L&T Technology Services Limited
A.M. Naik Tower,6th Floor, L&T Campus,
Gate No.3, Jogeshwari-Vikhroli Link Road,
Powai, Mumbai-400072.
www.ltts.com

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

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

Subject: Transcript of Earnings Conference Call for L&T Technology Services Limited (LTTS) for the quarter ended June 30, 2022

Dear Sirs,

Please find attached the transcript of Earnings Conference Call organized by the Company on July 15, 2022 for the quarter ended June 30, 2022 for your information and records.

Thanking You,

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

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

Encl: As above

L&T Technology Services
Q1 FY23 Earnings Conference Call Transcript

July 15, 2022, 20:00hrs IST

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

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

Moderator: Ladies and Gentlemen, good day and welcome to L&T Technology Services Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan, Head of Investor Relations. Thank you, and over to you, sir.

Pinku Pappan: Thank you, Aman. Hello everyone, and welcome to the First Quarter FY23 Earnings Conference Call of LTTS. I am Pinku, Head of Investor Relations. To those of you who have joined from India, thank you for participating at this late hour. Our financial results, investor release and press release have been filed with 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 our website approximately one hour after this call ends.

Let me now introduce the leadership team present on this call. We have Amit Chadha – CEO; Abhishek – COO and Rajeev Gupta – CFO.

We will begin with Amit providing an overview of the company performance and the commentary on the outlook, followed by Rajeev, who will walk you through the financial performance.

Let me now turn the call over to Amit.

Amit Chadha: Thank you, Pinku. Ladies and gentlemen, thank you so much for joining us on the call today. I know this is at a very late hour, 8 p.m. India time and that t`oo on a Friday. We normally host these calls earlier, but because of the Board Meeting and then the AGM being held today, we got delayed. So, thank you so much for taking the time and joining. I hope all of you are healthy and safe.

With that let me start with the key highlights of our Q1 performance.

In USD terms, we had a sequential revenue growth of 4.7% in constant currency with Plant Engineering and Industrial Products leading the growth.

Operational efficiencies helped us to deliver an EBIT margin of 18.3% even as we invest for future growth and capability building.

We had bookings TCV at similar levels as Q4, which was our highest ever. Our large deal engine fired well with one USD 50M+ deal, four USD 15M deals and two other deals with TCV of USD 10M.

Let me now provide segment wise performance and outlook.

Starting with **Transportation** - we had a good quarter with sequential growth of nearly 3% and about 5% in constant currency. This was broad-based across sub-segments of Auto, Trucks & Off Highway and Aero.

In Auto and Trucks & Off Highway, demand continues to be good in the EACV space, with programs on design of high-power motors and inverters, test lab development, digital cockpit and analytics. We are extremely happy to be investing incrementally in connected solutions to take advantage of the rising spends in the connected part of the EACV space. There are a few connected and electric large deals that we are pursuing in Europe at this stage.

Two quarters ago, we talked about our growing pipeline of opportunities in the Aerospace and Rail segments. Q1 marks a second consecutive quarter of a large deal win in Aero and Rail - with a USD 50M deal in the Rail space, which is on the back of the USD100M+ deal that we got in the eVTOL space last quarter. The new deal is in the Rail signaling space where we will work on next generation connectivity-based solutions.

Recently, we've also been empaneled within a European Aerospace major. To build on that relationship and other Aero OEMs in Europe, we opened an engineering design center in Toulouse, which will cater to new age digital requirements of Aerospace.

Overall, for Transportation, we see a healthy demand environment driven by the medium to long term trends of EACV and we expect our growth trajectory to sustain.

In **Plant Engineering** – We had a strong quarter with 7.5% sequential growth that was broad-based across FMCG, O&G and Chemicals. We are benefiting from a secular trend across the sub-segments towards capacity expansion, plant modernization, automation using smart technologies.

Our clients are investing in expanding capabilities and capacities across product lines, and that means new plants and/or ramp up, retrofit to the existing facilities. There are also investments being made on the digital side, especially automation, analytics and Industry 4.0.

In O&G, we are seeing engineering value centre opportunities for customers with clients globally - which mean we could start the work from a US site and expand into Europe or vice versa, leveraging India as a low-cost location for delivery.

Summing up, we are positive on the outlook of Plant Engineering and expect the growth momentum to continue.

At **Industrial Products** - we had a strong growth of 4.4% in the quarter, which was led by Electrical, followed by Building Automation. As more new factories get opened up, it is spurring demand for equipment across machinery and electric value chain. We are seeing demand being driven by digital engineering - with higher adoption of IIoT and robotics, as customers build factories of the future. There is also an increasing focus on Electrification and Sustainability - with a conscious shift to renewable energy, which leads to design and development of new types of equipment.

Overall, for Industrial Products, we are seeing demand continue with new product development, digital connected products and platform development.

In **Telecom and Hitech**, we had a good quarter in terms of deal wins – with 2 deals in the Semi space, one where we will be expanding an R&D lab setup and the other one where we are developing chips for the Auto industry leveraging both our VLSI design and Auto functional safety expertise. Demand is likely to be there in the specialized chip space as newer capabilities like 5G and AI get added. Our investments into 5G labs are paying off well with repeat deals from customers.

In Hitech, we are seeing a good pipeline of deals with some of the largest technology companies where we were empaneled recently as vendors or partners. The large deal pipeline in Telecom & Hitech looks promising, though we are choosy in the kind of deals we pick up - we prefer new technology that will help us scale and be profitable. Our pace of growth is likely to improve as some of these large deals close over the next quarter or so.

Lastly, in **Medical** - we picked up pace versus last quarter with growth of 2.6% in Q1. Demand is being driven largely by spends in QARA and Digital. There is a rising trend of using software for enhancing existing devices, for example, using medical image fusion to diagnose and detect diseases faster. We are also working with chipset companies to develop chips for image processing. To expand the addressable market, we are investing in solutions like Software as a Medical Device (SAMD) that will enable us to increase mindshare with clients. We have made good inroads recently, acquiring new customers where we expect growth to come in going forward.

There is some tightening of budgets and caution among some of our customers in Medical on account of inflationary cost pressures. However, we are trying to offset the softness with a broader digital play and targeted large deals.

Now, a few highlights on **Digital engineering and Technology** - On the innovation front, our engineers continue to innovate and filed 25 patents in Q1. We have been able to maintain this pace of 25 patients for a few quarters now. In fact, patents for customers were at 20 as well in the past quarter.

Our offerings are consistently rated high by industry analysts. Happy to share that ISG in their recent ranking has rated us as leaders across Design and Development (Products Services, Experience), Connected and Intelligent Operations - Discrete Industries, Connected and Intelligent Operations - Process Industries in both US and Europe regions

Let me now discuss the **Outlook -** The current macro environment is more challenged compared to the previous quarter, with headwinds like inflation, supply chain disruptions, rising cost of talent and capital. We had sensed some of this when we spoke to you last quarter.

While we do see signs of caution emerge in some pockets like new age startups, and newer business lines of clients, broadly, wherever there is a paying end client, our customers are proceeding with their transformational programs with Digital being an area of priority and spend. We believe our six bets focus and capability investments are aligned with the multi-year strategic spend areas of the global ER&D companies and will help us drive further growth.

I'm happy to share that the measures we've taken towards greater employee connect and engagement have yielded results. LTTS has been recognized as a Great Place to Work® in India for its employee friendly best practices and is a testament to our standing as a preferred company for passionate engineers.

Attrition like we indicated previously, has risen but we are seeing signs of it stabilizing and we are working inclusively across our employee base.

Finally, we reaffirm our FY23 guidance or 13.5-15.5% in US dollar terms. The currency volatility in Q1 has impacted our reported revenue in Q1 and would have an impact on the full year too. On a constant currency basis, our revenue growth guidance translates to 14.5-16.5% using Q4 currency rates as a baseline.

With that said, I will be around for questions. I wish you all good health. I hand over to my colleague Rajeev now to provide further commentary.

Rajeev Gupta: Thanks, Amit. Good evening to all of you. I hope you're keeping safe and healthy. I'm pleased to share our Q1 FY23 performance - it has been another quarter of good results with revenue growth and operational execution.

Now, let me walk you through Q1 FY23 financials, starting with the P&L:

Our revenue for the quarter was Rs. 1,874 crores, a growth of 6.7% on sequential basis. Our double-digit YoY growth trajectory continues with Q1 revenue up 23.4% on YoY basis.

EBIT margin is at 18.3% compared to 18.6% in Q4 FY22 - continues to be above our 18% aspiration level. During the quarter, we had gains from currency depreciation which were offset by higher employee benefit costs.

Moving to below EBIT: Other income was at Rs. 34 crores, slightly higher on sequential basis due to higher Income from Investments.

Effective Tax Rate for Q1 was 27.1% compared to our target range of 26.5% to 27%.

Net Income for the quarter stood at Rs. 274 crores, which is 14.6% of revenue, up 4.7% on sequential basis, and 26.8% on YoY basis, driven primarily by Revenue growth and operational execution.

Moving to Balance Sheet - let me highlight the key line items:

DSO improved to 80 days at the end of Q1 FY23 compared to 87 days in the previous quarter, while Unbilled days came at 22 days in Q1 compared to 15 days in Q4. The combined DSO including Unbilled remain flat from previous quarter. Our target range for combined DSO is less than 95 days.

Now, let me talk about cash flows - Our Free Cash Flows was Rs. 91 crores, which is 33% of Net Income. This will improve as quarters go by.

Our Cash and Investments rose to Rs.2,241 crores by end of Q1 FY23.

Moving to revenue metrics: On a sequential basis $ revenue growth was 3.2% in reported terms and 4.7% on constant currency basis, mainly led by Plant Engineering, Industrial Products and Transportation segments.

The segmental margin performance improved in 3 out of 5 segments on a sequential basis.

Now, commenting on operational metrics: The Onsite:Offshore mix shifted towards offshore. Offshore percentage now stands at 56.2%. We expect this to be around 57% to 58% range going forward. The T&M revenue mix increased to 73.1% in Q1 – this reflects the wins in digital and leading-edge space.

Client profile, which indicates number of Million dollar plus accounts, has shown a sequential improvement in USD 20M+, 10M+, 5M+ and 1M+ plus range. The client profile numbers have seen an improvement over the past few quarters, and this trend will continue in the coming quarters.

Client contribution to revenue - All three categories, Top 5, Top 10 & Top 20 showed a slight decline compared to Q4. This is as some of our Next 20 customers have been growing at a faster clip, which is also visible in the improvement in our USD 10M+ plus customers.

Headcount increased sequentially by 572 employees, while Attrition moved up to 23.2%. We continue to invest in talent for future growth and believe the attrition trend will likely soften in the coming quarters as we take various employee engagement measures.

Realized rupee for Q1 was around Rs. 78.2 to the US dollar, a depreciation of over 3% compared to Q4.

Before I conclude, let me give some visibility on EBIT margin trajectory going forward. In Q2, we will have headwinds from wage hikes that are effective July'22, which we will try to offset through a combination of growth and operational efficiencies. As indicated in the prior quarter, our aspiration is to maintain EBIT margin at 18% levels in the medium-term with levers such as growth, better quality of revenues, and operational efficiency gains.

I thank all the investors and analysts for their continued patronage. And with that, I now hand it over to the moderator for Q&A session.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is on the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: So first question was on the growth side. It was good to see that you're regularly now winning USD 50M to USD100M deals on a standalone basis. You also mentioned that there were deal booking in Q1 like Q4 was your highest ever. Just trying to put that in context, can you just share your views on the segmental impact, which is baked into your guidance from the macro weakness which you are seeing. You mentioned medical devices, but given that the large deals are coming in, how do you see the impact of client spending slowdown that will flow into different verticals?

Amit Chadha: Mukul, Hi, thank you so much. Mukul, first of all, we do believe that our guidance that we provided, if I take the constant currency bit of 14.5-16.5%, that takes into account the wins that we've had not just in the current quarter, it takes time to start. But what we've been having in the last two, three quarters, right. As a trend, what we've seen is that deals in Transportation, Plant Engineering, and Industrial Products are there which we've been winning consistently and Hitech, we've seen deals in specific areas, while Medical has been slightly smaller ticket sizes, if I may, right. But that is not to say we don't want incremental revenue, we only want exponential revenue. I'm happy to take incremental because every client and segment is different. Where we are seeing and I did mention in my commentary, Mukul, that there are areas where there's no paying customer for a project. Six months ago, everybody was saying even though there's no paying customer that it will come, let's go ahead and do the product development or deployment, etc., I have seen in the last quarter. That's why when we gave you the guidance at the end of Q4, we had baked some of that in because we were starting to see customers telling us that customers will buy - like one the CFO turned around and said, my customer will buy, they may just trade down to a lower version of the same device. In other case, a client came back and said that I am doing a rationalization of what skills do I have in-house to what I will give you externally and maybe I may have overhired in a certain area. So therefore, I will look at you to help me in ABC space. The good thing I'm seeing is clients coming back and saying, you are an extension of my space. So, if you are investing in a 5G lab, you are investing in a sensor lab, you are investing in a device test lab, I will not do it. I will leverage your space. So, I do see that as a positive more than a negative. I hope I've answered your question.

Mukul Garg: Sorry, just to clarify, except for medical devices, there is no clear-cut trend which is developing till now in terms of impact. And second part obviously, have you already started seeing clients - kind of looking at cost rationalization through giving more work to LTTS?

Amit Chadha: So we are definitely seeing people leverage us for speed-to-market. But there are clear customers coming to us with cost-to-market as well. And those enquiries, those deal closures are happening. We do see, like I said and then you reconfirmed - Medical and certain pockets of Telecom & Hitech, where we do see a little bit of a pause. Like I said, if there was a paying end-customer, profitable paying customer, those projects are going forward, those areas are going forward. In fact, some of our large deals that we've had, there are some deals that we are shaping up in Telecom, which basically are going to be worked on the fact that we will be able to do it in our India centers - cheaper, better faster.

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

Vibhor Singhal: So, Amit, I just have one broader level question. Given that you've been in this industry for such a long period of time, and I'm sure you've seen ups and downs in the industry from the client side and everything. So just wanted to basically pick up into the fact that right now we're all looking at maybe a possible recession from that, two or three quarters down the line, or whenever it is. Typically, when such economic downturn or a recession happens, how do clients tend to basically react in terms of their processes, and which specific set of clients tend to basically cut more or cut first than the other ones? And a side up question to that, does this captives form the large part of the ER&D ecosystem across the world, does an economic downturn like this actually make these companies do less work in their captives to save cost and outsource more or is there any trend like that, that we can probably just if you could provide?

Amit Chadha: Sure. There's a recent report that's come out from Zinnov. Report was released in May or early June, which basically said that by 2025, ER&D spend is about USD 1.6 Trillion in 2021 and they expect this USD 1.6 Trillion by conservative estimates to go to USD 2 Trillion by 2025 and optimistic estimates to go to USD 2.3 Trillion. Now, there are two parts, we really look at the report and then I'll correlate to what I'm seeing. Legacy engineering or traditional engineering, ER&D, they are saying will go from the current USD 982 Billion in 2021 to a USD 1 Trillion by 2025. So, not a lot of difference. The growth will come in digital, which will go from what, USD 650 Billion to between USD 1 Trillion - 1.3 Trillion. Here are the positives right in spite of recessionary talks, etc., a) People are still going on vacations, airports are full, jam packed, hotels are not available, staff is less, people are more. b) Staffing challenges and pressures will not go away and therefore people are turning to automation. c) People will pay for the experience at this point of time, even in a business hotel they want they want to be able to check in fast and check out fast and therefore there will be in a digital system that will be put in place. Truck rolls are becoming expensive, nobody wants to sit in a truck and attend to maintenance issues. So, there is definitive spend that people have to do if they want to stay relevant in predictive maintenance and reactive maintenance, etc., by automating more. So, automation spends, digital spends are there and will continue to expand. The one thing that is definitely happening is clients are turning around and saying, so when is payback, is payback in 12 months, is it 24 months, is it 36 months. So, there are definitive conversations that are happening. Second, I'd shared this when we won the USD 100 Million deal as well with you - Larger deals take a little bit longer. Nobody's flying into ride a check and leave. So, that behaviour has not changed. The area where I have seen people coming back and saying, let's hold off and discuss is where they don't have a paying customer. There is a new product launch they don't know who the customer is for sure. Their payback period is seven years, their payback period is eight years, they are discussing it. But at the same time, Oil & Gas and CPG is spending like there's no tomorrow. So that is a positive that we're seeing. So I do not want to paint a picture that it's going to come as bad as COVID. That is impossible. That was a black swan moment in my view. But what we are seeing is specific pockets, people are asking the question. We are having to reconfirm that this still makes sense, still possible for their consumers. And that's what we're doing right now, and that's where we see the market heading as we move forward. On our own turn as well, we are continuously working on improving utilization, etc., that we're doing and reskilling, etc.,

Vibhor Singhal: On the captives one, is there a trend generally in recessionary times that clients tend to outsource more and give less work to their own captives or nothing like that?

Amit Chadha: So it is different for different segments. I will tell you one thing I am seeing. I am not seeing segmental problems. I am seeing specific company issues. There could be a client that has been in a problem because they were depending on a product line & that's gone away. So, they are in a problem. That I'm seeing. But overall segment standpoint, I still see ER&D cautiously optimistic if I may.

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

N Padmanabhan: I have two questions. The first is you had mentioned that you're seeing some challenges or caution in newer business lines and clients in start-ups. So, if you think about the business, is it a significant proportion of the overall business as a percentage?

Amit Chadha: No, it is not. Please read my comments more as that I was providing a generic commentary that see, when there is a start-up, again like I just said, number of payback time, etc., is a challenge. If I may say in another way, the era of free money is over. You have a paying customer; I have money for you. You don't have a paying customer or you have an idea, please wait in line. That's broadly what we're seeing.

N Padmanabhan: In that same context, let's assume broadly global growth does slow down quite a bit and then you contrast that with a shock kind of scenario that we have seen during COVID or GFC. If growth just slows down, and there's no shock, then how would you think about growth, do you think that's more beneficial versus a shock relatively?

Amit Chadha: See, it's all segmental, if you look at it. It varies, right, it depends. Even if growth slows down, even if oil prices come down to $80/Barrel, I do believe that Oil & Gas, CPG will continue to spend. They have longer cycle times, paybacks periods, etc., they will continue to spend. Chemicals will continue to refresh their businesses, b) People are looking at alternative energy very seriously. So anything to do with electric will continue to grow, which has impact on Auto, IP, etc., That's the part of sustainability if you like, c) autonomous is going to grow, whether it be autonomous robots, warehouse retrieving systems, you look at baggage handling systems, etc., because reality is that there is a labor shortage. So these three things plus telemedicine and governance around Medical, these are the areas that will grow. Aircraft traffic is back. That is not going anywhere, that will continue to grow. New design cycles will start. But there will be areas where there will be a pause, there will be a refresh, there will be a recalibration and we are seeing that on the ground. And when we had talked to you last quarter, when we gave you the guidance and we reconfirm today, we do see those continuing on. That is there.

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

Sandeep Shah: Just the first question relates to the top clients. This is second quarter in a row where growth within top-10 clients being lower than the company average. And Amit, just to reconfirm, relate to your comment is you are saying, the issue is more client-specific rather than industry-specific or segment-specific? So, are we seeing any clients specific issue in any of our top 10 clients?

Amit Chadha: Sandeep, I'd like to confirm to you that in fact rather than looking at revenue from top 5 or top 10, right, I would request you actually to look at my client profile and compare that. In Q1 last year, there was no USD 30M+ account. I've got two and this is LTM by the way. We do not share the picture of run rate in the current quarter, but we go LTM. But my run rate in the current quarter picture is a better picture than this picture on LTM. My USD 20 M+ clients grew by one sequentially and two YoY. I look at my USD 10M+ clients, three added in four quarters and in single quarter one, USD 5M+ added. So I would not worry about top five just yet. I've always said we're not a quarter-on-quarter business. We are a more longer-term business, medium-term business. Kindly please look at it next quarter, you will see some of this refresh. I will not worry about it. But I do understand where you're coming from. But I'm reconfirming to you and telling you, I do not have any client situation or issues. We did have one project in Q3. A significant project with a customer that we dropped in Q4. We told you about it at the end of Q3. And that's done and dusted. Beyond that we don't have any challenges.

Sandeep Shah: Just in this quarter, the employee cost as a percentage to revenue has gone up by 300 basis points. So what will be offset in tailwinds, which led to just a 30 bps kind of a margin decline as a whole? So I missed the margin walk. I got disconnected. Sorry, if I am repeating.

Rajeev Gupta: This is Rajeev. I'll take that question. So yes, we did see the employee cost go up 300 basis points in this quarter. And that's at the back of the investing in talent that continues, right, and this is a quarter where we see the full impact of the hiring that we've done in the previous quarters as well. The freshers that we've been talking around, we believe that some of this will start to yield benefit going into Q2. And also, that's an area where we think it's going to be one of the levers that will turn out to be more positive. In addition, we invest on certain accounts, right. And these have been recent wins, where we are building capability so that we're able to have these resources trained ahead of time so that they are able to deliver on to these new wins and accounts that we've recently won.

Abhishek: I will just add on to what Rajeev was mentioning. This is Abhishek here. There are one or two deals that we have won in the last quarter, which needs reasonable amount of investment before they start billing…I can't share the numbers with you. So the upskilling and training that we're doing for these resources will start generating revenue from mid-July to early-August. And that is the other reason why we had to invest in the talent and C&B as a percentage has been impacted to some degree. Also, this quarter, you would have seen we've not taken freshers. So our net headcount increase has more to do with laterals that we have hired unlike the last few quarters, because this is not the quarter where industry takes freshers anyway.

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

Abhishek Shindadkar: My first question is regarding your comments about challenges in Telecom, Hitech. Can you just elaborate, which pieces of Telecom are under pressure? And also, on the Hitech piece, is it because of the semiconductor disruption or are the product companies witnessing slower growth for them, which is driving their spending challenges? The second is just a clarification on the guidance per se. So, the last quarter guidance you gave, should we take that as a CC number and then assume what you gave which is the current guidance, which is an increase over the previous quarter? And the third question is again on the employee number. Now, as per the filings on BSE, employee cost is up roughly 12.5%, while as per the presentation it is up roughly 7%. So, the disconnect is largely because of the sub-contracting or how should I read that figure?

Amit Chadha: Sure. So, we will obviously answer it in the sequence it was said. So, if I look at Hitech, I'll divide that up into six sub-segments; there is Consumer Electronics, there is Semiconductor, there are Telecom operators, there is Media & Entertainment, there is Telecom infra and there is I want to call it platform companies or ISV companies. Now, as far as semiconductor is concerned, going well, gangbusters, no project pauses, design cycle is intact. As far as consumer electronics is concerned, there is a little bit of a pause, start, pause, start because China supply was not coming, what do they design unless they're able to get the product out, etc., There's been a little bit of a question being asked again in that C-area and not cancellations, but just delays in decision-making, etc., In Media & Entertainment, no pauses, no stops, we are seeing continuous project-after-project program-after-program. If I take Telecom operators and Telecom infra, I will lump it together and I will say that areas where 5G has been approved, things are going forward, where 5G has not been approved or people are trying to find paying customers, etc., there are questions. This is also the area where we bought Orchestra and we seem to be doing fine and expanding and building out account that could be in a USD 10M range in this space. Platforms is where we are seeing free money stop. And you've seen the news as well as I have and we've seen it in our projects, etc., that people are clearly questioning that will advertising come and should I invest in this particular sub-product or package. So Consumer Electronics and Platforms are sub segments is where there are questions. And if you ask me Telecom operators and infra was delayed in 5G, and we continue to see some pause, some stop, etc., certain areas, we're seeing 5G decisions. So therefore it's starting to pick up. So that's your answer on Hitech. Again, I am not saying doom and gloom, I'm just saying, there's a question asked, is there a paying customer, who's paying for this in the room. That's coming up. Also, a lot of these companies had overhired their own staff, not our work. So, they're pausing to see whether they want to do it or not. Yesterday, one of the GAMMA companies came out and said that they will fire 1,500 people, but will hire in a different technology area. So technology refresh, technology reassessment is happening. That is question number one. Question three on employee cost. Rajeev will answer. The second one on guidance. I want to say it unequivocally our guidance in reported currency is at 13.5-15.5%. If I was to take currency base at Q4 FY22, then please read our guidance as 14.5-16.5%.

Rajeev Gupta: Let me take the question on the employee cost and I will guide you to look at the investor release. When you compare between the investor release and of course, the financials that have been shared on the SEBI site, this is really on account of the ESOP cost that have been issued to the senior management. In the investor release we classify ESOP cost under SG&A. So that's the primary reason why you're seeing the difference. I hope that clarifies, Abhishek.

Moderator: Next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: I had a question. I mean, in your opening remarks you mentioned, you're having some conversations with the clients particularly to the next year and clients are getting slightly cautious. If you could throw some more light as to what exactly are these conversations, that would be helpful? And second thing was how are you seeing spends particularly on the automotive side of the things specifically on the EV and self-autonomous, have the global spends still continuing or should there be a question over there?

Amit Chadha: So let me give you some excerpts of conversation that has been happening with our clients. So no names, but I will tell you some of the excerpts so you can get an idea. 1) "COVID-19 is there but not prominent anymore. We know it's there, but we have learned to live with it" - Multiple CXOs. 2) "The great resignation era looks to be easing and we are relooking at our talent mix." - this is from the CXO of a Hitech customer. 3) This is from VP engineering of a big three auto company – "The chip situation will improve throughout 2022 and hopefully stabilize in 2023. 4) This is from the CFO of a large Medical company. Our customers continue to buy, but will start trading down." 5) Next one is from an Industrial Products company CEO – "Product lifecycle is getting shorter. Going digital is good for us. We have discovered new markets and will continue to expand leveraging digital technologies." 6) Now, this is from an auto tier-1 CEO, not an OEM, but a tier-1 CEO - "We are optimizing capex. Need to prioritize where we invest in, where we can wait. Electric and Experience will be the key differentiators for car buyer to the future." 7) Finally, it is from a Telecom infra customer's CEO – "Everybody needs faster reliable networks, but we need paying customers." So this is some of the verbatim lingo that we are hearing. I told somebody earlier today, I don't track the number of meetings our senior management does with our customers or the number of clients visiting us. I can assure you year-on-year that number of clients visiting us and our CXO level meetings has gone up more than 150% YoY. Last year people were anyways not traveling. QoQ, we are up by about 35-40% in terms of meeting and interactions. So, I want to confirm that there are interactions, I want to confirm there are conversations, I want to confirm there is ideation, idea generation, etc., Again, net-net, if I summarize the whole thing I'll say proceed with caution. That's the net message I'm getting. But proceed, surely proceed. Now, let me go to automotive. There are four areas that we are seeing spend areas. One is electric. And that is not fully electric - hybrid electric is happening. Second is autonomous and parts of autonomous. I do not believe there will be a complete highway there are only autonomous cars and we all are reading newspapers. I think it's a little far-fetched. Third, connected, there is definitive conversations. In fact, one more thing happening is people are talking about V2X. That is will the vehicle generate as it runs and pass back electricity back to the grid. And will that help in terms of paying for the cost of the car. The last thing we have seen differently which was not there two quarters ago is people are pulling us in and talking about cybersecurity and cyberattacks on the car. There is a certain customer I have; he's actually pulled us in and expanded. And these are not huge teams that you expand with. But there are high caliber people that are working with one of our clients on a certain model year and model of sedans of a European customer, who says that I feel that these set of sedans will get hacked and somebody will come in and create problems on the GPS system. Please come in and see what you can do to tighten it. So, cybersecurity is a fourth area that is getting a lot of traction in this space. So that's broadly I hope I've answered. People are talking about electric in Off-highway, backhoe loaders, skid steer loaders, etc., People are talking about electric for boats, partly electric, eVTOL we've talked about last time, that continues to happen.

Mihir Manohar: Just one last extension to it. With the aspiration that we have of USD 1.5 Billion by FY25, does it give you the confidence in the order book and turn out to be cautious given the evolving situation?

Amit Chadha: Thank you so much for asking that. I'm reconfirming USD 1 Billion dollar run rate either in Q2 or Q3 of FY23. Second, I'm reconfirming our aspiration to be at USD 1.5 Billion run rate by FY25 in any one of those quarters.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: Can you give a little more detail on our hiring plan and how are we finding it difficult to hire lateral talent the way which is required for our company?

Amit Chadha: I wanted one more point to make here… and before that Sandeep or Nitin had made a point, six big bet areas that we had taken EACV, 5G, Digital Products, AI, Med-Tech, Digital Manufacturing, Sustainability. We are seeing continued traction in that space. In fact, one report I talked about that has come out, that actually talks to it with the digital going up. And the way we are seeing it go, we believe that these are very relevant. We are actually really fortunate that our teams and I would compliment our engineers, our leaders that came together to create these bets. They were not top-down, they were bottoms up. In fact, happy to share, a senior customer from one of our top 10 clients came to talk to a bunch of us in Chicago about two months ago. And four of the six bets that we have aligned with his bets. So, our sales team turned around and said that we are so pleased that we have heard our customers, and my response was, we heard our customers, we heard you, and we culled it bottoms up. So, I did want to share that it was a good moment for me personally, professionally to share it. Now, your question was hiring. See, our hiring continues to happen. Please remember that we took 3,000 freshers last year. We will take a similar number of freshers this year. 2,500 offers are already out. But we will do a mix of laterals and freshers as we move forward. We are looking at inclusive growth. So that will happen. Abhi, would you like to add?

Abhishek: Yes, just to add to that, our fresher strategy of course will continue, but also our upskilling, reskilling strategy on which our entire talent upgradation is built on, will also continue because that is what we think is a core, I mean, the solution is not to keep hiring people from outside at the cost of people inside. So, we will continue to invest in the people in our company in a very focused manner.

Amit Chadha: In fact, I don't want to say, but I will. I don't listen to Pinku often. So yesterday, ET has given us the gold award for our global training engineering academy. It's a very proud moment. And our head of global engineering has been awarded the silver award for the work done, I would compliment our leaders, I would compliment Abhishek for believing in it and bringing it as he came on as COO. That is one of the first things that he institutionalized. So I do believe that this retraining, upskilling, side skilling is there to stay. And I'm really truly grateful to the work that's been done in this area.

Bharat Sheth: How big is the offshoring opportunity the way if our business keeps on maturing, our delivery capability improving?

Rajeev Gupta: I'm going back a few quarters, right, and this was during the COVID times where of course the working model dramatically changed. We believe some of that model is getting reset now. And with that we believe the offshoring at least from our perspective would be in the range of 57% to 58%. We're at about 56%. I believe there's an opportunity to improve by another 200 basis points. And that's at the back of the fact that a lot of large deal new wins, the initial part of that project gets kick started onshore and then moves into offshore over a periodic basis. And hence, I believe that it'd be more in the range of 57% to 58% going forward for offshore.

Moderator: We take the next question that is a follow up question from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Rajeev, just wanted a clarification. You mentioned, three of your verticals have seen profitability improvement. If we look at just the segmental level profitability, it's at all-time high, but you had a meaningful increase in unallocable expenses this quarter, leading to a margin impact. Can just help us make some sense of it, because there was a sharp jump versus last quarter and it is among the highest in last many years, how should we look at it going forward, and is there something which can improve kind of give you some buffer for next quarter wage hike?

Rajeev Gupta: Thank you so much, Mukul, for putting up this question. I should have highlighted it earlier. So really when you see that unallocable expenses - that sharp increase, I briefly mentioned, but I'd like to clarify, I mean, this is essentially the ESOP cost to the senior management, and that as I said, we tend to classify under SG&A. And when you look at the segmental margin, it is under unallocable expenses. So, that sharp increase you can attribute to the ESOP cost specially issued to the senior management.

Mukul Garg: So, will this recur or this is a one-time?

Rajeev Gupta: This will recur; this is something that you see from Q1 onwards and it will continue going forward as well.

Moderator: Next question is from the line of Sandeep Shah from Equirus. Please go ahead.

Sandeep Shah: Rajeev, just a follow up in terms of Q2, the wage hikes will be due and you said it would be compensated through the growth and the operational efficiency. So, are we expecting we can compensate the total headwind of wage hikes through these tailwinds?

Rajeev Gupta: So, Sandeep again, appreciate the question. So, again, it's something that we see every year, the wage hikes are in Q2. Now we believe as these wage hikes come into being in Q2, we will have levers like growth, quality of revenue, of course, we've seen productivity improvement, operational efficiencies and economies of scale. So we will do in terms of the same counterbalancing, but the fact is that there may be a possibility that not entirely gets absorbed and that's one to see in terms of how we see the quality of revenues panning out in Q2.

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

Pinku Pappan: Thank you all for joining us on the call today. We hope we're able to answer most of your questions. If you have any follow-ups, please feel free to reach out to me. Well, with that, it's a wrap, I wish you all safe times and have a great day. Bye-bye.

Moderator: Ladies and gentlemen, on behalf of L&T Technology Services Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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