L&T Technology Services
Q2 FY27 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2FY27 Earnings Conference Call of L&T Technology Services Limited.

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. Sandesh Naik, Head of Investor Relations. Thank you, and over to you, Mr. Sandesh.

Sandesh Naik: Thank you, Danish. Good evening, wishing you and your family a happy festive season. I am Sandesh and welcome you all to the earnings call of L&T Technology Services for the second quarter of FY27. 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 up the management remarks in 20 minutes and then open up for Q&A. The audio recording of this call will be available on the website approximately 1 hour after the call ends.

With that, let me introduce the leadership team present on this call. We have with us Amit Chadha – CEO and MD; Alind Saxena – Executive Director and President; Rajeev Gupta – Executive Director and CFO; and Munjay Singh – Chief Operating Officer. We will begin with Amit providing an overview of the company performance and outlook followed by Rajeev, who will walk you through the financial performance. I now invite Amit for his opening remarks.

Amit Chadha: Perfect. Good evening, everyone.

I thank you all for joining the call on this last day of Navratri and wish you and your families a very happy Navratri and Dussehra.

With our investments in EI and diversified portfolio, we are addressing a broader market with our customers, resulting in accelerated sequential growth across revenue, profitability, large deals and AI revenue.

Large deal wins from earlier quarters are converting into revenue, and we are continuing to have a robust pipeline of the same.

Let me move to key highlights of quarter two.

- Revenue was $317.1 million, up 2.7% sequentially and 4.8% year-on-year in constant currency on a continued operations basis.
- EBIT margins improved 60 bps quarter-on-quarter to 16.3%, delivering ahead of timeline on our aspiration for mid-16% EBIT levels.
- Large deal TCV was at $203 million across segments with over 50% of them being AI-led wins. Both order backlog and pipeline are up year-on-year.
- Sustainability continued to grow and delivered its strongest growth in the last 6 quarters.
- Mobility sustained its growth momentum and tech remains steady, with gross margins improving across all segments.
- We completed the divestment of our SWC business on schedule, giving us a sharper and more focused portfolio. We would like to recognize our SWC employees for their amazing work and wish them all the best in their journey.

Moving on to EI, which is the central part of our strategy.

- EI has an annualized led revenue of $120 million for us in this quarter.
- Our deep domain expertise, proprietary AI tool kits and a growing ecosystem of academia and industry partnerships are expanding our addressable market and creating new revenue opportunities.
- LTTS's EI strategy spans across 3 areas, EI for Engineering, EI for Products and EI for Manufacturing and Operations. We made progress across all these 3 areas in the last couple of quarters.
- EI for engineering, as the V model moves to a W model, we are embedding EI across the engineering life cycle through a human plus agent delivery model.
- In one of our major engagements, we are helping clients accelerate time to market by 50% with 40% of the code being generated by AI. To date, we have upskilled more than 16,000 engineers, about 67% of our workforce in AI.
- EI for products. EI One is our platform of 100-plus EI solutions is gaining client traction.
- Our AI patent filing crossed 253 this quarter, taking total patent count across the company to 1808.
- EI for Manufacturing and Operations, we launched a new EI lab in partnership with NVIDIA to build and deliver next-gen physical AI native applications across manufacturing, robotics and supply chain.
- We conducted multiple AI readiness workshops or clients in collaboration with MIT Media Labs and expanded our partnership ecosystem will include Cognite, Anthropic, NVIDIA and Databricks.
- Innovation remains central to our long-term agenda with a focus on frontier applied research and emerging technologies to address evolving market needs.

Looking ahead.

- Our Farm Program will connect deep tech start-ups with clients to accelerate innovation and bring in new technologies to the market.
- The LTTS distinguished fellows program recognizes and empowers technical leaders who drive innovation, create business impact and represent LTTS global industry leaders across forums.

Moving on to segmental performance.

Mobility

- Mobility has delivered a phase of steady growth with revenues up 2.3% sequentially.
- Growth came from auto North America, Aero and Rail and Trucks and Off highway.
- Auto Europe remained muted, but we believe it should bounce back next year, and we continue to see significant large deals in the pipeline in Europe.
- We are working on building capabilities in System Engineering and diversifying with new wage Mobility providers to work on advanced Transportation Platforms and Digital Microservices.
- Aerospace continues to grow strongly as clients continue to expand production and modernize supply chains leveraging digital transformation.
- Rail as a subsegment is growing for us supported by freight rail rolling stock modernization and digitalization.
- In Trucks and Off highway, we added 4 new logos across global OEMs, led by EI with wins spanning Autonomy, AI, Embedded Software and Digital Programs.
- In a strategic deal a leading automotive technology provider renewed and scaled their engagement with us for AI-powered engineering across product and digital engineering.

In summary, Mobility is showing sustained growth, and we expect strong momentum ahead driven by a robust pipeline across geos and ramp-ups of large deals.

Moving on to Sustainability

- Sustainability continues to be a strong growth engine, up 13.4% year-on-year and 4.9% quarter-on-quarter as we execute multiple large deals won over the past 6 quarters. Nearly half of our Q2 large deal wins were in this segment.

- Industrial Products growth is led by Data Centers, Energy Transition, Motion and Robotics and AI-enabled automation with Electrification and Smart Manufacturing driving a robust pipeline.
- A leading cleaning equipment manufacturer selected LTTS design, develop robotic machines.

- In Plant Engineering, demand continued steadily across oil and gas and chemicals supported by LNG upstream and nonconventional energy projects.
- In CPG, we partnered with a leading food and beverage company to scale its industry 4.0 framework enabling IT OT convergence and enterprise-wide AI readiness across its Global Manufacturing Operations.

The Sustainability segment is on track to deliver another double-digit growth year.

Finally, on Tech.

- Tech was stable this quarter. The demand was driven by client investments in Agentic AI, AI Infrastructure, Cloud Native Modernization, Data Center Software, Advanced Connectivity and Semiconductors.
- Tech Infra and Semcon delivered another strong quarter, while Media maintained steady.
- We have set up a dedicated Data Center Engineering business line, servicing AI Infrastructure, Servers, Storage Ecosystem, ODMs and OEMs. We expect it to become an important growth area as customers redesign infrastructure for AI workloads.
- As filed earlier, we won a large AI led engagement with a global telecom equipment provider to design end-to-end systems spanning AI and Data centers. This program started ramping up in the current quarter.

In MedTech**,**

- We are expanding in Pharma and Life Sciences, while demand remains healthy across Digital Health Diagnostics and Connected Devices.
- In the current quarter, a specific program ramped down per schedule, and the next phase will kick in only in H2.

In Software and Platforms,

- Pipeline quality is improving. Pure-play software world is impacted with the adoption of new age AI tools. We see demand for the AI led software development across existing and new logos in Retail Fintech and Platform Companies.

Providing you two more inputs, one on business landscape and then we will summarize.

On business landscape

Across our client interactions this quarter, the common theme is that clients are doubling down on growth. This makes us cautiously optimistic about their investment plans.

Technology spending is shifting towards AI Infrastructure, Silicon, Cloud Platforms, Data Centers and Time to Market. We've aligned our portfolio per our Lakshya 31 strategy to these

priorities, and our EI capabilities help clients improve productivity in current programs and free up investments for next-gen technologies.

To summarize

Q2 was a good quarter. I'd like to thank our clients, our employees, our stakeholders for that with improved growth, margins ahead of plan and our strategic investments gaining traction.

- With our order backlog and pipeline, both improving year-on-year and several large deals in play, we expect revenue momentum to further strengthen in H2 while sustaining healthy EBIT margins.
- Growing demand for our EI solutions, diversified portfolio, dedicated large deal engine and improving regional opportunities gives us confidence in our medium- and long-term trajectory.
- This progress supports our long-term aspiration of 13% to 15% revenue CAGR with EBIT margins in the 16% to 17% range over the next 3 years to 5 years.

With that said, I'm going to stay back for questions. I would like to request Rajeev to provide his comments.

Rajeev Gupta: Thank you, Amit. Greetings to everyone. Wishing you and your family Happy Navratri and Happy Dussehra in advance.

Let me start by sharing key highlights for the quarter.

Q2 FY27 was a strong quarter across all key parameters. Large deal wins of USD203 million, sequential revenue growth of 2.7% in constant currency terms.

EBIT margins of 16.3% with margin expansion across all segments. Pleased to share that we've been able to achieve our committed mid-16% margin aspiration ahead of time by a couple of quarters.

Disciplined capital allocation towards building scalable business and profitable growth is yielding results.

Sustainability our most profitable segment, grew double-digit year-on-year basis at 13.4% and now contributes to 30% of our revenues.

Our quarter two FY27 annualized EPS came in at ₹143.12, which is an increase of 23.5% over FY26 EPS.

We successfully concluded this investment of SWC business in this quarter. This resulted in a onetime gain of ₹165 crores in quarter two FY27.

With that, I will move to Q2 financials, starting with the P&L.

Revenue for the quarter was ₹3,040 crores, representing growth of 3.4% sequentially and 12.1% year-on-year.

EBIT margin for the quarter stood at 16.3%, improvement of 60 basis points sequentially and 220 basis points year-on-year.

Effective tax rate for the quarter was 26%. Going ahead, we expect ETR to remain in the range of 26% to 26.5%.

Net income for the quarter was ₹548 crores, up 53.7% sequentially and 66.8% year-on-year. This represents 18% of revenue. This includes a one-time gain of ₹165 crores from disinvestment of Smart World business.

EPS from continuing operations was ₹35.78 for the quarter, translating into an annualized EPS of ₹143.12 and compared to reported FY26 EPS of ₹115.89, an increase of 23.5%. This improvement reflects our disciplined capital allocation towards sustainable profitable growth and investments in new technologies aligned with our long-term strategy.

Other income was ₹17 crores for the quarter, higher compared with the previous quarter while absorbing forex volatility and currency movements.

Moving to balance sheet and cash flow. Let me highlight the key line items.

Quarter two FY27, overall DSO came in at 78 days. This is split as billed DSO of 60 days and unbilled DSO of 18 days, which remains stable versus 77 days in quarter one FY27, well below our guided range of 80 days to 85 days. With disinvestment of Smart World business now complete, hence forth, we will report overall DSO.

Our year-to-date free cash flow was ₹790 crores, a healthy 108% of net income.

Our cash and investments stood at ₹4,197 crores end of quarter two FY27 compared with ₹3,394 crores at the end of quarter one FY27.

The Board has approved an interim dividend of ₹20 per share, reflecting our focus on creating value for our stakeholders.

On revenue metrics, revenue in dollar terms was USD317.1 million compared with USD309.9 million in quarter one FY27 which is a constant currency sequential growth of 2.7% and year-on-year growth of 4.8%.

On segment margin performance, we saw margin expansion across all the segments.

Mobility margins in Q2 improved to 16.9%, up 130 basis points sequentially resulting from quality of growth and operational efficiencies. Sustainability margins saw improvement to 29.5%, up 40 basis points sequentially supported by execution of large deals and strong growth in this segment.

Tech segment margins improved to 12%, up 50 basis points sequentially ramp-up of recently on AI-led engagement with a Global Telecom Equipment provider also aided a margin improvement.

On the operational metrics, for quarter two FY27, our offshore mix improved to 55.9% in the quarter, reflecting our continued efforts in improving offshore mix.

Fixed price mix improved to 35.6% in Q2, progressing towards higher value fixed price and outcome-based engagements.

Client profile remains stable on a sequential basis, reflecting the strength of our customer relationships.

Client contribution to revenue remained broadly similar compared to Q1 FY27 across categories.

Headcount marginally increased from ₹23,845 in Q1 to ₹24,035 in Q2. Attrition remained largely range bound at 14.7% during the quarter.

Realized rupee for quarter two FY27 was 95.9% to the dollar. Depreciation of 1.09% compared to Q1 FY27.

Now, before concluding, I will share a bit around the margin outlook.

We achieved our margin aspiration of mid-16% EBIT levels ahead of time by a few quarters and aspire to maintain this margin range in the near future.

Our margin levers mainly will be revenue growth and healthy segment mix, operational efficiency, including AI and productivity gains across delivery and functions and disciplined SG&A management.

We remain confident of our growth trajectory supported by a healthy pipeline, deal ramp-ups prudent capital allocation, Engineering Intelligence-led execution and continued optional discipline.

We expect these factors to drive stronger revenue growth for us, while sustaining our margin performance and reiterate our aspiration of 13% to 15% CAGR over the next 5 years with margins in the range of 16% to 17%.

I take this opportunity to thank our investors, analysts and stakeholders for their continued trust and support and the entire LTTS team for their dedication and resilience.

I will now hand over the call to the moderator for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. First question comes from the line of Ravi Menon with Axis Capital. Please go ahead.

Ravi Menon: Congratulations on a really good performance. In the past, we have seen that the Sustainability segment, you know, was a bit volatile. I think you were trying to move towards more annuity deals where you've now shown a very good growth in the last couple of years as we've moved successfully. Can you talk a bit about, you know, how much of the revenue on long-term programs and, you know, how you managed to bring down the volatility in this?

Amit Chadha: Hi, Ravi, Good evening. So, the question is how do we bring down volatility in sustainability, right?

Ravi Menon: Correct, sir.

Amit Chadha: Okay. So, over the last 2 years, if I look at it, there are two or three things that have thematically changed. Number one, when we look at Sustainability, we have now got that business split up into four broad categories, if I may. And the four categories that we have broken up that business on is Oil and Gas, Chemicals is part one. FMCG is part two. Energy, Automation is part three and Industrial Machinery and Building Technologies is part four. So, one we've basically homed in these four areas. We've redefined our offerings and the offerings have broken up into almost like a service industry to MOD 1, MOD 2, MOD 3 or Gen 1, Gen 2, Gen 3 and we have doubled down on it.

If I look at the Oil and Gas, Chemicals business that we've got, we've been able to win some large-term relationships, that trust with our clients. Those are continuous volumes that continue to stay steady, increase over a period of time. And they're almost like you're moving from supporting one refinery to do some design to a second one to a third one, but across the landscape of that clientele.

The second part is that we have invested in creating solutions for digital twin in this area. Not just that, now we are leveraging AI. So, it's not single variable and single dimension, but multiple dimensions, multiple variable solutions and that is helping reduce downtime for our customers, helping them on planned shutdowns, etcetera. So, that's the second part. I have given you one example of the various solutions that we have created.

The third point is that as the six-layer AI cake is unfolded, there is work happening across the six layers and the layers starts with energy. So, we are seeing work coming in that area on a continuous basis.

Finally, given the work we have done in solutions, this has always been a moat for the company for the longest period ever. And with the double focus that we've had, we've been able to win large deals in this area. In fact, one of the questions earlier used to be that you have won large deals, you're not growing. So, a lot of those large deals that we got last year in Sustainability have actually moved to revenue and execution right now. And current quarter also more than 50% of the deals are in Sustainability. As I look forward in the future, we are actually bringing in a lot more AI content into this part as well. And we believe that this will be the next wave to help us to sustain the growth that we've had.

Ravi Menon: Thank you for that detailed answer. On the Mobility side, the German OEMs are still, I think in restructuring mode, but do you expect that segment to come back or are you more diversified beyond that? What can drive growth in this segment?

Amit Chadha: So number one, see, if we look at our Mobility, we've got Auto U.S., we've got Auto Europe. We've got T&OH and we've got Aero and Rail, and those are the four broad components. And we've said in the past that Auto contributes about 50% of our mobility revenues. So, we're not overtly dependent on Auto Europe.

So, what we have seen happening in the last two quarters for us, and we had shared this earlier as well that Auto U.S. has a clear strategy and they are in execution mode, and we are seeing that benefit. T&OH in execution is seeing that benefit. Aero and Rail in execution is seeing that benefit.

Auto Europe has been in a problem. In fact, for current quarter also, we faced some headwinds from Auto Europe. But we do believe that Auto Europe should come back sometime next year. In fact, we are working on a lot of solutions on AI defined mobility.

We are working on OEM software, sovereignty that we are working on and we believe that this along with alternate energy part or EV, BEV part will create the next phase of cycle of growth. Again, early days working through it, you've seen growth in the last two quarters in Mobility should continue.

Ravi Menon: One last question, if I may. Aerospace, let us talk about a new single-aisle aircraft program that Airbus might start. Any ideas on when that could be and if that could benefit us?

Amit Chadha: On a lighter note, I've been waiting to fly in such a plane for the last 5 years. So, on a serious note, I think a little more to be done in that area..

Ravi Menon: Okay. Thanks so much. Best of luck.

Moderator: Thank you. Our next question comes from the line of Vibhor Singhal with Nuvama Equities. Please go ahead.

Vibhor Singhal: Yes. Hi, thanks for taking my questions and congrats to the LTTS team for a solid performance. Amit sir, a couple of questions from my side. Just digging a bit deep into the verticals. In the Sustainability vertical, you have mentioned both Plant Engineering and Industrials kind of contributed good to the growth.

So, in the Oil and Gas vertical specifically, are we seeing any challenges due to the Middle East situation at this point of time? And not just in that vertical, in the overall business also any challenges which we saw in this quarter, or you foresee in the coming quarters? Second question on the Mobility vertical.

You just mentioned that you expect the European auto part to basically come back next year. So, is that comment just for our portfolio in terms of the deals that we are seeing or do you believe European auto companies themselves might be able to turn around next year in terms of

their capex spend and could be positive for the industry as a whole? So just 2 questions and then probably have one more follow-up,

Amit Chadha: Sure. So Vibhor on Oil and Gas, I want to say that most of the work that we are doing for Oil and Gas companies, Chemical companies, LNG companies is largely focused right now on the U.S. and Europe. We have very little business going on in the Middle East, right? We are trying to build that out very little business going on in the Middle East.

So, the impact is not there. And from where we are seeing, a lot of these medium sized projects are getting kicked off in Oil and Gas in the U.S. and in Europe, we are seeing that and digital projects and AI projects coming in, we're seeing that as a positive. Middle East overall is a very small part of our portfolio.

Our heart goes out for whatever is happening there, but the impact, we don't have any significant business impact from that yet. Having said that, as these things drag on, God knows what will happen, but right now, we're not worried about this at this stage. Now when we come to Europe Auto.

So, in Europe Auto, there are two things happening. See, like U.S. Auto what they had done last year was that we had gone ahead and done some write-offs clearly from the technology, and they have moved very surefootedly towards hybrid vehicles. And therefore, they started SDV, they started AI native solutions, all that and we're seeing the positivity here.

Europe Auto at some point, will have to step back and potentially do whatever they have to do in terms of write-offs, etcetera, and rebase line themselves. I believe that time will happen. A lot of companies are talking about it. Some are doing it. So, I do believe that should clear up in the next 6, 9, 12 months, if you look at it.

Number two, what's happening is there are a number of local European service providers that still continue to work on old ways of working and models. So, those are getting replaced by, augmented by India Inc. And that's the second thing that we believe will happen. With our investments in Munich, with our EI center that we have set up and others, I believe that we do get a fair chance and share to be able to win some of that.

Vibhor Singhal: Got it. That was really helpful. Just 1 question for you, and then I have one follow-up for basically on the financials part. So basically, on the Hi-Tech vertical. I think the numbers are of course a bit on the softer side. You alluded to that in the opening remarks as well. I think the telecom piece for us is doing well. It's the media and the remaining business which is probably not firing as the other segments are. So, any color on that? And when do you think that vertical should also start supporting the growth of the overall business?

Amit Chadha: Sure. So, I look at -- so there are four parts in Hi-Tech. There is a Med Tech piece, right, where we had this one program, significant program that ramped down and the follow-on program didn't start. So, that's been that case. Outside of that, we have been having a fair degree of smaller wins in the Med Tech space.

The second area is Semcon that continues to grow for us and is differentiated for us. Third is our Tech Infra space where we have won this program, AI-led program for communication. And the fourth is the Media piece and the fifth actually is a Systems and Platforms, which we bought with Intelliswift.

So, the Systems and Platforms piece has actually improved in margins for us sequentially as well as year-on-year. And we do believe that, that growth trajectory will accelerate sometime in quarter 4 and beyond. Media will be steady. I don't expect anything great from Media. Tech Infra will show growth because of the deal that we have won. Semcon will continue to grow.

Medical, I would like to say quarter 3, but I'm going to be careful and say quarter 4 because I want to give a little time to our teams as they regroup, rebuild and take things forward. So overall, Tech for you will be muted in quarter 3. But beyond that, we do see growth coming back.

Vibhor Singhal: Got it, sir. So, that's really helpful. Just one last question for Rajeev. Rajeev, you mentioned our DSO days now is at around 78 including billed and unbilled. These are the numbers that we are comfortable with? Or do you think post divestment of SWC being complete, there could be further scope of maybe improving it from these levels?

Rajeev Gupta: Vibhor, so I will say at this point, we are comfortable. The range that I have provided is between 80 to 85. I think we are operating well under that range. So, really comfortable. This is where we likely operate.

Vibhor Singhal: Got it. Thank you so much for taking my questions and wish you all the best.

Moderator: Thank you. Our next question comes from the line of Jyoti Singh with Haitong Securities. Please go ahead.

Jyoti Singh: Thank you for the opportunity. And sir, congratulations on the good execution. So, my question is largely on the book keeping side on SWC exit parameter. So, this discontinued number, we cannot expect this in upcoming quarters and like operational line is around 36 million. So now we expect zero from next quarter?

Rajeev Gupta: So Jyoti, thank you for this question. I did highlight this is a onetime gain in quarter 2. The onetime gain is INR165 crores. And now this is completely a business that has been disinvested. So, what you will see going forward quarter 3 will be only the continued part of the business, while we have reported it as part of whatever the accounting principle separately for continued and separately for discontinued. Going forward, we will only report continued business.

Jyoti Singh: Okay. Thank you, sir. And a follow-up question on the Europe side. So, like we continue to see downside in Europe and fell around 4% year-on-year. So, are we seeing any changes in the ER&D budget side from your top line? Or still it's flat or shrinking?

Amit Chadha: Actually, Europe grew for us quarter-on-quarter and year-on-year. Maybe there's something to do with the currency billing that we had. But we've got Alind here, who runs the growth markets and large deals. Alind, would you like to talk about the momentum in Europe.

Alind Saxena: Thank you. So, look, Amit already covered the auto, so I'll not spend time on that. But if you look at the other sectors, so pretty much the AI infrastructure-led spend which is there in Europe, is there. So, we are seeing the effects of that. And what you see in Sustainability growth, part of that is coming from Europe as well. Plus, we are fairly gung-ho on the Plant side of the business as well. So, both of them, Industrial and Plant will continue to grow in Europe.

We are opening up a few more areas in Tech, based on some of the recent wins that we have. Europe will stay cautious, as Amit has said, on automotive. But otherwise, we see a fair amount of growth happening. And I would suggest that if you look at maybe a quarter down the road, the consolidation deals that we have been talking about, they can also contribute to the growth that we see in Europe. And we remain pretty gung-ho about what can happen over there.

Jyoti Singh: Sure. Thank you, sir. And sir, just 2 more questions from me. One is on the furlough side, how we are expecting in Q3. And are we seeing this momentum to hold? And another just 2028, how the deal wins we are seeing and shaping up?

Amit Chadha: So, two answers here. One, in terms of -- we are not providing quarter-on-quarter on annual guidance. What I'm confirming is that H2 will be better than H1. We expect regular furloughs to happen. So, that's the lay there of the land.

Now in terms of deal wins, look, this quarter we have done 203 million. I still owe you all USD100 million from last quarter. I haven't forgotten that. And I'm looking at my colleague here as I answer this. So, we will make sure that we get you the extra USD100 million in Q3 and Q4 because we want to keep to that 200 million pace.

Lastly, ma'am, your question around next year is also, as you have seen, right, Sustainability, we had deals last quarter last year. And now this quarter as well, so it's coming to revenue. So similarly, you would see these coming to revenue. That's the focus that we have got. Our pipeline is up more than 25% year-on-year. Order bookings are up. So, knock on wood, let's see where it goes.

Jyoti Singh: Okay, great, sir. Thank you.

Moderataor: Thank you. Our next question comes from the line of Bhavik Mehta with JP Morgan. Please go ahead.

Bhavik Mehta: Thank you. A couple of questions. Firstly, if I look at our deal TCV over the last few quarters, it was a very strong right? Question was that by far that was not converting into revenue, which seems to be playing out right now. So, is that what is playing out in the environment?

And can you just help what has changed in the clients? And in terms of why are they spending now given the macro still remains uncertain, what has changed from a client perspective, which is driving this deal conversion to revenues and driving the growth?

And the second question is on margin. Good to see you're hitting that mid-16% band at this time. But in the near term, how could we think about sustainable margins going forward? I mean, will

that be a case for a growth-margin trade-off where the margins would remain around 16.5% before you think about expanding margins because just trying to understand what will be the exit margins by 4Q because that will set the pace for next year margins? Thank you.

Amit Chadha: Bhavik, thank you so much. So Bhavik, if I look at what's changed in the last few quarters, see client conversations actually, I'll tell you, have been very positive with the AI capex spend across chips, across software, across industrial electrical companies, across telco, infra, it is powering up a lot of companies and a lot of spend. So that's a positive that we are seeing.

Second, when I go talk to our clients or our executive team is going and talking to clients, they are largely focused on growing their businesses in spite of the unstable environment rather than cost cutting. So that's a big second that we are seeing is a shift. Third is, everybody wants to get some help on AI and say, how can I make myself more resilient and productive.

So, our EIOne strategy, etcetera, is playing out, if you ask me, in our favor in that area to take things forward. Also, I believe that we are about 9 to 12 months ahead of competition and peer group in this area. So, we're actually gaining market share as opposed to competition. So, all those 3 put together, I remain cautiously optimistic in terms of the fact that growth has accelerated actually across the 3 quarters, and let's see where it goes. So that's where that is. Do you want to talk about...

Rajeev Gupta: Let me take that. Bhavik, thank you for bringing up the margin. I did clarify in my commentary, but let me add to it. So, in terms of margins, in quarter 2 came in at 16.3%. Like we said earlier, this has been 2 quarters ahead of time. Near term, you should take it to be at these levels, around mid-16% EBIT levels. A few things what has helped us in terms of getting to these margin levels. One, of course, the segment mix has improved. I did talk about Sustainability revenues now almost contributing 38% of overall revenues.

Second, the AI revenues now have clocked USD120 million on an annualized basis. The third, quality of revenue is improving across segments. So, in fact, Mobility as well, right, we talked about Auto US and all of this is adding. There are still levers, but we believe some of that we will continue to double down on growth while maintaining margins at these mid-16% levels.

Bhavik Mehta: Okay, got it. Thank you.

Moderator: Thank you. Our next question comes from the line of Ankur Pant with IIFL Capital. Please go ahead.

Ankur Pant: Hi. Thank you for taking my question. Just wanted to understand your view on wage hikes for this year. How are you looking at that? That's my first question. I have a follow-up also.

Amit Chadha: Why don't you give us a second question also then we'll answer it together.

Ankur Pant: Yes. My second question is -- I'm sorry if I missed this, but was around your comment on 2H and strengthening the momentum from here? So how does that translate in terms of numbers, given that 2Q growth has been 2.7%. So, when you say, strengthening momentum from here,

does that mean better growth from 2.7% as a benchmark? Or how are you looking at that comment?

Amit Chadha: Excellent. Excellent. So, second question, first and first question second. In terms of where we see growth, I talked about H2. So, I looked at our H1 performance, right, you can make your math on year-on-year and quarter-on-quarter. But I'm confirming to you that H2 will be better year-on-year and quarter-to-quarter than H1, sequentially as well as year-on-year, right? So that's number one.

I'm not getting into the quarter on purpose because we are getting into this muted quarter. We will see where it goes. But again, I'm not -- look at the end of it, I would like to deliver profitable growth. That's why we're here, right? So that's one. Second wage hike is confirmed to all the employees. We will be doing wage hikes in quarter 3, and we have released a note to that effect to our employees. And the margins remaining in the mid-16% level is after considering all of this.

Ankur Pant: Sure, thank you all the best.

Moderator: Thank you. Next question comes from the line of Sandeep Shah with Equirus Securities. Please go ahead.

Sandeep Shah: Yes. Thanks for the opportunity and congratulations on a great set of numbers. Most of the questions have been answered with in your opening remarks, you also said that clients are accelerating AI led engineering and the spends. So, what is driving this for you as well as for the industry, is it clients are shifting spend from cloud hyperscaler and GPU-based subscription to the system integrators more on the engineering side or that trend is too early to call out?

Amit Chadha: So, I want to request Munjay to add to what I'm going to say here. So, number one, look, what we are seeing definitely is that AI is a Board question that's coming to all our CXO community. What are you doing to leverage AI? Are you leveraging it enough, etcetera. So, that is creating a push top down on using AI, number 1.

Number 2 is, in all our daily lives, we have started to use the AI, whether it be ChatGPT, whether it be Anthropic, whatever, in a significant manner. So, your work people that are there, right? Your teams, they are using it and very familiar as well. So, now there's a confluence of both of those, where the demand is there.

Now the legacy spends are going down, no two questions about it. And that money is shifting, if I may to AI, number one. Number 2 is, the overall budget is also increasing in line with respective company's growth. So, somebody is growing at 5%, their budgets are expanding as well.

So, that’s the one that's happening. Second, there's a shift within. And that is why we've invested early on about an year ago, we have been talking about this. Now the Data Centre offering, we started two quarters ago. We didn't talk to you about it because we wanted to get some wins.

We've got a win in that area. So, part of that is what we are doing. And overall addressable TAM is going up for us. Would you like to address Munjay, on what we are doing on AI specifically?

Munjay Singh: Sure, Amit. Thanks. So let me give a little colour on what the shift is. One, people have stopped using these POCs. And they are looking at a broader process which can deliver a P&L impact. So that's a big change, which has happened in the market. All of our customers are looking at that. Secondly, what we're trying to do now using AI is to do things faster.

So, speed is very important because they can do it faster, they are looking at their ability to accomplish a process change or a migration from A to B in a quicker time frame. Three, what has happened, and that is very relevant to us is the -- as you know, in the market, the context for training the AI agents is very, very important.

And we bring that to the fall. So, our ability to bring the context is one of the biggest moat that we have, when we have to shift the narrative when we discuss with the client. So, if you look at the combination of all 3, we are seeing large complex programs, which can shift some P&L of the client - is being considered for execution, and we are getting a lot of that.

So, I think that's what Amit is alluding in terms of expansion of the market. Because we are able to do, we are playing into a segment or a deal that was not available to us earlier, and we are able to execute that.

Sandeep Shah: Yes. Thanks and all the best.

Moderator: Thank you. Next question comes from the line of Dipesh Mehta with Emkay Global Financial Services Limited. Please go ahead.

Dipesh Mehta: Yes. Thanks for the opportunity. I have two questions. First of all, just wanted to understand how we define this AI led revenue. Can you help us understand, is it 100% new which was not a part of our revenue two, three years back? And what kind of profitability it operates because one of the reasons for margin expansion you indicated is mix change. So, if you can give some sense around it. So, that is question one.

And second question is on the wage hike. You indicated effective quarter three. Can you give some sense about the likely impact from wake hike?

Amit Chadha: Okay. So why don't we request Rajeev to take the wage hike. On the AI revenue, I want to request Munjay to talk about how do we qualify AI revenue. Margins, we are not going to give out on service lines. We're not doing that right now. But needless to say, I want to tell you that we do charge a premium. If you have a project, you can give it to us, we will charge you a premium, you will realize how much we're charging here. Over to you, Munjay.

Mritunjay Singh: Dipesh, good to hear. See, what we do is if you take any deliverable that we are creating and a significant part of the deliverable is getting created through leverage of AI stack. Then we classify that as an AI revenue. And the significant part is very important, right?

So it is not like a report that they can build the end of the project in claim revenue. It is part of the deliverable that we create. And that's how we are tracking and the number that you see around 9.5% for the quarter, which is like 120 million odd. Profitability, I'll let Rajeev handle that.

Rajeev Gupta: So, thank you, Dipesh, for the few questions that you put up. Let me take the wage hike first. So, I think we did mention that we have already announced the wage hike in quarter 3. The impact likely will be in the range of, I would say, 50 to 80 bps. We are still working out the modalities, but we will clarify as we come and talk around the quarter 3 commentary.

On the AI-led profitability, Dipesh. At this stage, we would not like to quantify. I think what you will see is the implication and the impact of it on the overall LTTS profitability. So, like you're seeing, and I did talk about it earlier, the AI revenue is, in fact, a lever for margin improvement and will continue to be so. So, I hope that answers your questions, Dipesh.

Dipesh Mehta: Thank you.

Moderator: Thank you. Our next question comes from the line of Karan Uppal with Phillip Capital India. Please go ahead.

Karan Uppal: Yes. Thanks for the opportunity. Two questions from my side. Firstly, with the AI infused deals in the mix and a lot of platform offerings across verticals, any change you are seeing in the tenure of deals versus, let's say, two years back? That's the first question. Just wanted to understand if the average tenure, the increasing, decreasing are staying stable?

Second question, Amit, is on the AI Data Centre buildout. Can you elaborate what role LTTS is playing in it? What are the kind of deals that LTTS is pitching in and the deal sizes and deal tenures?

Amit Chadha: Sure. See, average tenures have actually increased a little as opposed to reduced. And our focus always is to try and bring more ACV than TCV but it is what it is, right? Clients in engineering take a little time to start. So, tenures are expanding, saying the same, there's no significant change that I can call out, right?

See, with a 100 million deal, it will be five, seven years. If it’s a 50 million deal, it will be four to five years. If itd is a 25 million deal, it will normally be about three years. A 10 million deal will be between two to three years. So, these are norms that are there, right? That's number one.

Number two, when we look at Data Centres, specifically, if I look at -- there are about approximately multiple layers here, right? So, for the physical infrastructure, we work through OEMs, the electrical companies, the HVAC companies, all these, and that revenue for us is showing up in Sustainability.

The GPU bring up, infrastructure validation work as well as building cluster, baselining, etcetera, is something that we are seeing in the Tech vertical that you've got. Then there's a controlled plane, there is token metering software to be done like usage token injection,

automated invoicing and anomaly cart reads, all that kind of stuff and then observability, autonomous AI ops and finally, agents on top.

So, there's about six, seven layers here and we are a service provider. So, we can work with anybody who's setting up a Data Centre and running a Data Centre or a Neo Cloud to be able to help them. Now our first business that we've actually done a lot of work on is a physical infrastructure piece with the electrical OEMs and the HVAC companies.

And we're starting to do work with the other layers as well. As you go forward, you will see more and more of that happening. Infact, the deal that we won with the Tech Infra major is for them to service a data center on communication.

Karan Uppal: Got it. Thanks for the elaborate answer. Just one more question on the European auto. So, is the business stabilized or it can further drive the mobility vertical from here on? And if you can also quantify how much is the European auto for you in the overall.

Amit Chadha: So, Karan, we don't quantify exact numbers on the European auto. But Alind, if you want to give an answer on European auto.

Alind Saxena: So, I mean, you've been reading what's there in European auto in general. So, our feeling is that it's going to be steady for now for the next about 6 to 9 months. We don't foresee further decline happening in European Auto. But the growth that we have been talking about that we see should start coming back in the next 9 to 12 months.

Now if you read about Auto in general, the North American companies or the OEMs, which were there, they have very clearly articulated their strategy was what kind of car they're going to bring out and what kind of technology will go in their cars, right? So once that is done, now it gets to execution, which is why you see North American Auto revenue go up.

Similarly, if you look at Japan, they have recently declared on their positioning on the car models and so on over the next few years. And we all talk about 3, 4 years in the future. European Auto is still to do that. And that is what we believe will happen as we look at early next quarter or so. And once that happens, then again, they will get back to execution, and it should go back to the ramp-up that we are expecting or likewise.

Moderator: Our next question comes from the line of Chandan Kumar with Narnolia Financial Services Limited. Please go ahead.

Chandan Kumar: My question is, you have disclosed annualized Engineering Intelligence led revenue of $120 million and the AI-related deals are accounted for over 50% in Q2 of large deals delivery. Could you clarify how much of $120 million annualized revenue translated into the actual revenue recognized during this quarter?

Amit Chadha: This quarter, Chandan, the revenue is $120 million annualized. So can divide by four and check it out. Now if I look at AI deals that we have won, more than 50%, we will go into operation, right? So, some of that -- in fact, -- last quarter, we had AI revenue, we track was a lot lower.

It's expanded. So, you will see this expansion as you go forward from these deals that you've got. A significant part of those deals has not operationalized, if I may, or very marginally operationalized in the current quarter.

Rajeev Gupta: And maybe to add to Amit, Chandan. So, we will continue to quantify this every quarter, right? So, you will see that the AI led revenues improving quarter-on-quarter. I think to be able to say that look, 50% of that overall deal win, what does it translate for AI revenues? I mean these are over a tenure, right? So, you will not be able to break it down, but we will certainly quantify on a quarterly basis, how is the trend in terms of AI led revenues.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for the closing remarks. Thank you, and over to you team.

Sandesh Naik: Thank you. Thank you all for joining us on the call today. We hope we were able to answer your queries. If there are any follow-ups, we'll be happy to address them. With that, we are turning off for the day and look forward to interacting with you during the quarter. Wish you all a very happy Dussehra and a good day. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of L&T Technology Services Limited, that concludes today's call. Thank you for joining us, and you may now disconnect your lines.

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