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October 25, 2022

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

The BSE Limited
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 the quarter and half year ended September 30, 2022

Dear Sirs,

Please find attached the transcript of Earnings Conference Call organized by the Company on October 18, 2022 for the quarter and half year ended September 30, 2022 for your information and records.

Thanking You,

Yours sincerely,
For **L&T Technology Services Limited**

Prajakta Ashish Powle
Digitally signed by Prajakta Ashish Powle
Date: 2022.10.25 17:59:31 +05'30'

Prajakta Powle
Company Secretary & Compliance Officer
(M. No. A 20135)

Encl: As above

L&T Technology Services
Q2 FY23 Earnings Conference Call Transcript

For the Earnings Call held on October 18, 2022, 19:00hrs IST

MANAGEMENT: MR. AMIT CHADHA – CEO,
MR. ABHISHEK SINHA – 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 Limited Q2 FY23 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. Thank you and over to you, sir.

Pinku Pappan: Thank you, Faizan. Hello everyone, and welcome to the Earnings Call of LTTS for the Second Quarter of FY23. I am Pinku, Head of Investor Relations. Our financial results, press release and investor 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 up 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 1 hour after the call ends.

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

I now hand over to Amit.

Amit Chadha: Thank you Pinku and thank you all for joining us on the call today. I hope all of you are keeping healthy and safe.

With that, let me start with the key highlights for our Q2 performance - I would first like to share that we at LTTS are very proud to have achieved the USD 1B annualized revenue run rate on a constant currency basis this quarter. This is a milestone that we had set for ourselves last year to reach by Q2/Q3 of this fiscal and we are happy that we have crossed USD 250M in constant currency in Q2. I would like to take a moment to thank all our employees that have come together on this journey as well as our Chairman, Vice Chair of the Board, the entire Board and our first CEO – Dr. Keshab Panda for having shown us the vision and having the confidence in us.

Our momentum continued into the second quarter with 4.5% constant currency growth led by Transportation and Plant Engineering segments. The growth was accompanied by sound operational execution with Q2 being the 5th consecutive quarter of 18% plus EBIT margin. Total deal TCV remains healthy, and our large deal wins include a USD 60M+deal and a deal with TCV of more than USD 10M.

Let me now provide the segmental performance and outlook. Starting with **Transportation:** We had a stellar performance with 9.4% QoQ growth in Constant Currency that was broad-based across sub-segments of Auto, Trucks and Off Highway and Aero. Our differentiated EACV offerings have helped us get into strategic engagements with customers yielding us large deal wins consistently - a USD 60M+ deal in Q2 on the back of USD 50M deal in Q1 and a USD 120M deal in Q4. The demand trends in transportation are supportive of our growth:

- Customer preference for electric cars is raising and increasing,
- Semi-conductor shortage in Auto are starting to ease,
- Global air travel has increased by 150% versus July 2021 levels leading to more aircraft orders and a rising backlog at manufacturers and Tier-1s and
- Electrification initiatives are picking up strongly at Trucks and Off Highway and Aerospace.

We continue to invest in EACV. To highlight one, in Connected Cars, we have invested in a next generation digital cockpit domain controller solution that is currently being deployed at a customer production program. Last quarter, we talked about deals we were pursuing in the Connected and Autonomous space - as you would have seen our press release in Q2, we have announced a deal with BMW to provide engineering services for their suite of infotainment consoles.

To sum up, we see a good pipeline of deals with many in the USD 10M+, USD20M+ range that gives us confidence about our growth prospects.

In Plant Engineering, we had a strong quarter with nearly 6% QoQ growth in constant currency that was broad-based across FMCG, O&G and Chemicals. Clients in all 3 segments are investing - either in greenfield/brownfield expansion or in asset management and digital twin programs.

In Q2, we won a large deal from a Chemical giant to implement a digital twin for one of its flagship sites in the US. We will create an analytics data platform that will help in sustenance through the plant life cycle. This is for one of their sites and we expect the program to be expanded to multiple sites of the customer.

Sustainability is again a priority, with customers wanting to invest in waste management setups. Processing and refining of plastic waste to make it reusable is another area where we are working on.

As some of the large deals stabilize, Q3 is likely to be muted for Plant Engineering. The deal pipeline in the US and Europe continues to be healthy that will drive growth for us in Q4 and beyond.

Moving on to **Industrial Products,** we had a healthy growth of 3.5% QoQ in constant currency which was led by Electrical, Machinery and Power and Utilities. There is strong demand for Digital manufacturing programs as customers see immediate and certain ROI. We have developed Connected Factory Solutions that help customers implement digital factory and enable factory automation.

In Digital and next gen product development, we won a deal to help a Global Lighting manufacturer revamp and reengineer their suite of products.

Across our Industrial customers, we are seeing an increasing number of sustainability led conversations about clean energy and carbon footprint reduction and we are building solutions to capture these spends. We do believe that an energy transition is in progress. Our home-grown solution - *Energy and Sustainability Manager* has been awarded the Frost & Sullivan Product Leadership Award in energy optimization and sustainability management.

The US government recently announced a USD 7B funding for clean hydrogen as it aims to decarbonize energy-intensive industries. This is leading to many of our customers starting programs on clean energy transition. We have created solutions around battery storage, hybridization, energy management that will allow us to participate in early-stage conversations.

Overall, for Industrial Products, we see growth continuing to be driven by digital products and manufacturing, sustainability and value engineering.

In Telecom and Hitech, on constant currency terms, we had a flat quarter as the growth in Semiconductors and Telecom, was offset by weakness in Consumer Electronics and Hitech side.

In semiconductor, demand trends are positive as customers look to scale up offshore labs that will help in better speed-to-market for their new technology chips. We recently signed a partnership with Qualcomm where we will leverage our chip-to-cloud expertise to develop and deploy solutions for the Global 5G Private Network Industry. These solutions are aimed at accelerating digital transformation for the smart manufacturing industry and ties in with our Digital Manufacturing big bet.

On the media side, we are seeing large deal possibilities with vendor consolidation and cost optimization being the key drivers.

As I highlighted last quarter, there is softness in the Hitech space with companies being cautious on spends. However, we are optimistic about some of the recent large technology companies that we have started engagements with.

Overall, we expect the pace in telecom either to pick up as the 5G and Media deals in the pipeline close. Our play in this segment is very broad which gives us the ability to target different areas of growth.

Finally, in Medical, we had a soft quarter as customer recalibrated spends on account of inflation and supply chain issues. QARA, remediation, digital health platforms are seeing spends continue. Our investments in software based diagnostic devices are expected to yield us better traction in the coming quarters.

The large deal traction and pipeline is looking up. In Q2, we won a large deal from a global healthcare provider in QARA, product remediation and to build a data engineering platform to accelerate productivity and reduce training costs.

We see growth in Medical in Q3 post the recalibration of spends at our customers.

Now, a few highlights in our Digital Engineering and Technology progress - On the innovation front, our engineers continue to innovate and filed 25 patents for LTTS in Q2. We have been able to maintain this space of about 25 patents per quarter for a few quarters in a row.

I would like to call out that the Everest rated LTTS as a leader in Connected Medical Services and in Industry 4.0 Services

Let me now discuss the Outlook - across our six bets, we see customer investments continuing unabated. I am very confident about the Solutions that we have developed across our 6 big bets which are helping us win deals - I talked about the *domain controller* in EACV, the *digital thread* in Digital Manufacturing and the *Energy & Sustainability Manager* in Sustainability.

Like we highlighted last quarter, there is caution at customers when it comes to newer business lines where the line of sight for revenue and profitability are stretched. The focus on immediate ROI is therefore creating cost and value led deal opportunities across segments in addition to the speed to market opportunities where digital is the key driver.

We expect Q3 to have the seasonal furloughs and plant shutdowns; however, growth should rebound in Q4. Our FY23 USD revenue guidance is now narrowed to 15.5-16.5% in constant currency.

With that, let me end by wishing you all very good health, a very Happy Diwali in advance and I would like to hand over to Rajeev now. Thank you.

Rajeev Gupta: Thanks Amit.

Greetings to all of you. I am pleased to share our Q2 FY23 performance – It has been another quarter of good results with revenue growth and operational execution.

Let me take you through Q2 FY23 financials starting with the P&L:

Our revenue for the quarter was ₹1,995 crores, a growth of 6.5% on sequential basis. Our double-digit YoY growth trajectory continues with Q2 revenue of 24.1% on YoY basis.

Glad to share that despite the headwinds, we have been able to maintain EBIT margin at 18.2% in line with our aspirations and this has been the 5th consecutive quarter of 18% plus EBIT levels.

During the quarter, we had higher employee benefit cost on account of wage hikes which were largely absorbed by better employee productivity, SGA leverage, cost optimization measures and rupee depreciation.

Moving to below EBIT: Other income came at ₹26 crores, slightly lower on sequential basis due to relatively lower foreign exchange gains compared to previous quarter.

Effective tax rate for Q2 was 27.2%, close to our target range of 26.5-27%.

Net Income for the quarter stood at ₹282 crores which was 14.2% of revenue, up 3% on sequential basis driven primarily by revenue growth.

Moving to balance sheet, - let me highlight the key line items:

Q2 DSO improved to 78 days versus 80 days in Q1. Q2 Unbilled days improved to 18 days versus 22 days as compared to Q1 resulting in combined DSO including Unbilled of 96 days which is an improvement of 6 days compared to Q1 and just shy of our target range of less than 95 days.

Let me now talk about cash flows: Our YTD Free Cash Flows was ₹452 crores which is 81% of Net Income. Our Cash and Investments rose to ₹2,436 crores by end of Q2 FY23.

I am glad to share that the board has approved an interim dividend of ₹15 per share.

Moving to revenue metrics, on a sequential basis, $ revenue growth was 4.5% on constant currency basis and 3.1% in reported terms led by Transportation & Plant Engineering segments.

The segmental margin performance was better in 3 out of 5 segments on a sequential basis with improvements in Transportation, Industrial Products and Medical Devices.

Now, let me comment on operational metrics: The Onsite-Offshore mix has shifted towards onsite due to new deal ramp-ups. Offshore percentage now stands at 54.9%. We expect this to gradually improve to 57% range going forward as large deal ramp-ups stabilize. The T&M revenue mix was 73% in Q2 and reflects momentum of digital and leading-edge deal wins.

Client profile, which indicates number of Million dollar plus accounts - has shown sequential improvement in the 30M+, 20M+ and 10M+ categories. The client profile numbers have seen an improvement over the past few quarters and this trend will continue in the coming quarters.

Client contribution to revenue – All three categories, Top 5, Top 10, Top 20 have shown a slight decline compared to Q1. This is due to stronger growth in Top 20-50 accounts.

Headcount has increased marginally on a sequential basis as we added 500+ freshers to support ramp-ups for new deal wins while we have optimized on non-billable headcounts and support staff. Though attrition moved up to 24.1%, we believe attrition will likely soften in the coming quarters due to various employee engagement measures to manage it.

Realized rupee for Q2 was around 80.8 to US dollar, a depreciation of over 3% versus Q1.

Let me give some visibility on the EBIT margin trajectory going forward - We are watchful of the headwinds from the current economic environment and like in the past few quarters, we will continue to balance headwinds with opportunities on revenue growth, quality of revenues and operational efficiencies. Summing up, we remain cautiously optimistic, and our aspiration is to remain in the 18% EBIT trajectory in the medium term.

We thank all our stakeholders for their continued patronage and wish you all a Happy Festive Season in advance.

With that, I now hand it over to the moderator for Q&A session.

Moderator: Thank you very much. We will now begin the Q&A session. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Amit, just wanted to get some sense on the deal flow, have you seen any moderation in the TCV numbers, the large deals TCV count has come down this quarter and while you mentioned that there are number of deals in the pipeline, is this something to do with increased caution at the client end or is this just a timing issue? The other question was on the guidance, just want to clarify whether should we see this guidance in the context of last quarter's 14.5-16.5% which was as of Q4 end or if this FY23 over constant currency FY22, just wanted to assume clarity given the volatility in the currency movements?

Amit Chadha: Number one, on the deal flow, I do want to confirm to you that our pipeline as it stands today is slightly better than what it was last quarter and that was slightly better than it was previous quarter. YoY – there is a double digit increase in pipeline. Now, in terms of deal closures, we have been closing 3-digit deal wins for the last few quarters in a row now. So if you remember, Q4 was a USD 100M win, Q1 was a USD 50M win and this quarter there is a USD 60M+ win. So, deal wins continue.. I would not read too much into the USD 10M+ because there are deals that are in USD 9M range that closed. We want to maintain the quality of reporting that we do, so therefore we have singled out the USD 10M and I haven't called out the USD 9M, but at this stage I am not concerned with the deal flow or the deal closures as we speak, right, that is two. Third, I do want to call out that Europe for us has had a significant amount of wins this quarter as they go through 3 items - 1) Cost challenge; 2) An energy challenge and 3) To stay ahead in technology. So, I do see that as an opportunity as we stand today. So, that's where we are on the wins. I do hope when I come back in January, I should be able to announce further wins for you and give you the confidence as this continues. As far as guidance is concerned, I am going to turn over to my colleague, Rajeev to answer that question.

Rajeev Gupta: Mukul, on your question related to guidance, I would say that you need to read the 15.5-16.5% guidance relative to 14.5-16.5% that we shared in the previous quarter. So, like Amit said, we have now narrowed down the guidance which means we have better predictability to be in the narrow range.

Mukul Garg: Just one question Amit on the Hitech side, we have heard some of your services peers speak about weakness in Telecom and Hitech space, despite the 5G transition which is going on. While you gave some color, but if you can just kind of move a little bit deeper into the Hitech vertical and how we should think about this over next 2 to 4 quarters?

Amit Chadha: Mukul, as far as Hitech is concerned, break it up into 6 parts, Semiconductors, Operators, Infra, Media Entertainment and then Consumer Electronics and ISV, six sub-segments if I may. So I would say that we have seen across the spectrum, other than Operators, we have seen others come back and look at deals and look at spends and question whether those will provide topline or bottom-line expansion improvement in the near term and if they are not, then those deals are being questioned again and again and therefore it is delaying some of that. So, Hitech, I had maintained last quarter as well that we were finding it a little tight and I maintained we are finding it tight right now also.

Now, if I were to double click, the biggest shall I say, tightening that we have seen is in the ISV space and then after that followed by Consumer Electronics, Semiconductors, then Infra, then Media Entertainment and finally Operators. So, that is the order we have seen and of course there are people or peer group that is there, they may be seeing different things, this is what we are seeing. Second, because Semiconductors is not just delivering to Hitech, but also delivering to Auto and others, that part of the business is continuing on in the Semiconductor companies. Third, 5G spends - look at it as spends in US and in India because both these countries have got clear road maps while others are coming along and we have not seen the trickle-effect of 5G coming right now. I do believe it will take a couple of quarters for it to be seen by engineering providers like us.

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

Sandeep Shah: Just to achieve the guidance of 15.5-16.5% in constant currency terms, just wanted to clarify the ask rate which I am getting is 0.6-1.7% QoQ in the next 2 quarters in constant currency to achieve the revised guidance. So the question is whether this calculation is correct? And second if it is correct, it shows a slowdown, so it largely factors furloughs or some client specific issues because of the deteriorating macro as well because the first half the QoQ growth has been in the range of 4.5-4.7% QoQ in CC terms?

Amit Chadha: So, the way I would look at it, right is not count Q3, Q4. See Q3 generally is a soft quarter because of furloughs and the vacations. This time as you are aware, Diwali and Dussehra, both along with the entire Thanksgiving and Christmas and New Year, everything is coming in quarter 3. Generally, Dussehra normally comes in the Q2 and the other comes in Q3. This time, everything is in Q3, it is a festive season, so this will be a little muted. While we expect Q4 to be back at our standard growth rates, so we have factored in all that, but having said that, we want to be able to deliver to you what we commit, so as things change, we will update you again.

Sandeep Shah: So, just wanted to clarify, is there higher than abnormal furloughs being factored into or as of now, clients are not indicating the same and whether my calculation on ask rate to achieve the guidance is correct, 0.6-1.7%?

Amit Chadha: I don't want to comment on that 0.6-0.8%, I want to be able to think bigger and better rather than think that, so I won't, but as far as furloughs are concerned, there are some clients that have planned for it. There are others that are talking about it, so we are a little cognizant of all that.

Moderator: Thank you. The next question is from the line of Aditya Khairnar from Metaverse Equity Fund. Please go ahead.

Aditya Khairnar: So, my question is sir, in the aftermath of Ukraine-Russia war as well as the geopolitical condition in China, so how has the business strategy changed prior to the war and post? As well as I also wanted to add about the Europe recession part, so what would be the changes in strategies?

Amit Chadha: See, we are seeing three or four broad areas with the Ukraine war, that we have seen emerge in the US as well as Europe. Number one, not just countries, but states in larger countries are starting to think of localized supply chains and that does offer opportunity for people like us. Second, people are looking at, so last year same time, cost was not such a big consideration & technology advancement was, but now, cost along with technology advancement that would either help the topline or bottom-line, like I said ROI – is a concern. Third, there is a transition in energy sources happening, it is happening quietly, but it is happening. People are moving from gas-fired to oil-fired, oil-fired to coal-fired plants. People are looking at alternative energy sources. Companies are doing it, Governments are doing it, States are doing it. So, I do believe that again provides once in a life-time opportunity as this shift happens over the next 5 to 7 years. Electric vehicles is a part of that. Wind energy, solar panels, etc., is a part of that. So, I do believe that we are in a fairly volatile world and these offer us opportunities as long as we can be agile and we can continue to marshal our resources, to retrain people, to move people around and adapt to latest technology trends.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Sir, I just wanted to understand on, it is pretty much clear about this particular FY23, but just wanted to get a sense, how are you seeing the next year, any conversations with clients, specifically to client budgets, I need some color over 2- year period in your sense, how are you seeing the 2-year period now versus what you are seeing last quarter, that will be really helpful?

Amit Chadha: Number one, we do believe, see, we had given you guidance that we will hit the USD 1B run rate, last year September is when we had told you, so we did achieve it in this quarter. We are reiterating our guidance of getting to a USD 1.5B run rate by FY25. That has not changed and that is our goal from here on as we move forward.

Mihir Manohar: Any conversations with clients around next year's budget?

Amit Chadha: Yes, we continue to talk to clients, Mihir. In fact, this is the time when we sit down and we do workshops with some of our larger clients and strategic clients, we sit and do workshops on next year projects and work, programs they want to roll out, sustenance engineering that we are doing, how many changes do they want, what kind of patterns we are seeing, so all conversations and the entire sales, delivery, solutions team, everybody is running around meeting with clients, so all of that is going on.

Mihir Manohar: Sir, lastly on this, you have any quantitative understanding of the budget would be really helpful, sir?

Amit Chadha: Yes, the bets that we had taken, so the one thing we did and I didn't put in my comments I wanted to share it, because you are our community, you are our stakeholders, so in the last 3 weeks, we have started a review of the bets that we had taken 18 months ago and said are these relevant, are these still relevant and can be changed. I am happy to share that the 6 bets that we took on Electronic Autonomous Connected Vehicles, Sustainability, Digital Manufacturing, these three have already fired and are showing results and there are further solutions being developed in these areas. I am happy to share that we inaugurated our EV charging station with our own home-grown home-built hybrid energy controller in Vadodara on Friday and so lot of stuff happening in that area. We do believe that 5G and MedTech are areas that we will have to further strengthen and take it forward as we move along. So, we do believe that we have the relevant bets for Engineering and Technology Services to take forward.

Moderator: Thank you. The next question is from the line of Vikas Ahuja from Antique Stock Broking. Please go ahead.

Vikas Ahuja: Just one clarification which is regarding the guidance, we have changed the guidance because last quarter we reported in USD terms, now it is constant currency and we did allude to the constant currency in the call last time. What led to changing the currency dynamics from USD to constant currency because currency was equally volatile in Q1 also? And secondly, when I look at the peers, the cross-currency impact is closer to between 250 to 350 basis points, is that similar for us?

Rajeev Gupta: Vikas, this is Rajeev, let me answer to that. So, when you talk about the guidance that we have provided, we have narrowed the guidance to 15.5-16.5% and this is comparative to 14.5-16.5% that we provided in the previous quarter. Both were in constant currency and as you would appreciate and also trying to clarify to most of the other participants, dollar has been extremely volatile and it is an environment which has really had us to think through that guidance can be really managed on constant currency basis as supposed to on reported currency basis because of the volatility, so that is one part of the response. The second part of the response, yes, the dollar indeed moved up. For us, we have seen a tailwind of close to about 80 bps to 100 basis points in terms of managing the margin performance. So, that is how it has translated for us in terms of our performance in Q2.

Moderator: Thank you. The next question is from the line of Pratap Maliwal from Mount Intra Finance. Please go ahead.

Pratap Maliwal: I just had a question around the Transportation segment in particular. As we see in the Transportation segment, particularly in the Auto space, a lot of the strategic programs are with the next few years kept in mind, when it comes to programs around connected mobility, autonomous, shared mobility, so as you said with the quick ROI demand coming through some clients, so is there any possible change in the multi-year deals and the deal sizes going ahead, how would the strength actually play out in this sector which is supposed to be showing strong tailwinds, just had the questions around that?

Amit Chadha: So, one, we do see Transportation segment looking at clearly moving to energy efficient vehicles, be it Auto, be it Trucks, be it Off-Highway, be it skid steer loaders, backhoe loaders, etc., so much so that even floor cleaners - people are trying to get a hybrid or an electric version out. So, there is a massive shift that is happening in that direction. Deals again can't be, it is not a magic wand that can happen in a 6-month period, these are versions of programs that run for anything between 18 months to about 3 years and they address family of vehicles. So, say, somebody would look at small sedan and do it and then do it for a larger sedan and then also do it for an SUV. Now, these three family of vehicles will require different kinds of wattage/voltage to be going in. So, therefore, there is R&D to be done. There is a particular large program we are working on for our skid steer backhoe loader and in that case the kind of wattage that we are talking about may be 6 times to 8 times that we talk about for the cars. So, there are different parameters. So, long story short, these are not start-stop programs, these are programs that run over a period of time and therefore they provide repeatability of revenue, predictability of revenue and constant potential growth opportunities for us and most of it is done offshore and that I think is coming out in the Transportation margins that we have released.

Pratap Maliwal: Sir, just to confirm, we don't see any real change in the nature of work that we have been getting from this segment going forward, there is no real change around that?

Amit Chadha: The kind of work we were doing 24 months ago to what we are doing today is different and for the next 24 months, at least I can confirm to you, we see the same. Like I said, we will again do an analysis of our bets in about another 18 months and see if those are relevant or should we change them or modify them, so at that point of time, may be something new that comes up that will allow us to change, but for the next 18-24 months, I believe same kind of work will continue.

Moderator: Thank you. The next question is from the line of Bhavik Mehta from JP Morgan. Please go ahead.

Bhavik Mehta: Sir, I have two questions, firstly to Amit. Amit you talked about the client cautiousness on spends, so is this broad based across your verticals or some verticals better placed than other when it comes to decision making? And, secondly to Rajeev, how should we look at the margin trajectory for the second half given the fact that the biggest headwind of wage hikes is behind you now, so what are the incremental headwinds and tailwinds you see for the second half of FY23?

Amit Chadha: Bhavik, one, Every time there is a negative commentary you think, are you headed in the right direction, that is the reality, but having said that, see Transportation, the tailwind in Electrification and the tailwind in Autonomous & Connected is something that is a measurable tailwind, one. Second, for Industrial and the Process industry – digital manufacturing and energy conversion or alternative energy, etc., are valid themes that are again tailwinds that are required - that are going forward. They again go back to basic laws of human nature - number of workers are less, they need stuff to be automated and digital, the energy costs are high, they need to find alternative sources to keep the raw material cost down and their input cost down. So all that put together, these are three clear tailwinds that we see. Having said that, Hitech, there is a tightness that we see measurably across Hitech and even in Medical, on new product development, unless it is something that is related to more healthcare compliance, FDA compliance etc., we are seeing a little bit of question being raised. I want to give a little bit of color here. See, if you look at doctors, once they come out of college and they have learnt on a certain set of devices, because of the amount or regulation that goes in to re-certify a device, it will be, it takes time for new devices to come out and stuff to happen, but I am happy to have a longer conversation on this with you, but therefore we see a little bit conservatism in Medical always and of course Hitech, so that is where we are.

Rajeev Gupta: I will take the second question in terms of the margin trajectory, so I will weigh-in a few things over here. So, if I look at really the plus and the minus factors. In terms of plus factors, clearly growth in revenues, better quality of revenues. In fact, when I touch upon better quality of revenues, there are sub aspects to that. One, if you look at the growth that we have seen across segments, there have been 3 segments where margins have improved, so we are indeed seeing growth come in segments that are having better profitability and that essentially helping us out and aiding in terms of the margin performance. The third aspect is also on the scale benefits. If you look at in terms of G&A cost, we have kept it almost flat. That has kind of played out well for us. We believe going forward as well we will be able to see scale benefits coming in. In terms of factors or rather headwinds, the current economic environment, rather one more aspect that I will add in terms of the positive, which is around the rupee depreciation. That has been of course the tailwind in the current situation. Now, talking about some of the adverse factors, the current economic environment is such that like I said, we will be watchful and we will try to balance out some of the positives and the negatives, so one that we will try to tread cautiously over the next few quarters until we see the environment stabilize. Attrition, we believe that we have reached a peak. Going forward, it should normalize and in that sense, yes it is going to be a positive factor because it will take off the load in terms of the hiring, rehiring and of course the in and out in terms of the salary factors. So, that should be a positive as well and like you said, of course, Q2 had the maximum impact in terms of wage hikes. We believe there may be some intermittent wage hikes, but that is something that we should be able to counterbalance. Of course, these are all the factors that we feel we should be able to balance out while maintaining the EBIT trajectory in the medium term for an aspiration of 18% levels.

Moderator: Thank you. The next question is from the line of Akshay Ramnani from Axis Capital. Please go ahead.

Akshay Ramnani: Amit, so I wanted to check on the guidance which you shared of achieving the USD 1.5B run rate by FY25, so we are at USD 1B run rate currently and the difference to achieve that is about 50% over a two year period and when the demand environment or to say there is some caution in the environment from client side, what gives you this visibility over the next 2-2.5 years still maintaining that aspiration of achieving that number? That was part one and the part two is that, how should we think about the organic and inorganic component within this 2.5 years journey?

Amit Chadha: So, here is how I would see it. Our USD 1.5B includes three things that we have factored in this. A is, we expect at some points, right now like I admitted to you that about three-and-a-half bets out of the 6 bets are firing, we expect the remaining two-and-a-half to fire as well and for a period of time, we expect that all 6 bets will fire. We have done a modulation based on that and then of course may be one of them will fall off, etc., but there will be a period of time between now and the next, by FY25 that all 6 bets will fire.

B, we are considering some amount of large deals that we will be able to sign and execute, so our large deal engine continues to fire and very active and you have seen that we expect to continue that. C, there is a little bit of inorganic built into it, so that's the third part that we expect will happen. So, that is what is the buildout that we have done for the USD 1.5B.

Akshay Ramnani: So, on the large deal side, over the past few years, I think over past few quarters, especially we have been continuously winning these larger deals, so wanted to get a color on the large deal pipeline, so we have seen you report those deals, but over the past say 2-3 years, do you see that large deal pipeline growth has been stronger versus what you have seen historically and if yes, then what exactly is driving that trend, your thoughts there?

Amit Chadha: Akshay, in fact, one of the litmus test for us when we announced USD 1B …we announced three things last September - USD 1B, 18% EBIT , USD 1.5B. So, crossing or touching USD 1B run rate in constant currency was very important for us because it was a litmus test. The 18% EBIT and staying to 18% for 5 consecutive quarters has been a litmus test for us. We are finally engineers, right and therefore we have confidence in the USD 1.5B. Now, second, in terms of the kind of pipeline, I do think our pipeline YoY, QoQ continues to improve. We continue to size out deals and areas which we will go in. The one big change we have made is that we have been running the large deal, shall I say, the process of thinking and Ideating and all that is a continuous process running across the company in different parts at different times, so that it becomes like a wave that comes and everybody once in a while gets through the wave again and again. So, we are doing that. There are some other fundamental changes we have made in terms of how we think about large deals and what we think is the scope and size of those, etc. so it is definitely expanded. Our closures have been in 3 digits – for net new USD 1M+ deals for the past few quarters and we expect that will continue and we want to sign bigger deals and we will continue to provide an update.

Moderator: Thank you. The next question is from the line of Shradha from AMSEC. Please go ahead.

Shradha: Just a few questions, the Plant Engineering segment shows a 200 bps decline in margin despite a strong growth of 5%+, so what really went behind the margin in this segment?

Rajeev Gupta: Shradha, this is Rajeev. I will take that. Two parts to that - one of course, there have been quite a few new deals that have started in this segment which of course, when you start any new deals, you tend to see margins coming down in the initial period and then you sort of catch up on that. The second is also that when you have these new deals starting, you may invest in subcontractors, so those are the two key reasons why we have seen margins slightly come down in Plant Engineering, but we believe that we should be able to improve as quarters go by.

Shradha: And second question Rajeev is, you did mention that SG&A was flat on QoQ basis, but when I see SG&A as a percentage of revenue, it is at a six quarter low number and despite in case of travel and other expenses that we are seeing for other companies, our SG&A expenses have been just flattish, so what is going in SG&A and who do we see that trajectory going ahead?

Rajeev Gupta: So, Shradha, 2-3 points on that one. One, when I say flat, it is flat in absolute terms, right which is leading to of course a percentage reduction to revenue. Now, as far as investing on sales side, I think we continue to believe that's the way to grow, so we will look at that more constructively. On the G&A side and I think we have been fairly conscious a few quarters ago understanding that yes the economic environment is tough, so we have started to put measures in place so that we can optimize cost. While we have come at about 11% on SG&A, I would guide all of you to take SG&A to be in the range of 11.5%. While we will counter-balance some of these, but that is how I will sort of guide in terms of projecting SG&A.

Shradha: And the rationalization of the SG&A staff that you see is it more to do with the G&A team or you are seeing some rationalization in the sales people?

Rajeev Gupta: It is more to do with the G&A team.

Moderator: Thank you. The next question is from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: Couple of questions from my side. One to begin with Amit, just wanted to compare the macro comments related to the last quarter, so would you say that the dynamics have been similar to what we saw last quarter or has there been a change because the two verticals we have mentioned remained same, but just wanted to understand the intensity of cautions around that?

Amit Chadha: Sulabh, what we saw last quarter is what we are seeing now. There is no deterioration, there is no improvement, it is basically the same.

Sulabh Govila: And second is to Rajeev, Rajeev, you mentioned the puts and takes to the margin in this quarter, so would it be possible for you to quantify those percentages, the margin walk for the quarter?

Rajeev Gupta: We would not be able to do that, but if you want to pick an offline conversation to get any clarity, feel free to touch base with Pinku, so that you can have a more elaborate conversation on this.

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

Abhishek Shindadkr: Congrats on good execution. Just one question from a demand perspective, what are you seeing on the ground from captives, given the challenges in the Europe, what are they doing, are they also relocating or looking to ramp up capacities in India and is that changing the competitive intensity in the market?

Amit Chadha: Abhishek, thank you so much. Abhishek, if you would have asked me this question 10 years ago, I would have said captives are competition, but honestly Abhishek, it is a co-opetition model, so you work with them and there is a core contextual that the client defines; core done by them, contextual done by us. What they define as core changes, what they define as context changes, so that is how this flux happens. We have seen a little bit of a pause as far as Hitech is concerned and as far as Medical is concerned, we are seeing a slight pause from own employees being hired by captives. So that we are seeing and we see that potentially as an opportunity because we can flex up, flex down, etc., so that's definitely there. As far as Auto is concerned, which has got Transportation that has got huge captives here, they continue to expand as we see it and so does parts of Industrial. Plant doesn't normally have a lot of captives here, but we see that. The good part, another thing I wanted to point out Abhishek, again 10 years ago, captives would mean China, captives mean India, it would mean Eastern Europe and Latin America. Today, China is off the table, so it is basically between India, part of Eastern Europe because part is - as you are aware offline, and part of it in Latin America. So, we believe that we are well positioned from that standpoint.

Moderator: Thank you. The next question is from the line of Arvind Chetty from Max Life Insurance. Please go ahead.

Arvind Chetty: This is more on the headcount on the sales and support side, so while our aspiration for FY25 is about USD 1.5B run rate which essentially makes 4-4.5% compounded growth from now, with that aspiration and near-term expectation of large deal engine firing, our sale support has gone down by about 5% on a QoQ basis, so is that more of an aberration or is it more indicative of near-term trend?

Amit Chadha: Look at enabling functions, sales support as a slab structure. You need a certain set to make a certain number and then you have a range and then you again, you continue to do that. So, I would not be worried…USD 1.5B in FY25 is, we are right now in FY23, so there are 2 years to go. So, we will see that. We are mindful of it is all I would say at this stage. I would not worry about it and I would not take it as a lead indicator or anything like that.

Arvind Chetty: So, just a follow-up on that, how do we look at this number going forward?

Amit Chadha: We don't give guidance on sales support numbers going forward. Of course, our sales head wants more, we will see.

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

Karan Uppal: Amit, two questions from my side, so in the Auto segment, within EV, ADAS, Connected, and Infotainment, which of these sub-segments are having the maximum contribution to your deal wins and is the demand equally strong with European OEMs and US OEMs and how is the pipeline looking? And second question, just a follow-up on the hiring part, net addition has been soft in Q2, so what is the outlook for FY23?

Amit Chadha: I would request Abhishek, our Chief Operating Officer to answer the first question on how do we see Auto, which sub-segment and which region. Abhi?

Abhishek Sinha: So, if you look at these three segments clearly, at least at this point, Electric is where we are seeing the highest traction followed by Connected and then Autonomous and as far as the region is concerned, both US, Europe traction was equally strong for us at this point and also both Automotive and Tier-1s, I mean OEMs and Tier-1s in the Automotive space, but also of course we are seeing traction interestingly on EV Connected side on the Trucks and Off Highway segment as well which also is starting to pick up.

Amit Chadha: Can you repeat your second question, Karan?

Karan Uppal: Yes, just on the net addition side, so Q2 net addition has been a bit soft, so just wanted to check what is the hiring outlook for FY23?

Abhishek Sinha: Net ads, I think Amit and even Rajeev mentioned that earlier, this was a tight quarter for us given that this was the quarter when we gave increments, so we had to be very cautious on how we ran operations this quarter. Having said that, we have continued to hire freshers in this quarter also and we will continue in the coming quarters as well. From a people perspective, we had enough and more people to deliver for the quarter and we have reasonably good plans for the coming quarters as well. So, please don't read too much into the headcount front because it was a move that we had to do this quarter from an operations perspective.

Moderator: Thank you. The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.

Sameer Dosani: I just wanted to understand how has the utilization moved in last 2 or 3 quarters and this is also in the context of headcount addition, do we have enough room for increasing of the utilization from that at this point of time or we will have to hire more?

Rajeev Gupta: This is Rajeev. I will take part of the question and I will also request my colleague, Abhi to add to it. Like we have said in the previous quarters, we have stopped reporting utilization because of course, there are areas of revenue that are not directly linked with utilization, but I can certainly give you directionally, the utilization has been improving and that is part of what Abhi mentioned earlier that we have looked at Q2 revenue and we have tried to optimize on parameters that could eventually help us in terms of delivering the quarter. I will also request Abhi to add on to this, please.

Abhishek Sinha: Yes, I think the same point utilization definitely has improved for us this quarter without picking on any specific numbers. Broad based, if I may, our goal is to operate between the 78-82% levels. That is the range that we are comfortable with. Anything above 82%, because we are an engineering company, is a red flag and below 78% also is red flag, but the reason more than 82% is a red flag is because we want to continue to invest in R&D and engineering work for our customers and for our people. So, that is the range we play in.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Pinku Pappan for closing comments. Thank you and over to you, sir.

Pinku Pappan: Thank you everyone for joining us on this call today. It was a pleasure interacting with you and we look forward to more such interactions during the course of the quarter. From all of us at LTTS it is a good-bye and wish you a very Happy Festive Season for the coming days. Thank you. Bye-bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of L&T Technology Services Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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