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Powai, Mumbai - 400072
www.ltts.com

October 23, 2020

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

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

Subject: Transcript of Earnings Conference Call for L&T Technology Services Limited (LTTS) for quarter ended September 30, 2020

Dear Sirs,

Please find attached the transcript of Earnings Conference Call organized by the Company on October 19, 2020 for the quarter ended September 30, 2020 for your information and records.

Thanking You,

Yours sincerely,
For L&T Technology Services Limited

Kapil Bhalla
Company Secretary
FCS.3485

Encl: As above

L&T Technology Services
Q2 FY21 Earnings Conference Call Transcript

October 19, 2020, 20:30hrs IST

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

Moderator: Ladies and gentlemen, good day and welcome to the L&T Technology Services Q2 FY21 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 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, Investor Relations. Thank you and over to you sir.

Pinku Pappan: Hello everyone, and welcome to the earnings conference call of LTTS for the Second Quarter of FY21. I am Pinku, heading Investor Relations. To all of you who have joined from India, we thank you for participating and I would like to apologize for the late timing and the slight delay in filing this time. With virtual board meetings, we have less flexibility with timings. Our financial results, investor release and press release have been uploaded on our website, www.ltts.com. I hope you have had a chance to go through them.

This earnings call will run for 60 minutes. We will try to wrap the management remarks in 25 minutes and then open up for Q&A. The audio of this call will be available for replay on our website approximately 1 hour after this call ends.

Let me introduce the leadership team present on this call. We have Keshab Panda – CEO, Amit Chadha – Deputy CEO, Abhishek – Chief Operating Officer and Rajeev Gupta – CFO. We will begin with Dr. Panda providing an overview of the company performance and a commentary on the business outlook. Amit will talk about the large deal wins and the deal pipeline. And finally, Rajeev will walk you through the financial statements.

Let me now turn the call over to Dr. Panda.

Keshab Panda: Thank you, Pinku, and thank you all for joining the call today. As Pinku said, already late for you. I hope you are keeping safe and well. Since I spoke to you last quarter, the uncertainty and fear caused by the pandemic has reduced significantly, although global case count has steadily increased. We have kept the safety of our employees as our top priority and thanks to all my employees we have been able to get back quickly on the growth path.

Let me talk about our Q1 performance:

We grew revenue by 4.1% quarter-on-quarter with broad-based growth in line with our guidance. More importantly, the 3 segments which were impacted in Q1 due to the pandemic have shown strong recovery. So Industrial Products, Plant Engineering and Transportation each grew more than 4% sequentially. Our operational performance was also good, again, in line with what we had guided. EBIT margin expanded by 160 basis points quarter-on-quarter, and free cash flow also has seen a marked improvement. The large deal engine continues to fire - in Q2, we won 8 deals across all segments. Out of these, 3 deals have TCV of $15 million plus and 3 deals have TCV of $10 million plus.

Let me provide a brief summary of our performance in each vertical before providing the overall outlook:

Starting with **Transportation**, we had a sequential growth of 4.1% led by Auto and Trucks & Off-highway, which together grew in double-digit sequentially. Aerospace, as we had indicated last quarter, declined sequentially in Q2, but the worst is over, and we expect growth in Aerospace from Q3 onwards. In Auto, we saw a strong rebound, as the impact from furloughs and shutdowns reduced in Q2, and customers accelerated their focus on initiatives like electric vehicle and autonomous. We opened an EV design lab in Bangalore last month, and we are seeing good opportunities to partner with customers in areas of power electronics, inverters, BMS, etc.

In Trucks and Off-highway, value engineering, electrification and autonomous continue to be the focus. In Aerospace, we are seeing increased traction in defense, especially in North America. Design automation and digital transformation for manufacturing engineering services are areas where spend is happening in aerospace in the post-pandemic scenario. Overall, for Transportation, we are optimistic on the growth momentum continuing for coming quarters as well. The pace of growth will be a bit soft in Q3 on account of holidays, but that will be temporary.

In **Plant Engineering**, we had a strong quarter with 8.1% quarter-on-quarter growth. The rebound was led by Oil and Gas and FMCG sub-segments followed by Chemicals. In Oil and Gas and in Chemicals, we are seeing a good pipeline, and our engineering value center model of providing site sustenance is seeing good acceptance with customers. In FMCG, we are seeing opportunities in the greenfield and brownfield expansion projects. Customers are wanting to run existing plants at higher efficiency and yield to meet the increased demand. Broadly, in Plant Engineering, we are seeing digital adoption increase, and we are shifting gears to meet customer needs of low-cost automation, touchless and remote plant operations and monitoring. We are helping develop solutions around virtualization, 3D modeling and digital twin for the plant. Cybersecurity is also another growing ask from customers as they move towards more digital or new-age technologies. In summary, we see a momentum continuing in the Plant Engineering for coming quarters as well.

At **Industrial Products**, we had a good quarter with 4.6% quarter-on-quarter growth with all 3 sub-segments showing good growth: Electrical, Machinery as well as Building automation. The key themes that we are participating with customers are: Energy sustainability as customers want to achieve net carbon zero status; Supply chain optimization and standardization as customers look for alternate sourcing; and Digital manufacturing where we are helping customers beyond the design of products, but also in production engineering to manufacture in a smarter way. We are investing in IoT enablement and sensor labs to drive growth further. We see growth in Industrial Products continue for coming quarters as well.

In **Telecom & Hi-tech**, we had a flat quarter due to decision-making delays for some of the large deals that slipped into Q3. However, deals we won in Q1 are ramping up on schedule. In Semiconductors, we are enabling customers with our vertical and domain knowledge, like in Automotive, for applications like EV charging and autonomous driving. That's a growth area for us moving forward. In Media, there is demand for design and development of media device platforms using Android and Linux, and content management and network testing. In Telecom, we see demand in 5G network commissioning tools, operations enhancement etc. We completed the Orchestra acquisition on October 2, and we are working to leverage Orchestra's offerings in both Telecom services providers as well as the Media OEMs. We are seeing a good pickup in Telecom in Q3 on an organic basis based on the pipeline and deal wins.

Lastly, in **Medical**, the momentum continued with 7% quarter-on-quarter growth on the back of good traction in areas like regulatory compliance and digital engineering. The pipeline ahead looks strong as spends on healthcare, remote diagnostics and tele health are seeing an uptick. We are expanding our presence beyond the Med-tech sector, to target the Pharma and Provider space as well, as the spend are large in areas like digital therapeutics and Connected Hospitals.

Let me now discuss about the outlook: we see a broad improvement across sectors. Growth will be driven by 3 trends: Cost optimization initiatives in legacy engineering, which is opening vendor consolidation opportunities for companies like us; Digital and leading-edge technology which customers are accelerating deployment, and we are gaining mind share with them. Today, we have 49% share of revenue coming from digital and leading-edge technology. Lastly, Innovation, through our Platforms and Solutions, we are addressing customers' needs today, like remote and touchless operations, safe and smart campuses. Our solutions such as i-BEMS Shield, a smart campus framework, and AVERTLE, a predictive maintenance solution for touchless plant operations, we see the multiple wins in Q2 and the pipeline looks pretty good.

In summary, we are confident of continuing the sequential growth path. We are upgrading our guidance for FY21 revenue growth. Our previous guidance was for a revenue decline of 9% to 10%. The revised guidance as we see right now is for a 7% to 8% decline in USD terms.

Before I wrap up, I would like to share another innovation that we are working on which is AI-based, chest X-ray analysis system to assist radiologists in improving speed and accuracy of diagnosis. This is a wonderful project, and we are excited about it, and we'll talk to you more as time progresses. This is still work in progress, but the early results are encouraging. Our AI system has the potential to detect 34 of the common lung-related abnormalities. For some of the diseases, we have attained a diagnostic accuracy of 92%, which is very near to the industry's best at 93%. We are refining the algorithm further with more data sets.

Before I hand over, let me take a moment to congratulate Amit Chadha on his elevation to CEO and MD effective April 1, 2021. His elevation is a part of the succession planning of the company, and I wish him very best for the future. Amit has been working with me for a long, long time, 22 years plus. Thank you, and I now hand over to Amit. Thank you.

Amit Chadha: Thank you, Dr. Panda. Good evening. I trust all of you, your families are safe, keeping healthy and doing well.

I would first like to take a minute and thank my mentor, Dr. Panda, with whom I have worked with for over 2 decades and at L&T for over 10 years, for his continued trust, guidance and mentorship. I would also like to thank the Chairman, the Vice Chairman, and the Board for putting the faith in me and our teams for the excellent work together that has got us this far. I am humbled. I feel honored, and I assure you that I will continue to work diligently along with the rest of the team to further the goals of the organization.

It's been quite a journey for us the last few months, and the good news is that we see the worst hopefully behind us. Over the last quarter, we have seen few things change. Firstly, clients are making time to discuss strategy in various one-on-ones as well as workshops, signaling a new normal. Secondly, they are starting to discuss longer-term initiatives that almost always involve transformation. Finally, digital is becoming mainstream for longer-term sustainability and expansion, which means such projects are being accelerated from pilot stage to implementation.

Let me now give you a segment-wise update on the large deals:

For Transportation, we won multiple deals, key amongst them being with a European Tier 1 for consolidation of their ADAS hardware and software product engineering and software tools development and support globally. Secondly, we have been awarded 2 deals with 2 different North American clients: one, to support their defense product software contracts, leveraging our ITAR presence, and in the other case, providing a platform for their procurement as they look at rejigging supply chains. We are working on additional conversions at this stage across 6 deals. Our ongoing traction and wins gives us confidence that this segment will continue to grow for us.

Talking about Industrial Products, we have closed an ODC relationship for engineering and design for an OEM in Europe as well as signed contracts to help two other OEMs with digitalization of their products including cloudification and touchless operations in Quarter 2. There are multiple deal discussions in the pipeline, and customers are investing in digital manufacturing, engineering, analytics and AI enablement. This sector is a differentiator for us, and we expect to see continued growth.

In the Hi-tech segment, we have expanded in the media and telecom operator domain. We will be setting up V&V labs for an existing Semcon major client. We have also signed exciting new logos. In addition to this, we are awaiting decisions on some large consolidation deals and expect closures in the current quarter. The growth momentum should return to this sector in quarter 3 and beyond.

In Plant Engineering, we closed 3 new deals, one with Specialty Chemicals and another in Oil & Gas and one in CPG. The Specialty Chemical client is a net new client where we have established an engineering value center for them to provide sustenance engineering services for them globally. The Oil and Gas win is the expansion of an ongoing relationship, while the CPG program we have won is to help the packaging line design and layout optimization across multiple sites and geographies for the client. Given the cost pressures faced in this segment by our clients, we are pursuing 3 more engineering value center deals in the segment and expect closures in the current quarter.

In the Medical segment, we closed 2 deals in the areas of digital health and frugal manufacturing. We are currently in the race for closing 3 more deals additionally in Q3 in similar areas. The pipeline here continues to be robust, and we expect this segment to continue the momentum.

Summing up, we have not seen stoppages notices after July and seen decision-making pick up pace from September onwards. Smaller projects and awards have accelerated from Q1. However, we are seeing delayed and longer decision cycles on larger deals. Our guidance factors in the typical seasonality of Quarter 3 and the added dimension of a U.S. election playing out, and we are closely monitoring both these situations. With our backlog and a healthy pipeline which has consistently increased from Quarter 4 to Quarter 1 to Quarter 2, and currently, it's 30% higher than pre-COVID levels, we are confident that all sectors, including Telecom & Hi-tech, will continue the growth path sequentially.

I now hand over to Rajeev. Thank you.

Rajeev Gupta: Thanks, Amit. Good evening to all of you. I hope you and your families are keeping safe during these challenging times. This is my first quarterly interaction with you all, post taking over as LTTS CFO. It has been a great experience learning about LTTS and working with a passionate set of colleagues. I also take the opportunity to congratulate Amit as he transitions into the CEO role as of April 1, 2021.

With that, let me walk you through our Q2 FY '21 financials, starting with the P&L: our revenue for the quarter was Rs. 1,314 crores, which is a growth of 1.5% on a quarter-on-quarter basis. EBIT margin improved by 160 basis points quarter-on-quarter to 13.7%, which was aided to the tune of 400 basis points by the combination of utilization and offshore revenue mix improvement and partly offset by rupee appreciation impact of around 80 basis points and rise in other costs like travel, establishment, communication and M&A-related costs, which had an impact of around 150 basis points.

Moving to below EBIT, the other income was higher on a quarter-on-quarter basis, primarily due to the accrual of export incentive income of 40 crores. Net income for the quarter stood at 166 crores, which is 12.6% of revenue, up 41% on a quarter-on-quarter basis due to improvement in revenue, operating margin and other income.

Moving to balance sheet. Let me highlight the key line items: DSO reduced from 74 days in Q1 FY21 to 72 days in Q2 FY21, which is probably the best level we have reported so far. Similarly, unbilled days reduced from 22 days to 20 days, so combined DSO at 92 days, which is well within our target range of less than 95 days. Improvement in DSO has resulted in cash and investments rising to 1,330 crores plus, and this is after the payout of FY20 final dividend of around 140 crores in July 2020.

Let me now talk about cash flows - year-to-date, free cash flow stands at 634 crores, which is 224% of our net income. This is a very strong performance, again primarily aided by the improvement in billed and unbilled DSO from about 100 plus days end of Q4 FY20 to 92 days end of Q2 FY21. While we are happy about the performance, I want to highlight that we will try and keep the DSO plus unbilled within our target range of less than 95 days. But having said that, if DSO remains flat going forward, we will not see the cash conversion to be this strong in the coming quarters.

Let me now discuss about revenue metrics: the dollar revenue growth was at 4.1% in Q2. And if you look at the performance by segment, we had a broad-based performance. All segments grew more than 4%, except Telecom & Hi-tech, which, as Dr. Panda and Amit explained, we will see a rebound in Q3. I also want to highlight that Medical Device segment growth has continued to be very strong, resulting in Medical segment revenue share at 13% of overall revenues, thus leading to a balanced segment revenue mix.

Let me now briefly touch upon segmental margin performance: Transportation, Plant Engineering and Medical Devices segments have improved margin sequentially. Industrial Products has remained flat, while Telecom & Hi-tech shows a dip of around 250 basis points. The drop in Telecom & Hi-tech was on account of transition costs pertaining to a large deal that we won in Q1. A small part of transition cost was absorbed in Q1, and major part has come in Q2 as the deal has ramped up. We were not fully able to offset this transition cost as overall growth in Telecom & Hi-tech was flat in Q2, the reasons which Dr. Panda talked about. However, with the revenue uptick that we expect in Telecom in Q3, we anticipate margins to also recover.

Moving to other metrics: On-site offshore mix improved in favor of offshore by around 300 basis points on a Q-on-Q basis. This was on account of two reasons: on-site resources have moved to offshore as part of redeployment; and secondly, the regular ramp-up of offshore-based projects. Fixed price and T&M mix remained more or less flat at 40-60 on a Q-on-Q basis. Client profile, which is the number of million plus accounts across categories showed a sequential improvement in the 20 million plus category, moving from 4 to 5 and the 1 million plus category moving from 113 million to 116 million. I would like to highlight that this metric is on a last 12-month basis and not on Q-on-Q basis. Hence, we would see a better picture if it were on a quarterly annualized basis, as we have seen growth across categories because of strong revenue performance in Q2. On LTM basis, this will take longer to reflect on account of sharp drop in Q1 FY21 revenues.

Client contribution to revenue: here again, this is on LTM basis, hence, it appears that top accounts have declined Q-on-Q. However, we have seen growth across top 5, top 10 and top 20 accounts on a Q-on-Q basis, in line with overall company growth of 4%.

Utilization has also seen improvement by 450 basis points, in line with revenue growth. Headcount has reduced by 700 plus people. As mentioned last quarter, this reflects attrition of underperformers post the annual appraisal cycle. Majority of this reduction has been towards the end of Q2. So full impact of this reduction will be visible in Q3 financials. Realized rupee for Q2 was at Rs. 73.8, an appreciation of 2.5% versus previous quarter. I already mentioned about the offset impact of this on our EBIT margin.

Before I end, let me give some color on the EBIT margin trajectory that we see going forward: On the positive side, we will continue to improve utilization to pre-COVID levels, achieving operational efficiency across parameters like employee pyramid, attrition, better segmental mix by trying to increase margins in segments like Telecom & Hi-tech and improved growth in high-margin segments, like Industrial Products and Plant Engineering. On the adverse side, as growth comes back, we see some costs which are growth-linked, like usage of TPC, subcontracting etc. trending back to earlier levels. We remain committed to achieving EBIT margin in the range of 17% plus and continue to work towards sequentially improving margin on a constant currency basis.

I take a stop here and pass it back to Pinku.

Pinku Pappan: Rayo, we can open the line for questions, please.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: My first question was on margins. You had mentioned, of course, 17% EBIT as a target range. But in the current quarter, are there any specific one-offs within the other expense line, which will not sort of recur in the next quarter? And in addition to that, are there any compensation increases that we plan in the second half of the year?

Keshab Panda: Yes. I think number one is, it's not one-off which has given us the margin improvement, that is not correct. And we believe we will continue to grow like topline, even sequentially bottomline also we'll continue to grow. What Rajeev was trying to say is our plan is to get there and how long it takes 1 quarter, 2 quarter, 3 quarters, we will get there. That's what he was talking about. About the salary increase, see, I think you have to understand the business model what we have. We have part of the business, more than 50% of our business does the operating margin more than 25% or around 25%. And the other part of the business, the growth area of business, which is giving a less margin. That's reason the average what you got 13.7% or next quarter will continue to grow. So we are trying to balance, more than any other parameter, balancing the business itself and then operational efficiency. We did well in terms of increasing the utilization, we did well. And we did also reasonably getting into solutions selling. There are a few areas of investment we did earlier, that is also paying us. The platform solutions selling we believe that it's going to continue to grow quarter-on-quarter. On salary increase, we have not decided yet. We are working on. Absolutely, we'll take it up from part of it in January and maybe part of it in April. So I think as we speak now, we are working out. As you know, last quarter, we are working, how do you bring back the revenue for all these segments which we have been able to do that in quarter 2. And a team right now working on whether we increase, we'll do in January or April. If you do in January, are we going to do whole employees or part of the employees depending on the skill set. The skill set which we definitely need, we don't want to lose employees and motivated employees how we do that. So I think in a 3 to 4 weeks' time, we'll have much more clarity in this segment on salary hikes. Are we going to do that? Absolutely, we are going to do that. We are working on details how we are going to implement it.

Nitin Padmanabhan: Sure. Sir, on the margins, the margins have improved pretty well on gross. I was specifically asking, are there any negative onetime impacts on the other expense line, which will not recur next quarter?

Rajeev Gupta: Let me take that, Dr. Panda. So there are no major one-offs that will not occur in subsequent quarters. That's how I will respond.

Moderator: Thank you. The next question is from Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor: Amit, congratulations on the elevation. Dr. Panda, wish you all the best for the future. My first question was on the near-term outlook. Do you expect the furloughs in the third quarter to be seasonally higher? Or do you think they are going to be somewhat similar to what we have seen in the past?

Keshab Panda: I think only uncertainty in December furlough, is that going to happen? As we see today, there is no communication from customers that they're going to, 1 week off or 2 weeks off or no off at all. Only uncertainty we look at is right now, the improvement point of view, Q2 to Q3, how much is that going to impact us? The percentage of growth depends on how many furloughs are going to happen. We are going to grow sequentially, that is clear. With the orders in hand, we'll be able to do that. But how much, what is the percentage growth on quarter-on-quarter? That depends on how many days of furlough, if it all comes from a customer, and which segment is going to come. So this parameter on the margin plus the growth, it depends on furlough in which segment and how many days the customer is requesting for. That is only uncertainty at this time.

Pankaj Kapoor: Understood. So just to clarify, so you don't see any abnormality as of now or you don't have much clarity that there's going to be any abnormality this year?

Keshab Panda: Yes. We don't see any abnormality as of now.

Pankaj Kapoor: Understood. And my second question was on the deal conversion. I think Amit mentioned that some of the larger size deals, the decision-making is going to be a little slow as of now. So just was wondering what do you attribute that to? And is it something that you see across verticals or is it in the specific segments only?

Amit Chadha: Sure. So the reason we mentioned that was that like we talked about a large deal pipeline going up etc. So the speed with which we were seeing the larger deals being decided on has slightly slowed down, right? Though September onwards, again, there is a decision-making that has picked up. We believe that, when I say a smaller and bigger, these are relative terms, right, if we are talking about the sizes that we're talking about. So we are seeing people discuss it, but they're taking a little bit longer than they normally do.

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

Abhishek Shindadkar: Congratulations on a great execution. The first question is a clarification on the guidance. So if I recollect, we have integrated the acquisition. So the guidance is including the acquisition? Or is it the organic guidance that we are talking about? And second part to that is from a growth standpoint, last quarter, we had impact because of supply constraint as well. So in the current quarter, was there any impact on the growth because of supply constraint? And I have a follow-up on margins.

Keshab Panda: See, the first part the supply question, I'll come later. What is your first question? I'm sorry, can you repeat that again?

Abhishek Shindadkar: Yes, sir. So it is about the guidance. So is it the organic guidance?

Keshab Panda: I got it. So the guidance what we are giving now is the organic guidance only. We are not even talking about this, whatever Orchestra technology we have got. Organic guidance, whatever we see now, this is what we are going to get into, what the revenues are going to end. And the second part is supply part is a nonissue. There are issues always going to be there. There are some skill set availability of employees going to be issue. We have number of people on the bench right now going through training on new technology and making sure that the future demand we are going to meet with these people, existing people. At the same time, we also got people hired from the campuses, different campus. As we speak, last quarter, Q2, we have people joined; Q3, people are lined up to join. So we are doing both. We have not seen that we are losing opportunities for not having it. It's a minor small one, maybe some skill set not available. It's not a bigger major factor right now.

Rajeev Gupta: Dr. Panda, I'd like to just add to this. So just to clarify on that question, the Orchestra acquisition concluded as of October 2. And in terms of guidance, we have really upped the guidance in line with the expectations and better visibility of Q3, Q4. And considering the fact that Orchestra acquisition concluded October 2, it is included as part of the guidance. I just wanted to add to that, Dr. Panda.

Keshab Panda: Listen, I think one point is, that is not a big revenue number anyway. That's not a big revenue number. It's not a sizable company. The revenue number is not big. So it is in the range, whatever we have given guidance range, it comes within that. I don't think there's a big difference there.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: I was just looking at the free cash flow conversion that's been reported, right? That's been quite strong. Now if you were to look at the full year number, full year for, let's say, year ending March '21, is it fair to say that we should be looking at a number in the zip code of 1,000 crores plus for free cash flows?

Rajeev Gupta: See, if you look at our first 2 quarters, we've already done more compared to all of FY '20. But clearly, I mean we do not provide guidance in terms of free cash flow, but we will not see the performance as we've seen in Q1, Q2. I mean these have clearly been exceptional quarters where the rigor around collection, the reduction of receivables and unbilled revenue has been a lot better compared to previous quarters. But as I said, we do not provide guidance on free cash flows, and we are not likely going to see Q3, Q4 to be at same level as Q1 and Q2.

Nishant Chandra: Okay. But any order of magnitude that you can provide us some guidance on? I mean the idea is not to pin it to a narrow number, but just to see if the current run rate implies that you should comfortably clock 1,000 crores plus, right, in terms of free cash flow?

Keshab Panda: No, but I think one thing you need to remember, quarter 4 of last year, because of March month when the COVID-19 started, our free cash flow in Q4 was not so good if you look at last year. Because we couldn't collect a lot of money in February, March because of COVID-19 so it has gone down. What Rajeev is trying to say is I think we did Q1 and Q2 reasonably good because there is a flow coming from Q4 to Q1 as well and a small amount maybe in Q2. So our focus on collection, focus on free cash flow improvement will continue to be there. We have a process in place now than in the past. And the only thing in number, we don't give guidance about what the number is going to be. But trust me, I think the focus will continue to be there, and we will try to see what best we can do in there.

Nishant Chandra: Understood. And if you were to just understand the guidance a bit better, what would be the sort of exit Q4 growth rate that you'd be looking at as part of this guidance? I'm just trying to understand how it's expected to play out.

Keshab Panda: I would say, quarter 3, when we look at it, come to quarter 3, we'll definitely give you the guidance for the quarter 4 where run rate is going be. We are doing everything possible to come back to last year quarter 4 number at least. But as Amit was saying, the large deals, number of deals being worked out now, and let us say, some of the large deals we are going to close it quickly, and it happens next week or next 1 month or so, and substantial amount of revenue will be clocked in from those deals. So quarter 4 depends on many things. What we are telling you now is, normal order in hand and normal business if it grows, then how much sequential we are going to grow. Our intent is to come back to what we did last year quarter 4, and that's the intent at the start. Rajeev, do you want to add anything?

Rajeev Gupta: No, I think that is good enough, Dr. Panda.

Moderator: Thank you. The next question is from the line of Vikas Ahuja from Antique Stockbroking. Please go ahead.

Vikas Ahuja: Congrats on good quarter and execution. My question is for Rajeev. Rajeev, sorry, just picking back on that guidance question. So ideally if we knock off the impact of acquisition and obviously, there was a currency tailwind in FY '21 guidance. So then the 200 basis point upgrade we have seen, it's actually flat if we discount currency and the acquisition. Am I correct here?

Rajeev Gupta: So to clarify, when Dr. Panda said that we are revising our guidance from a decline of 9% to 10% full year to 7% to 8%, what you need to bear in mind is that the acquisition-related revenue is not that significant. So it does not have a material impact in terms of the guidance that we have revised. I hope that clarifies. So largely, it is going to be on organic basis.

Vikas Ahuja: And secondly, is it possible to maybe give some color on the bookings TCV in Q2? How it has been compared to last year? And how it has been sequentially, what the increase we have seen compared to Q1 versus Q2? And also, how the pipeline looking like, if it's possible to quantify?

Amit Chadha: Sure. So we do not give out numbers, right? But I'll give you a relative sense, so it can give you a sense on where we are. So if we look at pre-COVID levels, right? And if I jog forward to where we were in Q1 and where we are at Q2, right, approximately 90 days later. So where we were at, post the Q3 Board meeting, so January when we spoke to you, say we were at 1. We saw shrinkage on lockdown. And then we had to build stuff back up, and I would say that we were at approximately about 1.2x from a pipeline standpoint in the July Board meeting when we came to you from it being, say, x at the end of January. And today, we stand at approximately about 1.4x. So that's the pipeline growth we have seen. We've also seen order backlog that has also increased. So that's broadly where we are with our pipeline as well as our backlog. I hope I have answered your question.

Keshab Panda: I have one thing on the engineering world. Thank you, Amit. The engineering world, unlike IT, vendor consolidation, all that happens. It's a different world altogether. We have given proactive proposal to customer, post COVID, what is going to be important and depending on how long the COVID is going to be. So the order we won in Q2 is better than Q1. We believe that trend is going to continue further. And the point he made is about the deals decision-making from the customer side, how soon they decide. See earlier, the VP Engineering had power to decide. Now it goes to the CFO level depending on the cash flow, depending on the industry they are operating right now. This cycle, for example, 1 or 2 decisions should have come by now, it is going through first call, second call, going through this line item, second line item. But are we going to win this? Absolutely, we're going to win this because we have made effort. We have been working with the customer so long to know the customer's mindset what their demand requirements. The only point is, basis on percentage what we're going to do is based on how quickly they decide. But order booking position, of course, quarter-on-quarter is better.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Congrats to Amit for the position. Amit sir, just 1 question I had on the deal flow again. So the deal flow has been very, very strong. In terms of last quarter also, we won around 9 deals. This quarter, again, a similar kind of a number. But I just wanted to check the view that is it because of this pandemic or otherwise? Has there been an overall shrinkage in the size of the deals that we are either pursuing or that are being offered by the client? Just to give an idea, last quarter, I think we had 1 deal which was more than $30 million. This quarter, of course, we didn't have any of that. So is it like a trend that we are seeing in deals because of the current weak macro environment? Or is it because am I just trying to read too much into 2 quarters numbers and there's nothing much and we will come back in the next 3 quarters itself?

Amit Chadha: So to answer this clearly and that's why we mentioned it. See if you look at Dr. Panda's commentary last quarter as well as this quarter, you are right. We didn't have a 30 million plus deal this quarter in Q2, right? But we had multiple 10 million, 20 million deals that we had. Now if I look at the deal sizes in our pipeline, that has not changed, right? The good news is that the number of deals that we've got that are 10 million, 20 million has gone up from previous quarters, right? A number of 30 million-plus deals are there in the hopper, and they have either increased slightly or remained the same. It's not gone down, one. Second, are we seeing a shrinkage in the size? The answer is no. What is definitely happening is that people from September are moving surely forward. But like Dr. Panda was mentioning, they are going through a couple of extra rounds of iteration or approval processes as they sign stuff. In fact, there's been enough published reports that talks about engineering spend coming back faster than the revenue of the companies or clients coming back. So we are fairly optimistic about closures. And going forward, we'll be able to report more. Yes, Dr. Panda, you wanted to add something?

Keshab Panda: I think the point is not on the global economy going down, so size of the deal going down. No, that's not, there's no relation to that. There are some few deals, maybe next quarter, we'll come back, we'll have a bigger deal than we have. Today, we also announced the 3 deals with TCV of 15 million and also 3 deals, 10 million plus. This is nothing to do with quarter 1, 30 million, now come down to 10 million and 15 million deal, is that going to go downward, that's not true. So by chance, it happened that the number of deals we are working on, sizable deals, maybe that will be closed. Next quarter, we'll announce in a different way. So I think there's no correlation to that. That's how I put it.

Vibhor Singhal: Sure, sir. I think that's really reassuring. Sir, just 1 more question from my side, specifically on the Telecom segment. So just wanted to get your feedback on, has there been any kind of, let's say, a pushback or some kind of a delay in terms of, let's say, the stocks that we were having of, let's say, either potential deals or business in the Telecom segment because of the overall, let's say, the different governments taking a ban on Huawei and the overall negative sentiment against the Chinese OEMs and all. Is there some kind of a pushback that's happening in the Telecom segment which you believe is there and could probably continue still over for the next couple of quarters as well?

Amit Chadha: So the Telecom being flat was not because of these new rules for Chinese companies etc. It had more to do with a particular project getting over and new ones getting delayed in terms of start, right? So that's what it was. We do expect growth to come back. And as you are aware, we've done a couple of acquisitions in VLSI. We're going to be continuing to grow on those. There's consumer electronics that we continue to grow on. So we do see broad-based growth going forward. You know that Q1, we had grown actually sequentially. Q2 has been flat, but we expect Q3 to come back to growth.

Moderator: Thank you. The next question is from the line of Hiten Jain from Invesco Asset Management. Please go ahead.

Hiten Jain: So I have 2 questions. First question is, what explains the sequential growth in SG&A. So SG&A grew by 15% Q-o-Q. So one would have thought that there would have been G&A optimization and the discretionary spends would have been low given that work from home is quite prevalent. So what explains the sequential rise?

Rajeev Gupta: This is Rajeev. Let me take it. So there are a few reasons. Of course, we saw the starting of offices, travel, M&A expenses. These are a few of the reasons that have led to increase in SG&A. Also, we've seen increase in software cost as we've improved the working environment, working from home. So these are a few reasons that have led to increase in SG&A. Also, what you need to bear in mind is that in Q1, we saw a sharp drop in SG&A because of closure of offices, no travel. So we are sort of getting back to the normalcy levels around SG&A.

Hiten Jain: Understood. And second question was on headcount. So while Dr. Panda said that we have added people, but at least in the reported numbers, the headcount is down Q-o-Q. So the number has declined by 740 employees. So what explains that?

Keshab Panda: No. I think we are doing both. See, I think we have taken action on bottom raters, some of the bottom raters to downsize. We did that effectively. We are hiring people depending on the competency and demand. And we are also looking at downsizing employees who we don't need in next 1 year or next 2 years, right? So it's a balance of both. Actually, if you see last year, FY20 last quarter, this quarter, yes, the number of headcount has come down. We believe the headcount, again, is not going to come down in quarter 3 in that level, number of people Q1 to Q2 at that level is not going to come down. But we always do addition and subtraction depending on the business model post COVID or during COVID and what we do, that we continue to do that.

Moderator: Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

Manik Taneja: Dr. Panda, so you mentioned that we will be striving for Q4 revenues this year to be similar to Q4 of last year. Now given that you're talking about such a smart recovery in terms of revenue, should we thereby expect that our margin improvement should also follow a similar trajectory and we should get back to our targeted range of about 17% by Q4 this year?

Keshab Panda: Listen, I did say our intent is to come back to Q4 of last year. And our intent is also to grow sequentially both topline as well as bottomline. What level we are going to close? I think once you come to quarter 3, it will be much more clearer. I think if you grow topline, bottomline also has to grow. Otherwise, no point in doing that, right? So I think only thing I can tell you at this time is, sequentially, we are going to grow quarter 3 and quarter 4 as well. What number we are going to close, I think our always intent is to, see, come back to last year. That's what I leave it now.

Manik Taneja: If I can chip in with one more question, so with regards to our segmental margins, you've seen margins improve significantly in vertical like, Transportation and Process Engineering, which is where revenues have bounced back sharply. But on the Industrial Products side, our margin performance has been fairly steady in the last few quarters despite even the decline that one saw in Q1 here. If you could help us understand what's leading to the resilience there?

Keshab Panda: See, I think whatever action we need to take in Q4 to Q1, even though revenue drop in Industrial Products, we are able to maintain the margin. And we have come to a point where there is marginal improvement from Q1 to Q2, and this will remain at that level. Maybe 100 basis points this side, that side could happen. But I don't expect this to grow drastically from the current level of margin what we have in Industrial Products. However, again, there are 3 segments, right? Depending on the type of project we do, it could change a little bit, but not drastic. They're already in optimum level. They are doing reasonably well last year, this year, and that's tren d is to continue for coming quarters as well.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Congrats to Amit for the elevation. Just first question, if I look at the implied growth rates at the range as being 3.4% to 4.8% on a Q-on-Q basis. And I think based on the discussion, it looks like organic growth in the Q3 may be likely to be lower versus the Q2. So that also indicates that the growth dependence on an organic basis would be more in 4Q. So just wanted to understand how are we building the assumptions in the guidance? What can go wrong in the guidance in terms of the risk? And are we also building some future wins, which are in the pipeline, to achieve the guidance, especially the growth in the 4Q? And second, the export incentive, if you can help us how to model. Is it largely being done and over? Or you expect some more recovery in Q3, Q4 or beyond that as of next year?

Keshab Panda: The second point, Rajeev will take it. The first part, I said only uncertainty we have is number of furlough we are going to get in December. As you know, I think COVID-19, Europe, some countries started locking down. And America still not out, 60,000 plus every day they had. And keeping that in mind, are the customers going to behave differently in the month of December. But positive side is, we have been able to establish engineering can be done from India, work from home can be delivered. Irrespective of that, there could be. There are customer segment where they are going through difficulty in terms of the financial cash outflow itself, are they going to come back in December, say, 2 weeks of furlough, we'll take it and that's going to have an impact on the revenue. So that is the only, I would say, uncertainty in whatever guidance we give. If it is a bigger one, it can have some impact. Whereas overall point of view, there are no other parameters we have to worry about at this time. Rajeev, can you take second one, please?

Rajeev Gupta: Sure, Dr. Panda. So to clarify on SEIS income, in Q2, we have recognized 40 crores of SEIS income which is split at 30 crores pertaining to FY '19-'20. And this is a percentage of overall income we are likely to receive, and we adjust every quarter depending on certainty and market value of these licenses. Around 10 crores is sale of export licenses pertaining to FY '18-'19, which is over and above the amount already recognized for FY '18-'19. And for FY '22, just to clarify, since the government has still to clarify extension of the scheme so far, you can assume 10 crores, which will be the balance income we will recognize for FY '19-'20 as we sell the export licenses. Hopefully, that clarifies.

Sandeep Shah: Just last thing in terms of clarification. So whether the guidance also bakes in the expected closure of any deals going forward and whether those deals are substantial in terms of size?

Keshab Panda: Yes. I think it's very difficult to…the only thing we know is the business where we see are we are able to close it, right? And there are some sizable deals, if it closes, whole equation changes completely. Maybe we are hoping, quarter 3, we come back, and we say we closed a sizable deal, and quarter 4 is going to go much beyond. And our annual revenue, FY '21 revenue will be different from what we are talking today. So I think we are not going to speculate anything. What we see right now, that's what we are telling you. And the guidance point of view, yes, various factors. We look at all the factors, every vertical and every geography and what are the possibilities before we give a guidance. That's what we have taken into account.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: I am just not able to understand the flow of the margins at gross level we do great and SG&A churns away so much of money. I wanted to just know how much of this SG&A burn also has some kind of impact on the transition which you mentioned, because it looks like that our all good work at the gross level has been eaten away by the SG&A to be precise. So that is number one. Number two, Dr. Panda, do you think that this year, with so much of already people working from home and all that, the furloughs will at all be there or if they are, they must be very less compared to earlier years? Is that not correct? Or you think that it is too early to comment on that?

Keshab Panda: I'll tell you, work from home, I think what you say logically extending to what IT companies do, I think, it makes sense. But the fact of the matter is, do you know how much difficulty we had with some of the customers, convincing them that this engineering can be done from home. What investment required in the software to make sure that data security is taken care of. And a lot of effort has gone in, and we are working with the customer now, saying that this can be done from home. So I think we cannot assume anything. It's not like an infrastructure or ADMS deal where you can put a few thousand people at home and do that. And there are cases where we are still working with the customer about lab, how well we connect to that during closure. Even if they are not, then we'll be able to do that, connecting to the customer lab, connecting to our lab in India and outside. So there are multiple parameters in the engineering sense. We are trying to work out. Only thing we see is with what information we know, where we are going to land. That's all I would say.

Moderator: Thank you very much. We'll take that as last question. I would now like to hand the conference back to Mr. Pinku Pappan for closing comments.

Pinku Pappan: Thank you all for joining us on the call today. If you have any further questions, please feel free to write to me. I hope to connect with all of you through this quarter. And with that, we can close the call. Thank you all. Have a good evening, and stay safe.

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

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