L&T Technology Services
Q4 FY24 Earnings Conference Call Transcript

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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**

Moderator: Ladies and gentlemen, good day, and welcome to L&T Technology Services Limited Q4 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

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

With that, let me introduce the leadership team present on this call. Amit Chadha – CEO and MD; Abhishek – COO and Executive Director; Alind Saxena – President Sales and Executive Director; Rajeev Gupta – CFO. We will begin with Amit providing an overview of the company performance and outlook, followed by Rajeev, who will walk you through the financial statements and again outlook.

Let me now hand over this call to Amit.

Amit Chadha: Thank you, Pinku, and thank you all for joining us on the call today.

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

- In USD terms, we had a strong performance of 5.1% in constant currency, led by Telecom and Hitech, Plant Engineering and Transportation.
- Our EBIT margins came in at near 17% levels.
- Large deal wins have been strong with one USD 100 million, one USD 30 million, two USD 20 million and two USD 10 million deals, in the quarter. Additionally, we won one significant empanelment in the O&G sector.

Overall, when we look at the full year **FY24**, we are happy with our performance and the milestones we've achieved:

- **Growth:** We grew by 17.9% in constant currency during the year. This reflects the growth on our FY23 revenue prior to the restatement due to SWC, and in constant currency based on 4Q FY23 exchange rates.

- We've now crossed $1.2 Bn in revenue on run rate basis, in 12 months after we moved past the $1 Bn mark.

- For the year, Transportation grew in double digits, while despite a challenging year, the other verticals came in at single digit growth.

- When we look at geo-wise split, all regions grew positively while Europe had a strong performance at 15%.

- Customer mining has seen an improvement YoY, with an addition of 4 customers to the $30M plus bracket.

- **Large Deals:** In FY24, we closed a total of 25 deals greater than $10M in TCV, which includes 1 $100M deal, 3 in the $30M - 50M range and 9 in the $15M - 20M range. In addition, we had 3 significant empanelment agreements – 2 in Q3 and 1 in Q4.

- **Technology Quotient:** Cumulatively, we have filed nearly 1,300 patents as of FY24 – of which 463 are our own and 833 are on behalf of the customer. Our patent addition continues at the rate of 50+ every quarter, taking the total to 206 for FY24. More importantly, we've filed 54 patents in AI which truly showcases the innovation culture inside.

- **Operating Model:** our FY24 EBIT margin was maintained at the 17% levels as we integrated with SWC. Profits for the year crossed the ₹ 1,300 crore mark, and over the last 3 years have grown at a CAGR of 25%.

- **M&A:** We've successfully integrated SWC and built a stronger portfolio of offerings across next gen communications, cyber security and smart and sustainable world. This was our largest acquisition till date and the seamless way in which the integration and joint go-to-market progressed gives us a lot of confidence in our ability to acquire companies of this size and the leadership bandwidth within the company to be able to integrate such transactions. We are actively looking for targets in ISV, Med tech and Europe Auto.

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

Starting with **Transportation,**

- We are focused on 3 areas: SDV, hybridization and electrification and Vehicle engineering.

- In SDV, we have made further progress from last quarter with more wins. We currently have SDV engagements with 4 Auto OEM's, 1 Tier 1s and 2 Commercial Vehicle (CV) OEMs globally.

- In hybridization and EV, we are moving towards value engineering and continue to see traction. We now have a bigger EV labs in Bangalore to cater to both Auto and CVs.

- In Vehicle engineering we are seeing good demand and we are working with the West Coast Auto OEMs.

- In Q4, we won a large deal with a Tier 1 where we will use AI and digital transformation to advance their clean mobility engineering capabilities.

- Aero and Rail looks promising with a good number of large deals in the pipeline around vendor consolidation, inflight entertainment, and new system development.

Overall, while we had a soft Q4 as some of our deal decisions were delayed, we see a strong rebound in Q1. Transportation grew 12% in FY24 and we continue to see strong growth prospects strong in this business in FY25.

In **Plant Engineering,**

- We had a broad-based growth across FMCG, O&G and Chemicals.

- We are capitalizing on demand in 4 areas: 1) capacity expansion programs 2) new automation & refresh 3) digital adoption for operational efficiency 4) green energy.

- For example, we are supporting one of our European customers for their strategic investments in Green Hydrogen.

- In Q4, we won a large deal with a Middle East O&G major, to provide EPCM services under our differentiated engineering value centre model.

- We also won an empanelment with a global oil major to provide plant engineering services for their global assets across all refineries. With this we have established significant inroads with 4 Global O&G majors.

New capex and plant modernization will continue to drive demand and we are optimistic of strong growth in Plant Engineering in Q1 and for FY25.

At **Industrial Products,**

- Machinery and Power sub-segments continue to do well however given softness in commercial real estate Building Automation remains challenged.

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

- New areas like Energy Management systems and green power for data centres are opening up interesting opportunities for us.

- Customers are spending on product repurposing and cost reductions resulting in Value Engineering as well as Supply Chain related deals.

Though we grew by 5% in FY24, we had a de-growth in Q4 due to delayed decisions and tepid demand. We expect growth to pick up second half of FY25.

In **Telecom & Hitech,**

We had a very strong quarter driven by seasonality in SWC business as well as growth in the Hitech portfolio.

- Semiconductor has grown well. As we had mentioned in the previous quarter, with the spending freeze being lifted slowly, we are seeing good opportunities in new chip development especially in AI.

- In Telecom, we had a strong growth from lab-as-a-service and AI based network automation. But we expect some volatility here as Service providers are still looking to conserve cash and spending very cautiously.

- The SWC business which has a stronger Q4 due to seasonality did very well. We see a strong year ahead with the pipeline and the wins we had like the $100M deal win with Maharashtra cyber where we will architect and operate a sophisticated cyber intelligence centre by leveraging AI and Digital Forensic solutions. This is a great example of how LTTS and SWC with a more end-end portfolio won against more established competition leveraging global alliances and know-how.

- Across our Hitech portfolio, we are seeing multiple large deals in play as customers are looking at managed services and vendor consolidation which could help accelerate our growth in the coming quarters.

Overall, we remain optimistic about FY25, given the rebound in Semiconductor and ISV, although we may see some weakness in Q1.

Lastly, in **Medical,**

- We see good demand from digital platform development, complaints handling and remediation and Digital Manufacturing.

- The deal pipeline is slowly building up and productivity improvement and process optimization using AI will be a big factor to win deals. For example, our AI solution for complaints Handling has seen a strong reception with customers due to productivity gains generated.

- Cybersecurity is also going to be a big driver going ahead due to FDA regulations.

Although we grew by 5% in FY24, the softness in Q4 was on account of renewal deals getting delayed as customers are being cautious. We do expect the momentum to pick up from Q2 onwards and a better FY25.

Let me now discuss how we are **repositioning LTTS for the future:**

In 2021, we made investments into six big bets and built scale and large deal traction around it – which has led to a 16% CAGR in revenue (USD) and 25% CAGR in profit growth over the last 3 years.

- Our aspiration is to capture higher market share and improve the growth trajectory.

- With tech cycles are shortening to 3 years, there is a necessity to future proof the growth prospects of LTTS. We are therefore streamlining and simplifying our organization into 3 main segments to drive higher customer intimacy, scalability and future growth trajectory, and improve our innovation quotient.

- Under this 'Go Deeper to Scale' strategy we will have 3 segments – Mobility, Sustainability and Hi-Tech.

    - Mobility will include Auto, Commercial Vehicles and Aero.

    - Sustainability will include Industrial Machinery and Building Tech, Electric Power & Utilities, FMCG and Oil & Gas.

    - Hi-Tech will include MedTech, Semiconductor, Hyperscalers and NexGen Communications.

  Supporting these 3 segments, we will have 3 horizontals:

    - AI and software defined everything (SDx)

    - Embedded systems including VLSI

    - Digital Manufacturing Solutions

Sales and delivery which were separate and reporting to CEO will now be combined and roll up to the Segment Heads who will be the P&L owners too. This cohesive structure will provide greater empowerment to the Segment Heads that will enhance our agility, enable faster decision making, domain specialization to unlock higher value for customers as well as employees.

Now let me discuss the **Outlook:**

- In the immediate near term, we are dealing with decision making delays and rising geopolitical risks.

- Factoring the current economic scenario, our guidance for FY25 is for a USD constant currency revenue growth of 8-10%.

- Our aspirations to touch the $1.5 Bn run rate in FY25 remains.

Let me end by thanking you for all your support and encouragement. I now request Rajeev to take over. Thank you.

Rajeev Gupta: Thanks, Amit.

Good evening to all of you and hope you're keeping well.

As we wrap up FY24, our performance for the year across all metrics – Revenue Growth, Margins, Free Cash Flows and Return on Equity (ROE) have held up well, despite a challenging year.

Some highlights:

- Dollar revenue growth of 17.9% in constant currency was in line with our guidance.

- We maintained our EBIT margin at 17.1% for the year.

- Profit for the year crossed the ₹ 1,300 crores mark.

- Our free cash flows were at a record high of ₹ 1,251 crores.

- ROE at 27% continues to be within our aspirational band.

- And we successfully integrated SWC – our largest acquisition till date.

With that, let me take you through the details of our Q4 FY24 and full year financials, starting with the P&L.

For the Quarter,

Our revenue for the quarter was ₹ 2,538 crores, a growth of 4.8% on a sequential basis.

EBIT margin for the quarter came in at 16.9% - lower by 30 bps when compared to Q3. This was largely on account of higher subcontracting expense as we kept our SG&A steady.

For the year,

Our revenues were at ₹ 9,647 crores a growth of 9% over FY23. Performance was led by Transportation while all verticals grew positively.

EBIT margin for the year was at 17.1%, in line with our aspiration of 17%+ for the year.

Moving to below EBIT

Other Income for the quarter was at ₹ 43 crores, slightly lower on a sequential basis due to onetime gains in the previous quarter.

Effective Tax Rate for Q4 was 27.5%, and for FY24 it was 27.6%. This is in the same range as our expectations of 27.5% for the year, and we expect this to stabilize around the same range going forward.

Net Income for the quarter stood at ₹ 341 crores, which is at 13.4% of revenue.

For FY24, Net Income stood at ₹ 1,304 crores, 13.5% of revenue, and up 8% YoY.

Moving to the Balance Sheet, highlighting a few key line items:

Our Q4 DSO was at 100 days compared to 102 days in Q3, while Q4 unbilled days reduced to 14 days when compared to 18 days in Q3. Combined Q4 DSO including unbilled stood at 114 days, a 6-day improvement when compared to Q3. This is slightly better than our target range of 115 to 125 days that we had set for the year as we accelerated collections during the quarter.

Talking about Cashflows – In FY24, Free Cash Flow was ₹ 1,251 crores – an all-time high in absolute terms and a healthy 96% of Net Income. Our Cash and Investments improved to ₹ 2,883 crores end of Q4 FY24 – broadly in the same range when compared to FY23 year end, this is after paying for dividend during the year and ₹ 800 crores for the SWC acquisition.

On Capital Return: The Board today recommended a final dividend of ₹ 33 per share taking the total dividend for FY24 to ₹ 50 per share. This translates to a dividend payout of 41% for FY24.

Our ROE stands at 27% for FY24, driven by increase in net profit to ₹ 1,304 crores in FY24 versus ₹ 1,212 crores in FY23.

Now moving to revenue metrics: On a sequential basis, $ revenue growth was 5% in reported terms and 5.1% on a constant currency basis, led by Telecom & Hitech, Plant Engineering and Transportation segments.

Our Segmental margin performance for the quarter, was better in 3 out of 5 segments on a sequential basis, with 2 segments crossing the 30% margin level. Plant Engineering segment margins were lower in this quarter due to the initial ramp-up of a large deal won during the year.

Segmental margin performance for the year, was better in 3 out of 5 segments with Transportation, Industrial Products and Plant Engineering showing improvements.

Now commenting on operational metrics for the quarter:

The Offshore mix was flat at 58.7% vs Q3, and we continue to work on measures to improve this ratio to 60% levels in the medium term.

The Fixed Price revenue mix was 39.5% in Q4. We expect the ratio to be between 35% and 40%.

Client profile – which indicates number of Million dollar plus accounts – has shown a sequential improvement in the 30M, 10M, 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. We now have 5 customers giving us more than $30M annually.

Client contribution to revenue – continues to be in the same range as compared to Q3. We expect revenue from top customers to improve going forward as our targeted client mining program comes to fruition.

Headcount increased sequentially by 514 employees, while Attrition came down by 100 bps to 14.8%, this is in line with the industry wide trend as well as our employee engagement initiatives.

Realized Rupee for Q4 was at 83.2 to the US dollar, a slight depreciation of 0.2% versus Q3.

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

- We're excited to unveil our new strategy of 'Go Deeper to Scale' to streamline and consolidate our organization into 3 segments – Mobility, Sustainability and Hi-Tech.

- The objective is to create a cohesive structure that will help improve client intimacy, domain specialization and innovation.

- The reorganization will entail investments in people and new technologies, which will be front-ended beginning start of FY25.

- In addition, we're factoring decision-making delays to continue, due to rising geopolitical risk and continued tightening of financial conditions in the US markets.

- This will lead to softness in EBIT margin for FY25 ranging at 16% levels while our endeavour will be to achieve higher levels in the medium term.

With that, I conclude my commentary. Thank you and I hand over to the moderator for Q&A session.

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

Vibhor Singhal: Congrats on a very solid performance. Amit, so my question was on the overall growth environment and the growth target that we have set for FY25. Now last quarter you mentioned that the winter is over, and the spring is around the corner. So, do you believe this guidance is a reflection of that and or do you believe the macro has changed a bit since then which led us to maybe a slightly lower guidance than what we were expecting or maybe on the other hand, maybe slightly better than what we were expecting?

Amit Chadha: Sure. So, I think spring looks like 5.1% sequential growth if you ask me.

Vibhor Singhal: Absolutely. But we knew this was driven by the SWC seasonality?

Amit Chadha: No, no, it's not just SWC seasonality. We also grew Semiconductors in this quarter, we also grew Hyperscalers in this quarter and that's how we've been able to get to this.

So let me give you a little bit of colour. So, Vibhor, as we look at it today. Internal targets that we've got are higher, but we have baked in the kind of political uncertainty, etc., going on right now in the world. See, we are seeing very clearly, and I'm going to talk in terms of my new Segments here, if you don't mind.

If I look at Mobility, we will see spends coming out in the software defined vehicle space continue to happen. We've now got I think about 8 empanelments with OEMs and some TCV signed, and that gives us a lot of confidence in the spend there.

In the sustainability segment, we are seeing new spends emerge and come in the Oil & Gas as well as Chemicals and the CPG area, therefore the verticals that we've got will grow in that area definitely into next year.

In Hi-Tech segment, I do see in the MedTech area there will be expansion for QARA and others. In the areas of CMT which is the other part of Tech, (Communications, Media, Telecom and Technology) – I do believe that Semiconductor as well as Hyperscalers will provide us that growth. And there are some opportunities with Operators and Infra companies to try and help them with lab-as-a-service, etc.

So those are the positives that we are seeing. The kind of caution that we have still got is in Sustainability, the Industrial area is sort of soft right now. So, we are looking to see how we can leverage Digital Manufacturing Solutions, AI and SDx solutions in that area.

Second, we are still not clear on 5G spends and how Operators will behave in the medium near term. And that again, is something that we are looking to see how we can leverage AI to try and do some more stuff in. So, we took all that into account when we have given you this guidance. So, this is not a target this is a guidance. And like I said our aspiration remains, and we'll continue to update you as we move along.

Vibhor Singhal: Got it. Got it. Just a bit on the trajectory of this number that we are looking at, given that we've ended the year on a very strong footing in terms of exit rate both QoQ and YoY. This 8% to 10% guidance, do you expect this to be more spread throughout the year? Or do you think it could be more backended given the geopolitical uncertainties that you mentioned, which might maybe get addressed in the later half of the year?

Amit Chadha: So see the way we have done the trajectory right now, we do see a muted Q1. But we are still working through the numbers, we are only on 25th April today. And there are deals in play right now. And as we move forward, we will see where we get to, but we are very comfortable in the 8% to 10% range at this stage. And with these new Segments coming along, we actually hosted a 2 day workshop on Monday and Tuesday in our Development Centre in Lonavala. We flew in our leaders. We had 40 people together. And there's a lot of positivity in the organization at this stage. We've elevated roles of leaders, etc. So I do believe that this will give us the push forward and push up as we move forward.

Vibhor Singhal: Got it. That's very useful. Thank you so much Amit. Thanks for taking my questions and wish you all the best.

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

Bhavik Mehta: My question is to Rajeev on margins. Can you elaborate on what kind of investments and costs we are going to bring, which is driving this 100bps drop in margin for FY25? And when can we see margins start coming back to that 17% level? That would be helpful.

Rajeev Gupta: Sure, Bhavik. So, see like I said that one, we are unveiling our new structure. Amit talked about the fact that we are elevating leadership within the organization to drive growth within this new organization that we are talking about, that will entail investments in people and technology. We are also pivoting in three segments, which is Mobility, Sustainability and Hi-Tech. So that's going to be one area that we will invest.

The second is, like Amit talked about, the geopolitical factor, the macro environment. And we've seen a very recent phenomena that somewhere has led to what we have aspired to be a higher growth in terms of this year to sort of lower the aspiration and the growth. At the back of growth we see, of course, the margins to be relatively lower than where we aspired, which has been originally at 17%.

While we will continue to look at improving margins, we believe the factors which is leading to investments, a new reorganization and of course, the geopolitical and macro factors, the margins may likely come to about 16% levels, while we'll continue to endeavour to be higher as the year goes by.

Bhavik Mehta: How should we see these investments spread out between Gross Margins vs Sales and Marketing costs?

Rajeev Gupta: So, we will continue to invest in Sales. Like we have said earlier, our scale has been at industry level. On the G&A side, we believe we've optimized quite a bit. So largely the investment will be at the Gross Margin level because this is essentially where you want to build solutions and capability. So that is where it is going to be. I will also request Abhi to add specific investment that we will have at the Gross Margin level.

Abhishek Sinha: So, on the solutions front where we are investing. One on the Digital Manufacturing side clearly, we are looking at investments, some we have done and some we are enhancing on the Asset Healthcare Solutions for predictive-prescriptive analytics for plants and manufacturing shops. We're also looking at investing in developing product and process integrated digital solutions.

Then of course, there's this big thing on GenAI. We cannot keep away from that. So, the GenAI enabled pluggable modules for automated generation of unit test scripts frameworks, scripts and so forth. Also looking at how to create smart PIDs especially in the manufacturing set up to reduce the cycle time for legacy plant optimization, modernization of plants, there is work being done on the hardware virtualization.

Digital Twin areas, again, what's happening on cloud-based virtual digital cockpit development. So multiple areas, but all of these are, of course, something that came out of the workshops we have been doing around the segments that we have carved out.

Each of the segment leaders have come up with this very specific investment asks and I think this is the right time for us to invest in as we dive deeper into the segments and get more technology focused than we already are, for us to be able to be dominant experts in the areas.

Bhavik Mehta: Okay. That's helpful. And just lastly, how should we look at the margin trajectory from a quarterly perspective? Does the 17% go down to 16% immediately in Q1 or will it be gradual over the quarters of FY25?

Rajeev Gupta: So, the way we see it, Bhavik, I think Amit talked about Q1 to be muted and largely coming out from the seasonality of the SWC business. So look, when it is about Q1 and Q2, we are going to likely see the margins to be relatively lower than what we have seen all of FY24. But as we progress between Q3 and Q4 the margin trajectory will come back. So, when I look at 16% levels take that to be an average across the year, with Q1, Q2 to be lower and Q3, Q4 to be higher.

Bhavik Mehta: Okay. Thank you.

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

Ravi Menon: Thank you for the opportunity. With the cybersecurity win in the state of Maharashtra these kinds of deals are what SWC was doing I think pre-integration and we've never looked upon the India-centric deals as something that can generate even company average profitability. Is that different here?

Amit Chadha: Yes. This is different this time for the simple reason that this is not a win only on cybersecurity to buy some components and put them forward. In fact, this whole deal is about trying to buy and integrate and actually, first of all, to architect a solution around AI-enabled solution, which then works with various kind of product areas and will protect critical infrastructure from cyber-attacks. This is a master software deal rather than being only an SI deal.

Second, there are home grown solutions that we're going to be implementing with this that we take forward. We have leveraged global know-how of relationship with Palo Alto, IBM, Cisco and others and we are putting this together, including threat intelligence, etc. So, this is very different from what we have normally done. We won it because of the home-grown solutions and widgets, etc, we have built. And we believe this will help us scale up the cybersecurity business globally, internationally much further faster.

Ravi Menon: And these sorts of deals, I guess, there are a lot of them that enterprises give out as a standalone or separate from infrastructure services?

Amit Chadha: Yes. This is outside of infrastructure management services. This is not infrastructure management, and this is software related. And we've, in fact, even engaged in two banks in India, one bank in the US which is supporting them on cybersecurity as well. So that's how we are growing that. I can confidently tell you that cybersecurity will be $100M business with us in the next few years annually.

Ravi Menon: And in transportation, you were talking about how you delivered 12% and the outlook is still good, any things that you could add about the slowness in EV sales and any uncertainty around that, any changes in client behaviour?

Amit Chadha: So, I would actually request my colleague, Alind to give you colour on Mobility because he's going to be leading that segment.

Alind Saxena: Amit already talked about this, we are now engaging with 8 major OEMs in that space. And if you look at the spend over the last, I will say few quarters, it has very naturally shifted from working with the Tier 1s to the OEMs, and what we are seeing is an excessive amount of interaction with them and areas around SDV, Vehicle Architecture, Hybrid and EVs.

So, a little bit colour on software defined vehicles, we are looking at two major areas within that. One is called the experience zone, and the other is the ADAS piece of it, both of which are coming up very fairly well. And if I would talk about the Tier 1s, we are seeing that in the Tier 1s, Hybrid is another area that we are investing today along with fuel cells, in addition to electrification where we have already done, that is picking up traction as well.

So, both these areas, whether we talk about OEMs or we talk about Tier 1s, they are looking at alternate ways to conduct business, and our investment in both these areas are positioning us well to be able to cater to these needs for both short term and long term.

Ravi Menon: Thank you everyone.

Moderator: Thank you. Our next question is from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Just wanted a broad view with regards to the guidance for FY25 and the $1.5 Bn revenue run rate aspiration that you had and which you are still sustaining. So, are we essentially planning to do an acquisition through the course of this year to simply get to that milestone? That's question number one.

The second question was with regards to Transportation verticals. While you mentioned that you've won some deal in the current quarter, but some of our peers are and given what one has been picking up on the industry, are we seeing some slowdown, some sort of a pause in this vertical in terms of customers reassessing their priorities?

Amit Chadha: Thank you. So, number one, M&A, yes. There are various candidates we're looking at in ISV and MedTech in North America, Auto in Europe, and we will work towards it and see what we can get to. I do want to say very clearly, and we've already always said this, we will not take pressured stances of doing an acquisition just because we have to. So please rest assured, it will be a considered decision like all other decisions that we have made, a deliberative one that will add value to the company and the organization and the larger stakeholders. So, 8% to 10% organic CC locked, we will work to come back as we go forward and provide better picture as we move forward. M&A is in progress, we'll keep you updated. But we will not take hasty decisions and steps. I just want to be very clear on that.

Number two on Mobility, look the colour of spend is changing like my colleague Alind told you, he's based in Chicago, he actually has spent his life in this area. So SDV is an area that we've invested in. We have won empanelment, we have won OEM contracts. We started working, ramping up area definitely. EV, the colour is changing to Value Engineering. So, from new product development, a lot more area work happening there. And third, Vehicle Engineering in terms of crash analysis, simulation, body-in-white, etc. And so, we're getting work in that area with new age OEMs as well.

So, we do believe that Mobility in FY25 is a double-digit growth for us. And a lot of that work is starting in Q1. And we actually see more offshoring happening in our favour in this area. And Mobility is not just Auto, it's CVs, and we are starting to see early signs of potentially work coming out in Aero as well to us.

See, finally, it depends on what solution differentiators you create, and are you able to gain market share? I'm happy to share with you that your company is gaining market share over others in this space. And like Rajeev talked about, the investments we are trying to make, like we made during COVID, if you will recall, that we opened an EV lab while COVID was going on, and a number of people asked us at that point, are you really serious why are you investing, and it paid off for us.

Similarly, we believe this is the right time to invest before the curve turns around and grows and therefore, provide a differentiated offering. So, we don't need to take pressure on margins. Structurally, we continue to operate at those levels that we've operated in earlier, but claw back, invest, and then grow.

Manik Taneja: One more question for Rajeev. Just wanted to understand, like you mentioned that our growth in the current quarter was a combination of the SWC seasonality and some growth in other parts of the portfolio, if you could help break that up between the two contributors. That's question number one.

The second thing is with regards to the margin outlook that we are sharing for FY25 and the investments that you're talking about, if you could help us understand which areas are these going into given the fact that talent market essentially is in a far better shape as well as you're talking about further offshoring in certain portfolio segments. So, it would be great to get a detailed perspective on that?

Rajeev Gupta: Sure. So, you talked about the breakup in terms of the growth between SWC and the other revenues. We've talked about this earlier as well. We do not report the financials separately, but I can tell you this, that it is a mix of growth which is in the telecom sector between our telecom business and of course, the SWC business.

When you talk about the investments, I think Abhi did talk about several of the areas that we're investing in. Maybe I'll also again request Abhi to share the investments once again because we did talk about the specific areas where we're making these investments.

Abhi, you want to add up to that?

Abhishek Sinha: I think the key point here is that like I said earlier based on the new reorganisation we are doing, we asked each of the segment head how would they like to run their business? And instantly the segment heads, of course, went strong with the teams and came back with very specific areas where they wanted to make investments in.

Manufacturing solutions definitely is one key area which touches Process Industry and Industrial Products areas on the Digital Twin side and the other areas to of course, including predictive analytics and so and so forth.

GenAI was another hot topic that came up from multiple segments, saying we'd like to invest because conversations are going with the customer multiple segments again, more on the, I would say on the V&V side and on smart PID creation on the Process Industry side for plant modernization.

There was a lot of demand on creating solutions around virtualization, cloud-native frameworks. So, I think what we are seeing is a lot of this is stemming from the segment heads taking a fresh look at how they'd like to bootstrap their respective organizations and go from there. And I think it's only fair for us to give them the platform which helps them grow faster as we move forward.

Rajeev Gupta: Maybe I'll just add to what Abhi said, I think Amit alluded to it. What you need to be comfortable with this as an organization, I think we reiterate our aspiration of becoming a $1.5 Bn organization exiting FY25. Of course, there are areas that we're going to invest in like Abhi said, and we feel it's the right time for us to make the investment and we embark on with this new reorganization to see benefits over the course of next 3 years.

Moderator: Thank you. The next question is from the line of Rajiv Berlia from Citi. Please go ahead.

Rajiv Berlia: Hi, Sir. Thank you for the opportunity. Two questions from my side. Just want to understand, In 4Q revenue increased by ₹ 115 crores on a sequential basis while your other expense also increased by ₹ 135 crores on a sequential basis.

And the second thing is I just want to understand on the cybersecurity deal. Has the deal started ramping up in 4Q or if not, then what is the timeline for the ramp up for cybersecurity deal?

Rajeev Gupta: So, I'll take the first part, and I'll request Abhi to add to the second part of your question which is the ramp-up on the cybersecurity deal. So, on the first part of your question in terms of the increase in revenue and tied to the increase in other expenses. So of course, like we said, the increase in revenue is a mix of increase in our SWC business and as well as in our organic business on the telecom segment side.

When you look at the other expenses, a large part of that increase is coming from subcontracting and software related costs, right? And that's how we've seen the increase to come in. I will request Abhi to add in terms of the ramp-up on the cybersecurity.

Abhishek Sinha: On the cyber deal, yes, the ramp-up has definitely started. We are in the detailed requirements stage right now. And like Amit very clearly said that this deal is unlike the usual infrastructure deal that someone has, it is more of a system integration, if I may, whereas, I would say, only 50% software integration more unlike the usual infrastructure deals that we get.

And that makes it very exciting because it gives us tremendous opportunity to use the software assets we have and also create new assets which can be relevant for other similar deals. In fact, we have put a separate cell. And that’s another investment, that is a pretty parallel track working with this program whose only job is to identify the common assets and IP that can be created for similar deals, which we believe is going to be the way forward in this space, not just in India, but outside India as well.

Rajiv Berlia: Thank you.

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

Karan Uppal: Two questions from my side. Firstly, on margins. So, Rajeev we had our medium-term aspiration of reaching 18% margins by H1 of FY26. So, given that now we are targeting 16% for FY25, so are we pushing that 18% margin target? That's first.

And second, on SDV. So, we are hearing multiple ER&D players getting empanelled on SDV initiatives by OEMs. So, is the outsourcing very high around the SDV area or OEMs want to recreate the new architectures really fast and are spending aggressively within in-house as well as outsourced vendors like us?

Amit Chadha: Sure. See SDV basis is that car used to get customized, and car used to get delivered with different features. Now with SDV what's going to happen is that the same car will be delivered to you, but with features that may be different and that too all leveraging software, correct? So, the software-related spend of SDV is definitely increasing, right?

Now while we are looking at various options while investing, we are making sure that we are going for higher margin deals. So, the offshore content is higher, our differentiation is higher, etc. And we've also got empanelled with a number of these players like I talked about. And we are happy to share that given the fact that we continue to make these widgets, etc, the quality of revenue that we are getting in Transportation or Mobility is better than we used to have some years ago.

And I think that there is a play for a differentiated player like us plus going down to becoming Mobility, Sustainability and Hi-Tech, you will see Mobility being able to compete on a one-on-one basis head-to-head with people in that space and with the higher margin profile that we have got, we believe that with differentiated assets, we will do better.

Rajeev, you want to take the first question.

Rajeev Gupta: Sure. So first, on the FY25 margins, see the softness that we've indicated as always, I mean this is the worst-case scenario. We aspire to do better, and we will let you know as the quarter goes by because there are still opportunities that we are seeing can allow us to offset the investments.

So, aspiration of doing better margin continues but we definitely indicate wherever the softness is. So, this certainly is the worst-case scenario that we are letting you know. In terms of the aspiration of coming back to 18% levels by H1 FY26, we'll take a few quarters and we'll come back to clarify.

There are certainly aspirations during the year, one, of course, to get to that $1.5 Bn exit rate by FY25 which includes certain investments, certain other areas that we're looking at. So, we will take a few quarters and come back and clarify on the aspiration for 18% margin going forward.

Karan Uppal: Okay thanks and all the best.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Just want to get sense about the investment. Typically, any business investment requirement over the course of the business cycle. So, most of the investment in businesses is all kind of investment. The investment which you are referring to is any specific intervention which we are making, which can have a medium- to long-term growth trajectory difference. If you can provide some clarity on those investment plans? Second question is about the salary hike cycle related thing. Now last year, we gave somewhere in July, the salary hike, any changes we plan to make this year?

And third related question is about Q1, Q2 trajectory. You said Q1, Q2 margin will be lower, and we will recover in Q3, Q4. Anyway, it implies considering 100 bps kind of margin lower than expected for the full year. Q1, Q2 maybe below 16% kind of margins. So if you can provide some clarity?

Abhishek Sinha: Yes. So let me just take the first question with regards to other investments, short term, medium term, long-term as a company policy and strategy and then the approval framework that we have we always look at long-term investments.

To give investment, one of the things I can speak about earlier was software defined everything while there is a lot of talk of SDV from an Automotive or Transportation or Mobility perspective. But we do realize that software defined everything when it comes to products especially the Industrial and Medical segments. So, we are investing in integrated digital platforms, which will enable connected intelligent products in some of the segments to create software defined everything requirements that the industry has.

Likewise, the legacy plant modernization is a need now and will remain for a very long time because plants do get old. They need to be modernized and it is a great solution to invest in as we go forward. Digital twin technologies again, Asset Healthcare solutions again these are all investments which are medium to long term. Amit, Rajeev, you can probably take it forward.

Amit Chadha: I'll talk about the second one. Salary at this stage appraisals have started, and we've just ended the year. So, we celebrated the beautiful quarter that we closed and the year that we had in spite of difficult time we celebrated that with our employees. You would have seen on LinkedIn various images of Estrella’s that was done on 4th of April for all our employees.

So, we continue to be motivated to make sure that employees march with us as we move forward. So currently, the view is to do the increments in the July cycle as planned, as we always do. And if there's any changes, we'll let you know, but that's where it is.

Rajeev Gupta: Yes. So let me respond to the margin question. Look, we have guided for an aspiration of 16% for the year. And like we've done in the past; we tend to provide a view on margins for the year. I wouldn't want you to read that, look, there is a QoQ view. I think we continue to work. And there are opportunities.

When you look at growth, quality of revenues. Amit talked about it in terms of Mobility and other segments that we've now organized into. There are also productivity improvements, right, in terms of operational efficiencies. We've talked about SWC, the opportunity on internationalizing that business continues to be.

So, there are these opportunities, and I would want you to read that, look, there is a QoQ view on the margins. I say that the aspiration is 16%, but we will endeavour to do better as the year goes by.

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

Pinku Pappan: Thank you everyone for joining us on this call today evening. We hope we were able to answer most of your questions and I would be happy to address them if you have follow-up. With that, we're signing off today and look forward to interacting with you through the course of the quarter. Wish you all a very good evening and this is bye-bye from all of LTTS here. Thank you.

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

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