



L&T Technology Services

Q4 FY22 Earnings Conference Call Transcript

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

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Moderator: Ladies and Gentleman, good day and welcome to the L&T Technology Services Ltd. Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan, Head of Investor Relations. Thank you and over to you.

Pinku Pappan: Thank you, Stanford. Hello everyone, and welcome to the fourth quarter FY22 Earnings Conference Call of LTTS. I am Pinku, heading Investor Relations. Our Financial Results, Investor Release, and Press Release have been filed with the Stock Exchanges and are available for your review. 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 one hour after this call ends.

Let me now introduce the leadership team available on this call. We have Amit Chadha – CEO, Abhishek – COO, and 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 statements and performance.

Let me now hand over the call to Amit.

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

With that, let me start with the key highlights of our Q4 performance:

In USD terms, we had a sequential revenue growth of 3.6% in constant currency with Transportation and Plant Engineering leading the growth. We sustained the EBIT margins at 18.6% with operating margin efficiencies.

Our large deal engine continues to fire with a 100M+ win in this quarter. Our total deal TCV win in Q4 was the highest ever, as well as in the FY.

As we wrap up the financial year, let me outline the highlights of our performance vis-a-vis our stated six dimensional strategy:

Growth: As you have seen from the results, we've met our guidance and we are happy to have achieved the 20% growth mark in constant currency dollar terms. More importantly, the growth was broad-based with all segments growing in double digits.

Technology Quotient: We had more than thrice the number of own patent filing in FY22 at 98 versus 28 in the previous year. This is a sign of the growing number of innovation and solution building programs that our engineers are working on and the results of our investments into labs and new-age technologies. This is also showing up in our digital engineering revenues, which were 57% in Q4 versus 56% in Q3.

Customer Centricity: Our client focus and proactive investments have helped us make progress across our six bets. We are participating in strategic transformational programs with our customers, leading to bigger scale and market share. The USD 100M deal with Jaunt is a good example of this and I will talk about this in detail shortly.

People Engagement: We started many new programs during the year to drive greater employee inclusion - in the areas of career progression and development and fraternity building. Over the last 3 quarters, employees across the Company went through an extensive exercise to refresh, revisit, and define our vision, mission, and values in line with our long-term aspirations. I urge you to visit our website and take a look at it. We are very passionate about this particular area.

Operating Model: We improved EBIT margins by nearly 400bps in FY22 through operating efficiencies and better quality of revenue led by digital. This resulted in an overall 44% increase in PAT to Rs. 957 crores for FY22.

ESG: We launched our first sustainability report in March and unveiled our ambition to be carbon and water neutral by 2030. Additionally, we look at Sustainability in a very holistic manner, and this means we are also working with our customers to build innovative digital solutions that will accelerate their transformation to net zero.

Let me now provide our segmental performance and outlook:

Starting with **Transportation** – we had a strong quarter with sequential growth of 7.8% with all three sub-segments, Auto, Trucks Off-Highway, and Aero firing well.

Our EACV big bet is playing out well with two large deal wins in Q4. The first one was the 100M+ deal with Jaunt - where we will be their strategic engineering partner to build an all-electric vertical takeoff and landing aircraft. As part of this deal, along with our centre in Chennai, we will be setting up an engineering R&D center in Canada to provide end-to-end engineering support, which will involve multiple areas like flight control systems, battery management, power electronics, cockpit display system, etc. This deal is an example of how we have taken our EACV strength in Auto and Trucks & Off-Highway to the Aero segment. We believe our Aero segment will be powered by the same trends towards alternative energy,

electrification, hybridization, which are seeing massive spending today. I'm also happy to note that we've won back-to-back - a second 100M deal between FY21 and FY22, as you will recall.

We've further won a USD 25M deal with a new-age company focused on autonomous and self-driving cars. Here, LTTS will be the exclusive engineering partner to design the autonomous & connected car platform.

We are increasing our traction with traditional OEM's and Tier-1s as well, as these customers pivot towards autonomous and electrification and kick off various programs. We recently got empaneled with a U.S. based Auto major to work on both advance and conventional areas and expect this to ramp up quickly.

Overall, we're extremely pleased with our performance in Transportation. It is now a USD 300M+ segment on an annualized run rate basis, and in FY22 delivered industry-leading growth of 23% and nearly 19% EBITDA margins. We see a good pipeline of deals in electrification, connectivity, autonomous especially on the software side, and we remain bullish on the outlook in Transportation.

Moving on to **Plant Engineering** – we had a good quarter with 3% sequential growth, which was broad-based across FMCG, O&G, and Chemicals. A common trend across the 3 segments is the investments being made by the companies towards capacity expansion and plant modernization as people look to do alternative sourcing, etc. As a result, we are seeing good demand for EPCM services, digital asset management and automation. As an example, for a US based food company, we are providing engineering support for their greenfield plant expansion happening across US and Europe.

On the Sustainability front, we're seeing growing traction in projects related to carbon capture and waste-water treatment. Summing up, we remain positive on the outlook for Plant Engineering and expect steady growth to continue.

For **Industrial Products** – while we saw demand across our customer base, the supply chain disruption and commodity price inflation faced by a few of our top customers had an impact on our overall growth in this segment. We do expect this to be temporary as, global companies in the industrial sector are spending more on New Product Introductions. This along with rising product digitalization - digital products backed by digital manufacturing, is giving us growth opportunities in the software and platform development side.

In addition, our expertise in circumventing supply chain challenges through component re-engineering and semi-conductor repurposing, including FPGA, is being leveraged by customers. As an example, in one of the large deals we won with a US customer, we are working closely with their Tier-1 and Tier-2 suppliers to identify and resolve supply chain bottlenecks. We also established a Digital Twin Center of Excellence (CoE) in partnership with Microsoft and Bentley recently, that will address and accelerate Digital Twin and Digital Thread requirements of new-age manufacturing companies.

For the year, Industrial Products had an impressive 21% growth, which is a faster pace versus the past years. The pipeline addition continues to be healthy, and we expect growth to be strong in the current fiscal too.

Moving on to **Telecom and Hitech** – as we evolve with newer technology, we have launched a new Business Unit for Metaverse, and believe that this will help us with both growth and profitability, in the medium-term.

In Q4, in spite of the decision that we made on not renewing a legacy program in the interest of better profitability for the segment, we grew by 1% sequentially.

We are seeing good demand across all key segments - Semcon, Telecom, and Hitech. The 5G labs that we setup for ORAN, private network design and device engineering are paving the way for deeper conversations with a few large Telecom Service providers and Hitech customers. We will be shortly launching a 5G lab at couple of our global R&D centers too. Our play in 5G is to leverage the expertise across the spectrum. For example, in Metaverse, we will be combining our 5G, consumer electronics, product and software engineering to build out solutions in the virtual/augmented domain.

The empanelment that we had signed in the previous quarter with one of the world's largest technology companies, has opened up multiple new opportunities, and we are expecting a good scale-up in the coming quarters. We see a gradual improvement in the pace of sequential growth at Telecom & Hitech as some of the recently signed engagements start ramping up in full effect and as our portfolio shifts towards more advanced technology areas like 5G and AI.

Lastly, **Medical** – We are seeing a gradual increase in the pipeline led by opportunities in software and digital platform where customers are investing. In Q4, we won a few Remediation projects where we will be helping companies streamline Quality management systems across product families and in component reengineering. We are also expanding in Software-as-a-Medical-Device (SAMD) space and assisting med-tech companies in clearing FDA compliance.

Last quarter, I talked about a sepsis detection device that we developed based on a Micro Fluidics Infection Management Platform. Happy to share that this has won the BIG innovation award for the Most Innovative Product of the Year, in the US.

Overall, we expect pickup in the growth pace in Medical and definitely expect a better performance in FY23.

Let me move on to **Outlook** – Over the past year, I had an opportunity to meet face-to-face with multiple customers across Europe and US. The world has opened up, clients have started meeting in their offices. Our customers are looking at us as partners for their strategic product roadmap and I believe our investments and solutions being developed in the six bets are in alignment with their needs.

The Large deals traction and pipeline continues to scale up well across US, Europe, and Japan. Our pipeline is higher than previous years, and we expect this momentum of the deal closures to continue.

On the supply side – we have ramped up our fresher hiring and the training in new technologies with almost 18,000 employees having gone through our Global Engineering Academy (GEA), training and reskilling in FY22. In FY22 we hired about 3,000 freshers, and our GEA faculty, led by our head of Global Engineering Academy and our COO, plus the infrastructure that we have developed to hire and train, believe that this will help us to get better scale and pyramid in the current fiscal and beyond.

As we look at FY23, the two areas that we will keep focusing on and keep a close watch on, will be how global growth will be impacted in the backdrop of high inflation and supply chain disruption, and secondly attrition, which we believe will continue to be elevated in the short term.

I am fortunate to be leading a very engaged work force of 20,000 plus people – engineers and technologists who are excited about the possibilities at LTTS. I am thankful to my leadership team, the entire extended leadership team, and the employees at LTTS for their commitment, their passion, and look forward to reaching many new milestones. Our Mantra of Profitable, Sustainable, and Inclusive Growth across our six dimensions continues to be our guiding path.

We reaffirm our earlier guidance of reaching a USD 1Bn run rate by Q2/Q3 of FY23. Also, for FY23, we are guiding for an organic dollar revenue growth of 13.5-15.5%. With that, wish you good health. I'm around for questions. I thank you, and I hand over now to Rajeev.

Rajeev Gupta:

Thank you, Amit. Good evening to all, and hope you all are doing well.

Glad to share our FY22 performance - it has been a year of consistent performance through the quarter and strong results across parameters - broad-based revenue growth, good improvement on EBIT and PAT margin, healthy cash flows and a high Return on Equity. With that, let me walk you through the details of our Q4 FY22 and full year financials starting with the P&L.

Our revenue for the quarter was Rs. 1,756 crores, a growth of 4.1% on sequential basis. Our double-digit YoY growth trajectory continues with Q4 revenues up 22% on YoY basis. We delivered EBIT margin at 18.6% - flat compared to Q3. During the quarter, we had headwinds from Utilization and revenue mix changes, which were offset by operational efficiency gains, economies of scale and currency depreciation.

Moving to below EBIT, Other Income at Rs. 31 crores, slightly higher on sequential basis due to higher forex gains.

Effective Tax Rate (ETR) for Q4 was 26.7% and for FY22, it was 26.6% which came in line with our expectation of between 26.5% to 27%.

Net Income for the quarter stood at Rs. 262 crores, which is 14.9% of revenue, up 5.3% on a sequential basis, driven primarily by higher Revenues.

For the year FY22, our revenue was at Rs. 6,570 crores, a growth of 21% over FY21. EBIT margin at an all-time high of 18.3%, an improvement of 380bps over FY21. Net income for FY22 at Rs. 957 crores is up by 44%, primarily from higher Revenues and Operating Margins.

Now, moving to the Balance Sheet, let me highlight the key line items. DSO was at 87 days end of Q4 compared to 84 days at end of Q3, while unbilled days decreased to 15 days in Q4, which is a six-day improvement over Q3. The combined DSO including unbilled, stood at 102 days, which is slightly above our target range of less than 95 days, and we continue to work upon improving this.

Let me talk about Cashflow - In FY22, Free Cash Flow was Rs. 851 crores, a healthy 89% of Net Income. Our cash and Investments rose to Rs. 2,152 crores by end of Q4 FY22.

On capital return: The Board today recommended a Final Dividend of Rs. 15 per share, taking the total dividend of FY22 to Rs. 35/share. This translates to a dividend payout ratio of 39% for FY22. Our Return on Equity stands at 25% for FY22 versus 21% last year, higher on account of increase in net profit to Rs. 957 crores in FY22 versus Rs. 663 crores in FY21.

Moving to revenue metrics: On a sequential basis, \$ revenue growth was 3.1% in reported terms and 3.6% on constant currency basis, primarily led by Transportation and Plant Engineering segments. The segmental margin performance was better in 3 out of 5 segments on a sequential basis.

In respect of operational metrics: Utilization was at 75.1% in Q4, on account of the full quarter impact of the strong hiring done in Q3. Going forward, we expect this to gradually move up to 78% levels. The Onsite:Offshore mix has shifted towards onsite due to the initial ramp up of new deal wins and sale of solutions. Offshore percentage now stands at 54.6%, however, we expect this to be in the line of 57% range going forward. T&M revenue mix increased to 71.4% in Q4 and is likely to maintain at these levels.

Client profile - which indicates number of Million dollar plus accounts - has shown a sequential improvement in the 5M+ and 1M+ categories. The client profile numbers have seen an improvement over the past few quarters, this trend will continue in the coming quarters.

Client contribution to revenue, - All 3 categories, Top 5, Top 10 and Top 20, continues to be broadly in the same range as Q3.

Headcount increased sequentially by 743 employees, while Attrition moved up to 20.4%. We believe the attrition trend will likely stay higher in the short term while we continue on various employment engagement measures to contain attrition. Our Realized Rupee for Q4 was around 75.7 to the U.S. dollar, a depreciation of 1% versus Q3.

Before I conclude, let me give some visibility on the EBIT margin trajectory going forward: A key part of our six-dimensional strategy is to build a sustainable operating model. We have seen good results in FY22 and our aspiration is to maintain EBIT margin at 18% plus levels. The headwinds in the coming fiscal will be intermittent wage hikes in a high attrition environment, a likely increase in travel and administrative expenses. As part of our strategy, we will continue to make organic and inorganic investments to enhance capabilities and also to enable growth. We will look to offset these headwinds with growth, better quality of revenues and operational efficiency gains.

With that, I conclude. Moderator, now we can take the questions please.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Thank you for taking my question. Amit, I think good show on winning another \$100 million deal this quarter. I just wanted to dig a bit deeper into your FY23 guidance of 13.5-15.5%. If you look at the kind of deal flows you guys have been doing, as well as the growth which you have been delivering, it seems a little bit subpar. If we also look at your long-term guidance around 19-20% range, this looks like quite below that. So, if you can just help with the pulls and pushes of the revenue growth over FY23, the impact of macro and does this imply that your long-term growth will be more back-ended?

Amit Chadha: Mukul, thank you so much for that. I take you back about 12 months when we had started with a guidance of 13 to 15 last year as well. Mukul, there's a mantra that we're using outside of Profitable, Sustainable, Inclusive growth and it's very simple - commit what you can deliver and deliver what you just committed, probably do more. So, we are confident of 13.5% to 15.5% at this stage in spite of what we're seeing coming out on a macro scale, as well as what you have been hearing about inflation, recession, etc. So, we are comfortable with that range right now. As things change, we'll let you know. Number 2 is that we do see deal velocity has picked up for us through the year, and like I mentioned, our pipeline is at an all-time high. Deal closures are there as well, but as you are aware, Mukul, there are variables that are there. So, we do expect broad-based growth across from here on, like I've said, but we will continue to stay engaged, continue to try and do the best we can and take things forward.

Mukul Garg: So, Amit, sorry to push back a bit on this. I do understand and appreciate the conservativeness which you are putting in numbers, but it would be great help if you can just kind of give some colour from different verticals perspective because over last two quarters, you have won 2 - \$100M+ deals, and your vertical commentary continues to remain very-very good, but if you look at the lower end of the guidance, it does imply a very-very tepid kind of a performance throughout FY23. While it's fine to be conservative, is this something, which you feel that is a realistic number right now?

Amit Chadha: It's okay to push back. There's no problem. We're having a conversation here. So, Mukul, if I look at Transportation, I do see the EACV segment as being a tailwind. I see the differentiators

we've created, the labs we've created, the traction we've got, the excellent client relationships we've got across U.S. and Europe plus the empanelments we've done, etc. Continue to be bullish on this segment in terms of growth as we move forward, and that's in each sub-segment, it's Auto, Trucks & Off Highway, Aero. In the area of Plant Engineering, again, I know the market has changed in terms of people wanting smaller plants, local plants alternative from just-in-time, they've gone to just-in-case. So, I do expect Plant Engineering also to continue to deliver healthy growth on an ongoing basis, don't see a problem in spite of the war, etc. Now, in the Hitech segment, Semcon will grow, but again you are aware this is the most competitive segment, red ocean if I may, for the engineering world. We are establishing Metaverse as a vertical to get out of this red ocean part and get to a blue ocean part. It will take some time. So, therefore, we're a little watchful there. Though I've said that there are deals, there are closures, etc., it will take a little bit time there. In terms of Industrial Products, last two quarters or last quarter, we've been tepid, and the broad reason is not that we don't have deals or we don't have people or we don't have client relationships. It's a function of our discrete manufacturing clients facing various headwinds in their businesses because of supply chain. Now, I do believe short term they will overcome it, but will they come back to a great extent, etc., to be seen. Finally, Medical, we've again made investments. In fact, I would rate my own solutions in Medical to be at par with EACV, which has grown the fastest, but there are certain challenges because Medical segment by nature is a little more conservative. So, I am bullish about my own prospects, if I may, and our own capabilities, our technologies, our engineers, but at the same time, I am mindful of the fact that we have a full year to go by. I assure you, Mukul, that as we go through the year and when I come back and talk to you again at the end of Quarter 1, I will provide whatever updates I can as I've done in FY22. Rest assured, we are baking a lot of this plus and minus to provide you what we've provided. Of course, like I always say, internal aspirations and targets are higher.

Moderator: Thank you. The next question is from Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Good evening, sir. Thanks for taking my question and congrats on great execution once again. Just one question, I wanted to get your idea on how we are looking at the business in terms of the commodity price hike and the growing inflation. If I see, most of our business is basically pertaining to the manufacturing industry. You mentioned in your comments about Industrial Products that that segment is facing those headwinds. I think at some point of time, the Transportation vertical and Plant engineering vertical too will probably start seeing the heat as well. So, in terms of your conversation with the clients, has anything started on that front that may be the clients are expecting some kind of headwinds because the primary concern in the industry today is not what clients are looking at today, but that inflation today could lead to lower capital tomorrow, which could lead to lower IT spend day after tomorrow. So, anything on that front that you are getting from the client in terms of your conversation, it would be really helpful.

Amit Chadha: Sure. So, if I may share with you, recently in Europe, 3 countries, 5 days, 18 meetings, similar stuff happening in the U.S. In fact, our CBO is there, continues to travel. In fact, there are meetings happening every day now, people are meeting. Number 1, what we are hearing is people talk about the invasion of Ukraine, but they are yet figuring out the impact. In fact, one

client told me that I actually boarded up my factory in western Ukraine and I continue to work. People go in the morning, come back in the night, and they have put blackout windows and they continue to work inside the factory. I was surprised, but they do that. Another customer told me that he has actually sent out food, cots, medicine to his employees in China where they are in the office for the last five days and will remain there for another two weeks, and for their families, they have been providing food, vegetables, etc. because he has to do it for his employees. So, you think about the extent to what people are doing to continue to stay normal. This is the new normal, unfortunately. So, what we're hearing is, one is invasion of Ukraine, but people are not sure where it will go. Second, we are hearing people talk about inflation and believe me some of these guys... I was with a COO two weeks ago of a 15 billion revenue company. Gentleman was sharing with me. He said "I've already taken cost actions to help me with some of the commodity pricing increase I'm seeing." So, there are three things that are coming out with all this. One, clients continue to turn towards digital to take care of absenteeism at factory and workplaces, as well as for the reliability of operations and predictability of operations and people are engaging us in that. Second, people continue to look for alternative sourcing, alternative material, alternative components to make sure that they are able to continue to deliver. Third, we are seeing that there is a workforce gap that is there between demand and supply at this stage. So, they continue to look at companies like ourselves to provide them with that extra talent and burst of projects to be able to take things forward. So, if I was to look at, and I said this while I was talking to Mukul, but EACV is a tailwind right now. I do see this carrying on for the next three years for sure. Our digital products, digital manufacturing, both of these have not paid out yet. I do believe that it will continue on. Medtech is starting off, and you can see peer results, others, Medtech will grow, but it will take some time to pickup speed. Sustainability, people are talking about alternative material, alternative sourcing, zero liquid discharge, carbon neutrality, energy storage, etc., but again this will take a little bit more time to come up. So, I do believe that some of these are right now peaking or are at high and will continue for the next two years. There are others that will pick up. So, from a demand standpoint, I do feel fairly optimistic. I have not heard of any reversals or anything, knock on wood, at this stage.

Vibhor Singhal:

Got it. Just my last question is on basically the salary hike and the margins front. So, if you could just share plans as to when do we intend to give salary hike in this financial year? What is expected to be the quantum and is the onsite salary hike as again we have seen across the broad, is it expected to be higher than earlier years because of the higher inflation in the US and the European countries?

Amit Chadha:

Let me take a part of the question and then I will handover to our CFO Rajeev to answer the other part. One, I want to tell you that we did do some positive corrections because somebody told me when we say correction, they may think of negative. Negative doesn't work in our industry, it's only positive. So, we did positive corrections in January for critical talent in the Company because that was required and the margins that you see are after that correction. Number 2, our regular hike cycle, increment cycle, is July. We are right now in the middle of working out all those details and taking that forward, but we will make sure we are looking at ring fencing talent, we're looking at various options and various ways to do it and we will

continue to do that because finally we have to look at a sustainable ongoing growth enterprise rather than worry about really just a short-term. With that said, Rajeev, you want to add this please.

Rajeev Gupta:

I think you also talked about the margins part and I think as most of you would have seen, we have improved on the EBIT margins over the last five quarters and in quarter 4, we have held at the same level as quarter 3. Now, like I said in my opening commentary, we will have headwinds and tailwinds to manage. The tailwinds will continue to be growth and quality of revenues. Second, if you look at some of the operational metrics, we did hire close to about 3,000 freshers during the year. You have seen that utilization has come down in Q4. We believe many of these freshers will become billable as we enter into FY23. Operational efficiencies, I think, we talked about sustainable operating model. A large part of FY22 really has been about building fresher talent and improving on the pyramid. Our C&B cost as a percentage of revenue has indeed come down. So, we feel that is going to be another lever that should play in our favor. So, these are some of the tailwinds. While I talk about the tailwinds, of course, I should also talk about the headwinds. So, we believe that you will see savings that we had in FY21 and FY22 with COVID almost settling down now, travel will start. It's almost begun to show up as Amit talked about. Most of our sales folks are travelling, meeting clients. So, we expect that it will almost normalize in FY23. Attrition and intermittent wage hikes that will be another headwind that we will have to manage and last but not the least, we will continue to invest both in organic and inorganic growth, but all in all, our aspirations will be to maintain at 18% plus margin levels going forward in FY23 as well.

Moderator:

Thank you. The next question is from Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan:

Good evening. Thanks for the opportunity. First, on the large deal, is it possible to give the rough tenure for these deals and second is the number of large deals seems to be accelerating and you also mentioned that the pipeline also looks very strong. So, just wanted your sense. If you just compare may be the last many-many years, I think last year and this year, the last two years you have actually seen a lot more large deals and your commentary suggests that it's picking up, so from a growth perspective fundamentally, if we think longer-term, does this add a lot more predictability for you when you think about it, just wanted your thoughts on both these please.

Amit Chadha:

Number 1, on the large deal, this is USD 100M+ deal, as we have explained and in fact the press release has details on it, USD 120M+ that's there and generally these aircraft design cycles are across 6 to 8 years and that's the period that this deal will run through starting up sometime in Q2, as we start. So, that is number 1. Now, in terms of traction, there are three things that we have fundamentally tried to change here. Number 1 is that, as we look at solutioning, we actually step back always and see what are the white spaces that we should be investing in and spending time on. For example, if I look at the EACV space, we worked on developing in-house EV components. We also worked on creating our own integrated e-axle solutions. If I look at medical technologies, we worked on creating a cuffless non-invasive BP algorithm. We created our own chest rAI. I can go on and on, but broadly what I am trying to explain is that we look at the white spaces, we look at the technology, we do a buildup. What that does is that rather than being

known as a commodity supplier, we end up trying to gain mindshare before we gain market share, and once you've gained mindshare, then market share becomes a byproduct of that. In addition to that, while we do that with our CTO team and our practice teams that we are doing, our CSO/CBOs have actually got a large deals engine full-time focused, which has got finance participation, delivery participation, etc., it's a cross-functional team working 18/7 globally to continue to seed new ideas, create new ones, answer, etc. So, knock on wood, I do have confidence that the momentum is there, and like I said again, blessed to have a team that continues to think every day on newer ideas, newer things on how we can add value to customers. How do you unlock because once you unlock value for customers, what we get is a byproduct of that. So, with that said, I do believe that the momentum will continue. One thing I will tell you that we learnt last time and I was sharing with some of you that we now realize that USD 9.5 million deal should not be done, it should be a USD 10 million deal. A USD 20 million deal should not be done, we should aspire for USD 25 million. So that whole feeling in the Company is to do bigger, better, more and we'll continue to strive towards that.

Nitin Padmanabhan: So, just as a follow up, are you suggesting that this is something that's more LTTS driven, focused in terms of the large deal engine or is it that the market itself has more large deals by nature or is it both?

Amit Chadha: My first answer is, it's only us and nobody can do it, but here is where we are. I do believe that deals are being done across the board. The engineering segment itself is seeing more mature traction. I, however, do believe the differentiator LTTS brings is the CrossPollinnovation that we talk about and the proactive nature of trying to bake proactive ideas. So, that I believe is a differentiator, but I do think the engineering industry overall stands to benefit.

Moderator: Thank you. The next question is from Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: Sir on the DSO days, when you look back at the year and the target versus what the actual numbers are, what are the specific areas where the mix happened and how will that change in the next one year for you to go back to the target.

Rajeev Gupta: Let me take this one. So, clearly if you look at DSO, our focus is that we should be in the 95 day range, both for billed and unbilled. As I mentioned in my opening commentary, we have come down in terms of unbilled DSO to 15 days compared to where it was 21 days in previous quarter. So, that's an additional six days, what eventually it does is, it adds to the DSO billed. Having said that, yes at about 102, we continue to work upon it, but despite the fact that DSO is where it is, our free cash flows are at 89-90% of PAT. So, it has clearly been an area of focus we want to ensure the free cash flows continue to improve. It also helps us to build the war chest for inorganic growth in future, but having said that Salil, our focus continues to be to improve DSO and you will see that over the coming quarters, we will bring more stability in the DSO.

Salil Desai: Sir, the miss last year, was it something specific, some events, some particular clients, which give you confidence that things will not recur next year for you to achieve the target? Was there

any specific areas where you think things will improve this year for you to achieve the target or was there something one off?

Rajeev Gupta: We did talk about in our commentary back in quarter 1 and also followed through in quarter 2. We have been through systems implementation during this year. Clearly, the idea is to bring more efficiency in the whole chain in the order to cash cycle. We believe that should be an area, which would help us to improve DSO in the coming quarters. There is nothing in specific that I will communicate either as a cause of concern or as a miss.

Moderator: Thank you. The next question is from Kawaljeet Saluja from Kotak. Please go ahead.

Kawaljeet Saluja: Hi, everyone. My question is on profitability or rather trying to understand the employee cost, Rajeev. When I look at your blended employee cost, that is down 13% compared to where it was six months back and this is happening at a time wherein your onsite mix in revenues has gone up from 40.3% to maybe 45%. I am just trying to reconcile how this has been achieved. Now I understand that you have recruited freshers, but still the disconnect in numbers is quite sharp. So, can you just help me with the same?

Rajeev Gupta: Hi, Kawaljeet. So, I think two points, and I will also have our Chief Operating Officer, Abhishek add to it. So, we did talk about the fact that we have hired close to 3,000 freshers during the year and I would have to step back, Kawaljeet, to really unfold the story. In FY21, it being a COVID year, we did not hire employees and that clearly led to the pyramid bloating. FY22 gave the opportunity to course correct on the pyramid. It also gave us the opportunity with the growth to build for future capability. We hired close to 3,000 freshers, which is what led to the reduction in the C&B as a percentage of revenue. Your point around the growth in onsite, of course, and also trying to add back to the reduction in C&B, the fact being that the growth in onsite is more of a Q4 phenomenon and that's more because some of the deals have started in Q4, you will see the follow through and growth in offshore happening over the subsequent quarters. I will also have Abhishek share in terms of the operational aspects around the C&B.

Abhishek Sinha: I think, Rajeev, you have covered it all. We clearly saw a few quarters back, at least more than a year back, I would say, that the way the industry is moving, including the attrition part, if we do not invest in the freshers, we will not be able to have the right kind of operational excellence and also the engine we have built on training these freshers because we are not just hiring them and then hoping that they will start delivering. We start engaging with the freshers at least six months before they join us while they are in their colleges. So, when they come into the Company, the quality of freshers, the quality of training is to the liking of our businesses and customers, if I may, and I think that strategy has really paid off for us and the fact that we started this more than a year back is what is showing the results now.

Kawaljeet Saluja: Okay, thank you. If I may ask a follow-on question and that is for Amit. I am just trying to understand the guidance philosophy because you have given out a guidance of 13.5% to 15.5% and at the same time, you have implied in many different ways that the guidance is conservative. Now, I am just trying to understand that at a philosophical level, do you think the guidance

should be always based on the way you see the demand or do you think that we should try and guess every year what's the kind of cushion that you have built into your revenue growth assumption and how does that change every year?

Amit Chadha:

So, Kawaljeet, when we set up guidance and then we go through, we always look at all the positives and negatives that are there, the certainties, the deals won, the executions cycle, the supply side, we look at macroeconomics etc., it's a fairly intense exercise that we do. There's an algorithm that we leverage internally to do that. So, with that said, like I was explaining earlier also that in some of the segments, I'm fairly comfortable, confident, I can see it. I have plans right up to the end of the year, believe me. There are certain areas which I think are spotty at this stage from a variability standpoint, not our capability but variability standpoint, things could change, etc. So, that's where the guidance is coming from, but believe me Kawaljeet, we will continue to work on this on a continuous ongoing basis and continue to provide an update to you. I, in fact, didn't say it, but I am truly thankful to everybody on the call that has worked with us through this last year, it has not been easy. So, thank you.

Moderator:

Thank you. The next question is from Abhishek Shindadkr from InCred Capital. Please go ahead.

Abhishek Shindadkr:

Hi. Thanks for the opportunity and congrats on good execution. So, one question and partly answered by Abhishek in the previous answer, but it seems like our guidance, it seems like there is no challenge on the demand, but it is more on supply, and you alluded to the fact that you start training people six months ahead or when they are part of college, but just trying to understand that are they kind of billable immediately when they join or there is still a second level of training once they join and is there another way to get them billable early or if you can explain this process that could be really helpful.

Abhishek Sinha:

Thanks for the question. The way it works is, yes while we start engaging with them while they are in their colleges, we also engage with the faculty of the colleges so that they also train them in the areas what industry needs. When they join us, we have them go through a more structured training process in our academy. Do understand that while they are in colleges, still online virtual training, but we insist on these students working from our Mysore, Baroda campuses and do more in-person training because we are engineers, the work we do is hardcore. They have to apply what they learn. We have all these investment labs we have created. We make them go through the labs that we have. Our practice heads, practice managers engage with them and show them the kind of projects we do. It's a lot of hands-on training that we do while in the first many months that they are with us. There is no specific timeline or something where we say they join in and in the next month, they will get billable, but it varies from technology to technology, customer to customer and that's the way it works, but yes, there is a lot of investment after they join, in them, before they can get into billable work.

Amit Chadha:

And more than billable, if I may add, the philosophy is, we are doing engineering and technology work. It's not a lot of commoditized work. So, you are working on products, you working on designing a plant, you're working on a digital twin concept, etc., so unless we are satisfied that the work product will be beyond defect, will be super skilled, we don't want to deploy the people

out. So, at times, we will ask them to do a little bit more re-training in a certain area. So, we want to make sure that our customers love us for the work that we do because growth will happen, profits will happen if clients love the work that we do. If we get into delivery issues and all, it will be a mess for us.

Abhishek Sinha: Just one last point. We also put many of them through internal practice projects that we run, which creates technology assets on one hand, also in the process they get trained. So, that's the way it works.

Abhishek Shindadkar: This is really helpful and the second question is more about captives, so with the challenges especially in the Eastern European part, based on your conversation with customers from Europe, is there any heightened conversation about heading up incrementally or making India as probably an alternate destination right now, which may not be in their current setup?

Amit Chadha: So, there is data available across Russia, Ukraine and Belarus, there is about 275,000 engineering jobs that have gone offline, if I may, and that therefore has people moving, some of those to Lat-Am, some of those to India, some of those to other parts of Europe. We continue to work with our key clients to support them through this difficult time. There are certain areas we have started to work with them. We have also established center in Poland last quarter. So, we are working with and engaging with people that are moving from these countries into Krakow where we can offer them employment as well. So, we are working on various parameters in this area. I don't want to comment on one specific area or another. I also want to behave like a good corporate citizen where I don't want to try and do this in the wrong way, but we are working with our clients, strategic clients to help them, some of them have their own centers there, which are no longer operational. So, we are supporting them on some of the programs, so we continue to engage. I don't want to put a number to it yet, but yes there is stuff that is happening in that area.

Moderator: Thank you. Ladies and Gentleman, we take the last question from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Good evening, thanks for taking my question, and congrats on good execution. So, I had just one question on the supply side, while you have given a lot of detail on that front, but the key aspect, which I wanted to understand is how much is the difference between recruiting fresher to get them on billing in our ER&D industry versus the services industry. Is that gap a couple of weeks or it is almost similar or it is higher?

Amit Chadha: So, look at it this way, answer will potentially vary in terms of the areas we are putting them on. Some of the best analytical brains we are getting actually are people that are Masters that are coming out in specific areas in some places, some PhDs. Now they will immediately get deputed to projects in very short term. There are others, where do build plans with them, getting them up to speed, etc., so there is no one answer. What I can definitely tell you because I have played both sides of this, I have been in IT industry and now in the engineering industry for more than a decade, it takes a little bit more, but it varies depending on vertical, skill set, technology area,

that we have got but we do want engineers, we do need people with Masters, so the technology, the engineering pedigree, etc. is very important, can't do it with just bachelors, etc. that's a fact.

Sandip Agarwal:

Sir, if I can ask one more question, we are hearing that some of these companies, which have got impacted because of the geopolitical situation have become very aggressive in recruiting from some of the key supply cities in India, has it impacted us or you are also seeing the same trend or you don't think it is something to be called out yet?

Amit Chadha:

So, we have got centers in six cities. Our primary focus to grow will be Chennai, Mysore, and Baroda with secondary focus on Mumbai, Hyderabad, Bangalore, and then Pune as needed. So, we have centers in these places. We are fairly diverse from that standpoint. Yes, there is a talent war out there and we do believe it will take some time to shake out, but the only answer here is to go through with it and you know two things, one if we can offer a differentiated technology career path, road map, projects to our employees and our associates or people joining us, they will be excited, so kind of projects, etc. we have them do. The second thing is that can we be inclusive, can we offer them opportunities outside of what they are doing right now. That is why I mentioned go up to our website, look at the mission, vision, values, that we are doing now. So, we are working on various parameters to see how we can get the excitement up.

Moderator:

Thank you. Ladies and Gentleman, that was the last question. I now hand the conference over to Mr. Pinku Pappan for closing comments.

Pinku Pappan:

Thank you everyone for joining us on this call today. We hope we were able to answer most of your questions. Please reach out to me in case you have follow up questions. Well, here's wishing you great and safe time and hope to meet you soon in person. Thank you. Have a good day.

Moderator:

Thank you very much, sir. Ladies and Gentleman, on behalf of L&T Technology Services Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your line.

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