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May 04, 2023

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

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

Subject: Transcript of Earnings Conference Call for L&T Technology Services Limited (LTTS) for the quarter and year ended March 31, 2023

Dear Sir / Madam,

Please find attached the transcript of Earnings Conference Call organized by the Company on April 26, 2023, for the quarter and year ended March 31, 2023, for your information and records.

Thanking You,

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

Prajakta Ashish Powle

Digitally signed by Prajakta Ashish Powle
Date: 2023.05.04 16:43:06 +05'30'

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

Encl: As above

L&T Technology Services
Q4 FY23 Earnings Conference Call Transcript

For the Earnings Call held on April 26, 2023, 18:30hrs IST

MANAGEMENT:	**MR. AMIT CHADHA – CEO & MD,** **MR. ABHISHEK SINHA – COO & EXECUTIVE DIRECTOR,** **MR. ALIND SAXENA – PRESIDENT SALES & EXECUTIVE DIRECTOR** **MR. RAJEEV GUPTA – CFO,** **MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS**

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

Moderator: Ladies and gentlemen, good day, and welcome to L&T Technology Services Limited Q4 FY23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pinku Pappan, Head of Investor Relations. Thank you, and over to you, sir.

Pinku Pappan: Hello everyone, and welcome to the earnings call of L&T Technology Services for the Fourth Quarter and Full Year FY23. I am Pinku, Head of Investor Relations. Our financial results, investor release and press release have been filed on the Stock Exchanges and is also available on our website, www.ltts.com. I hope you have had a chance to go through them. This call is for 60 minutes. We will try to wrap the management remarks in 20 minutes and then open up for Q&A. The audio recording of this call will be available on our website approximately one hour after this call ends.

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 on this call today. I trust and hope all of us are doing well.

I would like to start by welcoming my colleague of more than 12 years at LTTS – **Alind Saxena** to the Board of LTTS. He was elevated earlier today to President Sales and Executive Director. Alind is a graduate from IIT Kanpur, has lived in the US and Europe for more than 2 decades, been with LTTS since 2009 and a member of the executive leadership team for the past few years. Prior to this appointment, he was the Chief Sales Officer responsible for North America and Asia.

With that, let me provide the key highlights of our **Q4 performance**:

- In USD terms, we had a sequential revenue growth of 2.8%, with four verticals – Medical, Plant Engineering, Telecom & Hitech and Industrial Products growing in excess of 4% sequentially.

- We sustained the EBIT margin at 18.7% as we continue to strengthen the operating model to make it sustainable.

- Our large deal engine continues to fire with a $40M win in this quarter and 3 additional deals of TCV $10M plus each.

Overall, when we look at **FY23**, we are quite happy with our performance and the milestones we've achieved:

- **Growth:** We crossed a Billion dollars on a run rate basis and grew by 16% in constant currency during the year. Three of our five verticals grew in double digits – Transportation (at an industry-leading organic 22%), Plant Engineering and Industrial Products. When we look at the geo wise split, all 3 geos, US, Europe and ROW grew in double digits.

- **Large deals:** In FY23, we closed a total of 18 deals greater than $10M TCV, which includes 3 deals in the $40 – 60M range; and 3 in the $15M range.

- **Technology Quotient**: We continued to file patents at the rate of about 50+ every quarter, taking the total to 222 for FY23. Cumulatively we have now filed 1,090 patents as of FY23 – of which 363 are our own and 727 on behalf of the customers. Patents showcase the innovation culture that we have in the company and how our engineers are helping customers leverage advanced technologies for their products and services.

- **Operating model:** Our FY23 EBIT margin was the highest ever at 18.5%, on the back of consistent focus on strengthening the operational playbook. PAT for the year was at 1,170 Crores – again a milestone as we crossed the 1,000 Cr mark. PAT has also grown at an 18% CAGR over the last 5 years, demonstrating consistency in operations.

- **M&A**: We acquired Smart World & Communications (SWC) – which has been the largest acquisition for us yet. The combined offerings of LTTS and SWC give us scale and an end-end portfolio coverage. We are gaining momentum in building a large pipeline of deals here. We have already closed 3 deals – which includes one 5G deal that we have announced to the press and one with a Telecom Infra OEM leveraging SWC capabilities which we have closed in the current quarter as reported in our results.

With that, let me now provide the **segmental performance and outlook.**

Starting with **Transportation**,

- We continue to invest in Transportation capabilities – the current investments are in the software defined vehicle space and setting up higher wattage EV labs for Auto, Trucks and Off Highway equipment electrification.

- There is a good pipeline of opportunities for connected vehicles and V2X solution development.

- In Transportation, we have filed 27 patents for ourselves in the last 2 years – which is nearly 50% of the overall patents that we have filed in this domain, giving you a clear indication that our pace of innovation has picked up in this sector.

- Leveraging SWC, we are entering conversations to set up data centers and SOC operations for autonomous and connected vehicles.

- In Q4, we had a flat quarter as we had ramped up some deals in Q3 and stabilized in Q4.

- During the quarter, we have signed a $40M plus deal with a US Transportation major for a complete transformation of their technology stack cutting across design and development, analytics, etc.

- Additionally, we have signed 2 $10M plus deals in Transportation, which puts us in a good position for growth in Q1 and beyond.

Overall, Transportation had a stellar year – we grew 22% in FY23 organically, and this is now a $350M annualized business. We continue to see strong growth prospects in this business.

In **Plant Engineering,**

- Demand in Oil & Gas (O&G) and Chemicals is driven by digital twin and asset reliability where digital technologies are being leveraged in a big way.

- We are leveraging our own Asset Healthcare Solutions, which is a Digital Manufacturing AI framework that will proactively address asset and plant shutdowns.

- In CPG, as well as in O&G and Chemicals, the broad trend is towards localization, capacity expansion and setting up Engineering Value Centers.

- As we had indicated in previous quarter, we saw a good bounce back in Q4 with a 6% growth sequentially, which is broad-based across the three subsectors.

- We have won multiple sub-$10M deals with MNCs to set up their newer plants including in countries like India.

Plant engineering grew at an impressive 16% this year, and we are optimistic on the growth momentum continuing.

At **Industrial Products**,

- Digital demand is increasing with customer spending and manufacturing new product and Application development.

- We are seeing strong traction in Digital Products and Services as well as in AI and Digital Manufacturing.

- IP as a segment has always been very innovative, and we have filed 131 patents for our customers in the last 2 years alone.

- We are investing in capabilities that help companies transition towards Green Energy like Battery energy storage and Containerization.

- As part of our Sustainability big bet, we have executed projects in Electrolyzer Design for Green Hydrogen and see more opportunities coming up.

- Eaton – one of our long-standing customers has engaged LTTS to work on projects related to Sustainability, where we will leverage SWC capabilities around Smart and Sustainable Spaces. Again, our press release has been issued to this effect.

- In Q4, we had a 4% sequential growth led by Machinery and Building Automation.

For the year, Industrial Products grew at 10%. We see a good pipeline of opportunities in the digital space and expect growth to be strong in the current fiscal too.

In **Telecom and Hitech**,

- We are in conversations with customers wanting to make their supply chains more resilient as well as optimizing cost and efficiencies.

- With SWC, we won a deal with the Telecom Infra company to set up a complete 5G network to validate their next gen 5G product.

- We also won a deal with a North American rail operator for 5G private network deployment.

- Cyber security expertise is another area that we are leveraging SWC capabilities by partnering with cybersecurity providers to build products for OT security.

- There were rampdowns in the Semcon space, however we were able to offset that with growth in other sub-segments like Telecom OEM, Service Providers, Media and Entertainment.

- So overall we had a good 4% growth in Q4 despite an overall challenging environment and this puts us in line to continue to grow as we go forward into next year

Additionally, SWC capability will give us a bigger play in 5G NOC and SOC globally. There are a few deals in play that we expect to close in the quarter.

Lastly, **in Medical,**

- Again, a very innovative segment – we filed 32 patents of our own over the last 2 years, which is the majority of the overall patents we have filed in this segment. As I had indicated earlier, the pace of filings have increased over the last two years, and these solutions are world-class.

- We are investing in Digital Healthcare Solutions and AI enabled solutions for QARA.

- We have been diversifying our growth in Medical with more contributions coming in from Europe and ROW.

- Overall, we had a strong quarter with 7% growth led by ramp-up on deals that we have won recently.

- We are seeing a good pipeline of deals, however, deals take a little bit longer to fructify in Medical.

Medical growth for the year was in single digits, though the rebound in Q4 has created a good momentum. The deal pipeline gives me confidence to confirm this will grow faster in FY24.

Let's now get on to **outlook**:

Even as the global GDP normalizes to pre-COVID levels, there are **3 clear areas** that will attract ER&D investments and increase the total addressable market pie for people in our segment. These three are around

1. Energy Transition and Electrification,

2. Digital and new-age technologies for a variety of use cases that cover User experience, Automation, Communication etc.

3. Business transformation to optimize costs and increase returns thereby increasing outsourcing and offshoring.

There are some **data points** we will take.

- Digital transformation spends continue and as per latest market reports will grow from $800B currently to $1.4Tr in 2026, led by Cyber Security, AI, Hyper automation, enhanced speeds of Connectivity, better and higher Computation and Cloud adoption.

- The global AI market itself is expected to grow from $400B to $900B in 2026, with spends towards hardware, software and services. Industry specific models will need to be created which will create a great amount of opportunity for us.

All these indicators dovetail with our bets around EACV, MedTech, Next Gen Communication, Digital Products and AI & DMS.

- We do believe US, Europe and Japan will continue to fire at similar levels of spend on innovation technology as they have, while parts of Middle East and India will also see an uptick.

- Our large deal traction continues to scale up across US, Europe and Japan. We are starting to make some inroads into Middle East and to be played out. We see large deal opportunities across five segments, both in digital and next gen product development as well as cost optimization and related initiatives.

- We've made some good progress in SWC – with full integration of the people and leaders so far.

- Rajeev will talk a lot more about this, he's leading that effort from the executive leadership team.

- The joint offerings across Next Gen Comms, Smart and Sustainable World and CyberSecure have been taken to customers and we are seeing a good pipeline for that. Till date, like I said, we have won 3 deals and do expect to announce more shortly.

- Looking ahead, we see another strong year of growth. For FY24 our guidance in USD constant currency terms is 20% plus. Within this, organic growth will be 10% plus, while the rest will come from SWC.

- I would also like to reconfirm our aspiration to hit the $1.5 Bn run rate in FY25.

With that said, wishing you all the best and great health. I will hand over to Rajeev and then stay on for questions.

Rajeev Gupta: Thank you, Amit.

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

As you may have seen from the results filing, FY23 has been a landmark year for us – crossing the milestone on $1B in **revenue** run-rate with growth across segments, **achieving consistency in operating margins** through the quarters to touch 18.5% for the year, which is the highest we have reported and **PAT** for the year crossing the ₹ 1,000 Cr mark.

We are also happy about the consistency in FCF and cash generation, which has helped end the year with nearly ₹ 3,000 crores of cash. We also did our largest acquisition till date, which will be effective from 1st of April 2023.

I shall now take you through the details of our Q4FY23 and full year financials, starting with the P&L.

For the Quarter,

Our revenue was at ₹ 2,096 crores, a growth of 2.3% on sequential basis. Our double-digit YoY growth trajectory continues with Q4 revenue up 19% on YoY basis.

We sustained EBIT margin at 18.7% – flat when compared to Q3. We absorbed higher employee related costs through operational efficiency and G&A improvements.

For the Year,

Our revenue was ₹ 8,014 crores, a growth of 22% over FY22, our second consecutive year of growing 20%+. Performance was led by Transportation, Plant Engineering and Industrial Products segments.

EBIT margin for the year was 18.5%, an improvement of 20 bps over FY22.

Moving to below EBIT

Other income for the quarter was at ₹ 39 crores, slightly lower on a sequential basis due to lower forex gains.

Effective Tax Rate for Q4 was 28.0% and for FY23 at 28.6%, slightly higher than expectations for the year. This was due to conclusion of certain past year assessments in Q3, we expect this to stabilize in the 27.5% range going forward.

Net income for the quarter stood at ₹ 310 crores, which is 14.8% of revenue, up 2% on a sequential basis, driven primarily by higher Revenue.

For FY23, Net Income was ₹1,170 crores, 14.6% of revenue, up 22%, in line with revenue growth.

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

DSO was 75 days at the end of Q4 compared to 77 days in Q3, while unbilled days reduced to 15 days in Q4, a two-day improvement over Q3. The combined DSO including unbilled stood at 90 days, which is well within our target range of less than 95 days. This is also the lowest level over the last few years.

Let me now talk about cash flows – In FY23, Free Cash Flow was ₹ 1,132 crores, a healthy 97% of Net Income. Our Cash and Investments rose to ₹ 2,974 crores by end of Q4FY23, an increase of nearly 40% vs end of FY22.

On Capital Return: the Board today recommended a Final Dividend of ₹ 30/share, taking the total dividend for FY23 to ₹ 45/share. This translates to a dividend payout of 41% for FY23 and the highest payout so far.

Our Return on Equity stands at 26% for FY23 vs 25% last year, again higher on account of increase in Net profit to ₹ 1,170 crores in FY23 versus ₹957 crores in FY22.

Moving to revenue metrics: On a sequential basis, $ revenue growth was 2.8% in reported terms and 2.2% on a constant currency basis, led by Medical Devices and Plant Engineering segments.

Segment margin performance for the Quarter: was better in 2 out of 5 segments on a sequential basis. Transportation margins were lower in this quarter due to costs related to initial ramp up of certain deals and certain one-time investments made in capabilities on new-age technologies.

Segmental margin performance for the Year: was better in 4 out of 5 segments, led by Plant Engineering and Medical Devices.

Now let me comment on operational metrics:

The onsite:offshore mix came in line with our expectations. Offshore percentage now stands at 57% for the quarter. Our aspiration is to improve this ratio to 60% levels in the medium term.

The T&M revenue mix increased to 71% in Q4 and is likely to maintain at these levels.

On client profile – which indicates the number of Million dollar plus accounts – has shown a sequential improvement in the $5M and $1M plus categories. The client profile numbers have seen an improvement over the past few quarters, this trend will continue in the coming quarters. A key highlight that I would like to share here is that our top account crossed the $40M mark in FY23.

Client contribution to revenue – All three categories – Top 5, Top 10 & Top 20 continues to be in the same range as Q3.

Headcount increased sequentially by 584 employees, while attrition moved down to 22.2%. Our aspiration is to get below 20% levels of attrition. This will be achieved through various employee engagement measures.

Realized rupee for Q4 was around ₹ 82.2 to the US dollar, an appreciation of 0.5% versus Q3.

Let me now provide an update on our SWC acquisition:

We have successfully closed the transaction effective 1 April 2023 and integrated around 800 employees of SWC into LTTS. An Integration office was set up to focus on Day 1 readiness and Operating model – which helped us manage the transition smoothly.

We continue to run the synergy program over the next 180 days, and we'll focus across 3 tracks:

- Revenue – priorities being internationalization of customer base, expansion of services portfolio and creating large deals opportunities. As Amit mentioned, we are seeing a good pipeline of opportunities – with 3 international deal wins so far leveraging the SWC offerings.

- Margins – expanding margins through internationalization, business mix optimization and G&A optimization.

- DSO and Working Capital – improving collections and transforming into a solutions and services play to get into more asset-light deals.

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

- Our EBIT margin stands at 18.7% for Q4 and 18.5% for FY23. With the addition of SWC, we aspire for EBIT margin to be in the range of 17% in FY24 on a consolidated basis.

- With the transformational levers that we have identified and started to execute, we maintain our aspiration to get back to 18% EBIT levels by H1 of FY26.

Summing up, we had a good performance across parameters in FY23 and are excited about our future growth prospects.

Thank you. And now I hand it over to the moderator for Q&A session.

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

Bhavik Mehta: Thank you. A couple of questions. Firstly, on the guidance. If I look at organic guidance at 10%, seems a bit weak, given the momentum we have seen in four of the five verticals in the 4Q numbers. So can you just throw some more light on what kind of headwinds are you expecting going into FY24, which has led you to come up with a weak guidance at 10% on an organic basis?

Secondly, on SWC, it seems like the revenues were just $100M in FY23, while the FY22 number, what you had shared, it led to revenues of around $140-150M. So, has SWC seen revenues contract over the last year? Just a clarification on that. And lastly, can you just talk about this DOJ settlement, what you paid of around $10M, more color on that in terms of what is it related to some one or two clients or was it across multiple clients in the US? And what has been the reaction from the clients because of the settlement done by you?

Amit Chadha: Yes, hi. Thank you so much. Number one, I believe that what we've guided is 20% plus with the focus on the word 'plus', right? And we are just starting the year. We are not declaring FY24 results yet. I do believe and I have a lot of optimism as I enter the year. If you look at it, there are three clear areas where we're seeing money is being spent, Energy Transition & Electrification, Digital – which includes Cyber, AI, Automation, Connectivity, Computation and Cloud adoption. And finally, a lot more outsourcing and offshoring.

So at this stage, given where the world is right now, I do believe that we're very confident in this 10% plus across segments. The two areas which are a little bit of a concern to provide a balanced view here or Semcon and hyperscalers. Our exposure to hyperscalers is very limited. And in fact, the areas we're working with them on are seeing expansion. Semcon, of course we had a decline in the current quarter, but we overcame that. And in spite of that, Telecom and Hitech grew 4%. So that's where we are on that.

With regards to the -- and I will hand over to Rajeev on the SWC part. But on the DOJ part, as we had outlined in the press release that we did, this was a settlement without admission of guilt or liability. And this was for some stuff that came to our notice for the past. It is behind us. We have put in very strong controls, including having a general counsel appointed in the USA, and a strong team and processes to back this up. Our clients have been very supportive to us. And if anything, what we have taken away is that they have appreciated our transparency, our strong processes, and the way we have been working with them and conducting ourselves over the last few years. Rajeev, with that said, if you would like to add color on SWC.

Rajeev Gupta: Thanks, Amit. Bhavik, let me address the question on the SWC revenues. So in respect of SWC revenues, the portfolio of contracts that we've taken over from L&T aggregate to ₹ 800 crores in revenue for FY23. We will consider this to be the baseline. These are also contracts that are strategic in nature and will result in better performance for LTTS combined in future.

Amit Chadha: I would also like to confirm that the DOJ settlement has had absolutely no impact on any of our customers or any deals or conversations.

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

Akshay Ramnani: Hi, thanks for taking my question. So, first question was on SWC. So, you mentioned about getting into asset-light deals. Would you expect that process to be a headwind on revenues as we transition? And if yes, how long do you expect the transition period to continue? And also you had earlier mentioned that some of these Government contracts have come up for renewal over the next 18 months and in most likelihood you may not go ahead with renewing those contracts. So are we on track? And what percentage of revenues can those contracts be?

Amit Chadha: Okay. Thank you so much, Akshay. Number one, as we have said, SWC is three parts.

There is Telecom which now we have integrated completely into our Comms, and we are calling it Next Gen Comms. In fact, you see our website, may have either been changed or will get changed from 5G to Next Gen Comms. There, we are seeing 2 areas of spend. 1) We are seeing a lot more 5G trials going on. And therefore our business in that area has picked up with a couple of old Telecom Operators that were our customers in North America. 2) There are customers that are coming out with devices that can get rolled out into tunnels, into large expanses or campuses, etc. and they are asking us to test those devices, look at the hardware, look at the firmware, look at the software layer, etc. and we are again leveraging that. That is a second sub-part of what's happening in Telecom Hitech. These are the asset-light deals that we're talking about with our pure play services that we're getting involved in globally. Like I said, we announced one deal with 5G. We announced one today masking the customer's name. And as I go forward, you will see a lot more exciting wins in this area because the pipeline is great.

Second is Cybersecurity. It was very small for SWC. It was a bigger part for LTTS. However, they had an asset called SOC – which is a Security Operation Center in Chennai, a physical asset which we have taken over, which is basically a building with computers, algorithm etc. Now the advantage of all that is that we have already got 2 wins in that area. We are very close to getting a 3rd and 4th win in that area and signing up go-to-market partnerships with customers & with providers that will differentiate us. So that is again asset-light, a lot more to do with services.

The Third part is Smart Cities. And there we are trying to diversify from Smart Cities to Spaces. That will include airports, will include campuses, buildings etc., and we were doing buildings already. Again, the whole goal is to move to a master software systems integrator, right? These will be deals that will have a bigger technology quotient and that's how we see this coming together and we're very pleased with the progress we've made in the last two months.

Now the other thing on the Government contracts is that the Government contracts are all time-bound. You do a project, you get an extension, you get the next bid and we are working through those as we progress.

Rajeev Gupta: I can add to that. Akshay, so most of these Government contracts, right? And in the current business, the entire revenue is on Government contracts. Now these contracts had a high Capex element to start off with and now we are entering into the Opex or the services part on these contracts. So when you talk about renewals, it is not that we will turn down the renewals. We will still do renewals more on the services part of it or the Opex part of it. So it should actually be a plus factor as we move ahead.

Akshay Ramnani: Okay. Got it. If you can also touch upon will this transition period have a revenue impact? And my follow-up question is to Rajeev, you mentioned about getting to 17% margins in FY24. You had earlier talked about that 180-200 bps impact in Q1, also Q2 is a typical wage hike quarter for LTTS. So, does that heavy lifting happen in H2? Or how are you thinking about the quarterly progression of margins?

Amit Chadha: Number one, we have taken into account transition, the contracts that are ending, new contracts coming, pipeline, internationalization of the pipeline. In fact, the sales team for the entire SWC related businesses have already been hired. They were brought on board right after we announced the acquisition in January and then we hired them in anticipation of closure. So, they're already on board and already productive, right? So, we've taken all that into account when we've given you this 20% plus guidance. And as we go through the quarters and as things change, we'll continue to update you as we have always updated you.

Rajeev Gupta: Akshay, as far as margins, in the previous quarter, I did guide that we'll see an impact of about 180-200 bps on EBIT levels. I'm glad to share that it is now more narrow towards 180 bps. I already talked about that our aspiration for FY24 is to be in that 17% range. Of course, internally, we will continue to push for higher achievement. At this point in time, I'm just setting out what is the more realistic part, but we'll continue to play as it goes around. Second part of it is the increments happen in Q2. So when I have shared this aspiration, it factors in the increment that will be rolled out in Q2.

Moderator: The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Hi. Thank you for taking my question. And congrats, sir, on a very good strong growth on a broad-based level. So, sir I think, Amit, I think I would just maybe touch upon this. I think after many quarters, we have seen such a broad-based growth almost across all the segments. You spoke about, a bit about the Transportation vertical. So maybe a bit more on that, if you can just maybe give some light as to the reasons that we had QoQ dip in this quarter? And do you think basically this could reverse in the coming quarters or the weakness might continue for a couple of them?

And a broader, larger-level question would be how are you seeing the overall demand environment? We've always basically considered the ER&D spend as more discretionary in nature, given the overall weakness and slowdown in the US and European economies. Are we seeing any impact on the deal flow or conversations with the clients or in terms of the pipeline that we are looking at in the near future?

Amit Chadha: So thank you so much, Vibhor. Number one, I'd like to confirm, we don't provide QoQ guidance, but I always think of the investor community as part of the family and employee community of the company.

So, I'm going to dispel this fear and tell you that our growth in Q1 as projected today for Transportation is above 4% sequentially. So I want to just dispel that notion that there was a problem. What happened was that we had a jump in Q3 because some of our contracts started and we requested our clients and they agreed that they wanted some work to be done quickly, so we ramped up extra there. And therefore, we stabilized, I would say, in Q4 is how I see it. The good news is that, you've seen the deal wins that we've had in the current quarter, they've all gone operational. And I am confirming to you that growth is back in Q1 in Transportation for sure, right? And we are already into Q1, right? If I look at demand, Vibhor, Electrification is a big spend area across US, Europe and Japan for Auto, and not just Auto, for Trucks and Off Highway as well. And the new design cycle for Aerospace is starting up for hybrid aircraft. So that bodes well for that sector.

Second, if I were to go to Industrial, people are asking the question two times when they place the order for sure, but we are seeing digital demand continuing to grow in that area as we see it today. So I'm confident that this will continue into FY24 as well.

Third, I'll tell you where the issues are as well. So Hitech, Semcon, there's a little bit of stress in the system for sure. We've seen it in the current quarter. We will see it in the Q1 also, but it's being overshadowed by spends coming out in the Telecom Operator and the Telecom OEM segment and M&E segment. In fact, there's a couple of interesting deals going on. Let's see when it gets closed. But this will help us in growth in revenues in Q1 and beyond.

Plant, of course, continues to chug along. CPG – a lot more smaller plants coming up. In fact, you will be surprised a number of building, if you go and just get the data from the Government on the number of building permits and factory points that are being pulled by MNCs for India, it's just, flowing off the wall and we've already won significant amount of MNC-based contract to do engineering for their plants that they are building in India and Southeast Asia. And that again is a very positive sign. Oil & Gas, with oil prices where they are, continues to spend on Digital Transformation.

And Medical is the only area where we didn't do well, right, in the last year. But given where we are in Q4 and the fact that now Europe and Japan – where we invested in these Geos for Medical has opened up, I'm fairly comfortable.

So net-net, I'm a little worried about Semcon and Hyperscalers. But our exposure to Hyperscalers is not too much there. So, I believe that brick-and-mortar will prevail. As we always say, top line – vanity, bottom line – sanity, cash – reality, you will see a lot of these companies doing well and coming to rescue in this current year of FY24.

Moderator: Next question is from the line of Rajiv Berlia from Citi. Please go ahead.

Rajiv Berlia: Thank you for the opportunity. I just want to understand what happened in other segments. We see a good drop in the other segment line item around 190 bps QoQ?

Rajeev Gupta: Rajiv, could you clarify your question, what do you mean by other segments?

Rajiv Berlia: Other expenses. So, in the other expenses segment, if I see, in the line item other expenses, I see a 190 bps drop on a sequential basis.

Rajeev Gupta: So I think, Rajiv, what you're referring to are really the common costs that get allocated across segments. So, there was certainly a drop in terms of those common costs and largely, this is because we had strong collections in the quarter which led to lower provision for doubtful debts. So that's what you see, Rajiv.

Rajiv Berlia: Okay. And similarly, in the employee cost, I see a 180 bps kind of a drop. And in the other expenses, I see 190 basis points of an increase. So, I just wanted to understand. So other expenses -- so it's just that there is an increase of 190 bps and employee cost, if I see, there is a drop of 180 bps?

Rajeev Gupta: So two things on this, Rajiv. One, as far as the other expenses, this is to service some of the projects, we do increase third party contractors. And also, you could have some software costs related to those projects, right? That leads to the increase in other expenses.

As far as the employee cost, we continue to optimize on pyramid and a large part of that we've been able to achieve QoQ through induction of freshers and those freshers go through training and those freshers of course are then deployed onto projects, right? That leads to the reduction on the employee benefits cost.

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

Abhishek Shindadkar: Hi, thanks for the opportunity. I might want to revisit that employee benefit expense again. So, if I reconcile the expense line item and the cost of sales in your presentation, it appears, which you also alluded, that there was a higher subcontractor expense. So, could you just elaborate, one, was it for any particular vertical, if you can?

And the second is a broader question for Amit. So historically, one of the key strengths of LTTS was to kind of mine accounts and transition them from the lower buckets to higher buckets. If I see the recent presentation, it seems that we only have 1 $30M account versus 2 at the end of Q4 last year. While the $20 million has seen an improvement. It could also be that one has come off to the other bucket. Any changes that we need to do in terms of sales, presales, mining, which can help us kind of go back to the 2 or 3-year-ago period where we had a couple of $30M plus accounts? Thank you for taking my question.

Rajeev Gupta: Abhishek, let me address your first question. And I already talked about the fact that, look, on employee cost, we continue to optimize pyramid. And the other expenses, this is as a result of increase in third-party contractors and software costs related to projects. We can certainly take this offline, Abhishek, so that we can provide more colour and details. And to whoever else would like to understand, we can certainly talk about it offline. With that, I'll hand it over to Amit to clarify on the top account.

Amit Chadha: Yes. So Abhishek, thank you so much for asking that question. Like I think Rajeev said in his commentary, I would like to confirm. See, we don't look at -- and I've shared this with a lot of you earlier in the past that I don't look at trailing 12 months, I actually look at annualized run rate for the quarter and the past quarter to see as to where I'm heading with my accounts, right?

So I would like to confirm to you that we have one account that is now safely sitting above a $40M run rate, right? We also have a couple of other -- so there's three other accounts that are clearly safely above the $30M run rate and then you see the accounts that are in $20–30M and then the $10–20M and the $5–10M. So, I clearly see that. If you wait for next quarter, you will start seeing some of that impact coming up in a positive way in the reporting as we do it.

And if you look at year-on-year, actually, as we have reported, you can see the $20M plus has gone from 6 to 9, $10M plus has gone from 22 to 24. So there is a gradation improvement there. We continue to focus on account mining. We continue to focus on winning strategic new accounts. Clearly, the company is being run from a sales standpoint and account mining and account sales is two separate parts. And next time when we meet, we will definitely have Alind meet you as well and spend more time on this subject.

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

Apurva Prasad: Thanks for taking my question. So, Amit Sir, first question is on the $10M plus TCV wins, even from a full year point, it looks a lot lower versus where it was the previous year. So, is it any part within the strategic bet or big spend areas as you highlighted earlier, which you don't see playing out as envisaged?

Amit Chadha: So, Apurva, thank you so much for that. See, if you look at it, the last year, so if I compare FY22 to I compare FY23, I can confirm to you that the total TCV that the company has generated is at similar levels or slightly higher because, you know, the base is higher, so slightly higher than FY22. Having said that, you're absolutely right that the number of $10M plus, the double-digit deals, as we call them, is a tad bit lower. Right. So, I admit it. But the number of $5M plus deals and the number of $2M plus deals that we have had, where there's a greater amount of ACV impact rather than TCV impact, have been higher for us. And that's how we've chugged along, if you ask me, QoQ consistently at approximately 3%. But for Q3, which was shall I say, it was a quarter that had the perfect storm of furloughs etc. that came together.

So I would not be worried. We are currently going through the process of making sure that as we come back to you next quarter, we continue to give you the guidance. But I can also tell you that some education has been needed on our part that $9M is not $10M and $8M is not $10M. So we are working through that right now.

Apurva Prasad: Sure. And I have another question for Rajeev. Rajeev, this is on the segmental margin against Telecom and Hitech, which has historically always lagged. So what would be your medium term view out here in terms of convergence closer to company average post-SWC integration? And the second part is on your outlook for the overall DSO consolidated for next year and the OCF, which was at about ₹ 1300 crores or OCF to EBITDA, which is 76%. How do you see that for next year?

Rajeev Gupta: So, Apurva, let me take the Telecom margins first and then I'll clarify the other questions. On Telecom margin, we've been at that 12.4% range, around that mark. Now, we may have clarified this in the past. A lot of our investments are stacked in the Telecom segment. The acquisition that we made of Orchestra Technologies, we still continue to record some costs on earnouts in this segment. That should taper down in FY24, which will help the margins go up. Having said that, with the SWC acquisition, we will likely see a reduction in margins. And that's again more as an impact of consolidation than anything else.

We believe this is going to be a segment that will flow business into the other segments. So you should take it to be where we do a lot of our investments in Telecom, which finally can evolve either in a Transportation segment or it could evolve in a Medical segment or for that matter, Telecom itself, right? It's likely that it will remain within this 10% plus range with SWC acquisition.

Second on the DSO – combined DSO – our aspiration for FY24 will be to come at a range of 115 – 125 days. And we will continue to optimize like we've done in case of LTTS. 90 days combined, both billed and unbilled has been by far the lowest in the last few years, and we will look at optimizing for SWC as well. So the range will be between 115 to 125 days. Apurva, sorry, I lost your third question. Could you repeat that, please?

Apurva Prasad: That was on the OCF, OCF for next year, that's all.

Rajeev Gupta: On the Free Cash Flows, like I said earlier, for FY23, we came in at 97% Free Cash Flow over PAT. Our endeavor will be to continue to optimize. We can come back to you on this. We have still not modeled it. But if I were to split between LTTS, I think our endeavor will be to continue to look at, right, above the 80% plus threshold in terms of FCF to PAT. As far as SWC, with the improvement in DSO, we feel the FCF should improve. But we will model this and come back to you in Q1.

Amit Chadha: I would like to just say one more thing. We just want to be sure about this. And we had mentioned this in January when we announced SWC acquisition as well and I think Rajeev alluded to it today as well. So there is a team that's been put in place that's working full time on making sure that the processes of both SWC and LTTS are harmonized and brought together.

Plus, as we have shown you over the last three years, that we have consistently improved margins and DSO and free cash flow over the year. And that same process is being implemented for SWC. And we are very readily agreed to it. And we are working together as one team. So we do think that we will be in a much better position as we move forward.

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

Nitin Padmanabhan: Hi. Good evening. So, my question was around SWC. I think you mentioned that when the Capex kind of revenue comes off, there will be continuity on the Opex kind of revenue. Well, one would sort of imagine that this would mean that the revenue goes off for a bit, but margins do improve. Could you shed a little light on that dynamic, please? So that's the first one.

And the second one, in terms of the three, how do we think about the globalization of these contracts, internationalization rather? So for that, typically, what would be the margins of the international contract versus the 8-10% kind of EBITDA that we have for SWC? And typically, what would be the size of these contracts roughly, just so that we're able to sort of understand on an ongoing basis how this sort of evolves over a period? Thank you.

Amit Chadha: Yes. Hi. Thank you so much, Nitin. Good evening. Number one, as Capex contracts, we look at very hard and seriously and only pick up ones that are adding value to our technology quotient and journey. We are taking that all into account as we have given you the guidance for next year.

So we have taken all that, what will ramp down, what will ramp up. We have done that math, and that's how we have provided the guidance, right? Number one.

Number two is that the Opex spends that are there, those contracts are at our constant margins, so not to be worried. Now, in terms of globalization. I had written to about 100 customers I talked about last time, right after we did the acquisition, announced it. I got a very positive response. We actually have hired the entire team that we needed to augment and hire and we are averaging a good number of meetings on a weekly basis in terms of the interest areas, not just from Telecom Operators, M&E and Telecom Infra companies, but our traditional customers, because people are getting up and saying, we want to implement 5G, go after cybersecurity, etc. So we are definitely seeing that. In fact, Eaton coming out and making an announcement that they work with us on SWC itself is an indication of that.

So therefore, I'm fairly comfortable in sharing that as we move forward in the quarter, you know, some of these guys are working on pure product development R&D. They may not want us to do a share of our news article or whatever, but we'll do our best to share as much as we can. But I do believe that there's a clear path, like Rajeev has defined a path on profits optimization, DSO optimization. There's a clear path to taking it to the global world, a path that Alind is leading himself, along with the CBOs that we have hired in that area to take it forward.

The skills that they have got, so I shared this earlier, see about out of the 800 odd people that we have taken over from SWC – the family has come together, that's how we'll put it – about 600 odd people have got industry experience from the Hitech sector, and they were laterals that were admitted into the SWC family. So, I do believe there's the right kind of talent that can work towards offshore contracts, etc.

Now, what is the typical size of these contracts? The typical size of these contracts for Telecom Infra & Operators will be in the same range as what we generate between, you know, that $5M to $15/20/25M. If we're lucky, even signing a multi-year $50M contract, $40M contract. So, right, right in that range. Cyber security contracts will be slightly smaller. They may be maybe in the range of ACV being between $2M to $6M, but then there's a lot more clients that will take advantage of that. And therefore, the revenue can pick up very very quickly. So, that's where we see that going in terms of things. So, we're fairly comfortable with the trajectory of growth as we go forward.

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

Mihir: Yes, hi, thanks for giving the opportunity and congratulations on the broad set of growth. I think I largely wanted to understand on the offshoring side of things. I mean, you made an initial comment that you are seeing more offshoring happening in the coming years. So, if you can throw some examples, what is giving you the confidence that there is increasing offshoring happening? So, that was my first question.

My second question was on the $40M contract that we have won. So, if you could throw some more light as to what is this contract exactly and then what the ramp-up happens for this particular contract. And the third question was on the SWC. Like, you know, when we see SWC, currently it's a full Government business which is there, having a DSO of more than 400 days and there could be some ramp-downs also.

So, just wanted to understand, you know, what could be the dropout rate from the current business which could be there from SWC given the fact that we are looking at some dropout happening when the renewables would come? So, just wanted to have an understanding around that.

Amit Chadha: So Abhishek, you have to cover the offshoring, then I'll take the next one.

Abhishek Sinha: Yes. So, on the offshoring front, like Rajeev had mentioned in his commentary, our mid-term aspiration is to go to about 60%. We are currently at 57%. Do we have the confidence? We definitely are taking steps internally with our delivery leaders as well as sales leaders, putting more processes in place and engaging the customers to increase this. We believe that this is definitely possible given where the world has moved from a hybrid perspective. Amit, you're up.

Amit Chadha: Yes, sure. So, in terms of, I'll address SWC and then I will go to the $40M contract. So, the SWC, look, as far as we are concerned, SWC will bring in that additional above 10% that we are talking about for next year in terms of growth. And we have taken into account all these contracts that are ending, new contracts that are starting, etc. And we have done the entire math and algorithm on that one and we are fairly comfortable with SWC bringing in right, profitable growth, sustainable growth to us. I mean, that's our mantra.

Now, in terms of $40M contract, this is over 5 years like we have announced and actually is to help product development and enhancement of this Transportation major that we have signed. And this, we believe, will be a long-term relationship for us as we go on. It is a new customer that has been added to LTTS. And the exciting part is there is work on autonomous, there is work on electrification, there is work to be done on AI. In fact, there is a certain part of working on large language models. And I believe that this truly has much more potential than the $40M that we have announced. Again, you have known us for a long time. We want to be able to commit what we can deliver and deliver what we commit. So that's why we have gone with this $40M number. Otherwise, the potential is a lot higher in this space. I would also like to confirm that this deal is already in execution as of Q1 with billing happening for the company. So that's where that is. Thank you so much.

Rajeev Gupta: I just want to add one point to address the DSO in SWC. Like I mentioned, we are running a synergy track, right? And DSO and Working Capital is one of the streams. So at least I wanted to convey to everyone, we are mindful of the DSO of the current business. We already have identified areas, both from a process improvement standpoint and second from a mix of deals that have been either catered to within SWC or that likely will win in the near future to be able to see that DSO coming down. So hopefully that should help you understand how we will address the DSO of this business going forward.

Mihir: Sure. Just one last clarification. I mean, you know, if you can talk about like what is the revenue dropout rate that you are considering for next year from SWC?

Rajeev Gupta: So to give more color to what Amit talked about, all of this has been factored in the 20% plus guidance that we provided. Amit mentioned about 10% plus coming from organic and the remaining coming from SWC. All of this has been factored. So again, would like to give the assurance that beyond this, we do not see anything that is going to be detrimental to the business that we have acquired.

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

Pinku Pappan: Thank you everyone for being with us on this call today. We hope we have been able to answer most of your questions. If there are follow-ups, happy to engage with you through the course of this quarter. With that, on behalf of the entire management team here at LTTS, we would like to wish you a very good day and hope to see you soon. Thank you so much. Bye-bye.

Moderator: Thank you. Ladies and gentlemen, 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.