins to shoot up significantly, adjusted for the one-off expenses of course in the quarter?

**Sudhir Chaturvedi:** In terms of macro, what we're seeing in BFSI, which is 48% of our business. In fact, the areas we are in like compliance, commercial banking, wealth management, actually, we're not seeing any change here. Perhaps our exposure to retail banking being low, potentially helps us. In mortgages we are not present, payments is something we are very strong which is actually one of the fastest growing areas. So, in BFSI, we grew, over 37% last year, this quarter also we are growing 29%. So, you can see the momentum we already have in the sector. So, BFSI, if anything will continue to actually be our growth driver. Exactly the reverse of what people are expecting. We don't have much exposure to retail and consumer, it's a smaller part of our business.

We are seeing a little bit in some of our Manufacturing, where clients are spreading out their investments over a longer period of time, but that's what we're seeing in Manufacturing. But, I think, as I said, the places that we thought will have impact, for example, Europe or BFSI, or some other sort of service lines, we're actually not seeing that pan out. We are growing in Europe as well, 29% Y-o-Y. Why are we confident about Q3 being stronger than Q2 is because we've got our top 20 growing, we've got large deals that we've done over the last three quarters. We have done 12 over the last three quarters, we've got our largest vertical growing, Europe is also showing good growth, and finally, our employee relations are strong. So, we are in a good position to exploit all that for growth in the coming quarter. With that, I'll hand over to Nachiket for the margin.

**Nachiket Deshpande:** On the margin, as you said, if you look at last couple of years across the industry, and that's true for LTI as well. A large part of the pressure came with the replacement cost being higher for attrition. It wasn't driven by the usual wage hikes, but it was driven largely by the replacement cost for attrition backfill being higher. Attrition is starting to come down, but it's still much higher than what we would like and much higher than what industry had operated in the past. So, that pressure is starting to ease a little bit, but I would say that it's still not gone away fully. And we will continue to remain in our guided range of 14% to 15% PAT. We will pull different levers as we see the situation improving. And as Sudhir also said, our focus will continue to be on reinvesting back into our growth as we have always done. So, for us, yes, there are some parameters which are improving. So, we will pull different levers to stay within our guided PAT margin and continue to seek the leaders' quadrant growth.

**Vibhor Singhal:** Given the wage hikes are behind, adjusting for the one-off that you mentioned, could we expect H2 EBIT margins to be better than H1 EBIT margin?

**Nachiket Deshpande:** We don't guide for EBIT, we always guide for PAT to be in 14% to 15% band and we continue to maintain that guidance.

**Moderator:** The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

**Mukul Garg:** Sudhir, just wanted to get a bit deeper into a comment which you just made about that number of deals with Mindtree have gone up as you guys are able to bring an array of capabilities. I know you guys probably will talk a lot more about it in next quarter. But is it possible to get an early glimpse into what really is happening in areas where both LTI and Mindtree have presence and what you are bringing to the table and what they are bringing to the table to kind of accelerate the opportunities?

**Sudhir Chaturvedi:** So, as you have heard from us before. The service line synergy, especially between the two companies are extremely strong. So, LTI traditionally is strong in ERP, Data and Cloud. Mindtree traditionally is strong in customer success, which is customer experience, digital

marketing, e-commerce, that entire suite of offerings is very, very strong there. And that's where the cross-sell, momentum is there. So, today, between the two companies, there are 80-plus pursuits that are underway, where both companies are jointly pursuing deals. So, you can see there's been a significant increase since, we announced M&A. It's one of the best ways of integrating as well. So, because, you're doing joint deals together, both teams are already working together to pursue this. So, which is why we feel that we have planned the integration well, and we can hit the ground running on day one itself. But from a business perspective, momentum should only go up, that's something we will continue to do together

**Mukul Garg:** Is it possible to share an example in a big deal where you bought something to the table and they got something and you guys were able to put together an opportunity for a much larger offering to the client?

**Sudhir Chaturvedi:** So, last quarter, we talked to you about a client in the travel technology space. So, in this quarter, there is a significant large deal that is happening in the consumer space, where this is a client that is putting up their entire tech spend up for rebuild. This is a small existing client of ours. Actually, this is a consumer goods company that's investing very significantly in their e-commerce channel as they go direct to customer. So, this program is actually right from all the things that they need for omni channel commerce, all the things they need from digital marketing, right down to the supply chain, right down to finance, and data. That entire chain is what they're talking to us for. So, that's the conversation that we are having jointly. In the past, we would have had the conversation on finance and supply chain. They would have had the conversation on e-commerce. Now we're able to put all this together and bid together. So, that's on the transformation side.

If I look at the cost reduction side of the house, there's another client of ours is in the Hi-Tech space, which is looking to cut costs, which is looking to reduce their tech spend in the areas. And that's where we are getting together. Again, with a combination of technologies that we both are strong at. And so there we are bringing our strengths in ERP and data, they are bringing their strengths in a lot of the consumer facing technologies that are there. So, our ability to cover the entire technology spectrum for them is very strong. And that's the other deal. These are both very significantly sized deals for us, just to give you some examples.

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

**Sandeep Shah:** In terms of the large deals, we are consistently winning in the last three quarters. After winning the large deal, is there any change in pattern in ramp up because of the challenging macro?

**Sudhir Chaturvedi:** No change in ramp up. So, the large deal cycles are consistent with what typical large deal cycles have been. In fact, now we have learned how to do transitions also completely remotely in the pandemic. There used to be some time for the ramp up of resources and, placement of resources, in fact, that's also gone now. So, you can start these ramp ups fairly quickly.

If I look at the nature of the deals that are there in our US\$2 billion pipeline, I think what we're seeing is, what Nachiket was referring to. The traditional technology, if I call it legacy in today's world, that has already gone through multiple rounds of outsourcing and very heavy offshoring, there isn't much to save there. The savings are really on the cloud, data, digital, DSAS, and that stack. So, that is where we are seeing the changing nature. They are asking us to save money on this spend. And because this spend is metered spend, it only goes up every month, as their consumption goes up of technology, they spend more and more every month. So, it's not a one-time control. You basically rearchitect their entire run operations on a continuous basis. So, it's a different type of outsourcing to what we've done in the past. It has to be led with tools rather than people and that is what we are able to show to clients, we are capable of doing that and that's why they feel confident about those deals in that space.

**Sandeep Shah:**

How to read some of the born digital software companies like Salesforce, Pega, downgrading guidance, growth outlook for slower decision-making. Duck Creek is also concerned, while LTI also gets almost 28% to 29% revenue from ERP, as well as Mindtree also getting a material portion of revenue from Salesforce. So, in this scenario, does that make us slightly upset?

**Sudhir Chaturvedi:**

Yes, so I will separate this. If you look at SAP or even if I look at Salesforce or ServiceNow. The one key thing to see in their numbers is how much has moved from what used to be license sales which was recognized immediately as revenue to what is now as a service. Where we only can recognize revenue as the software gets consumed, the amount of consumption of the software actually determines their revenue. So, their change in business model will have an impact in terms of their revenue cycle. Because now if the born SAS companies like Snowflake, etc even they are actually focusing on consumption. So, now if you want to drive consumption on software that has been sold, you cannot do it without services companies, because services companies will implement those industry, business use cases which lead to the consumption of technology.

That's why you see, Nachiket gave you the example, of the AWS insurance industry, the innovation lab that we have set up together, and the deal that we have sold together, that was an existing AWS client. An AWS setup was already available to them, but we are driving consumption through our solutions. So, if you see the partnerships have actually in fact, we are having partner conversations almost every day, and at the highest level, this is at the CEO levels, because they're working with us together to say you build the industry use cases for us to drive consumption, because that's what will drive our revenue. That's the big shift, we call it disruptive SAS. Disruptive SAS is all about consumption and that is all about industry benefits, how do you provide essentially the benefits are on the revenue side of the house and get immediate traction.

**Sandeep Shah:**

Wanted to understand the growth, demand perspective, anything materially changed, versus Europe versus US for LTI, or even Mindtree, if you can comment on a merged entity basis,

whether our exposure to some of the European industries will make us slightly weaker in terms of the growth ramp up going forward?

**Sudhir Chaturvedi:** Frankly, we can't do much about the currency but we are growing at 29% and we're continuing to do well. We see a decent business in Europe, we've got resilient clients also in that space, so not concerned. We know the outlook for Q3 very closely. So, we know that's why can confidently talk about it. Q4 we will see new budgets come in but as I said we know how to chase the right dollar. That's the one thing LTI was extremely aware. So, even as the market changes, where it changes, we will make sure that we are in the right conversation for that.

**Sandeep Shah:** Last bookkeeping on the depreciation side. Is there acceleration in this quarter and will that go back to normalize level in the coming quarter even after the Mahape capitalization from Q4 or will it increase?

**Anil Rander:** So, it will go back to the normal level and anyway Mahape is likely to come only in Q4 or next Q1.

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

**Dipesh Mehta:** Wanted to understand Hi-Tech vertical. Now, this quarter softness is partly alluded to offshore shift in 1 one of the large accounts. But if I look your margin profile, margin remains under pressure, typically during offshore we see generally benefited at margin level. So, that is one thing about why it is not getting reflected in margin performance. And second, even if you have just one client kind of offshore shift, Y-o-Y growth rate is also fairly weak compared to company average. So, if you can give some perspective on what is playing out in Hi-Tech vertical.

Second question is about Manufacturing, you indicated some kind of caution so if you can help us understand the sub-segment where the demand remained resilient and where do you see more weakness, particularly when Q3 we see seasonality. Generally, Manufacturing, growth accelerates. If you can help us understand how you expect that acceleration will play out this year. Third question is about SG&A expenses. Now that remained fairly low, and we are not seeing any uptick even though the work from office kind of expenses started inching up in some of your peers financials. So, if we can provide some perspective.

**Nachiket Deshpande:** On the Hi-Tech account, where the delivery model sort of moved from onsite only to global delivery model in offshore. So, you're right, the margin profile should improve on that. But as you can imagine, this is a transitional quarter. So that's why the margin is not reflective in the P&L directly there. Also, many of these deals are structured so you can see a relatively flatter margin profile that is there across the quarters when the deal was structured as well.

**Sudhir Chaturvedi:** Hi-Tech growth last four quarter average is 21.2%. And as I said, we have a good pipeline, some decent large deals, so no concerns on Hi-Tech growth. Manufacturing as I said, again if I look

at our average four quarter growth, that also has been 21% but in Manufacturing, our customers are spreading out their investments over a longer period is something that we are seeing. Even now we're growing, this quarter we grew 12% so it's still more than double digit. So, we will continue to focus on this, there are some large deals in the Manufacturing portfolio as well. So, that picks up we'll start to see growth back. But, across all our verticals, we are only seeing slightly lower growth than our company average, only in Manufacturing. And if you saw insurance is already on the way up in terms of growth so we're confident about that. Which is why I keep saying we have broad based growth, so we are not worried that much about any particular vertical or region. Our focus is really on the deals that are currently underway at LTI, all the 80-plus pursuits that we're doing together with Mindtree and the large deals of the pipeline that we already have. So, all the things that we can already see.

**Anil Rander:** On the SG&A Dipesh you mentioned that to it appears to be flat, but if you see there is an increase in the absolute amount. And also, we are getting in some G&A efficiency, due to which that number appears to be.

**Nachiket Deshpande:** All of our offices in India are now open and we have a hybrid model so people are coming in two to three days a week as we expect. So, office wise, all of our offices in India are now open.

**Moderator:** Thank you. We have the next question from the line of Manik Taneja from JM Financial.

**Manik Taneja:** Wanted to understand you indicated about some flush in Financial Services for this year and you also commented that the deal size will remain good in Q3 '23. Does our commentary and our conversations with clients still suggest the same - that's question number one. The second was a bookkeeping question with regards to the fresher hiring, if you could help us understand how many freshers have we added in second quarter, and first half and does the plan to hire 6,500 new freshers for the year change. Thank you.

**Sudhir Chaturvedi:** You had a question on fresher hiring and your earlier question was on BFSI right, do we see sustained momentum even in Q3. The answer is yes.

**Nachiket Deshpande:** And on the fresher hiring we are on track with our hiring guidance of 6,500 which we will hire this year. On fresher onboarding, we on-boarded about 1,600 freshers in Q2 as against about 1,000 in Q1 and again we are on track to onboard whatever we have offered from a FY'23 perspective.

**Moderator:** Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

**Rahul Jain:** As this merger announcement has been made for six months now and you might be interacting with your clients already on this thing. So, is there any change - good or bad that you could highlight both, from external point of view in terms of clients and partners and internally how you made changes in terms of nimbleness, approval reporting workflows for your team?



**Sudhir Chaturvedi:** Actually, from a client's perspective they are wondering why it's taking six months. They can see the benefits we have all been communicated very, very regularly to them, so they can see the benefits of the combined LTI Mindtree set of offerings especially to each across verticals, across regions, across service lines. As Nachiket said in his commentary also there is excitement about this both in our employees and our clients as well. And we hope that this will happen soon.

**Nachiket Deshpande:** In terms of process and nimbleness, because of the regulatory approvals we are still in the last leg, we are operating as independent companies separately listed and accountable to separate set of stakeholders. That part hasn't changed. LTI is operating the way LTI has been, and Mindtree is operating the way Mindtree has been. Our plan for integration, the endeavor is that as Sudhir said in his commentary, that we would not want to lose growth momentum, that's the fundamental premise of this integration. We want to grow faster together than we were growing individually. So, the endeavor is that anything that enables that growth, we will not want to disrupt. All of our operating model, processes as well as organization structure is designed in such a way that will enable that high growth as we go forward. But today, as it stands, we are operating as individual companies as we were before.

**Rahul Jain:** That means we may not be very, very closely integrated but leveraging the best of the other, but more acting like a sister concern in near future rather than acting as one?

**Sudhir Chaturvedi:** No, see you have to think of it as an additive organization, because we've not got much overlap. So, therefore you have to create an additive organization that actually has wide scale. So, our whole thing is to maximize coverage and maximize scale. So, you will see on the sales side the whole endeavor is to maximize coverage, on the delivery side it is maximize scale benefit. So, that is how we're designed it.

**Nachiket Deshpande:** But at the same time, we will move to a single set of systems and single set of a process by the end of Q4. We are actually doing a very accelerated integration, you will actually see us operate like one company much sooner than you typically expect when these two sides of the companies come together. The common processes where scale will help, like hiring, like bench, we would operate as one. The areas where individual expertise needs to be preserved, because that's the cross sell and upsell promise to our customers, we will continue to preserve those differences as we go to the market and that's where as Sudhir said the organization will be more additive.

**Rahul Jain:** My question just to give you one example is like, today if you're chasing a certain size of a deal as a large deal, because you're a certain size business, but tomorrow you are much larger business. So, what you call as your large deal, logically should look like a much bigger deal and that's why the team and the deals you chase in the market changes technically if you are chasing it as a 5 billion organization versus a 3 billion organization or whatever. So, from that perspective is what I was trying to understand.

**Sudhir Chaturvedi:** You are right, the definition will change. And we have already talked about it. As I said, when I mentioned the 80 plus sort of joint pursuits that we have, we are obviously looking at materially larger deal sizes jointly.

**Moderator:** Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** I am trying to reconcile some of the earlier comments. Is the move to efficiency likely to increase deal durations and therefore do you see large deal pipeline inching higher from US\$2 billion. It's been fairly static there, that's despite the joint deal pursuits or should we see this as duration that remain fairly static, and macros slowing down the deal velocity?

**Sudhir Chaturvedi:** As people look to do more efficiency those tend to be longer duration deals. So, if you look at the deal pipeline and TCV, also remember the wins also contribute to part of this. Sometimes the entire TCV is not awarded to us, it's awarded to multiple parties. So, that also has a bit of an impact on their TCV. But overall, as I mentioned the spread of this US \$2 billion that we have today is quite interesting and the number of deals that we are already seeing in the final stages is what gives us that confidence. So, that we have a good balance between, as I said the business growth kind of deals as well as the efficiency kind of deals and the efficiency in the new areas which is where that investment will sustain over a period of time.

**Moderator:** Next question is from the line of Abhishek Shindadkar from Incred Capital. Please go ahead.

**Abhishek Shindadkar:** In your prepared comments you mentioned about an uptick in the large-scale ERP programs. If I heard that correctly, any color in terms of what is driving it now and is it happening across the large, mid, small market from an opportunity standpoint. Thank you for taking my question.

**Sudhir Chaturvedi:** When we look at ERP, we've got three things going for us. One is there is a move to cloud on ERP, where they're moving from existing on-prem. The second is, journeys like S4 or OC, Oracle Cloud applications, where they are looking for essentially modernization, consolidation and simplification of the landscape where programs are underway. And those tend to be multiyear programs so that's why the programs don't stop. And the third is we're seeing an uplift because that's naturally something that we bring to all Mindtree customers. So, those joint pursuits that you mentioned, that's another area where we are seeing that Mindtree clients are now being exposed to our ERP expertise. So, there are other areas like supply chain visibility, etc which were key during the pandemic, which also require ERP interventions. So, ERP is where we see the shift towards the projects being in the transformation side of the house, that's where we are seeing the spend in ERP.

**Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Sudhir Chaturvedi for closing comments. Thank you, and over to you sir.

**Sudhir Chaturvedi:** Thank you, folks. Thank you very much for your time today. Thank you for bearing with us on a Saturday. Once again, wish you all a very Happy Diwali and we look forward to our continued interactions. We will keep you informed at all times about our merger and as discussions progress, and hopefully we will be able to close that in Q3 and meet together as one in the next quarter.

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

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(This document has been edited for readability purposes)

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