L&T Technology Services
Q2 FY24 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day, and welcome to L&T Technology Services Limited Q2 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: Thank you. Hello, everyone, and welcome to the earnings call at L&T Technology Services for the Second Quarter FY24. I am Pinku, Head of Investor Relations. Our financial results, investor release and press release have been filed with the stock exchanges and are also available on our website www.ltts.com. I hope you've had a chance to go through them. This call is for 60 minutes. We will try to wrap the management remarks in 20 minutes and then open up for Q&A. The audio recording of this call will be available on our website approximately 1 hour after this call ends.

With that, let me introduce the leadership team present on the 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 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: Sure. Thank you, Pinku. Happy Navratri to one and all. Thank you so much for joining us on the call today.

With that, let me start with the key highlights of our **Q2 performance:**

- We grew at 3.2% sequentially in constant currency. The growth was broad based after 4 quarters with all segments growing sequentially.
- Transport and Plant Engineering led the growth with around 4% growth in each.
- Our deal wins were strong – 7 deals of $10M plus of which six were above $15M each. We also had two significant empanelment deals. Like our growth, the deal wins were also broad-based in nature.

- Our operational performance continues to be healthy with EBIT margins of 17.1% - nearly flat on a sequential basis even as we absorb the wage hikes of our employees and investments into capability building.

Let me now start and provide a more detailed **segmental view and outlook**:

Starting with **Transportation,**

- We had a good quarter with 4.4% QoQ with all 3 sub-segments – Auto, Trucks & Off Highway and Aero growing.

- Similar to our investment in EV 2 years back, we are accelerating training and capability building in SDV or *software defined vehicles,* to take advantage of the next wave of spending.

- Automobiles will require an architectural transformation as processing shifts from multiple domains to a central high performance and compute architecture under SDV.

- We are partnering with US headquartered chip majors to build these next generation chips and software for SDV.

- We plan to have around 1,800 resources trained in SDV over the next few quarters in line with the demand. There are multiple proposals that are under discussion currently with OEMs and Tier 1s.

- Our EV play continues to be strong with Trucks and Off Highway customers also moving up the investment curve towards high power EVs.

- In Aero, we have seen multiple new build conversations starting as a refresh cycle is beginning.

Overall, we are excited about the number of large deals in the pipeline and new technology conversation we are having with our customers, which should continue to drive growth in Transportation.

In **Plant Engineering,**

- We had a strong quarter with nearly 4% QoQ growth that was broad-based across FMCG, O&G and Chemicals.

- O&G customers are investing across the spectrum in Shale, low-carbon energy, carbon capture and renewables. They are also making changes in the refinery as they refit themselves for greener fuels.

- In FMCG, there is a continued capacity expansion happening with automation and digital twin being the investment focus.

The deal pipeline in both the U.S. and Europe continues to be healthy that will drive strong growth for us in Q3 and beyond.

On **Industrial Products**,

- We had a slightly softer growth in Q2, which was led by Electrical Machinery and Power and Utilities while Building Automation had challenges.
- Digital manufacturing and the use of AI and robotics is driving demand for us. Customers are enabling such technologies to improve internal efficiency and speed up time-to-market.
- In Q2, we won a large deal with a global machinery company to set up a software center of excellence in India, catering to their digital transformation needs.
- Sustainability is another driver of growth as customers look to measure and track carbon footprint over their product life cycle.

While growth momentum has continued, the pace has been slow on account of decision-making delays and some stress in the sub-billion customer set. We continue to see growth in IP, which will be driven by digital products and digital manufacturing.

In **Telecom & Hitech**,

- We grew by 2% sequentially despite challenges in the Semcon and Consumer Electronics portfolios.
- In Semiconductors, we are engaging more on the new age chip sets that are designed for AI and cloud computing workloads – which has allowed us to keep growing despite the challenges.
- Our Palo Alto partnership is progressing well. We are in discussions with multiple enterprise customers to provide Operation Technology (OT) and cybersecurity services.
- We won our first large deal of $10M+, leveraging SWC capabilities in the global market. As part of this deal, we'll be helping our Global customer in establishing a 5G center of excellence. Our superior end-to-end technology stack for wireless and 5G communications that is becoming a key differentiator for us, helped us win the deal.
- In the Nex Gen Comms and Sustainable Smart World space, we won two large orders in India – one for setting up an advanced communication system for a metro rail, and the other for implementing a state-wide smart metering system.
- In the Media side, we are also seeing large deal opportunities with vendor consolidation and cost optimization being the key drivers.

Overall, we are optimistic that with the key pipeline and deals we are likely to close, growth will continue. Near term we might still see some volatility in the Semcon side, although the Media and Nex Gen Communications parts are likely to keep growing.

Lastly, in **Medical**,

- We had a good quarter as we improved on the growth momentum sequentially.
- Last quarter, I talked about how we are seeing traction improving in the large deal pipeline in Medical. Happy to share that we won two deals in Q2, each of them close to $20M in TCV.
    - In one, we will be developing a next-generation platform to bring out products faster into the market. In the other deal, we will help our customer in sustenance and manufacturing optimization.
- Digital, especially in areas like process automation, optimization and productivity improvement powered by AI solutions are seeing increased demand.
- Cybersecurity is another focus area for our customers in Medical.

Q3 will be a soft quarter for us in line with seasonality, although we expect growth to bounce back Q4 onwards.

Now a few highlights on our **Digital Engineering and Technology progress**.

- Our engineers continue to innovate. We had a total of 53 filings in Q2, and as you are aware, the pace of patent filings has increased – our cumulative filings are near the 1,200 mark from around 1,000 a year back, and I'm happy to share that this is 10th quarter in a row that we have filed 50 patents for ourselves and our customers in the quarter.
- The innovation culture in the company promotes ideation and cutting-edge solutions.
- I would like to highlight that in the EACV domain Everest has rated LTTS as the **#1 service provider** in Electric, and among top leaders in Autonomous and Connected.
- Similarly, ISG for their Manufacturing Industry Services rated LTTS as a leader in digital factory and manufacturing solutions and also in Agile product development.

Let us now discuss the **Outlook**

- We are investing in software defined vehicles, AI & cybersecurity, and will have close to 2,000 employees trained over the next few quarters. Our collaboration with hyperscalers and chip companies is helping us develop AI solutions and services that address needs for industry like Auto, Manufacturing and Medical.

- These conversations are helping us to advance the resilience, growth and transformation agenda of our customers, while also adding more large deal engagements to our pipeline.

- The deal pipeline we see makes us very optimistic about our growth sustaining – and you can see this is also reflected in our headcount addition in Q2.

- Having said that, there has been increased uncertainty with the events that have unfolded over the last few weeks – and these developments are still evolving. As a result, we are seeing a wider range of how Q3 and Q4 could play out for us.

- We are therefore revising our FY24 revenue growth guidance to 17.5% to 18.5% in CC.

Summing up, we had a good quarter, and the deal wins and customer traction make us confident that our investments are helping us to be on the right side of the future work and expansion.

With that said, I wish you all a very happy upcoming festive season.

And I will now hand over to Rajeev. Thank you.

Rajeev Gupta: Thank you, Amit. Greetings to all of you.

I am pleased to share that our Q2 FY24 performance – it has been another quarter of good results with healthy addition of deals and consistent operational performance.

Happy to note that after fully integrating SWC within LTTS, we have seen our first large deal win in the global markets leveraging the joint capabilities.

With that, let me take you through Q2 FY24 financials, starting with the P&L.

Our revenue for the quarter was ₹ 2,387 crores, a growth of 3.7% on a sequential basis. Our YoY growth for Q2 came in at 4.6%.

We have been able to maintain EBIT at 17.1% after absorbing wage hikes and investments in technology that Amit highlighted. These headwinds were offset through operational efficiencies, better SGA leverage and cost optimization measures. The EBIT margin is in line with our aspiration of 17% for FY24.

Now moving to below EBIT.

Let me talk about Other Income.

Other Income was ₹ 29 crores, lower on a sequential basis due to lower income from investments.

Effective Tax Rate (ETR) for Q2 was 27.6% in the same range as our expectations of 27.5%.

Net income for the quarter was 5% on Y-o-Y basis and came in at INR315 crores, which is 13.2% of revenue.

Moving to Balance Sheet. Let me highlight the key line items:

DSO came in at 102 days at the end of Q2, flat as compared to Q1. Unbilled days was 16 in Q2 compared to 15 days in Q1. The combined DSO, including Unbilled stood at 118 days compared to 117 days in Q1, which is within our target range of 115-125 days for the year.

Let me now talk about cash flows.

Our YTD Free Cash Flows were ₹ 430 crores, which is at 69% of Net Income.

We continue our efforts in improving collections and maintaining healthy free cash flows and we will see further FCF improvement in H2 FY24.

Our Cash and Investments stood at ₹ 2,270 crores at the end of Q2 versus ₹ 2,394 crores at the end of Q1. This was slightly lower due to final dividend payout of FY23 of nearly ₹ 320 crores.

As you would have seen today, the board approved an interim dividend of ₹ 17/share.

Moving to revenue metrics.

On a sequential basis, $ revenue growth was 3.2% on constant currency basis and 2.9% in reported terms. We saw a broad-based growth in Q2, with all segments growing quarter on quarter, led by Transportation and Plant Engineering segments.

The segmental margin performance was better in 3 out of 5 segments on a sequential basis, with improvements in Transportation, Telecom & Hitech and Plant Engineering segments.

Now let me comment on operational metrics.

The Onsite:Offshore mix was at a similar range as compared to Q1. Offshore percentage now stands at 59.6%. We are working on measures to gradually improve this metric.

The T&M revenue mix was 64.2% in Q2 in a similar range as compared to Q1. We expect this to continue at the same level going forward.

Client profile – which indicates the number of million dollar plus accounts has shown a sequential improvement in the $30M+ category. The client profile will continue to improve in the coming quarters.

Client contribution to revenue all three categories, Top 5, Top 10 and Top 20 have shown a slight improvement as compared to Q1, and we expect this trend to continue going forward.

Headcount increased sequentially by 488 employees, while Attrition dropped by 220 basis points to 16.7% as we see an impact of various employee engagement measures as well as the industry-wide trend coming down.

Realized rupee from Q2 was around 82.84 to the U.S. dollar, a depreciation of nearly 1% versus Q1.

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

We continue to focus on profitable growth and maintain our operational rigor. As Amit mentioned, in the short term there are headwinds to growth arising from the current macro environment. We are proactively taking measures to balance these headwinds through productivity gains and cost optimization.

We maintain our aspiration to be at 17% EBIT levels in FY24 and to get back to 18% EBIT levels by H1 FY26.

With that, wish everyone a happy festive season ahead. We thank all our stakeholders for their continued patronage.

Thank you. Moderator, we can take questions now.

Moderator: Thank you very much. We will now begin the Q&A session. We will take our first question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Great to see a mix of very broad-based growth across all the segments, so congrats on that broad-based growth. I just have a couple of questions. In the industry at this point of time, we are seeing two phenomena. One is the new deals are taking time to get closed or start execution. The second is the existing deals, the discretionary part of those deals is being put on hold or being delayed.

What in your case has led to that small discrepancy in the revenue, which led us to downgrade our guidance? And what do you see -- how do you see those things playing out over the next 2 to 3 quarters.

Amit Chadha: So Vibhor, thank you so much. Vibhor, so let me say a couple of things. One, if I look at the last quarter, when I had come to this call and before that as well, I've been talking about the fact that the number of deals that we have got in our pipeline – $10M+, $20M+, right -- and $50M+, even three-digit deals – is higher than where it was last year. And the deal velocity is slightly slower. The average deal size is slightly longer. I talked about this last time.

So, the results have been that we've been able to sign the 7 deals that were $10M+ in Q2, right, out of which 6 of them are $15M+. Actually, a couple of them are more than $20M+, a couple of them are exactly $20M, etc. So there has been that colour. In addition to that, in the current quarter also, that is Q3, which is progressing right now, we have signed $20M+& $10M+ deals, three deals that have been signed in the last two weeks as well.

So from that standpoint, the funnel is bigger, and we are seeing those closures. Now the reason that we've been prudent and cautious slightly in terms of the guidance to saying 17.5% – 18.5%, though our internal targets are to reach the original numbers that we had told you, is that the market in the last 3 weeks/5 weeks has changed slightly. One, you are aware of the UAW strikes from mid-September that has been happening in the US, which has put a pause on a couple of projects that we were working on. We don't know when that's going to lift off.

Second, with this developing situation that's happening in the world, we are not totally sure as to which way will this come and sit. Though we don't have too much operations in Israel. It's very small, and we continue to pray for our small team that's there. But what will be the indirect impact, we're not sure.

And therefore, I shared with you also that we have an algorithm that we use for computing this. So -- and we have taken that into account, and that's why you're seeing the revised one. We will come back again in January & if things turn, we will let you know. But we continue to work, we continue to be optimistic. We continue to be hiring. We continue to invest in technology.

Vibhor Singhal: Sure. Great to hear those words of optimism from somebody at least in the industry. Thanks for that Amit.

The second question I had was on the Telecom segment. Now in this quarter, we have won this deal as you mentioned, with the SWC capabilities being added. Now traditionally, in the Telecom and Hitech segment, we've been more towards Telecom and Hitech than the Telecom service providers, the TSPs. Will that mix change? Or has that mix already changed in favour of Telecom service providers because of SWC integrating into the business? And do you think that could increase the growth that this segment could see given the Telcos globally are bleeding. There have been very few monetizable cases of 5G & Telcos across the world has not been able to ramp up there, let's say, ARPUs or their revenue profile because of 5G adoption?

Amit Chadha: So see, it's more than just 5G or Telco providers, it is two or three things that we should look at. We also look at cybersecurity for this segment as a horizontal offering across enterprise as well as Telecom, right? One, what's happened is with the 5G – with the SWC acquisition, our skill level, our skill depth, our expertise has definitely gone through a shift and a change towards the positive way. That is helping us in having more mature conversations with Telecom Infra OEMs as well as Operators and actually, at times, it's really spilling over also with some of the Media work that we are doing that borders on this. So, it's helping us have those conversations.

The deal we have closed, which is a first Smart World deal, a $10M+ deal. We had closed a smaller one earlier. This is the first $10M+ deal for this business, we have closed with a US customer. In Q3, i.e., in the last two weeks, we have closed the cyber deal of $10M+, again, with an international customer, these are at LTTS standard margins, right? So, it is helping us change the conversation.

The Second thing that we are seeing, and we talked about the deals we have won in India with Smart World, is we are proud to say the work that we have won in Smart World in India actually has a component of software that we have developed in-house that we're going to be deploying as well, right? So that is a value-add service that we are providing.

Third, with the work that we are doing with Telecom, we are able to go to Semcon companies, we're able to go to Telecom Infra companies and work with them to be able to bring them to India together. So, it's becoming like a ‘sell with,’ ‘solution with’ conversations that was not happening prior to Smart World.

Lastly, we are getting to finally own an entire end-to-end project work that again was not there earlier. Again, story to be played out. Early days, we've made the investments. We have stood up our team in the Middle East, our full sales team in the Middle East. We've seen some smart city opportunities there as well. The pipeline is there. So, to be played out Vibhor, but definitely for the better. And per our plan, as we had thought about when we purchased this business.

Moderator: Thank you. We have a next question from the line of Akshay Ramnani from Axis Capital. Please go ahead.

Akshay Ramnani: Congrats on good execution on margins. So, my first question was on SWC seasonality. So, during last quarter's earnings call, you mentioned that SWC has a seasonally stronger H2. Now when I try to look at the numbers where you have given revenues for including SWC and excluding SWC for FY23 and take the difference out there, it appears that in Q2 of FY23, SWC is having strong sequential growth & it also appears that H1 was stronger than H2 in FY23. So, can you please clarify on the SWC seasonality? And also maybe comment on how did SWC is performing Q2 of the current quarter, if you may add did you also see that seasonal uptick in this quarter?

Amit Chadha: Sure. So, thank you so much, Akshay. In fact, if I take away the SWC revenue from the quarter, same quarter last year, the growth is approximately 16% for us as a company, right? But having said that, if I look at the SWC business now, see, the whole goal of integrating SWC, buying SWC and integrating it together as one team, one company, one division was that we would like to take this business internationally, investing in a full-scale sales team in Middle East, investing in a full-scale sales team in the US as well as parts of Europe. The whole idea was – 1) take the business international, 2) take away the seasonality to the extent possible and cyclicality to the extent possible 3) to improve margins in India and become value-added rather than just being a reseller/provider. I think all those dots we are trying to do. Again, these are early days. It's only the second quarter that we have run together. So, to be seen as we go forward, there are some good deals that are in the pipeline for the business as well.

And now we don't call it Smart World anymore, we call it NGC, Nex Gen Comms. So, we do have a pipeline for the Nex Gen Comms business, and we are actively working and pursuing to try and close some of these deals internationally as well as in India. So, to be seen and to be played out as we move along. And we'll keep you updated as things develop and go forward.

I do want to just say one more thing. We have packaged two of the solutions that our NGC business has created. We have packaged it. We won our first order for the license as well, and we are doing more in that area. So, to be played out, to be seen.

Akshay Ramnani: My question on SWC seasonality part, I think remained unanswered…

Amit Chadha: I'll address it, yes. So, look, I'm not going to look in rear view mirror and say what happened last year. We are playing it in the current year as we are, and we'll see how Q3 and Q4 do, to be played out.

Akshay Ramnani: Okay. And my second question is on headcount additions. So, the sub-500 QoQ addition while it is positive, but I guess still lower than maybe your estimate of 750 net adds at least in Q2. This is despite a reduction in attrition. So, is it fair to say that this was because of demand deterioration through the quarter? And also is our utilization now closer to peak levels because looks like that was one of the levers to margin this quarter?

Amit Chadha: So, thank you, Akshay. Very valid question. Actually, the way you have to think about it is that if we get a signal that future, so we normally know what kind attrition numbers we will have a quarter in advance, right? Because there is a notice period and we've got an algorithm with HR that does that very carefully. So, we do see attrition levels stabilizing. That allows us to be able to leverage the bench better, have a smaller bench, if I may, and tune hiring to make sure that we are not losing so many people, be able to actually free up some people that are there and have them work, improve utilization. improve pyramid, etc.

So, with all that, I would not read too much between the 500+ to the 700+. We've had some joining that have been there in the first week of October as opposed to September. That's all there is to it. We will continue, like Rajeev mentioned, we are a path of profitable, sustainable inclusive growth, right? And you will see us being careful as we continue to be always, in terms of how many we need, what can be re-purpose internally, etc. In fact, our training institute has been working overtime and reskilling people as well & that's how you will see this going forward.

For the record, about 2,000 freshers we had hired last year. So far, we've onboarded & we're getting a similar number this year. We've already onboarded more than 1,000 so far, and the remaining offers that are there will be honoured in the next two quarters, there's a plan for it as we move forward. We are, in fact, starting to discuss college campus hiring for next year as well and finalizing those numbers as we speak.

Moderator: Thank you. We have a next question from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: So, first is with respect to the guidance that we've revised, I just wanted to understand what's the split of this guidance ex of SWC? I mean, on an organic basis, what's the number that you're looking at for FY24?

Amit Chadha: So Sulabh, thank you so much for asking. Actually, we had mentioned this in the last call that we look at this now as an integrated business. And we don't look at it as two businesses anymore because now the international deals are being one, that means some of the Smart World resources are being used, NGC resources are being leveraged for that. There is work that is happening in India where we are leveraging some of the LTTS heritage resources as well; So, it's now become one team. So, we are guiding at this stage, 17.5% to 18.5% and comfortable with the upper part of the spectrum.

Sulabh Govila: Understood. Then with respect to margins, Rajeev, the sharp decline in SG&A expenses that we've seen this quarter, and this is especially with the number of sales employees increasing. So just trying to understand what has led to this sharp decline? And how much of this is sustainable going through the quarters?

Rajeev Gupta: Yes. Thank you, Sulabh. So let me clarify, the increase in headcount that you see is largely on the enabling side. As we grow, we also need to ensure that our enabling functions are able to cope up with the increase in demand and of course, the scale of business that we operate in. See, some of the reduction that you see in the SG&A side, is actually planned for, right?

One of that comes from the synergies from SWC acquisition. We talked about it. We ran the process on integration. We have now concluded. We merged the two businesses. A lot of the non-billable resources that used to be part of G&A, now are moving into billable roles. Second, facilities have been consolidated. That has been another area that has given us benefit. So, the synergies are truly translated.

Second, given that we see that there are challenging conditions that's always prudent to think optimization. We indeed optimize our G&A costs. So, areas like travel, welfare spend, all of these areas we have carefully looked at and optimized upon.

Third is we've had lower stock option cost in this quarter relative to previous quarters.

Then also looking at our variable pay provision. We've looked at it in relation to the sales targets and accordingly adjusted for it. So, these are a few reasons where you see.

Now in terms of sustaining the levels, we believe that we have been in the range of 10%. We believe we will continue to be in the range of 9.5% to 10%. While I mentioned this, there are, of course, a lot of opportunities that we see on the gross margin side. I'll probably add on to it because for us looking at all of the cost in one stack is important. So, while we've seen the gross margin come down this quarter, it is truly because we value our employees as an important stakeholder. We did go through with our increments and we feel there's a good opportunity on improving the utilization on freshers.

We also believe that there are going to be further opportunities in terms of optimizing on subcontracting or TPC cost, offshoring, we mentioned about it and travel, right? So, these are all areas that we're going to continue to play upon. And between gross margin & SGA continue to see that we maintain our aspiration of 17% EBIT for FY24.

Sulabh Govila: Sure, Rajeev. So just a quick follow-up. So does that mean that there is some sort of conservatism baked in the full year guidance and 18% expectation in 1H FY26 because the way we absorb the wage hikes in this quarter, ideally one would imagine this happens throughout the year. So, there should be more tailwinds to margins and 2H versus what we are implying right now?

Rajeev Gupta: So Sulabh, in a way, I would say, yes. A lot has to be seen in terms of how we see revenue translate. Amit did talk about some of the headwinds. In the current environment in the last month or so has not been that great. We believe it all played out well, we should be able to come slightly better off. But of course, we have to see that through. Of course, Q3 also is one of the most challenging quarters, right?

Now all of the costs we have planned, keeping in mind that these challenges are being addressed for. So like I said, we maintain our 17% EBIT levels in terms of aspiration for FY24 and continue to look at the stack of cost as to how do we optimize or allow the scalability in terms of investing in technology.

Moderator: Thank you. We have our next question from the line of Karan Uppal from Phillip Capital. Please go ahead.

Karan Uppal: Yes. Thanks for the opportunity. So, Amit, one question on the longer decision cycles you have mentioned in the press release. So is the slowdown in between cycles across verticals for you or some verticals are more stressed than others at this point of time. And how confident are you to achieve the guidance because it still requires 2% to 3% CQGR you're in H2?

Amit Chadha: Karan, thank you. I'll answer your second question first and the first question second.

So, I would like to confirm to you that internal targets are higher than the guidance, and we will continue to strive to see that we meet those and do well, right? So unequivocally, I want you to think about this. And we have baked in some amount of happenings in the last few weeks, like I said in one of the earlier answers.

Now number two, do we see a slowdown happening across. See more than a slowdown, I would call it caution. There is caution in terms of conversations, there are clients that are having with us. They are wanting to wait and watch how things turn out, right? Because there's a lot of these reports coming out every day that are fairly counter to each other. And every client is looking at their own market, they're looking at their own cost stack, etc. So, we are seeing decision-making cautious. We are seeing people asking us more data before they make a decision.

What we are doing to address that is to pile up more proposals. So, we are trying to see how we ramp up our pipeline to a much larger extent. In fact, my colleague, Alind Saxena, is driving that initiative of seeing, what can we do in terms of improving the pipeline.

Alind, would you like to share a few words on what we're doing around the pipeline?

Alind Saxena: Thank you. So, across the sectors if we look at the five different sectors that we play in, we today have sufficient pipeline and we have made some provisions for backups in case some of the decisions get delayed. And we are seeing a fair amount of reception back from the customers on that. We are fairly confident that, we are going to be able to close them in time to make sure that we meet our guidance as we go through. And as we look forward, we see the momentum continuing and being stable over the next few months and few weeks that we have in front of us. Thank you.

Karan Uppal: Okay. Second question, Amit, is slightly on the longer side, specifically on SDV-related area. So do you want to highlight any investments you are making maybe on the capability side or on the labs? Any large deals in the pipeline within this area, because peers have started announcing pretty large deal in software defined vehicles. So any update from that side will be very helpful.

Amit Chadha: So, on the SDV side, see, as we look at the SDV stack, we look at it as a hardware layer, we look at it as a compute layer, embedded layer and then the software layer and then the data layer. So there are four parts to SDV that we are discussing here.

So, one, we are in active dialogue, conversations have engaged in a partnership model with silicon majors, where we are getting our people – One, trained on the latest chips and how will they be leveraged on high-performance computing chips. Second, we are -- we have won smaller contracts, and then we are looking at bigger contracts to do semiconductor design for these high-performance chips for SDV.

Second, with OEMs and Tier 1s, we are working closely to ramp up work for them. There are double-digit deals that we are currently in play in our pipeline in the SDV area that we are trying to actively pursue and close and ramp up.

Third, we've actually leveraged our Global Engineering Academy to try and develop the skills internally and retrain people.

Fourth, there are tools that we have developed around leveraging Gen AI. There's a tool called EvQUAL, it's on our website, that's hosted on AWS. There is a Digital Twin for digital cockpit we have built. There is Ethernet simulator we have built. There is hawkBit, another one that we have built. There are various components that we have built that are leveraging for the OEMs and Tier 1s as we move forward. So, deals in play, deals in progress, a ramp-up happening across US, Europe and Japan.

Moderator: Thank you. We have a next question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Thank you. Amit, if I heard you right, the only area that you really called out softness, it was semiconductors. And Q3, historically, it hasn't been really bad for LTT, if you want to look at it. Is anything different this time?

Amit Chadha: So one, we do expect there to be a softness in Medical, right? I'm calling that out. Number two, Semcon and ISV, my belief is that the pain will be over by Q3 and in Q4, things should turn around in Semicon and ISV. So there's another quarter of pain left in that particular area.

Outside of that, regular furloughs, Ravi, the only thing that we don't know is that because of the UAW strike since mid-September, some of our projects were put on hold. And we are not sure whether we'll be able to leverage the working days in this quarter to work on it or will it slip to next quarter. So some of that is what's going on.

Having said that, we're still cautiously approaching the quarter. That's why I said in my commentary that Q3 there it's still got to play out, right? In addition to that, there's a couple of deals going on that we have got that could help us in the quarter, this and next one, if we are able to sign them. So again, an active discussion ongoing if I may, Ravi.

Ravi Menon: And I know for you, Transportation is not just Auto, but really strong growth there. But in Auto should we worry about the EV transition because we have been reading reports at EV sales are not really going through as expected and automakers are actually seeing bigger inventories of EV vehicles now?

Amit Chadha: So Ravi, there are two parts here. Number one, we are not just Auto. We are, like you said, we are Auto, we have Commercial Vehicles, Trucks & Off Highway, Aerospace and Rail. So we are across the segment. That's number one. Number two is that our -- though we are rated highest in EV, and I'm truly complementary of the entire team that came together to deliver it, we are not a single trick pony. There is other offerings that we have got in the area that we are leveraging, right?

In fact, the investments in SDV that we are doing, we believe is the future, like AI. So, AI, cybersecurity, SDV as well as next-gen compute and next-gen comms is the future. So, we'll continue to invest. And not just that, I would go a step further and say that one thing that we've been able to leverage very successfully, like for SDV we did.

We took a 50-member team from our Semiconductor practice and a 50-member team from our Consumer Electronics practice, and we put that as a seed team for SDV and said, "Go build and let's go ahead and grow", right? We have done that for EV, if you remember three years ago by taking 100 people from Industrial Products and power electronics.

So we will cross leverage skills from SDV and automotive to other areas if required to supplement. And that is exactly the reason why we are in five verticals, and I do believe that this will be a shock absorber for others in case there's a slowdown in one area. But we remain actively engaged across. Pipeline again, is higher than it was same time last year and continues to grow. And a targeted effort being made towards SDV, Alind spoke about it, running a specific program in the company to ramp up the pipeline.

Moderator: Thank you. We have our next question from the line of Bhavik Mehta from JPMorgan. Please go ahead.

Bhavik Mehta: Thank you. Couple of questions. Amit, the decision-making delays, what you mentioned, is it just on the deal closures or also in terms of project ramp-up because it seems like the deal closures have been strong for you. And then assuming that, it's more on the conversion side where there's is an issue, is that a fair understanding? And secondly, if I look at the geography, it seems like a lot of the growth was driven by Europe and India, while US was soft. So any colour on the US geography in terms of what verticals are taking in headwinds over there? Thank you.

Amit Chadha: Sure. So Bhavik, thank you. So Bhavik, number one, when I say decision-making delays, I'm referring to a couple of things here.

Number one is that the deal tenure that we were winning has increased; if we were winning deals that were 2.5 years long, now those deals that we are winning now are on an average about 3.2 years long, right, is what's happened. So therefore, there is a longer ramp-up and then get to a stable phase and then potentially closure.

Second, what is happening is that in July, when we came in and talked to you & then we did roadshows in August, right? At that point of time, and now what we've seen is, September, October, though, we've been successful, right? I mean three deals – two $20M+ & one $10M+ just in the first two weeks of October that we have signed, that we have landed. But I still feel that there is a sort of a wait and watch kind of hesitation that's coming across that we are seeing.

People are talking about next year, right? So – 'let's do this, let's do this. Well, let's start in January,' right? There're others they're saying, let's start and then let's start smaller and then we will ramp up with you. But we want to bolt down resources, we want to bolt down plans and take it forward. So there is some amount of wait and watch that we are seeing creep into conversations.

Having said that, there is still vendor consolidation. There is still new age areas that people are ramping up in and that is giving us an advantage. In fact, I would say most of the wins we are getting now is in newer age areas rather than the older sustenance engineering – older areas that were there. So that's number one.

Number two, you are absolutely right. Europe has done very well for us. In fact, I remember about 2.5 years ago, one of the calls, there was a worry that in Europe, are you serious, will it grow? And we had said that we will grow Europe. I would complement the team that delivery and the sales leadership team in Europe. We've done extremely well in the last couple of quarters. And knock on wood, I do see that growth continuing. This is across DACH, Nordics, Netherlands, and France. And we are clear we are not in other geos, these are the geos, and it's not just Transportation, it is Transportation and the Digital Manufacturing that we are seeing growth in.

Not only that, but Japan has also grown for us. And I'm, again, complementing the team that has worked hard Japan to grow not just automotive but Automotive, Hitech and Industrial Products. So we are seeing that. We are actually trying to see if we can get into Plant Engineering in Japan now to be seen how it plays out, right?

India, of course, the growth is part of the Nex Gen Comms business that we have had, etc.

U.S. Now where are we seeing a little bit of headwinds. We are seeing headwinds in the U.S. in semiconductor and ISV space. And that did have an impact on us in the current quarter. We could have done maybe $1M potentially more this quarter, had the UAW strike not happened, that cut us off about $700- 800K this quarter. So that -- there's a little bit of this there. But we have expanded our sales engine. We are all guns blazing. We've started ideation processes on a continuous basis. So, to be seen how things are, but to be worked out, to be played out, and we'll continue to keep you engaged and updated as things progress.

Bhavik Mehta: Just a follow up on that. Any early signs on furlough from clients, what are you hearing from clients in the combination regarding the December quarter furlough it is higher or lower or status quo compared to historical value level?

Amit Chadha: So similar to last year, Bhavik, but to play out to play out. I still have a hunch, it may turn out to be slightly better, but we don't know yet. So, to be played out Bhavik. Truly to be played out.

Moderator: Thank you. We have a next question from the line of Abhishek Shindadkr from InCred Capital. Please go ahead.

Abhishek Shindadkr: Hi, sir. Thanks for the opportunity and congrats on good execution. And just a clarification on the data point that you mentioned that the revenues could be $800K to $1M higher before the UAW strike. Should we also assume a similar number baked into your guidance in terms of why the reduction happened from – especially from this project?

Amit Chadha: So Abhishek, thank you. Abhishek, I was giving an example on quantifying a certain situation when I gave that number, right? The point is that there are – I mean you are aware of the macros that are developing right now with the kind of uncertainty that's there. So, there is a general caution Abhishek that we are baking into the guidance that we are providing, Abhishek.

Abhishek Shindadkr: Got it, sir. Thank you for taking my question and best wishes for the year.

Moderator: Thank you. We have our next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes, thanks. Thanks for the opportunity and congrats on a good execution, especially on the margins. Amit, the first question is, if I look at the ask rate to achieve the next guidance at the upper end, which you are confident is roughly around 3.4%. And in our previous calls, we have said for SWC, the H2, which be heavier versus H1. So, is it fair to assume that the organic growth could be lower than 3.4% on a QoQ basis, that is what you are assuming in the guidance, excluding SWC?

Amit Chadha: Sandeep, thank you. Sandeep, everything is organic now, that's the way we look at it. So, we are baking in some pluses and some minuses. While international, meaning the U.S., like the colleague prior to you saw very rightly, the U.S. was a little light, while Europe, India did better. So, this is to be played out. There are deals in the pipeline right now that we have to sell and deliver to achieve this guidance. I mean let me be very clear in that. And there are deals in the

U.S., there are deals in Europe, there are India deals, there are Middle East deals that we are working on. So, to be seen how it plays out, Sandeep.

Sandeep Shah: Yes. Yes. Just a clarification Amit, you also, in one of your statements, said the organic growth in this quarter on a YoY is 16% or something else, there is some mistake in my hearing as a whole. And what is your view on the Consumer Electronics, which we were expecting some amount of slowdown in the 1Q outlook?

Amit Chadha: Let me answer your first question, and I'll request you to repeat your second. So, Sandeep, what I was saying was we have re-casted last year financials, and we've added Smart World in last year's financials, right? If I was to not add them in last year's financials and only add them into current year financials, like I would do to any company I would buy that was not joint ownership or whatever they call it, the right word, then you would have seen 16% YoY. That is what I was referring to.

Sandeep Shah: Okay. Okay. Now it's clear. And the second question was on consumer electronics where you're slightly expecting a pain in the 1Q earnings call. Any change in the outlook?

Amit Chadha: So, when we say ISV, we include some of these Consumer Electronic companies in that space as well. So ISV and Semcon, we've been signalling that -- there was -- we saw cuts in work being given to us and that impacted us negatively in Q1and in Q2. We do expect it to impact us in Q3 as well. And we expect stuff to turn around in Q4 because we believe that some of the new products coming out will require workforce to be added.

In fact, some of the work that we've done in Gen AI, where we have developed tools and we've actually taken – we've created manufacturing use cases that we have done in Gen AI around predictive maintenance, that we have done in AI-powered optical inspection, around demand forecasting, around software defined endoscopy for real-time video, all this work that we have done is going to help us actually capture some market share in ISV and Semcon. And we believe that will help us as we move forward.

Moderator: Thank you. We have a next question from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: Yes, hi. Good evening. Amit, just trying to understand some of your comments better. So, you said and I think, you also said earlier that last month or so or last few weeks that trends have shown a little bit of a slowdown, but on the other side, you also said that furlough, you expect them to be better than last year. And last year, we were in a fairly robust demand environment. So, I was just trying to understand what is your thoughts process there.

Amit Chadha: So Surendra, what I'm saying is that, look, do we expect -- because this conversation was, I think I had with some of you that said do we think it will be a Christmas quarter, right? And at this stage, looking at what we've been seeing in the later part of September, we don't think it's going to be a Christmas quarter, right? Having said that, it has to be played out because the cues that we are getting from different customers is different, right? So, to be played out, like I said, and that we have taken into account when we have given the revised guidance. I'm sorry if I sounded contradictory there but I want to be clear that we do not expect a Christmas quarter.

Surendra Goyal: Sure. And just one clarification, Amit. Was your earlier guidance conservative as well or was that realistic?

Amit Chadha: So, Surendra, whenever we provide guidance, we always look at various items. We look at things happening, we look at our ability to win, our differentiators & we bake that all in. And that's how we do this. Now we don't have a crystal ball and we will continue to improve ourselves and work on this is what I would say so. Surendra, the one principle we follow as a management team is that if we know something, we will make sure we don't surprise you, we let you know. That is the credibility we want to build with you and that's what we stand for.

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. Over to you, sir.

Pinku Pappan: Thank you, everybody, for joining us on the call today. We hope we've been able to answer your questions, and if you if you have any follow-up, please reach out to me. With that, we are signing off, and we look forward to interacting with you coming days in the quarter. Have a good day, and goodbye from all of us. Thank you.

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

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