L&T Technology Services
Q1 FY24 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day, and welcome to L&T Technology Services Limited Q1 FY24 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: Hello everyone, and welcome to the Earnings Call of L&T Technology Services for the First Quarter of FY24. I'm Pinku, Head of Investor Relations. Our financial results, investor release and press release have been filed in 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 one hour after this call ends.

With that, let me introduce the leadership team present on this call. We have Amit Chadha – CEO and MD; Abhishek – COO and Executive Director; Alind Saxena – President Sales and Executive Director; Rajeev Gupta – CFO. We will begin with Amit providing an overview of the company's 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 on the call. Trust all of you are doing well.

Let me provide you key highlights on our **Q1 performance**:

- We had a quarter of growth despite the macro challenges and slowdown in decision making in some pockets.
- Overall, we grew by 10% YoY in constant currency. The comparison on YoY is more like-to-like given the fact that H2 is always higher than H1 for the Smart World & Communication (SWC) business.
- Our revenue grew by 0.6% sequentially organically with Transportation leading the growth at 4%, while Medical and Industrial Products had about 0.5% to 1% growth.
- Overall, organic sequential growth was 7.5% YoY in constant currency.

- Operational performance was strong with EBIT margin at 17.2%, which is post the addition of SWC. PAT was at ₹ 311 crores, up 13% YoY.

- Our large deal engine continues to fire with a total of 6 deals above $10M, of which one is a $50M TCV deal that we signed this quarter. All deals have moved to execution.

- On other dimensions, happy to share that we filed 55 patents for our customers and ourselves taking the cumulative count to 1,145 patents. We were rated as a Great Place to Work (GPTW™) in India again and Poland for the first time. Attrition is down 330 bps to 18.9%. We expect this trend to continue.

Moving on to **segmental performance and outlook.**

Starting with **Transportation,**

- Strong show of 4% QoQ growth that was broad-based across the sub-segments – Auto, Trucks & Off Highway and Aero.

- Demand continues to be strong, led by EV and Connected Cars in Auto, Electrification in Trucks and Off Highway, and Avionics in Aerospace.

- We won a $10M+ deal with a Transportation customer who had earlier chosen us as their preferred engineering partner.

- We continue to invest in Transportation capabilities for the future like software-defined vehicles (SDV). We are working on creating a digital architecture for a future state SDV that will require a centralized platform with high compute processing power, cybersecurity, and high-speed connectivity. We again filed 8 patents in Transportation in this quarter. My colleague, Abhishek, as required, will provide more details on SDV.

- In the connected car area, we are seeing incremental opportunities to manage SOC/NOC – by leveraging our SWC capabilities.

Overall, we see a good pipeline of opportunities across all 3 sub-segments and expect the growth momentum to sustain.

In **Plant Engineering,**

- This differentiated segment remains on solid footing. Q1 was a one-off as we were impacted by decision making and supply delays by customers that slowed down the pace of ongoing projects.

- We see a bounce back in the next quarter as the pace of decision making, regulatory and other factors have seen an improvement in June and July.

- FMCG customers are undertaking capacity expansion as we move towards more localization. We won a $15M deal from a global Agri food company to provide engineering design services for their new plant in Europe. Will also help us set up a local office in Europe for Plant Engineering and strengthen our European presence.

- This large deal, along with a few 5-10 million dollars deals that we won, gives us good growth visibility in Q2 and the coming quarters.

- Across all 3 sub-segments of O&G, FMCG and Chemicals, we are seeing good opportunities on the sustainability side with companies wanting to use advanced technologies to recycle water, waste plastic, etc. to meet their sustainability goals.

We are confident of growth in Plant Engineering in Q2 and beyond.

At **Industrial Products**,

- We grew slightly on the back of good demand from the Machinery and Electrical segment though we were hit by decision delays in Building Technologies and Power segments.

- We see a rising adoption of Digital in multiple areas like Supply chain and productivity improvement under the larger Industry 4.0 initiatives.

- This is leading to an increased scope for deploying AI, private 5G and cybersecurity as spends in software platforms, factory automation and sustainability increase.

- We are focused on making accelerators and reusable solutions that can be used to reduce the time to market and improve ROI for customers. This segment filed 20 Patents in this quarter and remains a flagship segment in Innovation.

- We won a $10M deal in Q1 with a US customer to optimize supply chain and improve manufacturing efficiency.

Overall, we see a good pipeline of opportunities in the digital space and expect the growth momentum steadily to build up in Industrial Products.

Moving on to **Telecom & Hitech**,

- Organically, we had a marginal decline, although when combined with SWC, we were up year on year.

Let me discuss organic Telecom & Hitech business first:

- The key highlight of the quarter was a $50M deal with a US based Hitech customer to enable new opportunities for digital video platform. We will enhance their suite of

products and optimize it for better user experience using AI, ML and Generative AI as we move forward.

- We are seeing more such opportunities in the Media sub-segment as customers look to engage us to develop their next-generation digital platforms.
- As we had indicated in the previous quarter, there is a weakness in the Semiconductor side. While this industry is still in inventory correction mode, we are moving up the capability spectrum and winning some deals in key areas – I would like to highlight a post-silicon validation deal that we won in Q1, which will involve setting up a design studio offshore.
- As we partner with chip companies to develop new-age chips for cloud computing, data center as well as Automotive industry, our growth is set to pick up.
- We are also seeing good opportunities as global ER&D companies move manufacturing from China to India. One of the $10M deals we won in Q1 is of this nature as we partnered with a global technology giant to provide next-gen Wireless and Product engineering from design labs that we set up in India exclusively for the customer.

On the SWC business,

- We have fully integrated this into our Telecom & Hitech organization, with a dedicated sales team and leadership in place in the US, Canada, Europe, Singapore, and the Middle East.
- The operational improvements will be discussed by Rajeev in his commentary.
- Let me share the progress in 2 channels that we've activated for SWC:
    - Our gameplan of taking SWC global has seen early wins, including critical partnerships with telecom service providers, equipment manufacturers and execution of these deals should start in Q2.
    - I am thankful also to our enterprise customers who are actively engaging with us on specific opportunities in nexGen communication, some of which should close shortly. We were awarded Cybersecurity deals which have already started execution.
- The SWC business requires an ecosystem play. To this end, we are working out partnership with key players:
    - You would have seen the announcement of LTTS partnering with Palo Alto Networks to provide enterprises with Operations Technology (OT) and

cyber security services. Teams have been formed on either side to take it forward.

- Another one is a partner with Bharat Sanchar Nigam Limited (BSNL) to drive and enable global enterprises in their private 5G network deployments.
- With Qualcomm in North America, LTTS is working together to offer 5G driven next-generation connectivity solutions. This leverages LTTS's chip-to-cloud expertise.

In Q1, we had a few wins in nexGen Communications overseas, and we see the momentum building with the pipeline increasing.

We believe the measures we have taken will create a robust foundation for future growth and transition this business from domestic only to a mix of domestic and international business.

Summing up, we do see growth in the combined Telecom and Hitech portfolio driven by Media and Telecom. However, the Semcon challenges may persist for another quarter.

Lastly, in **Medical**,

- We see strong demand for Digital as customers prioritize areas like Medical device-as-a-service (MDaaS), Connected devices and Cyber-security.
- In Q1 we signed a $15M deal to design and develop a Digital Surgery Platform that will connect with the customer’s robotics, surgical and operative devices, and be used to deliver better outcome for patients.
- We are building reusable solutions for various areas like Complaints management and QARA.

The pipeline of deals gives us confidence that our growth momentum should improve as some of the large deals close.

Let me now discuss the **outlook**.

- Our growth is tied to our long and strategic relationship with customers. Happy to share that we are the first customer advisory council in Washington DC, comprising of CXOs, board members of 16 of our customers with a collective market cap of $2T and a revenue of $400B.
- These organizations are advising us on our direction and investments so that we can bring more relevant offerings to the market, build stickier relationships, thus helping us to elevate our customer lifetime value journey.

- The large deal we won in the quarter are an affirmation that our customers continue to spend on transformation technologies. We remain front and center as a choice ER&D service provider who can deliver speed-to-market, cost synergies and innovation.

- We are accelerating our investments in 3 emerging technologies, AI, SDV and Cybersecurity.

- I talked about our investment in SDV and our partnership with Palo Alto Networks for cybersecurity.

- In AI, our focus will be on the Auto, Manufacturing and Medical segments, and we will partner with Hyper-scaler and Semiconductor companies with joint development or readily deployable solutions. We are strengthening our AI team in the coming months to achieve our goals.

- Let me conclude by saying that we grew in Q1 despite delays in decisions and deal closures getting pushed out. The pace of deal closures has improved from June onwards which combined with a healthy large deal pipeline which is bigger YoY and QoQ, gives us the confidence of growth momentum strengthening in the coming quarters.

- We maintain our FY24 USD revenue growth guidance of 20% plus in constant currency.

- We also reconfirm our aspiration of $1.5 Bn run rate in FY25.

Let me, with that, wish you good health. Will stay around for questions. Thank you so much, and I now hand over to Rajeev.

Rajeev Gupta: Thank you, Amit.

Good evening to all of you, and I hope you're keeping safe and healthy.

I'm pleased to share our Q1 FY24 performance – It has been another quarter of good results with healthy addition of deals and operationally strong performance.

This is our first quarter of reporting financials after completion of the SWC acquisition. In compliance with Ind AS requirements applicable to common control transaction, we have restated our past financials to include SWC from 1st April 2022.

As a result, all figures in the Investor release including the comparisons reflect this restatement.

Let me take you through the Q1 FY24 financials.

Through the commentary, I will elaborate on the restated combined financials that includes SWC in all the comparable quarters, as well as organic numbers excluding SWC.

Starting with the P&L

First, to address **Revenue**

Organically, Revenue for the quarter grew 0.6% on a sequential basis and 12.6% on YoY basis in INR terms.

On the combined financials, Revenue for the quarter was ₹ 2,301 crores. A YoY comparison is more accurate indicator as Q1 FY23 numbers have also been restated to include SWC. On a YoY basis, our double-digit growth trajectory continues with Q1 revenue up 14.7%.

SWC business at current state delivers higher revenues in H2 as compared to H1 on account of seasonality.

Moving to **EBIT**

Earlier in our Q4 commentary, we had indicated that we aspired for FY24 combined EBIT margin to be in the 17% range.

I am pleased to share that our Q1 FY24 combined EBIT margin came in at 17.2%.

Let me explain the evolution of margins from 18.7% that we reported in Q4 FY23 to the 17.2% in Q1 FY24.

Organically, EBIT margin was slightly down on account of investments made for large deals. Amit has referred in his opening comments, we have won, a $50 million deal in Hitech segment.

As we had highlighted earlier, SWC business has a lower margin profile. Hence, on a combined basis, Q1 FY24 margins have come at 17.2%.

Overall, we've been able to integrate SWC as planned and maintained operational performance within the range that we had aspired for.

Moving to **below EBIT**

Other income came at ₹ 35 crores, slightly lower on a sequential basis due to lower income from investments. This was primarily due to cash outflow of purchase consideration of ₹ 800 crores for SWC acquisition at the beginning of this quarter, which led to lower interest income.

Effective tax rate for Q1 was 27.6%, in the same range as our expectation of 27.5%.

Net income for the quarter was up 13% on YoY basis, and came in at ₹ 311 crores, which is 13.5% of revenue.

Moving to **Balance sheet**, let me highlight the key line items.

To begin with **DSO**.

DSO for the organic business was 92 days versus 90 days that we have reported in Q4 FY23.

As indicated in our previous commentary, SWC is a high working capital business and had DSO of over 400 days at the time of acquisition. We are pleased to inform that we have improved on the DSO of this business since then.

On a combined basis, Q1 FY24 DSO has come at 117 days within our expected range of 115-125 days for FY24.We will continue our efforts to improve on combined DSO.

On **Shareholder funds**.

Shareholder funds was at ₹ 4,817 crores at the end of Q1 versus ₹4,951 crores that we have reported at the end of Q4 FY23.

As per accounting standards applicable to the common control transaction, the excess of purchase consideration paid over the net assets acquired is shown as a reduction to shareholder funds. The reported value of ₹4,817 crores, therefore, reflects the adjustment of this impact.

Now talking about cash flows.

Our Free Cash Flow came in at ₹ 228 crores, which is a healthy 73% of Net Income. This reflects our operational rigor on improving combined DSO.

Our Cash and Investments rose to ₹2,394 crores by end of Q1 FY24, which is after payment of ₹ 800 crores for the SWC acquisition.

Moving to **revenue metrics**:

On the combined financials, $ revenue was up 9.1% in reported terms and up 10.0% in constant currency terms on a YoY basis.

Organically, $ revenue saw a 0.6% sequential growth in both reported and in constant currency terms, led by the Transportation segment.

The segmental margin performance was better in 2 out of 5 segments on a sequential basis.

Our Telecom & Hitech margins came in at 8.8% in Q1 vs the then reported 12% margin in Q4 FY23. This is on account of lower margin profile of SWC business, and investment made on large deal win. We expect the margin trajectory to improve as we transform SWC business.

Moving on to **operational metrics**

To begin with onsite:offshore mix,

Offshore percentage now stands at 59.3%, compared to around 57% then reported in Q4 FY23. This increase reflects the fact that currently SWC business is completely offshore based.

Talking about T&M revenue mix,

Fixed price percentage is at 35.6% compared to around 29% then reported in Q4 FY23. SWC business is largely executed on a fixed price model.

Client profile – which indicates the number of Million dollar plus accounts – has shown a sequential improvement in the 30M+, 20M+, 10M+ & 1M+ categories. The client profile numbers have seen an improvement over the past few quarters, and this trend will continue in the coming quarters. SWC has added a few large customers to our client base including one $30M+ account and 3 additional accounts of $10M+

Talking about client contribution to revenue –

On a combined basis, Top 5, Top 10 & Top 20 have shown a slight uptick as compared to Q4.

Moving to **Headcount**

Headcount stands at 23,392 at end of Q1 vs 22,233 then reported at end of Q4 FY23. This sequential increase of 1,159 employees includes the addition of around 800 people from the acquisition of SWC.

On **Attrition**, pleased to share that it declined to 19% levels. This is as a result of our various efforts on employee engagement. We believe it will continue to trend downwards.

Realized rupee for Q1 was at 82.2 to the US dollar, flat compared to Q4 FY23.

Before I conclude, let me give some visibility on the **EBIT margin trajectory** going forward.

We continue to focus on profitable growth and maintain our operational rigor. This will help us achieve our aspiration of 17% EBIT levels in FY24.

In Q2 FY24, we will offset headwinds from wage hikes that are effective July'24 through a combination of growth and operational efficiencies. This is as per plan to roll-out wage hikes committed to our employees.

In the medium term, we aspire for 18% EBIT level by H1 FY26.

With that, thank you to everyone. Operator, now we can take the questions please.

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

Mukul Garg: Amit, just one question from my side. And I think – sorry about this being a recurring topic. But given the delays and push outs which you saw in the first quarter, what is giving us the confidence of delivering a 10% organic growth in FY24? What really are you seeing in terms of client visibility that such issues might not recur anytime over the next 3 quarters? Because currently, if I kind of do a rough number crunching, it looks like your compounded quarterly growth rate would be upwards of 4% for the next 3 quarters. If you could just help us walk through what really is behind this confidence of maintaining the revenue growth?

Amit Chadha: Thank you, Mukul. So, a couple of things here, and I'll answer it broadly. So, we look at growth, right? Number one, some of the deals did get delayed in terms of decisions. We were expecting them to be signed end of April, early May, but they got signed towards the end of June, right? Second, if I look at Plant Engineering, it was not a deal problem. It was more a – getting inputs from customer on time problem. So, that book of business still is with us and therefore can be accelerated, executed. So, I don't have a problem there. I have an issue in Semcon, which I don't know if it will be a 1 quarter pain or is it a 1.5 quarter pain, right? So that's the only blip that I see.

But given the facts that First, pipeline is stronger now than it was a quarter ago and YoY; Second, the 6 deals that we have won, those have gone into execution, and Third, there are other deals in the pipeline that we are expecting to close or very close to closing, I do have confidence of retaining the guidance.

Now also, on SWC, it's H1 to H2 business, H2 being much better than H1. So overall, that 20% plus holds that we are at this stage.

Mukul Garg: Right. Sir, just a quick follow-up on that. Given that you have seen scaling up in these 6 deals in the last few months, is the confidence also kind of baking in a fairly strong second quarter, which gives you enough buffer for any potential trouble down the line in the second half?

Amit Chadha: Yes, Mukul. See, I'll tell you what we did. So, after I went back in April, we have spent time talking to the clients, working with them through their decision-making process.

One, reality is where a deal would take 2 signatures, it now takes 4 signatures, right? That's the reality. So how do we get that done quickly – is the whole thing that we continue to work on. Second, I'm betting on the fact that some of the deals that we are sitting on in Semcon or in Consumer Electronics will close faster than what I saw in Q1. And thirdly, I do expect H2 to be better than H1 as we stand today.

We are working on all 3, in fact, I should confirm to you that net headcount will go up by at least 750 people in Q2 as compared to Q1, and we're already on our way to making those offers, people have been joining us. So fairly comfortable and confident.

But we'll keep you updated, Mukul. I mean we've always been very transparent, very direct, and we thank you all for your confidence in us. So, we continue to work on this and come back to you. We, in fact, hosted a client advisory council first time ever in our history. So about 16 clients controlling a huge amount of revenue and market cap came together, spent some time with us. So, we've got some trends from them. We've got some information on – why don't you approve what you don't approve also. So fairly good conversations, candid conversations, I'm fairly comfortable.

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

Sulabh Govila: My first question is on SWC. So, on the numbers that is reported, which is 1Q FY23 and the 4Q FY23 I just wanted to understand that in this business, is there some variability involved in other expenses because they don't change much as a percentage of revenues?

Rajeev Gupta: Sulabh, this is Rajeev here. I'll take that question. So, like I said, we've had to restate financials of the previous quarter to include SWC. So, what you see in terms of other expenses is more like-to-like. And hence, there is nothing in addition. We don't expect that the other expenses will increase or decrease materially. This pretty much reflects what is the reality of that business.

Sulabh Govila: Sure. Understood. Maybe I'll take that offline. My second question is with respect to Plant Engineering business. So, in the past 2 to 3 quarters, we've seen some volatility in this business. We saw a decline in Q3, and then we saw a sharp bounce in Q4, and we thought that the vertical has sort of recovered. Now the issues could be different in different quarters, but just trying to understand that what's giving us the confidence that the volatility which we have seen in the past 2 to 3 quarters will not recur in the coming quarters?

Amit Chadha: Sure. So, if I look back at our Plant Engineering and I'm scrolling through data as I look at it for you, right. If I look back at FY22, if I go back to FY22, and I see there was a constant increase QoQ, every quarter, right? I come to FY23, and yes, there was a one-off decrease in Q3, but it continued to the upward trajectory, right? And if I look at Q1 now, we've had a blip, and we are sharing with you that some of these decisions – design decisions from the customers were delayed and it was not a budget issue. And therefore, with the backlog that we have got, the new orders that we have signed, with the rigor that we have put in, I do believe that this will be in the past.

Additionally, we are winning new digital factory and digital plant deals from customers in Plant Engineering that give us the confidence that we will see upward trend from here. In fact, now we are adding some resources that we can immediately, hands on deck, to make sure we're able to deliver. I also want to share that now we have established outpost in the US for clients in Plant Engineering, that should help us in terms of engaging a lot more local talent, and the same will be happening in Europe. So, we're fairly comfortable with it.

Rajeev Gupta: Sulabh, this is Rajeev again. You may have seen, of course, our SEBI financials and tried to compare the other expenses for any variability. To clarify, in this quarter, there are lower

subcontracting costs and of course, a lower legal cost as well and nothing to do in relation to the SWC business. Again, I just wanted to add because it's more like-to-like. I hope that clarifies your points on other expense.

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

Nitin Padmanabhan: So, when you look at the SWC business on the numbers that we have reported, is the Q4 to Q1 dip the usual sort of seasonality in the business. And typically, if you could give some color in terms of typically what's the sort of the mix between first half and second half, how does it normally look?

Amit Chadha: Rajeev, do you want to take that?

Rajeev Gupta: Sure. So, Nitin, to your point, yes, this business is seasonal in nature. Typically, you will see H2 to be better off compared to H1. In terms of mix of business, you will see H2 to be at 60% vs H1 at 40%. So that's the reason we say that you tend to see H2 to be better off compared to H1.

Nitin Padmanabhan: Sure. And the variability from Q4 to Q1 that we have seen this time, is there a common feature of this business? Or do you think as we – you spoke about, I think, one $30M and three $10M deals, as these deals keep adding up, that should sort of come off? How should we think about it at least as we go over the next 12 to 24 months?

Rajeev Gupta: 2 points here. One, the point that I made that H2 is better than H1, and hence, you're seeing that Q4 had better off revenue for SWC when compared to Q1. That's one. Second, when you compare Q1 of this year to Q1 of last year, in fact, we have done better, right? I hope that clarifies your point, Nitin.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Alchemy Capital Management. Please go ahead.

Vimal Gohil: My question on SWC has been answered. Second question is on the industry per se. We have seen a lot of influx or a lot of news on lot of global companies setting up GCCs in India. And there has been news of a lot of aggressive hiring from them. How do we participate in this particular trend? Do we partner with them in this entire process of setting up their centers? Or do we look at these GCCs as our potential competition?

Amit Chadha: Sure. Vimal, thank you. So, I'm part of the – I just joined the NASSCOM Executive Council and the only ER&D company member on the council other than gentleman who's been co-opted from the ER&D council. So here, GCCs are an opportunity. If I look back and I look at the number of STEM graduates coming out of colleges in India, it's huge. It's more than 2 million people coming out per year in STEM, right? So, they will find their ways to Global Competency Centers (GCCs)

Now here's the good news and the silver lining. All the business that was potentially going up to Ukraine or going up to Russia or going up to other parts of Eastern Europe has started getting

diverted to India. A significant part of what was being given to China has been given to India. So, if I look at it, the India pie itself has grown, right?

Second, if you would have talked to me 15 years ago, I would have said they are all competition. But I've learned, the industry has learned, everybody has learned to co-exist. In our customer premises, often there are discussions that happen about green badge and red badge or blue badge and red badge. Blue badge or green badge is their own employees, while red badges are people like us. They continue to look at – what is core, they will keep; whatever that could be contextual or that was core yesterday could be given to us today.

Additionally, GCCs focused on only their area of focus. So, an Automotive GCC will focus on Automotive. Telecom will focus on Telecom. But if they need cross-vertical domain expertise, they will not be able to deliver that. For example, I've been executing a number of connectivity projects for a lot of my Auto customers who have their centers here, but I work with their teams in Europe and US, and they give me work directly, right? So that cross-vertical domain expertise that we bring is not there with GCCs because they are single cylinder focused.

Lastly, the fact to be considered is that the world is moving to a lot more fixed price, consolidated work kind of model. So therefore, we are the gainers there because they look at us and they actually let us deliver on an envelope basis rather than worrying about attrition etc. So, I do welcome GCCs being here. We've been hiring from them. They've been hiring from us. It's a two-way street. I do welcome the whole ecosystem being built up in India because overall, it adds to the fundamentals of the ER&D business and companies like us.

Vimal Gohil: Amit, just a follow-up to that. How do you look at our cost structure versus the GCC cost structure? Is there a significant differential for our potential customers to say that the Indian ER&D service providers like us still have a better edge in terms of executing projects at a much better cost efficiency versus them doing within their captive or in-house?

Amit Chadha: Vimal, 2 things here actually. Number one is that GCCs, their cost structures are higher than us. That's clearly the case. One, they work on a cost center model, and we work on a profit center model, right. Two, because they are single cylinder, they can't offer a lot of career growth or job enrichment to their software engineers or hardware engineers, etc., because they have to do the same work, and in our case, we are able to provide that.

So, I will not say we pay less, our cost structures are lower. But if I look at the total package of what we would be able to offer to our engineers, which is career growth, which is job enrichment, which is job rotation, plus customer interactions, is something that we are able to provide that are not there in an in-house setup. So, we do believe that's there. But having said that, I again will reiterate, together we are creating an ecosystem that is good for India and good for sourcing from India.

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

Ravi Menon: I just want to check on the growth in North America. It looks like we've seen some good revenue addition there. It's almost as good as what we saw last year. So, what were the things that came in well this quarter.

Rajeev Gupta: Ravi, Rajeev here, I'll take this one. So, it's more relative in terms of when you look at the growth for North America, and that's probably because we have restated the SWC financials in Q1 as well as in Q4. And because SWC is a cyclical business, you're seeing, of course, Q1 to be lower relative to Q4. And consequently, the proportion of business that you see shows a growth in North America when compared, right? So, it's just relative. That's what I would say, Ravi.

Ravi Menon: And Amit, on the semiconductor, we are starting to see the decision cycle get better. So, I want to check, but you also said that you don't know if it's probably one quarter pain or more than one quarter. So, could you just explain that?

Amit Chadha: I'll answer it 2 ways, right? I will share but I will then request my colleague, Alind, to add to what he's seeing in the market as well. One, from a Semcon standpoint, there is a little bit of pain that's there in terms of, you know, they are shifting; consumer electronic devices are not being sold so much, so the demand is not there. They are all trying to switch to data center chips and AI chips today. All of a sudden, AI is the only word they use, everybody uses, right, including all of us.

So therefore, there's a shift happening, in fact, and we see that spend coming. Now will that come in a quarter, will it be 2 quarters? To be seen. I would request Alind to add on the color of the market as he sees today in North America.

Alind Saxena: So, we have worked with more than one Semcon companies. Totally if you look at about 4 or 5 Semcon companies. If you look at the trajectory, which is broadly driven by AI and then by default the requirements that the data center for them to be up and running, we see that continuing. There are chips which are going to come in markets which are going to change fundamentally the way that compute is going to happen. We are lucky that we are involved in quite a few of them. We do believe that in about a quarter's time, we will see the growth trajectory come back up again, and we are confident of the progress there.

Ravi Menon: And are you using those downturns or semiconductor to deepen your capabilities in any areas, any white spaces maybe in the analog side or anything else where you think you lack?

Amit Chadha: So, it's Amit again. From a capability standpoint, I do believe that we have capability across the spectrum. We are working towards -- in fact, we've executed projects now on 7 nanometer (7 nm) chip as well, and we continue to work on different areas and are tying up with this global ecosystem as well. So, we just have to start; some of these have to get signed off and start.

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

Sandeep Shah: My first question is, last time in the Q4 earnings call, we said that more than 20% constant currency growth and the organic growth would be more than 10%. Whether that assumption

changed? Or do you expect that growth could be slightly higher in the case of SWC calculation because the first quarter run rate for SWC on YoY has been healthy. So, whether the 10% plus organic growth guidance still stand?

Amit Chadha: Sandeep, thank you. So, the way we look at it is, number one, as you've seen in the numbers, we have reported SWC mostly in the Telecom segment, right? Because operationally, we have integrated. I mean there are leaders from our SWC family that today are responsible for 2 of our centers in India, execution centers. There are leaders, senior leaders from the LTTS heritage side, that are responsible for the nexGen communication business, which has been integrated between both of them.

So, we do commit to that 20% plus constant currency, and we are watchful that we won't sign lower margin deals and that has been a conscious effort. And shall I say, cadence developed in the last 3 months in the company to ensure that. I'm confirming 20% plus constant currency, H2 better than H1. And broadly, the split will be what we have told you.

Sandeep Shah: Okay. So organic growth will also be more than 10%?

Amit Chadha: At this stage, 20% plus, yes, organic 10% plus and that's where we are. But you should know that both teams have merged and integrated.

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

Bhavik Mehta: Just one question from my side. Just going back to the guidance, how should we look at the mix of growth within your portfolio? Do you expect all verticals to show strong growth going forward, or do you think that some verticals will do better than the others and hence they will do the heavy lifting to offset weakness in maybe some other verticals. Just a color on that would be helpful.

Amit Chadha: Sure. In fact, I'm going to answer this in 2 ways if I may. One, I'm going to give you an industry view and then I'm going to ask my colleague here, Abhishek, to talk to you about what we are doing in SDV and AI because that's a huge path forward for us.

So, from an industry standpoint and growth standpoint, I do believe that Transportation will continue the strong growth we've had because of the differentiated story of EV that we have created and the early investments in SDV that we are doing.

When it comes to Industrial Products, given the fact that we are seeing deal closures happening for us in digital as well as software platforms and people discussing AI in a very interesting manner for shop floor application for us. We believe that growth for that will continue, not maybe at the same rate of Transportation, but better than what we have done this quarter. We do see the growth continuing.

Plant, we do see the growth coming back next quarter and then continuing from there. Our backlog is fairly strong, and people continue to call us for designing of newer plants, expansion,

etc., and with this outpost we are creating in the US which has already been staffed, we are very confident that it will grow.

Now the two areas that I am a little conservative about – one is Hitech, even though nexGen communication will continue to grow given 5G cybersecurity, I don't know how long the pain in Semcon and Consumer Electronics will continue. I do believe it's a quarter off, but we don't know. So that's something that I'm a little concerned about at this stage and cautious is the right word.

And finally, in Medical, we've had some good traction, some very nice dialogue around connected platforms, QARA, AI. But it's, again, how much do they want to give and do in the same quarter is to be seen. So that's where we broadly see it. I would invite my colleague Abhishek, to talk a little bit about investments we are making in AI and SDV that will help us in terms of growth as we move forward.

Abhishek Sinha: Yes. Thanks, Amit. So clearly, with our customers, Amit earlier mentioned about the Advisory Council, we are clearly seeing SDV, AI and Cybersecurity as the 3 legs – where we see a lot of investments are coming in.

The good news is, from a timing perspective – the SWC acquisition that we made the whole NGC, next-gen communication skills that comes through that and the cybersecurity area are a direct fitment into the SDV space. And why I say that is because if you look at the software kind of vehicle architecture, a lot of it is a high compute architecture and what that means is the skills that come from 5G, internet and such areas are directly relevant for the way the vehicles are going to be designed. And interestingly, cybersecurity is a sweet spot for us because vehicle SOC is something that need automotive skills and deep cybersecurity skills, and this acquisition gives us both in a very nice way. And that is probably going to be one of the key differentiators as we get into the space. I mean as we speak, we're already doing at least 4 or 5 SDV programs for most of the customers in Europe right now, and we see a decent pipeline on the SDV front.

Coming to AI, our sweet spot there is going to be Manufacturing, Automotive and Medical. Here also, I think the domain expertise that we bring to the table – it's very clear that AI is not just going to be about technology, it's about domain as well, and our deep domain expertise in these areas definitely helps us take some good strides ahead. So we will be, of course, focusing on these 3 segments. But apart from that, the investments we have done over the last couple of years – we have patents on some AI-specific solutions as well. That should help us. The work we do with hyperscalers, Semcon partners, I think this is a great recipe for different domain segments coming together to provide domain-specific AI solutions to customers.

In both these areas, we are investing big time in internal trainings and the partnerships with various entities in the ecosystem itself. And you will definitely hear more from us in the coming quarters on these areas.

Moderator: Thank you. The next question is from the line of Rohan Nagpal from Helios Capital Management, India. Please go ahead.

Rohan Nagpal: One quick question on your India business, notice that there is a significant reduction in the -- there's about a $10M reduction in your India business. Is it just on account of SWC seasonality or what is going on here?

Amit Chadha: Yes, that's largely SWC. I don't see it another way.

Rohan Nagpal: Okay. And then one of the things you mentioned was the deals that you've signed have already gone in for execution, they're fairly swift. Could you provide some color on the timeline of deals in terms of what is the typical timeline from signing to execution? And some color on the pipeline that you're currently seeing?

Amit Chadha: Sure. When it comes to the deals that we signed, the $50M deal was something that we had been pursuing for more than about 4 months. And it took time and, we were waiting, we were investing and waiting, right? And it took a lot of decision, approval, etc., to go through with that, but it's already moved to execution, and we have gone live. Now the other 5 deals that are there, the $10M+ deals, they have all gone into execution, I want to confirm, towards the last week of June, right, and ramping up as we speak and should get to steady state sometime in this quarter. So, we are continuing to work on those.

Now as an example, one of the Hitech deals that we signed, $10M+, not the $50M+, that took us 3 months multiple meetings to sign. So, what we have done as a team is that we've improved our funnel. We've increased the number of deals that we are chasing. We have hired more salespeople. They are on the ground and leaders as well. And I believe that, therefore, we are comfortable with the fact that we'll have to put in more effort to be able to do this. The moment the deal gets signed, right, the ramp up is fairly immediate. So, these are not long-term that they'll take 6 months, 9 months to do. Ramp up is immediate.

Therefore, we've beefed up our recruitment engine as well as well as Abhishek is very passionate about the Global Engineering Academy, which is also running full time to make sure that we are able to repurpose people, turn them around, etc.

In fact, in one of the deals that we signed, which was not a 1$0M deal because it's a shorter period, we had invested in hiring and holding about 100+ resources for some period, and they have gone live now and billing. So, some of that training upfront, before execution, is required. And we have more deals on the back of these that we are working on, we will continue to update you as we close them.

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

Mihir Manohar: Sir, largely wanted to understand on the synergy, which is the SWC acquisition. So, which are the internal KPIs that we are tracking? And how are we progressing on those KPIs -- that internal KPIs, that will be really helpful. My second question was on the deal pipeline. I mean, you mentioned the deal pipeline is quite strong, has improved materially. So, if you can quantify what is the QoQ or a YoY improvement in deal pipeline that will be really helpful.

And specifically, which are the areas where you are seeing good deal pipeline in that context? And my last question was just on the external environment. I mean you are appearing to be more optimistic on the external environment when compared to your earlier commentaries. So, if you can throw some more color, I mean is the external environment worry just behind us? And how do you see the external environment per se? Yes. So those were the questions.

Rajeev Gupta: So, this is Rajeev here. Let me take the part on the synergies from SWC acquisition. So, we've, of course, briefed this earlier as well – 3 areas that we are working towards. The integration did conclude as of April 1, 2023, so both the companies are now together. And we are reporting SWC under our Telecom & Hitech segment.

In terms of synergies, 3 areas:

First, internationalization of revenue. Amit did talk about that we've beefed up our sales leaders in U.S., in Europe, in Middle East. And clearly, the idea is to build pipeline. Some of that progress indeed has happened.

Second is in terms of improving the EBIT margin. SWC has been a lower margin business, more so because most of the revenue has been India-based, right? And of course, taking it international will help us getting comparable margins much like our heritage business.

Third is in terms of improving DSO. DSO because the deals that we're executing in India are deals that are like -- are with the government entities. So, as we do deals with global customers, we will see DSO terms closer to what we have in heritage LTTS business.

These are the 3 areas. We'll continue to update.

We did mention that our aspiration in terms of the combined EBIT margin is 17% levels. In terms of DSO, the range that we maintained combined is between 115 to 117 and we will continue to update on that.

Of course, Amit did reiterate in terms of the growth aspiration, which is 20% plus, including the SWC acquisition. Amit, do you want to take the second one?

Amit Chadha: Sure pipeline – where and its external environment. If I look at external environment, the fact that we are in 5 segments is what gives us confidence when one goes down, another goes up; It is a portfolio. That's point number one. Number two, being an end-to-end engineering provider from mechanical to hydraulic electrical to plant engineering to digital skills, and in that across the track from VLSI to hardware to software, firmware – all that gives us the confidence that we are fairly in the right place.

Now having said that, I'll tell you where the problem is.

One, the problem is that some of these deals that we are talking about, and we have chunkier deals like the $50M that we closed in our pipeline. So, the number of $50M+ deals, the $25M+ deals for us at this stage is higher than it was last quarter, or same quarter last year. That is driven

by the fact that some of the investments we made in EV, some of the investments we made in digital manufacturing, some of the investments that we made in VLSI capabilities and digital skills is coming to bear. Now, so that's what gives us the confidence. Now the issue is, firstly, instead of 2 signatures, deals are taking 4 signatures. The reality, I will not shy away. I will acknowledge it. I mean I should tell you the number of miles that Alind or even Rajeev, Abhishek, our HR head Lakshmanan, is putting on in the last 2 quarters is much higher than they would have traveled over the last year because clients need that reconfirmation from the entire management team and not just one or two people, right. Secondly, in Semcon and Consumer Electronics, like I said, there's a little bit of pain left. I cannot quantify for you how long, but that's the reality. Third, any project that doesn't have a profit pool or a revenue pool associated and is being done for the love of mankind or womankind is getting delayed.

So, these are 3 realities that are there. But having said that, we continue to be agile. We continue to look at various areas like I requested Abhishek to talk about today on SDV and AI. We are thinking ahead of the market, and I believe that these investments will carry us forward.

Moderator: Thank you. The next question is from the line of Aniket Kulkarni from BMSPL Capital. Please go ahead.

Aniket Kulkarni: Yes. So just a small question from my side. It is regarding the ROE number which you are doing right now. So, are we comfortable at these numbers? Or is there any specific bracket where we want to be going forward?

Rajeev Gupta: Aniket, this is Rajeev here. So of course, you may be looking at ROE at a quarter level, but we certainly try to aspire for an annualized number. At this stage, we are comfortable in terms of the ROE, where we are or rather where we ended for FY23. The aspiration certainly is to improve at the back of 18% EBIT margins by Q1 FY26. So, we believe over the period of these next 5-6 quarters, we should be able to improve the ROE. But at this stage, we are comfortable with where it is.

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

Pinku Pappan: Thank you all for joining us on the call today. We hope we were able to answer most of your queries and happy to do follow-ups with you through the quarter. With that, we're signing off from this quarter's call and have a good day and wish you all a great day ahead. Thanks.

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

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