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National Stock Exchange of India Limited
Exchange Plaza, Bandra-Kurla Complex
Bandra (East), Mumbai – 400 051.
NSE Symbol: LTTS

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Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400001
BSE Script Code: 540115

Subject: Transcript of Earnings Conference Call for L&T Technology Services Limited (LTTS) for quarter ended June 30, 2021

Dear Sirs,

Please find attached the transcript of Earnings Conference Call organized by the Company on July 14, 2021 for the quarter ended June 30, 2021 for your information and records.

Thanking You,

Yours sincerely,
For L&T Technology Services Limited

Kapil Bhalla

Kapil Bhalla
Company Secretary
FCS.3485

Encl: As above

L&T Technology Services
Q1 FY22 Earnings Conference Call Transcript

July 14, 2021, 20:30hrs IST

MANAGEMENT: **MR. AMIT CHADHA – CEO,**
MR. ABHISHEK – COO,
MR. RAJEEV GUPTA – CFO,
MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS

Disclaimer: *Certain statements in this release concerning our future growth prospects are forward-looking statements, which involve number of risks, and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. L&T Technology Services Limited (LTTS) does not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.*

Moderator: Ladies and gentlemen, good day and welcome to L&T Technology Services Ltd. Q1 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan – Head of Investor Relations at L&T Technology Services. Thank you and over to you, Pinku.

Pinku Pappan: Hello everyone, and welcome to the First quarter FY22 Earnings Conference Call of LTTS. I am Pinku, heading Investor Relations. To those of you, who have joined from India, thank you for participating at this late hour. We apologize for having to hold the call at this time.

Our Financial Results, Investor Release and Press Release have been filed on the stock exchanges and are also available on our website www.LTTS.com. I hope you have had a chance to go through them. This call is for 60 minutes. We will try to wrap the management remarks in 20 minutes and then open up for Q&A. The audio recording of this call will be available on our website approximately one hour after this call ends.

Let me now introduce the leadership team present on this call. We have Amit Chadha – CEO; Abhishek – COO; Rajeev Gupta – CFO. We will begin with Amit providing an overview of the company performance and outlook, followed by Rajeev who will walk you through the financial performance.

Let me now turn the call over to Amit.

Amit Chadha: Thank you, Pinku, and thank you all for joining us today. Again apologies for the late call India time. I hope all of you are safe and healthy.

I am happy about our strong Q1 performance that was in spite of the challenges we faced on account of the second wave.

I would like to first start by thanking our employees for their resilience, their commitment and the team work and then our customers for standing by us during these extremely tough times. We have rolled out multiple measures to support our employees and our focus is now on getting our employees vaccinated as soon as possible to be able to get back to some degree of normalcy.

Let me now go on and talk about our quarter one performance:

In USD terms, we had a sequential revenue growth of 4.2% QoQ and crossed the $800 million run rate on an annualized basis. If you remember, we came very close to this milestone pre-COVID, so it is definitely very gratifying and satisfying to get past this. Growth was broad based with 4 of 5 segments growing in the range of 4% to 8% led by Industrial Products. The EBIT margin of 17.3% despite wage hikes reflects the gradual portfolio shift towards more digital engineering as well as operational efficiencies around hiring of freshers, cross skilling, productivity improvements and cost optimization. Our large deal pipeline and conversions remained healthy in Q1. We won 11 deals across all segments, out of which 6 deals were 10 million plus - two of these were actually 25 million plus TCV.

Before I discuss the segments, I would like to highlight our strategy to build scale in core new technology areas which was first presented in our FY21 annual report that got published earlier last month. As part of this strategy, we have identified 6 strategic investment areas: electric autonomous connected vehicles (EACV), 5G, Med-tech, digital manufacturing, AI&ML driven smart products and sustainability. These 6 areas, we believe we will be able to build a sustainable growth engine aiming at building innovative concepts and solutions that can help our customers build next generation products and offerings and reduce time-to-market. We will keep our investors and other stakeholders engaged on the progress on this as we move forward.

Let me now provide a segmental performance outlook to you starting with **Transportation**: we had a sequential growth of 4.3% led by strong demand in electrification-led programs and platform development across both Auto and Trucks and Off highway. In the US, you would have read about the infrastructure spending plan which seeks to accelerate the transition towards electric by investing in a nationwide charging network. There are similar goals set in Europe. This sets a very clear direction for OEMs and Tier-1s to invest in new technology areas in EV production capacity. EACV or Electric Autonomous Connected Vehicles, is one of the 6 technology focus areas for us. Our EV lab that we had invested in last year plus the solutions that we are building like e-powertrain, onboard/off-board energy management, connected cars will help us go forward. In Q1 we won two 25 million plus deals in Auto both in the EV space, one with a new age OEM and one with a major Tier-1. The scope of work with the new age OEM covers the entire value chain including vehicle design while with the Tier-1 we are providing software and system design in their power electronics portfolio. We believe, such early wins in new technology will help deepen our strategic partnership with our customers.

In aerospace we are seeing the commercial segments slowly coming back. Airline manufactures, and operators are spending more on digital transformation and connected platforms.

Overall, for Transportation, we are optimistic about the growth momentum continuing across all three sub-segments.

In **Plant Engineering**, we had another strong quarter with 4% QoQ growth with growth being driven by FMCG followed by Oil & Gas and Chemicals. In FMCG, customers are leveraging our expertise as they open new plants. Recently we won an order from a food giant to design a plant, to meet the most stringent global food & beverage standards. We are also deepening our expertise on the sustainability side with one more win on the waste-water treatment area. Sustainability is one of our 6 bets or strategic investment focus areas where we are investing, and we expect a lot of spending to happen in the future.

In Oil & Gas and Chemicals, as strategic partners to our customers, we are working with them across the globe in brownfield expansion, asset digitization and asset health monitoring programs. The capex spend outlook is improving with oil prices going up and a few Oil & Gas majors are having discussions - led by climate change - around product mix optimization as well as quicker transition to green fuels.

Summing up for Plant Engineering, we continue to see a good set of opportunities that will drive growth in the coming quarters.

For **Industrial Products**, we had a strong quarter with almost 8% QoQ growth with all three sub-segments showing good growth - Electrical, Machinery and Building automation. While Industrial Products was hit hard in the previous fiscal due to the manufacturing industry exposure, I am happy to share that its quarterly run rate has crossed the previous high and we expect it to grow faster than company as we move forward. The large account focus with continued demand for product digitization and personalization, shop floor automation and digital twin has been driving this growth. The pickup in industrial capex and manufacturing activity across US and Europe should aid the momentum in this segment. We are seeing a good pipeline and opportunities in Industrial Products and expect the growth traction to continue.

Moving on to **Telecom and Hi-tech**: the growth rate bounced back in quarter one to 4% driven by Semi, Consumer electronics and Telecom. In Semi, there is a strong demand for chip design services for end industries like automotive, consumer electronics, data centers and telecom. Our recent win in providing labs-as-a-service and co-investment into new labs and technologies along with customers will help us drive growth as we move along. In Telecom, there are huge investments being made in 5G leveraging Open RAN technologies both in traditional telecom as well as Infra-OEMs as well as some of the ISVs. We recently announced a partnership with Mavenir, a leading 5G player in network automation. We believe such partnerships are key to building the software that will run on next generation telecom gear. Overall, the deal win momentum has improved in telecom hi-tech, we won two $10 million plus deals in Q1 - which gives us confidence of sustained growth as we move forward.

Finally, **Medical**, in line with our Q4 commentary, we had a soft quarter in medical. But we see the outlook improving for diagnostic devices with the rising vaccine penetration in US and Europe. Demand for digital products, platforms and optimization of manufacturing processes are key growth drivers in this segment. Med-tech is another area of focus for us. We have deep domain knowledge, have built reusable assets and we believe that will help us with the work being done in AI based diagnostics decision making and infection management platforms. We expect growth traction to see a jump from Q2 onwards as the deal traction improves.

Now, for a few highlights on Digital engineering and technology:

Our Digital Engineering revenues were 54% in Q1 versus 52% in Q4. We see this trend continuing. On the innovation front, our engineers continue to innovate and filed 23 patents in Q1, this is a record high. We are committed to increasing our talent pool in digital engineering skills and our global engineering academy which was established last year will continue to work to ensure that we are able to get the right talent as we move forward.

Let me go on to discuss the **outlook**:

From a geography standpoint, we see a strong demand outlook in both US and Europe, while in Japan and India decision making environment is slowly recovering. We are confident that the growth will continue to be broad based. With better line of sight for FY22, we raise our USD revenue growth guidance to 15% to 17% for FY22.

I would like to make one more important announcement before I end. We are planning an Investor day in September and look forward to your participation. We hope to provide more color on our new strategy in the 6 investment areas during the event. Pinku will be communicating the details to you shortly.

Let me end by wishing all of you the best of health and safe passage. I now handover to Rajeev. Thank you so much.

Rajeev Gupta: Thank you, Amit. Greetings to all of you. I hope that you and your families are keeping safe and healthy. I am glad to share a strong Q1 performance with healthy improvement across revenue, EBIT margin and PAT.

Let me walk you through our Q1 FY22 financials starting with the P&L:

Our revenue for the quarter was 1,518 crores, a growth of 5.4% on sequential basis. As you would have observed, we are back on double-digit year-on-year growth with Q1 revenue up 17% year-on-year. Also EBIT margin crossed 17% in Q1 making it the 4th consecutive quarter of operating margin improvement. The 70 basis points sequential improvement in EBIT margin to 17.3% was driven by portfolio shift towards digital engineering, operational efficiency measures including productivity improvement, cost optimization and rupee depreciation that together helped fully observe wage hike, higher subcontracting and third-party contracting expense.

Moving to below EBIT, the Other Income was slightly higher on sequential basis due to higher treasury income and Forex gain. We did not accrue any export incentive income and this will be the case going forward until we get further clarity from the government. We continue to follow up with the authorities to expedite claims for FY20. Our estimated tax rate for Q1 was 26.6%. We are moving to the new tax regime from FY22 onwards and expect the full year ETR to be between 26.5% and 27%. Net Income for the quarter stood at 216 crores which is 14.2% of revenue, and up 11% on sequential basis driven by higher revenue and operating margin.

Moving to balance sheet – Let me highlight the key line items:

DSO was 85 days at the end of Q1 compared to 75 days in Q4. While unbilled days was 27 days in Q1 compared to 17 in Q4. The combined DSO including unbilled stood at 112 days which is above our target range of less than 95. This is because we embarked on the first phase of a system transformation in Q1 which is a precursor to a full roll-out later this year. This resulted in delayed invoicing.

Let me talk about cash flows. As a result of the increase in DSO, the free cash flow dropped to 69 crores in Q1. We believe this is temporary and we will see normalcy return in the coming quarters. Our cash and investments rose to 1,777 crores, end of Q1 FY22.

Moving to revenue metrics: The dollar revenue growth was 4.2% sequentially in Q1 with 4 out of 5 segments growing sequentially as highlighted by Amit. Growth was led by Industrial products. The segmental margin performance was better across all 5 segments on a sequential basis with Transportation and Plant Engineering showing marked improvement. Transportation segment has improved to 19.3% EBITDA resulting from growth in revenue and focused measures undertaken.

Now, let me comment on operational metrics: Utilization improved slightly to 79.2% and so was the case in onside offshore mix, increasing marginally to 58.1%. The T&M, the time and material revenue mix increased to 66% in Q1. This metric has been in 60% to 65% range in the past few quarters.

Moving to client profile, which is the number of million dollar plus accounts - showed a sequential improvement in the 20 million plus category and the 5 million plus category while others were flat. Like we highlighted in the past, this is on last 12-month (LTM) basis. Q1 FY21 quarter was challenging quarter and is not anymore in the mix. Hence we will see this metric improve going forward reflecting the growth in topline. Client contribution to revenue, here again this is on LTM basis and we can see the improvement across all the 3 buckets: top 5, top 10 and top 20.

Headcount increased by 520 sequentially while attrition moved up to 14.5% which is at levels below what we have operated in the past. However, we are proactively taking various employee engagement measures to contain attrition.

Realized rupee for Q1 was around 73.8 to the dollar, a depreciation of 1% versus Q4.

Before I end let me give some color on the EBIT margin trajectory we see going forward: In Q2, we will have the headwind of residual wage hike as we roll out salary hike for mid to senior level employees. We aim to offset this impact through improvements from a combination of operational levers, like employee pyramid and productivity. Rising attrition, which is an industry wide trend, is another headwind that we will have to keep a close watch and we are taking several measures to contain it. Growth and quality of revenue is the major level that has and will continue to aid margin improvement. Further we continue to work towards improving margin in Telecom and Hi-tech while pushing for better growth and higher margin segments like Medical, Industrial

Products, Plant engineering and Transportation. Overall, while we do not provide a guidance on margin, the effort will be towards sustaining the progress made so far and strengthening the operating model.

With that, I now pass it on to the moderator to open it up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Alroy Lobo from Kotak Investment Advisors. Please go ahead.

Alroy Lobo: I have about three questions. The first one is on your client profile. You have about five $20 million clients, about twenty $10 million clients. I just wanted to know what is the potential to which you can mine this client. Can there be $50 million accounts, $75 million accounts or do they get capped at around $30 million - $35 million? So, that is my first question. The second question is to relate with your progress on the ISV business and the telecom business. If you can just give us some update on what progress you have made to build capabilities, more capabilities in these two spaces and just wanted to also check with you as far as going forward in terms of the growth trajectory, are you seeing increased spending and more of the captive business coming into the outsourcing market in the ER&D space? Could you comment on that? Thank you.

Amit Chadha: So, number one. In terms of the client profile as you see it, we definitely feel that we can actually, it is normal in our business to actually have clients that are more than 50 million as well, right? So, you are not capping off at 30 to 50. In fact I go back three years and we used to have a couple of clients in that range. So, having said that there is a clear mining focus in the company, account mining, there is a hunting focus in the company, and we continue to work on this. The reason the metrics in Q1 do not look up to you right now is because we use trailing 12 months of revenue to be able to report the client range. But as we move forward and the FY21 metrics gets, revenue gets flushed out and the new revenue comes in as you see it, you will see the client pyramid improving. This is a core focus area for the company and will continue to be one as we move forward. In fact we had talked about a T30-A3 strategy - that has not gone away. That continues to be the case as we move forward.

Your second question was on capability building in Hi-tech and ISV, so as far as we are concerned, Hi-tech for us is actually 6 sub-segments. There is Semiconductor, there is Telecom infra, there is Telecom operators and Communication media; there is Consumer electronics; there is ISV. So, those are the sub-segments we operate in. 5G is one of those areas which will cut across a lot of these sub-segments and is a clear attention and focus area for us as we move forward including the company that we bought last year and the Semcon building capabilities we have got through acquisition, VLSI design capabilities that we have got in in-house as well. Having said that, on the ISV side, software capability continues to be something that we are building on, be it product cloud, be it cyber security, be it DevOps, SecOps, be it UI UX, etc. so these are capabilities that continue to be built out in the company. And as we move forward you will continue to see progress in these areas. We have also taken ISV and actually broken it up into focus on Medical, focus on Industrial etc. So, there are use cases that we have built out in the software side to take to the market, and we are fairly comfortable and confident that you will see growth here. Can you repeat your third question?

Alroy Lobo: The third question was to do with the outsourcing in the ER&D. Are you seeing an increase from the capitals or is it stable? What is the trend you are seeing there? And if I can just also chip in another question, Mindtree recently acquired the next digital business from Larsen & Toubro. I would have thought that this made better sense for LTTS. So, if you can comment how are these acquisitions being made at the group level, how do you connect with the group to make sure that some of these actually come into your place rather than going to one of the other group companies?

Amit Chadha: So, let me address the growth part. So, as we look at it and these are numbers that are publicly available, the ER&D space today is about $1.4 trillion as of 2020 spend. Of this $1.4 trillion it is supposed to grow to anything between $1.75 trillion to $1.95 trillion by 2023. Now, out of this 1.4, that is as of CY20, $80 billion is outsourced to engineering service providers and India gets 16 billion of that $80 billion. Global competency centers or captive centers is about $50 billion of spend out of which similar $16 billion - $18 billion comes to India but there is an equal amount going to China and then there is Latin America etc. As we see going forward, we do expect ER&D spends to grow. We do expect outsourcing to engineering service providers like ourselves and others in India Inc. as well as western Europe, eastern Europe to grow, we also expect global competency centers to pick up. Having said that, you may see some more global competency centers spend going to eastern Europe and LATAM and China slowing down from a global competency center standpoint. So, that is broadly the contours that we are seeing it today and there is interest and further details that we can get into, but broadly that is where it is. If I go on to L&T-NxT being bought over by Mindtree, so L&T-NxT has some very targeted products, reusable widgets they have built in the areas of digital for construction companies which is being used by L&T and the group thought that Mindtree acquiring it was the right answer. Having said that, I cannot comment on that being right or wrong. What I can say is we have a clear strategy in the 6 investment areas that I have outlined for you, and we do believe that that growth will stand us in good stead sustainably, profitably as we move forward.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss Financial Service. Please go ahead.

Sandeep Agarwal: I have only one question, Amit. We are in a situation where the demand from the consumer side is at very high. Factories have not worked to their optimal levels. So, there is a big gap between demand supply across the globe on the consumer side. The outsourcing of the ER&D has to go up tremendously because ER&D has not gone through the outsourcing which the software industry has gone through. On top of that there is severe scarcity of manpower in whole of Europe and if you add to that our market leadership, our capability in each of these areas and also the world’s urgency and desperation to upgrade the feature products into smart products, if you take all this 5 things together and even if you apply a very pessimistic approach to that then also it looks like you are getting into a golden decade of growth in your business. So, why that kind of confidence is not reflecting in our commentary? Is it because we are not so sure about any third wave or fourth wave impact which can happen because of COVID or it is because that you are still finalizing your strategy and you would be more opening up or would be giving more clarity going forward because no way I am able to reconcile this that when there are 5 huge tailwind, I have not thought of this kind of tailwind, I don't think such huge tailwind has ever come together in last 20-30 years, then why our commentary is not reflecting that same optimism? Thank you.

Amit Chadha: So, Sandeep, two things here, so that we can level up and be clear. Number one, I share your optimism around demand, your optimism around 5 vectors that you talked about. Having said that, Sandeep, you will agree with me that there is only a certain amount any company spends in any given year. That is one. Second is that, given that if you look at the 6 strategic investment areas I talked about and during our investor day we'll share more color, these are not quarter bets. These are bets that are made for the next 3 years, 5 years. And that is what we have done, that we have taken all these 5 tailwinds that you talked about, and there are tailwinds per sector, and we have created this investment roadmap for ourselves in 6 areas which we believe will give us the sustainable trajectory as we go forward. So, we are taking that into account. Having said that, let me then focus only on the year. On the year so far, we have already upgraded our guidance to 15%-17%. We will come back and update you as we move forward into next quarter on where we stand and we will continue to be honest, direct and transparent with you because we really treasure our relationship with this community. So, that is where we are at this stage. But we mirror your sentiment in terms of tailwinds and we will continue to provide an update to you.

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

Mukul Garg: Amit, first, just wanted to get a bit of an understanding on the Q1 performance. It clearly looks like it was better than what you initially expected especially the COVID supply impact. So, can you just highlight whether it was supply or demand which materially moved the performance this quarter and then how do you see it play out currently as you enter Q2?

Amit Chadha: So, number one, when we met last time in May, we met under the shadow of a wave-2 that was rearing its head up, if you remember that and that played on our minds as to where we are. I do want to acknowledge that we have also had fatalities like everybody else in our workforce. We have workforce that has been infected. And like I said in the beginning of my commentary, things have gone through very harrowing times for our employees and their families, and I am sure you will understand that. So, we took that into account when we had given you commentary last time. At this stage where we stand today, we are fairly comfortable with the fact that wave-2 is done. We hope and wish that the wave-3 will not be as bad because vaccinations are going up. We are actually getting our employees vaccinated, their families vaccinated etc. Demand is there. So, in fact if anything demand has slightly improved, spend has slightly improved and that is why I said this is a progressive quarter, let's go through it. I have also acknowledged to some of you in parts as well as through the whole team on this call that our internal targets are there, that we continue to try and achieve to and aspire to. We haven't forgotten years when we have grown higher in the past years and our aspirations will be the same. But again at this stage this is where we are and that is what we wanted to communicate to you.

Mukul Garg: And on the demand side, you mentioned demand environment is good. We heard recently from ISG also that deal sizes in ER&D space are increasing. But at the same time, we are also hearing about increased competition with Accenture highlighting it as the focus area. So, both from deal size perspective and competitive perspective, is there any change which we have seen in last 2-3 quarter or things remain the same?

Amit Chadha: So, number one we would be definitely seeing is that clients are willing to talk and commit to larger spends and longer spend cycle spends, so like TCV of 3 years they are willing to sign a document. About 4 months-6 months ago there was a little bit of trepidation they do…don't want to do that etc. So, we are seeing a lot of more confidence back in the market in terms of making commitments. Number two, longer term commitments and bigger commitments. So, that is definitely one that we have seen. That is how we won the two deals in EV etc. onwards, right? Second, we are looking at clients making strategic decisions in terms of…I want to be able to get to 5G rollout in subsector A, use case A and B etc. or, I want to get to electric vehicle. The electric vehicle I have broken it down. I will first do the power distribution unit. I will next get to higher end wiring. I will then get to inverter design. There is a bit of clear phases people are drawing out as if this is a multi-quarter or multi-year thing rather than sprint, which is very heartening because you are having a longer-term conversation that provide more strategic direction and more warm and fuzzy with clients. In fact I am happy to share I have completed first set of face-to-face meetings in the last 4 weeks and so has some of my leaders in the geographies where we operate out of. So, stuff is coming back and that provides us that confidence. The third thing we are seeing is, specific areas that have picked up interest and pace, like electric vehicles has picked up pace, 5G has picked up pace, sustainability has picked up pace, changing the composition of fuel, right…to higher mix, higher value mix has picked up pace. So, that gives us a lot of confidence as we move forward and this is not the case, if I may be very clear, this was not the case 5 months ago or 4 months ago.

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

Sandeep Shah: Just on margins, one of the tailwinds which we have witnessed, which we have said that the portfolio mix has been shifted more towards digital engineering as a whole. So, on a Q-on-Q basis, yes, it has gone up by 200 basis points, but we never called out this as a tailwind on margin in earlier quarters. So, is it the pricing, which is going up on digital engineering, or is it the margins within the digital engineering are now different in first quarter versus what it is used to be earlier. And will it be a sustainable structural tailwind going forward?

Amit Chadha: I will request Rajeev, Abhi to add from Mumbai here. But it is not just one factor, it is multiple factors that have played to this. Rajeev, Abhi, would you like to add to this?

Rajeev Gupta: Sure, Amit. Let me add to it. So, there are various factors that have led to the improvement in margin, right? One is of course the growth in the quality of revenue. Things like digital engineering and the increase that you talk about, these are things that take a little time to play out. More importantly it is the quality of revenue that is beginning to now aid margin. And in terms of the sustainability, we still feel that there are opportunities, for instance you know growth and scale of revenue will bring in economies across cost and that is around sales, communication, legal, all of those cost. Segmental margins, we talked about it earlier as well. We have got opportunities in two segments, Transportation and Telecom & Hi-tech. Transportation we are already now seeing EBITDA margins go up to 19% plus range. Telecom & Hi-tech it is taking us a few quarters. We are focusing and working towards it. We should hopefully be able to see better margins in Telecom & Hi-tech in the next few quarters. Further opportunities also in terms of improving employee pyramid. We have started to hire a lot more freshers over the last two quarters and we believe this strategy will help us in building the employee pyramid and also in a way try to bring down the C&B cost as a percentage of revenue. These are some of the factors that we feel will help us in terms of sustaining the margins going forward as well.

Sandeep Shah: And this follow up question, are you trying to say that in the coming quarters, will we be able to sustain the current quarter margin or we may further improve it, rather than any decline despite a partial wage hike which is pending, that is what we are guiding from 3Q to 4Q?

Rajeev Gupta: I called out the various factors and of course the levers that are available in terms of sustaining margins. Of course, when you look at various factors, we still need to see the performance in terms of revenue. Amit talked about the improvement in terms of guidance from 13 to 15, raising it to 15 to 17. So, some of these we still need to see in terms of the execution. Like I said in my opening commentary, we continue to remain focused and we will see how best to sustain the margins that have been delivered in Q1.

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco. Please go ahead.

Hiten Jain: I have two questions. First is, I think you touched upon in the opening remarks, maybe if you could still clarify some more on the receivable days going up and especially the unbilled part, what is leading to that?

Rajeev Gupta: So, we went through a system transformation program in Q1. We kicked off the first phase that led to delayed invoicing. We believe this is temporary as you would have noticed all of last year we improved DSO and consequently we improved free cash flow. Q1 of course is a temporary…I would say situation. We will improve this in the coming quarter. The system transformation should conclude over a quarter or so. So, Q1 is only a temporary position so to speak.

Hiten Jain: And the second question is on the headcount growth. So, we are operating at higher utilization levels, and we are seeing good demand in terms of commentary and potential deal winds. But headcount growth seems to be muted even sequential and obviously on year-on-year basis. So, what are our hiring plans going forward?

Amit Chadha: So, we don't normally comment on exact headcount addition. But what we will definitely tell you is that, as you can see, the headcount has gone up by approximately 700 people. This was partly freshers, partly laterals. Going forward the plan of the company is to continue to hire about 400 to 450 freshers plus laterals every quarter. Now of course there will be attrition, there will be exits. So, you will continue to see net increase, but we don't provide guidance on exact number headcount increase quarter-on-quarter. Rajeev, Abhi, if you want to add to this, you can please.

Rajeev Gupta: No, I think it is clear, Amit.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: On the Transportation side of the business, the margins there seem to be at the higher end of what you have done historically. Just wanted your thoughts in terms of what changed between the transportation mix that is actually driving this margin up. Is it the mix in terms of the kind of business that we are doing or is it that or what exactly is basically driving this margin up and how sustainable is it?

Abhishek Sinha: Thanks for the question. I think one is from a sustainability perspective of course that is what our intent is. Why have the margin grown up so much, the quality of revenue has definitely improved. Our business in transportation sector especially in the software embedded side has shown very good improvement. So, growth is one of the primary reason I would say for this and growth in the right areas and with higher, better quality of revenue.

Nitin Padmanabhan: So, when we say better quality of revenue, if you could just give some color what that means?

Abhishek Sinha: Our investments like Amit said at the start, one of the big bets we have is on the EACV segment which is electric vehicle, autonomous areas, and we clearly are seeing more growth in those areas, more wins in these areas, e-powertrain areas and that helps of course the investments we have made in the reusable solutions, the EV labs that we spoke of in the earlier quarters those are also helping us attract more customers and growth.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital India Private Ltd. Please go ahead.

Vibhor Singhal: Two questions from my side. Sir, the first question that I wanted to take your opinion on is if you look at our total revenue we have now crossed that $200 million revenue quarterly run rate. This is where we were in 3Q FY20, so around 5 quarters back. So, basically the COVID led to a drop in 1Q and from there it has been a V-shaped recovery. So, just wanted to check that now that we are now back to those 3Q FY20 levels, are majority of our clients also back to their pre-COVID levels spending for us, or is it that in the meantime we have gained new customers and new businesses and many of the large clients are still much below their pre-COVID levels and that basically backlog or that revenue is yet to be gained by us which can be a potential growth area for us for the next couple of years, for next few quarters maybe?

Amit Chadha: Thank you so much. And some of you, tracked us and been with us since we went IPO and prior as well. So, we appreciate the confidence. Having said that, as you will recall, we touched close to $200 million in Q3 of FY20 and from there we declined right because of COVID in quarter 4 and then we have come back like you said. What has changed is two things. Number one is pre -COVID, I am going to get a little specific here, right. So, then I will come to accounts as well. So, pre-COVID the amount of conversation on electric vehicles was not so much there and autonomous it is largely a lot of infotainment and autonomous. But post-COVID we are seeing a lot more conversation, money being spent in electric, autonomous and connected. Cyber security is another area that's added on in Transportation. As an example, pre-COVID there was not a lot of spend in Medical in the areas of telemedicine or in home care. And those two areas are picking up speed as we speak now post-COVID. Third, Digital manufacturing was a conversation pre-COVID, post-COVID we are seeing money being spent in that. The point I am trying to make is that the color of the dollar has definitely changed, the conversations have changed, digital as well. And digital is a very broad world, so I don't want to go there. I am engineer, so I don't want to just say digital but that is where it is. So, color has changed. In fact, our global engineering institute that we have set up which Abhi as well as people he had hired set up has been instrumental in turning the color of even some of the talent that we have got. So, that has been a change. So, it is not like go back to the same old etc. Second from a client's standpoint, if I look at our 30 million run rate clients or I look at my 20 million run rate clients, that has fairly been the same...couple of them have dropped off for various reasons, we had already told you that one of them had sold their 5G business, one of them had divested to a private equity. But we have seen a fair mix to be steady and grown with us. So, somebody had asked a question, are clients getting deeper with you? The answer is true, the clients are getting deeper with us. Having said that the word of caution, that I would definitely want to say because we want to be honest and whatever we see we want to tell you. What we don't know is will wave-3 comeback in a much bigger way? We are seeing hospitalizations down, even though infections are up in Europe. Decision making is almost back to normal. But will this continue…there are some variables that nor do you have an answer or nor do we. But we will continue to stay engaged and tell you. But I can tell you that your company for sure have seen a change in the type of work we are doing, and we are confident that we have the right talent and the processes in place to scale up in that area. Long answer, I hope I have addressed what you have asked.

Vibhor Singhal: I just got one more question. You mentioned that in the Plant Engineering segment, we had a deal with an FMCG client for whom we designed the entire new plant with the most stringent of norms. So, to get a color on the segment, was that a one-off or are we seeing FMCG companies setting up more and more plants across the world and there are more conversations happening in that segment?

Amit Chadha: So, there are two things that we are seeing, and I will again breakup the segments for you. So, if I look at food & beverages, we are definitely seeing a trend of smaller plants coming up. So, that means smaller capex coming up that are more regional, that are supplying to the demand in the region as opposed to mega plants. So, that in food & beverages we are seeing. Now, is this a trend that will hold? Is it a trend that will change? Don't know. But right now we are seeing that.

It was there in Asia…there were mega plants in the US and Europe while there used to be smaller plants in Asia. Now we are seeing smaller plants in US and Europe as well coming up as opposed to mega plants. One food & beverages, you are seeing that, I don't know how long that will continue. Second what we are seeing is, in Plant Engineering that Oil & Gas companies are coming back and talking to us about changing their fuel mix. So, the output that they give will be less gasoline, will be more jet fuel, maybe more chemicals etc. So, there is brownfield upgrades and changes people are talking about. So, I do believe that that is again different than what we saw about 4-6-8 quarters ago. So, those are the two changes.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Sir, while we have seen an addition in headcount during the quarter, the sales and support headcount has fallen from Q4 to Q1. So, if you could shed some light on that and related question to that was that, will this see a reversal in the upcoming quarters, if we have to see that growth surpassing that 20% mark going ahead?

Amit Chadha: I am going to request Rajeev to take that. But on a principal basis I want to tell you that it is not like we have fired sales people or support just because the revenues went down. We haven't skipped on that. But we have optimized for sure, but I am going to request Rajeev to take this question.

Rajeev Gupta: Sure, Amit. Mayank, to respond to your question, we continue to invest in our sales organization. When you look at sales and support, it is not that it has taken a big drop. This is just part of the thinking ahead in terms of how do we work more effectively. So, to put it in a short context, we continue to invest in sales because we have seen the opportunity with the kind of demand, we would like to see investing into sales functions so that we can see further growth coming in newer and newer accounts and also being able to expand on our current set of accounts. It is just that we are trying to manage this more effectively, more on the enabling side.

Moderator: Thank you. The next question is from the line of Udit Methi from Stanley-Laman Group. Please go ahead.

Udit Methi: I just wanted to ask, during your performance highlights I could see that an American automotive has selected LTTS as strategic partner for their EV and power electronics product. So, I just wanted to understand that due to this lack of suppliers for semiconductors and things like that, are you guys planning to ramp up your production for this because I see that this is a big opportunity that we could jump on, and do you plan on any CAPEX expenditure in terms of power electronics?

Amit Chadha: So, number one, to answer your question, we do not do manufacturing. We are largely focused on design, sustenance engineering. So, therefore the chip shortage is not impacting us per se. If anything, design cycles are where they were etc. so we don't see that. Do we see overall an opportunity with chips and FPGA and the likes in the Automotive sector, absolutely yes and we are continuing to hire, build, train, cross train all of those to positively take advantage. In fact our whole strategy around multi-vertical strategy is paying out well for us because we are able to leverage getting semcon design wins in automotive etc. on and on and on. So, that is definitely there.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Mission Holdings. Please go ahead.

Pritesh Vora: Amit, you have highlighted that US government is investing in infra-led investment, what do you see impact in which of the vertical this will play out over next 5 or next decade? And second question is how private investment climate is shaping up in USA?

Amit Chadha: First of all, I apologize. The line had got cut. This time around other than mobile, I had asked them to connect me on landline. So, as you can see mobile is more effective than landline. So, we will keep this as a lesson for the future. Thank you so much, again apologize. Now, if I go back to the spending, see the US government talked about and last time I had covered that. They talked about infra spending. That will impact us in the areas of Trucks and Off Highway for sure because companies like Caterpillar, John Deere others will benefit from that. Second as infra improves, automotive itself will benefit. Third because of green energy, electric vehicles etc. we expect that to continue to grow. So, that is space #1. Now #2 is, because of climate green energy etc. people are talking about, this whole Industrial Product sector that we have got, digital manufacturing as well as sustainability are three areas that will see an upswing in terms of spend and attract investments etc. If somebody is interested you can actually see that the number of wind turbines on the shores of the US is going to go up drastically and interestingly the problem is not that wind turbines cannot come to the US, it is also because there is a shipping law that requires ship to be of a certain type or owned by certain people that can only bring the submarine into the sea. It was very interesting when I read about it. So, the whole ships are being built to try and transport it. So, very interesting whole ecosystem coming up. So, I do believe that will help for sure. Third, I do see spending in private sectors changing with the chemical, actually you can go google it, Exxon has talked about it. Look at the fuel mix that they are saying will happen in 2030 coming out of the refineries as opposed to what is coming out today. There is a huge change in that that will require refineries to be changed and I believe that is a spending area. Fourth is, the recent act that the US passed called the innovation and competition act. It is a $270 billion plan which is, part of it is Chips for America Fund, there is technology directorate getting money. There is department of energy getting money. There is a competition around digital connectivity, cyber security, so we may directly not get revenue from it. But my belief is that that will build an entire ecosystem and we will be participative in this ecosystem and will help us. Finally, one thing not going away which is US, Europe, in fact India as well is that, and I am going to say this because a lot of my colleagues from finance and others on the call, I often say that people that could afford to buy a Montblanc pen five years ago, will definitely spend money on a small blood pressure monitor 5 years from now. So, you will see home healthcare definitely go up. So, I believe that there is avenues of opportunity. Now what is to be seen is what is the pace of that that is going to come out; how much of it companies will do themselves; how much of that will be coming to people like us; will we be able to ramp up to be able to build that capability; do we have reusable assets, a lot of that going on. A long answer but that is how we see it.

Moderator: Thank you very much. I now hand the conference over to Mr. Pinku Pappan for closing comments.

Pinku Pappan: Thank you everyone for joining us on the call today. We hope we have been able to answer most of your questions. If you have any follow up queries, please write to me an email. Also, I look forward to hosting all of you on our investor Analyst day coming in September. We will communicate the details very shortly. Thank you again, have a good day and wish you safe times.

Amit Chadha: Thank you so much.

Moderator: Thank you very much. On behalf of L&T Technology Services Ltd. that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Note: This transcript has been lightly edited for clarity and accuracy.