L&T Technology Services
Q2 FY22 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day and welcome to the L&T Technology Services Q2 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pinku Pappan – Head of Investor Relations, LTTS. Thank you and over to you, Sir.

Pinku Pappan: Thank you Faizan. Hello everyone, and welcome to the Second Quarter FY22 earnings call of LTTS. I am Pinku, Heading 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 in stock exchanges and are also available on our website www.ltts.com. I hope you have 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 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, and thank you all for joining us today on the call. We hope all of you are safe and healthy and things are improving. In fact, I am in our offices in Mumbai & visiting our centers later this week in India, and in the next week. I do believe this is a sign of returning back to normalcy, whatever normalcy is now defined as.

As you may be aware, on September 23, 2021 we completed five years as a publicly listed company. I and the management team of LTTS would like to acknowledge and thank you for your continued confidence in us.

During Q2 we held our Investor and Analyst Day where we outlined our vision and steps and strategy to get there. We also talked about our six big bets - in the areas of electric autonomous connected vehicles, 5G, Med-tech, digital products and AI, digital manufacturing and sustainability. I am happy to share with you that we are progressing well in terms of deal traction, pipeline and solutions in these areas.

The key highlights of our Q2 performance are - in USD terms we had a sequential revenue growth of 6% in constant currency terms driven by healthy traction in digital across all our five segments. This was the highest quarterly growth we notched up in the last three years period. Our broad-based growth was accompanied by a rise in EBIT margin which at 18.4% is the highest we have reported. The large deal pipeline and conversions remain healthy - in Q2, we won nine deals across all segments, out of which five deals were 10 million plus and 2 deals 25 million plus.

Let me now provide the segmental performance and outlook to you. Starting with **Transportation**, we had a sequential growth of 6.2% led by good demand across all three sub-segments- Auto, Trucks & Off Highway and Aero.

Auto companies are going through rapid transformation and we are partnering with them in the areas of Electrification and Connected vehicles. We are ramping up with the traditional OEMs and Tier-1's, but also deepening our engagements with some of the new age names on the EV side. In Trucks & Off Highway too, we are seeing customers modernize at a high speed and we are winning deals in electrification programs - across product categories like Trucks, RVs, off-roaders, etc.

Our EV Lab based in Bengaluru backed by end-to-end domain expertise is generating a lot of interest with customers and is helping us win larger deals. In Q2, we won a 25 million plus deal to expand an Auto customer's design center in India and create a dedicated technology hub to work on EV and Power Electronics. Switching to Aero, we are seeing signs of a recovery with the deal pipeline steadily improving as customers invest in connected solutions and data analytics to provide and improve operational efficiency.

Summing up, we expect the growth momentum to continue in Transportation across all three sub-segments.

In **Plant Engineering**, we had a good quarter with 4% Q-on-Q growth driven by Oil & Gas and FMCG, followed by Chemicals. In Oil & Gas, we continue to win new engagements with major Oil & Gas customers as their global partner for site sustenance and digital engineering. In FMCG, the traction continues with wins for us in the areas of automation, line expansion and sustainability.

In chemicals, we are seeing EPCM services opportunities as the capex outlook improves. Overall, for Plant Engineering, we continue to see a good set of opportunities that will drive growth in the coming quarters.

For **Industrial Products**- we had a second consecutive quarter with 8% or more in Q-on-Q growth with all three sub segments showing good growth- Electric, Machinery and Building automation. The trend for platformization, servitization continues as customers invest in software platforms to improve their own products and to extend better features to their end customers. We are seeing broad-based demand for Collaborative and Intuitive products leading to digital initiatives like digital twin, analytics and AI led decision making.

Customers are opening up to engaged partners like us leading to continuous wins and deal flow. We expect Industrial Products to be one of the fastest growing segments this fiscal.

In **Telecom and Hi-Tech**- growth was a bit muted with Semcon and Telecom Infra growing well although there was some softness in media due to delays in project renewals and ramp ups. In Semi, Lab-as-a-Service continues to expand as we ramp up some of the recently won engagements.

As 5G deployments happen, investments are being made by companies across multiple segments - Computing, Communications, Consumer electronics, Satellite-based/Streaming Providers, Semcon, etc., to build newer products and platforms. In Media, we won a $25mnplus deal to build a software platform for a new customer that partnered with us to accelerate time to market. Overall, we are seeing demand and expect growth traction to improve in the coming quarters.

Lastly in **Medical**- Medical has shown a strong bounce back in Q2 with nearly 10% sequential growth and I am happy and proud to share with you that our youngest baby and vertical has crossed the $100 million annualized revenue run rate milestone. This is a testament to our deep domain knowledge, our differentiated solutions, our amazing leadership and teams that have helped us gain market share and become strategic partners to our customers.

In terms of demand, we are participating in building software platforms with digital health, robotic surgery and patient monitoring as well as quality assurance and compliance. With supply chain issues in chip and electronic parts affecting our customer's ability to meet demand we are also helping them resolve the problem of designing alternative components. Overall, we do see a good pipeline of opportunities in medical that will help continue the traction.

Now a few highlights on our Digital Engineering and Technology progress. Our Digital Engineering revenues were 55% in Q2 versus 54% in Q1, we see this trend continue. On the innovation front, our engineers continue to innovate and filed 25 patents in Q2. Our patent filings have been largely in the Collaborative and Intuitive spaces in Digital. This past quarter also saw us being ranked by ISG as a leader in *IoT consulting and services* and by Zinnov as leader in *Autonomous, Connected, Electric and Shared Mobility Automotive engineering*.

Related to our overall talent scale up, we have substantially increased the fresher intake - which in addition to optimizing the pyramid, will also help us tackle attrition. Leveraging the Global Engineering Academy that was set up by our COO earlier last year, we have tied up with top universities to source and proactively train talent so that they can be productive faster. There will be a bump up in headcount growth in Q3 and Q4 as these freshers are inducted in the company.

Let me now discuss the **outlook**: The demand outlook in US and Europe continues to be strong while ROW and India are seeing signs of recovery. In our conversations and recent face-to-face meetings with customers, we are getting positive signals on CY22 budgets as CTOs, COOs, Heads of Engineering, etc. want to partner with us as they invest in growth and transformation.

There are worries however, about the current supply chain issues, labor shortage and cost inflation. At this point of time, it is not clear if these worries are temporary or they could stretch for a longer period, but it is something to be watchful about and that we are monitoring closely.

Q3 has some seasonality on account of furloughs and shutdowns. We believe broad-based growth is likely to continue and any furloughs beyond normal are likely to be specific to certain customers rather than across the entire segment. As we cross the fiscal half year mark and with the benefit of better line of sight, I am happy to raise our revenue growth guidance for FY22 in USD terms to be between 19% and 20%.

Finally, to celebrate the five-year listing milestone, the company has declared a special dividend of Rs.10 per share. I wish you all and your families a very Happy Diwali in advance and would like to now hand over to our CFO, Rajeev.

Rajeev Gupta: Thank you, Amit. Greetings to all of you. I hope you and your families are keeping safe and healthy. I am pleased to share a strong Q2 performance with healthy improvement across all parameters. Revenue, EBIT margin, PAT, and free cash flows.

With that, let me take you through the Q2 FY22 financials.

Starting with the P&L - our revenue for the quarter was Rs.1,608 Crores, a growth of 5.9% on sequential basis. Our double-digit YoY growth trajectory continues with Q2 revenue up 22% on Y-o-Y basis. We touched a new high on EBIT margin at 18.4%, making it the fifth consecutive quarter of operating margin improvement. The 110 basis points sequential improvement in EBIT margin to 18.4% was driven by firstly, operational efficiency measures including productivity improvement and cost optimization that help to absorb mid to senior level wage hike impact. Secondly, scale benefits realized from account mining driven growth and thirdly favorable depreciation and amortization as a percentage of revenue.

Moving to below EBIT- other income was lower on sequential basis due to reversal of SEIS accrued income taken in FY21. As you may be aware, the Government of India recently notified FY20 SEIS incentives, which have now been capped at 5 Crores. FY20 SEIS incentives were accrued in FY21 as per the then prevailing incentive rate of 7% hence the need for reversal. However, we could partly offset the SEIS reversal with higher forex gains resulting from appreciation of rupee against dollar, which moved in a range of Rs.73 to Rs.75 during the quarter. Going forward, income from SEIS incentive will not be material for LTTS anymore.

Our effective tax rate for Q2 was 26.6% - flat on a sequential basis and in line with our full year ETR expectation of between 26.5% and 27%. Net Income for the quarter stood at 230 Crores which is 14.3% of revenue and up 6.4% on sequential basis driven primarily by higher revenue and operating margin. Now moving to the balance sheet, let me highlight key line items. DSO was 85 days end of Q2 remaining flat versus Q1, While unbilled days improved to 15 days in Q2 compared to 27 days in Q1. The combined DSO including unbilled stood at 100 days which is an improvement versus Q1, but slightly above our target range of less than 95 days. We expect further improvement in the coming quarters.

Talking about cash flows, because of the improved DSO in Q2, our free cash flow also improved to 423 Crores for the year-to-date - a healthy 95% of Net Income. Our cash and investments rose to 1,958 Crores end of Q2 FY22. Amit already talked about the dividend. I am once again pleased to share that the board has declared a special dividend of Rs.10 to celebrate five years of LTTS listing on the stock exchanges.

Moving to revenue metrics - on a sequential basis dollar revenue growth was 5.7% in reported terms and 6% on constant currency basis, with all five segments growing as highlighted by Amit. Growth was led by Industrial Products and Transportation segments. The segmental margin performance was better in three out of the five segments on a sequential basis with Transportation and Telecom & Hitech continuing the path of improvement for the past five quarters consecutively.

Now let me comment on operational metrics. Utilization reduced slightly to 78.1% because of strong hiring undertaken to fulfill demand and to improve pyramid. We target to maintain utilization within the 78% to 80% band. The onsite:offshore mix continues to improve favorably towards offshore at 59.2% versus 58.1% in Q1. The T&M revenue mix increased to 70% in Q2 and is likely to stabilize around these levels. Client profile, which is the number of million dollar plus accounts, showed a sequential improvement in all categories - 1 million plus to 30 million plus. As we indicated in the past, owing to the LTM nature, the client profile numbers have started improving from Q2, this trend will continue in the coming quarters.

Moving to client contribution as a percentage of revenue - here again on a LTM basis the improvement is visible in top 5 and top 10 clients. Headcount increased by 1,011 employees sequentially, while attrition moved up to 16.5%, which is now an industry-wide trend. We are proactively taking various employee engagement measures to contain attrition.

Our realized rupee for Q2 was around Rs.74 to the US dollar, a depreciation of 0.2% versus Q1. Before I end, let me give some color on the EBIT margin trajectory we see going forward. During our Investor and Analyst Day held in September 2021, we shared our aspiration to reach a $1.5 billion revenue run rate and 18% EBIT by FY25. While we have achieved EBIT of 18% plus in Q2, there are a few headwinds that we will have to manage. First - with improving economic recovery, we anticipate that temporary savings from Travel and Facilities related spend could gradually be given up in the coming quarters. Second - the current demand environment may lead to slightly higher than normal headwinds from attrition and wage hikes. Finally, we plan for organic and inorganic investments to support growth. Therefore, the margin trajectory is not going to be a straight line. Having said that, our aspiration is to move towards a sustainable 18% EBIT margin level by FY25 and we see a path to reach there. We will continue to work on improving operating margins using levers like growth, quality of revenue, and productivity improvement.

As I conclude, I would like to thank you all for your continued belief in us and wish you all a happy festive season ahead. Moderator, we can now take the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: Good quarter guys. Amit, just two quick ones from my side. First on the attrition side, your attrition performance this quarter clearly was much better than what some other Indian IT Services companies have reported over the last few days, but have you seen any cancellation or loss or probably push out of some of the business to third quarter which is giving you the confidence in your growth trajectory despite the furloughs which are coming up in the December quarter?

Amit Chadha: You had two questions. So what is the second one?

Mukul Garg: Second one was on the margin side - 18.4% is a fairly sharp pickup do you expect to continue to benefit from operating leverage in Q3, Q4 also or do you think your hiring plans over next two quarters will kind of bring it down from current levels?

Amit Chadha: Let me address the first one and I will request Rajeev to take the second one. So the first one on attrition, I do want to acknowledge, Mukul that it has been a tough time for us. On one side we have had deal wins and the curated vision that we had created for ourselves around six dimensions and six bets has got traction and we have seen deal wins happening therefore and solutions being there. At the same time there has been attrition. I want to complement the work done by our middle management across delivery organization, sales organization to manage some of this and I can share with you proudly and humbly that we have not had client cancellations because we lost people so that does not happen but yes, I mean, could we have done, could things have been more, had we had lesser attrition or if we would have been able to hire faster , there is always that plus and minus that continues to happen we have to be mindful we do not want to hire in advance to demand so much that we get into a problem. So there should be a balanced view to find and we have worked in that balance that is number one. Number two is from a hiring standpoint I want to confirm that we have gotten aboard 1,200 freshers in the last two quarters and we are going to be taking another 2,000 freshers in Q3 and Q4 loaded largely towards Q3. So you will see Q3 head count going up from a fresher standpoint. If you remember, Mukul we had set up a global engineering academy or training academy. It was done by our COO last year, that has come into good use. From one side our CHRO has done an amazing job in widening the net to colleges that he has been able to get and people he has been continued to get for us and ramp up a lateral hiring engine in the US, in Europe and in India and Japan and on the second side the head of training academy as well as all the business units heads have really taken advantage of this global engineering academy to take people in, keep open minds and then starting to deploy them. So, all of that if you ask me is going to help us as we move forward into the year. Again, do I have all the answers? No, but we continue to work around our axes to see how we get there. Margins - Rajeev will comment.

Rajeev Gupta: Mukul in terms of margin I think your question was, will we continue to see such a sharp spike going forward?

Mukul Garg: Rajeev, it was of about like in another Q3, Q4 should see a moderation versus Q2 because of the new hires coming into the system?

Rajeev Gupta: I would call out of course the tailwinds and the headwinds which is of course where we have got to balance it out so one in terms of growth and the quality of revenue is going to be a major lever in terms of improvement on margin. Also, that will lead to economies of scale like we have seen in Q2. The second is if you look at productivity improvement and that has been one of our consistent ways of improving margins that is another area that we will continue to look at. The third is around the segment mix. We talked about improving margins on transportation segment and telecom & hi-tech segment. Transportation, we are now in the range of 19% plus margins, telecom & hi-tech has also started to show improvement. We believe we have got further headroom around telecom and hi-tech and that will show improvement in the coming quarters. So, these are some of the tailwinds that we have. In terms of the headwinds, like I said in my opening commentary, there are going to be of course challenges to deal around attrition and there could be wage hikes that we will have to deal with in the coming quarters and that is going to be a balance to strike. The second is there could likely be inorganic investments that we make to support growth and finally we may see travel come back in the coming quarters not in entirety but it will gradually start to show up so that is where it is. We will balance this out to be able to see how best to manage this operating margin trajectory.

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

Pankaj Kapoor: Thank you for the opportunity. Amit, my first question to you on the longer-term outlook for the growth, near-term we have a very strong visibility and that is reason why you have taken the guidance also up but if I just try to extend it further, what are the typical markers one should look at. Your deal win is good but it is broadly in line with what you have been doing so anything else which I should be looking at to take a view on how the revenue growth could be say on 23-24 onwards?

Amit Chadha: Pankaj, longer-term our business is built on consumer demand, it is built on if products are consumed if products are manufactured - we are in business and that is what is the basis, that is one. Second when the demand patterns shift or there is flux if I may call it in the market or in the demand, it is good for us, it creates opportunity. So as I see it today I will share the tailwinds that I am seeing right and then I also share the headwinds very honestly. So the tailwinds I am seeing right now are around in transportation there is demand in electrification in auto, in trucks as well as connected vehicles and I am starting to see electrification conversations in aerospace, so that is one. Second, in medical, I am starting to see people talking about home care, miniaturization of devices, bringing things, making it easier for a patient to do a lot of self-diagnostics, etc. telemedicine. So that is the second that I am seeing as a tailwind. Third industrial products we continue to see demand for digital products, digital services, digital engineering, if I may, and digital manufacturing. So, there are three clear areas. Now let me come to the not so (or for us) right and others could be different. In Plant, people are starting to talk about new capex, oil companies are talking about upgrading stuff, etc. but then money has yet to hit the market, one. People talk about sustainability across, but that money is still to hit the market. Third on telecom

5G has been a buzzword for a very long time, but money still has to start flowing like it is flowing in transportation today. So that is where it is digital manufacturing, digital products we continue to see around connected, collaborative, intuitive, we have talked about it I would not spend more time but it is moving towards intuitive and collaborative. Finally the headwinds and I called it out in my remarks as well is that today if you look at CEOs of large companies and our customers that I have been meeting in the last few weeks and talking to Chief Operating Officers their mind space is clouded and they are thinking about supply chain a lot more than they used to. So that is one thing I don't know how it will play out. So, longer-term I am reiterating what I had said in our IAD, Pankaj, that we are confident to get to 1.5 billion dollars in FY25 as a run rate so that still stays and we will continue to update you we will continue to talk on how things go forward.

Pankaj Kapoor: Thanks to this Amit. That is very helpful. Just one clarification - do you think that there was some pent up demand this year which of course while it structurally things all remain good, may probably normalize next year?

Amit Chadha: Pankaj, very clearly we have been looking at quarter-on-quarter growth rather than annual because last year was a very low base. We all know we had a bad year so we are looking at sequential growth is how we charge our teams internally on, though they look at long term for solutions which is a two to three-year period, service offerings are like annual and then performance and execution is quarterly. I would be fairly comfortable at this stage to say that maybe there was a little bit of pent up that was there earlier but I do see this demand to be there for some time.

Pankaj Kapoor: Thank you. That is very helpful. Just one small bit how many of your employees are now back in office.

Amit Chadha: Thank you for asking that. We have got about 26% of our employees that are back in office. There is no formal mandate or dictate to come back. Our HR, our delivery teams have worked and function teams have worked very carefully to make sure that we make it a safe working place and we are nudging people to come back. I do believe longer term because before you ask that so the way we are modeling this is I do believe that once we have passed these waves and all that I do believe that you will get back to about 80%-90% back to office but that is where you will be. Smaller cities like Baroda, Mysore will go to maybe 90%, bigger cities like Bengaluru and Mumbai will go to 80% that is where it will be. I do not see 100% coming back but we are at 26% right now and our focus is not to get people back in office. Our focus is to make sure people are safe, people are vaccinated and once we get them completely vaccinated we will start prodding people to come back further. Just last point we lead from the front, so I am going to be in India. I am in India already. Our offices in Mumbai this week and Bengaluru, Mysore, and there are leaders that have traveled from overseas plus the leaders that live here who are traveling to other locations so we are trying to lead from the front and create this effect that it is safe to come back, if we are here you can come back as well. We are not making big, tall claims, nor do we want to make any press releases about this, we will work it in our way but we will get it done.

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

Vibhor Singhal: Congratulations on great performance yet again. Amit two questions from my side; one is just wanted to pick your brains on the auto segment. I know you have already talked about it at length but just wanted to check basically on the auto segment - has there been a difference in the kind of engagements or in the kind of demand that we have seen pre-pandemic and post-pandemic in the kind of nature of work or let us say a more shift towards the electric vehicles part or has that got transferred up so any changes that you might have seen in the auto segment which is potentially different from the pre-pandemic levels? My second question was on an interesting number that I just wanted to pick your brains again on is normally, fixed price contract share of our revenues, that number has actually been coming down over the past few quarters and at the same time of course our digital share of revenue has also been increasing so is this just a correlation or a causation here that is leading to a higher T&M in terms of what percentage of revenue it is or isn't there any specific reason that for the fixed price contracts coming down?

Amit Chadha: Let me address this question in three ways, one I am going to talk about the overall pre-post on auto. I will request my colleague, Abhishek who is here to talk about some of the solutions that we are building that is helping us in that journey and then Rajeev will pick up the FP and T&M. So auto segment pre-post, I will tell you one thing that happened was and immediately knee jerk the moment the pandemic hit which was March, April, May I was talking to the Head of Engineering and the Head of one close friend who was Head of Engineering and Supply Chain and he was saying I do not see nos coming back for the next three years. I do not see that, and immediately they stalled, they stopped these engineering development programs or delayed it and that is where we got hit and they said we do not know whether we will sell or not, that was pre-pandemic or in pandemic, pre-pandemic there were projects they always as you are aware the design cycle is only about so if they want launch something in three years they do the engineering now then it goes through whatever, whatever and we get engaged in that three-year prior period to what you see coming out right two, three years so pre-pandemic is continuing. Also the amount of discussion on electrification and autonomous level discussion, infotainment there was a lot of discussion but electric as well as autonomous there was conversation but not a huge amount of conversation…come post pandemic or we are not even post pandemic I am saying post April, May, June. The moment they realized that people were not stopping from buying cars, actually people buying more cars because now they wanted their own ride, they did not want to sit in the bus, they did not want to sit in a train so they saw that happening immediately the conversation shifted to how soon can you start getting stuff done (a), (b) the amount of conversations and the amount of work that we are getting now in electric and connected area is there is a huge demand that we are seeing right now and everybody wants it like yesterday. There is an adage that we use in consulting language it says hurry up and wait. So, it has been the other way around where we have had to it is all of a sudden and we are working towards it and that is part of the training etc. we are doing. Second part of it that we have seen is solutions that we have built on especially EV and I am going to request Abhi to spend a couple of minutes about it and then we will hand over to Rajeev on FP and T&M.

Abhishek: I think what we could have done on the automotive sector especially with regards to investments over the last I would say one and a half years is paying us off very well. We did investments in two segments one is internally we have structured ourselves by practices - powertrain practice, connected, autonomous, body engineering, vehicle electronics and each of these practices are very clear detailed plans on investment areas. I will just touch upon the EV front which is something which is giving us great returns over the last few quarters. So, we have a EV lab which we have spoken of in the earlier quarters in which we invested quite a bit of money during the COVID times to set up this lab. What we have also done now is, we have a complete electric car we have developed. Now when we say electric car development, it is not about getting into the car segment but to demonstrate our capabilities on every element of what goes into electric car. The battery management system is our technology, the cable wire harnessing that has been done is ours, the vehicle control unit, power distribution unit every component that you can think of an electric car is something that our engineers have developed in-house and we continue to enhance this, in fact even the connected part of the car where we have Alexa integrated in the car and Alexa takes commands to start, stop various elements of the car unit is something engineers have done so I think the way we are going about it is we are keeping ourselves ready to demonstrate capabilities to our customers and Amit spoke about from business front 6% growth quarter-on-quarter and I think this journey will continue, we are seeing extremely good traction.

Rajeev Gupta: Vibhor to answer to your question around the T&M mix, I think I have already touched upon it in my opening commentary. I mean we are seeing the incremental signing happen on the T&M side and this is more so because when there is a greater share of let us say new technology or a generational leap in product or processes that customer is undertaking, we are seeing more of T&M kind of contracts being signed for example use of scrum methodology. Our take is that we will be in this range going forward as well, Vibhor.

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

Abhishek Shindadkar: Thanks for the opportunity and congratulations on a great execution. My question is generally the perception was ER&D firms have to have employees in office but if I look at the offshoring mix we are almost now at 60% so is this a structural shift in terms of clients engaging ER&D firms and that offshoring can increase further that is first question and the second question is on the margins what could be the key reason for lower than company average margins for telecom and hi-tech is it that it is more onsite driven business because we are not yet anywhere close to the peak margins and how much of that is a lever in the margins going ahead?

Amit Chadha: Abhishek, the way we are seeing this is that all our customers, so I am not talking about ones that we do very small business but our top 30 or next 20 customers they have almost treated our employees as their employees. There is a new thing called envelope of health safety …HSE envelope what HSE envelope means is Abhishek that whatever they do to their employees they want it done to ours that is how they want to operate this is the principle. So if they do not have their employees coming, they do not want our employees coming to office and they have gone through great lengths and I thank our customers and our partners, and I have done that, where they are enabling this work from home so we have been thankful to them for having enabled that. Having said that, short-term you have seen offshoring improve, you also know that countries that shut down their visas etc., etc. we were not able to fly people in …recruiting locally blah, blah. I do believe that a little bit more offshoring could happen, I mean that has to be seen how things develop because the point is a lot of behaviors have changed over a period of time let us say all of a sudden one day COVID goes away …then how will people behave. I do not have that answer. But I do believe that whatever offshoring has been achieved is something that is sustainable and we will work to see as to how this can further go in a direction etc. (a), (b) what we have done in terms of this is to make sure that we have been able to so, you again said engineering cannot be done remotely that is not correct because yes there are some mechanical pieces of work there is some embedded work there is some plant engineering work that needs machines, that needs people in offices but there is other stuff that can be done remotely, which is being managed. Again, do I have a golden bullet of answer for this answer is no we will continue to work on this. On lower telecom margins, I will hand over to Rajeev to address.

Rajeev Gupta: So Abhishek in terms of the lower margin on telecom & high-tech I think this is something that we have called out in our earlier earnings calls as well. There were two segments that we were consciously working in terms of improving margin - one was transportation, second Telecom Hi-Tech. Transportation, as you may have noted over the last two quarters consistently, we are able to see improvement in margin and largely that is driven by growth and also optimization measures. As far as Telecom & Hi-Tech we made conscious investments in Telecom & Hi-Tech and that also follows from the fact that we did the Orchestra Technology acquisition in Q3 of last year. So some of these investments have been deliberate. I may also call about investments in 5G. What we believe I think those investments will now start to yield benefit so the margin trajectory for Telecom has started to move on the positive side. We believe in the coming quarters it will be even better than what we see.

Moderator: Thank you. The next question is from the line of Vimal G from Union AMC. Please go ahead.

Vimal G: Amit my question is just wanted to pick your brains on industry growth for ER&D especially. Over the past one year you have seen this industry take two rounds I mean we come up from Q1 FY21 till today in this one and a half years have you changed your view or have you increased we have really seen growth increase for LTTS but do you see this for the industry as well or the growth rate for this industry have pretty much remained where they were expected to be over the longer period and you expect LTTS to sort of ultimately gain market share and that is where the increased growth for LTTS is coming from?

Amit Chadha: There are two things here Vimal. One and I will refer to data from people like Zinnov and IDC and market analysis they have done. So they are talking about that the engineering industry in 2020 was at about $1.5 trillion - Broadly about a trillion dollars in legacy engineering, about $0.5 trillion dollars or $500 billion dollars in digital. Now if I look at a view on say 2026, so I know that one of you also talked about a longer-term view so if I look at that, the expectation is that this $1.5 trillion will go to $2.6 trillion. The legacy will only grow at about 2% but the digital will grow at about 19% CAGR. Now all of this cannot come to people like us it will go to captive centers, it will go to people like us, it may go to Eastern Europe etc., but broadly there is an increase in engineering spend that we expect to come up. Second part, and this is also going to come out in different verticals. So, be it transportation, be it industrial products, be it medical and health, telecom, hi-tech, so each of these will have their own trajectories of growth in engineering spend be it digital, be it legacy and some digital may also start getting called legacy tomorrow. The second part is of the digital part itself we expect that… so if you broadly break up, if I may, digital into connected, collaborative and intuitive three packets and where today 60% of the digital spend is getting into connected people are still connecting stuff and intuitive may only be 5% if you look at $1.5 trillion when it gets to we would expect connected to only be at about 30% with the majority of the spend going into collaborative and intuitive. So I do think that there is avenues of growth that is there from a spend standpoint. From LTTS standpoint there are five segments that we have agreed to work on and there are four horizontal areas that we work on that we have talked to you about and we believe that as long as we can continue to build solutions as long as we can continue to remain agile, think long-term plan medium-term execute short-term. I do believe we will continue to gain market share in the market in specific areas.

Vimal G: Fair enough. Thanks a lot and all the very best for the rest of the year.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: Thanks gentlemen for giving me the opportunity. Amit, the starting hypothesis for most of us analysts and investors is that growth rates in ER&D tend to be higher than in IT services. But if we look at the FY21 performance and FY22 performance… expected performance rather of LTTS and kind of benchmark it with some of our services, IT services companies a couple of our sister concerns so on and so forth clearly the growth differential seems to be very wide for FY22 now this is despite the fact that FY21 has not been a very bad year for some of them like it is for us so on a two year CAGR basis if I look at we are running close to around 8% FY21 and FY22 and this comes on top of FY20 which is also which was also a weak year. So just trying to understand your perspective around is anything changing in this cycle in terms of the expectation around whether ER&D growth rates can be higher than the top IT or will goes be lower than the top IT that is my first question?

Amit Chadha: What is your second question?

Sudheer Guntupalli: Related to same again we are running at around 8.5% sort of CAGR for the last two years despite FY20 being very weak and I think referring to one of the earlier questions from Pankaj there would have been some pent up which would have come into the system in this year now even after that we are talking about around 20% sort of growth going ahead when this pent up kind of fizzles out, our guidance is sort of hinting at around 17%, 18% overall growth in which I am assuming an organic growth rate of at least around 14%, 15% so how do you think about achievability of those organic growth rates?

Amit Chadha: Sudheer, if I may I would request do not take a base year of FY21. In fact if you remember, you have been with us for some time, you would see so after we went IPO we did have a bad year at that point of time which where we had a certain there was issues beyond that we ran two years at successive growth rates that was above 20% organic and then we had a year where we had two client situations not in our control. Had those not been there or if I was to remove those two client situations we would have still been at that 20% clip. So now last year was an aberration. Look at us as a three-year five-year CAGR. I would not look at it as a one year, two year if I may please and having said that engineering and technology industry is different from IT and therefore I would look at us differently. I do believe that each one has their own trajectory, each has their own nuances, we work out of a profit center. IT is largely a cost center play and not a cost play they are cost center play, we are more on an innovation model that is a difference so there is differences there so I would not do that that is what I would say one. Second how do you see the 2019 to 2020 is that good, is that bad is something we will see and we continue to work on our numbers we continue to see where the opportunity is. We are focused right now… more than a trajectory we are focused on basic principles I am sorry Sudheer we are all engineers we are focused on getting to technology in making sure we are competitive, making sure we are giving our clients their competitive advantage and with the shifts in technology we are seeing we do believe that we are not at the top of the S curve in terms of that it is done and the days are over. I do believe we are in a part of an S curve that we will see further climb.

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

Nitin Padmanabhan: Thanks for taking my question. Just a couple. So one is, if I look at the attrition I think the attrition numbers are something that we are not used to if I look at history. It is clearly at the top end. First question is - do you think the attrition has peaked or you see this going up further? Two are you seeing attrition more on the domain side or on the horizontal side of things or is it just experience based attrition that you are witnessing at this point? Third you spoke about wage increases just wanted your thoughts on do you expect that to happen in the second half of the year and so that was the third one and finally in terms of acquisitions just wanted your thoughts on the areas of focus and do you just expect tuck-ins like history or do you expect a larger one? Those were the questions. Thank you.

Amit Chadha: So, if I may, I got 16.5% not good has it peaked or will it be more. Third was wage hike are you planning wage hike. What was the second question can you repeat that please. Sorry I did not catch that?

Nitin Padmanabhan: Yes, so on the attrition was higher than history and will it go higher? Is it more domain specific or horizontal specific or it is just experience-wise of three to five years or one to five years. So those were the questions on attrition and obviously wage increase in the second half. Do you expect it to have a meaningful impact so those are all on the attrition and wage maybe I will ask the last question after that?

Amit Chadha: I am going to request Rajeev to talk about M&A but let me cover the attrition part for you and then if I miss out something my colleague, Abhishek can add to it. So number one we are not proud of 16.5%. I want to be very honest with you it personally hurts my heart when I see an employee go because at some point I think does he not believe in our dream? Does he not believe in our six dimensions? Does he or she does not believe in our bets but reality is I cannot match dollar-to-dollar. This cannot happen…we don't have an open wallet, don't have an open checkbook number one. Number two the opportunity in India and US and Europe has expanded. We had somebody talking to us in fact we had Satya Nadella talk to us on our subject and he said the number of changes he is seeing on LinkedIn…he has never really like seen so many people changing jobs and they of course have access to data that you and I do not maybe you do I do not. So I do believe that attrition so again do we think it is peaked? We are working various measures and let me take some of those number one we had a very bad year last year we did not give increments but this year we divided it up juniors got increments in April, seniors got increments in July the reason that was done was we wanted to make sure people understand that leaders do not eat first. They eat last. Second we have done corrections where we have not been able to do enough etc., but like I said limited dollars, limited checkbooks on these things so we have done what we could there. Having said that we are trying to provide a holistic experience. We are running a program within the company called Project Rendezvous, that is focused on trying to enhance & improve employee experience. Two weeks ago while we closed the quarter the CHRO, the COO, the CFO myself the CTO and the business unit heads and some other select sales head sat down and there are 130 people involved in the company that came and gave us suggestions on what do you need to do in five specific areas around Project Rendezvous and we have given approvals to implement some of those the others will get done over the next three months. We will do a pulse check again on our employees in quarter four of this year. So we are doing that to provide a holistic experience. Third, while COVID is going on we continue the process of CEO club, Youth League, we created a Leaders League on and on to make sure that we are not just talking about dollar to dollar but what are we doing beyond. Fourth, technical training was established and that continues to enrich our employees as they move further. Now are we going to do any further corrections… maybe. We are working, we are studying the situation and we will see what we have to do in specific areas and we will make that intervention happen if it needs to be done. Lastly, on domain it has been broadly broad-based in terms of attrition that we have had, I mean we do not give out data on city wise but we have gone down to city wise attrition, gone down to business unit wise attrition and we are taking various steps to try and stem it. I again want to say inspite of the attrition we have had, I am proud to say that I lead a team that has made sure they can make things happen. It is nerve wracking but people are doing it and we will take various measures and try and improve it. Abhi anything you would like to add before we hand over to Rajeev.

Abhishek: No. I think you have covered it all. I think just one point which at least we are getting very good feedback from employees is the broad-based training programs that we have done. More than 75% of our employees have been touched by at least one of the training programs globally and not just in India, globally in the last six months and that I think is…we are getting very good feedback on that from employees that we will continue to invest in them.

Amit Chadha: Nitin having said that I do want to say that our plan to address attrition is there… we have got backup plans and we are working towards it, we are hiring freshers, we are training people, we are hiring laterally so all that is happening. I have given out numbers earlier to one of the questions as well so we believe that we will work this out. This is an industry thing not just an India thing it is India, US, Europe combined thing we will work towards it. Rajeev would you like to take M&A?

Rajeev Gupta: Nitin I believe your question was… are we looking at more like tuck-in acquisition. So let me clarify and we have said this earlier as well in our IAD, we are looking to do acquisitions to really build capability in the white spaces and the spaces really is one on the auto new tech, the Medtech and ISV. The second is while in the past we have done acquisitions more in the range of $20 to $25 million, we are now open to do even larger acquisitions that could be in the range of say $50 to $75 million range and for that range, we believe that there could be capabilities that could expand beyond the three spaces that I talked about so it is not necessary that is only going to be a tuck-in acquisition but we are not closed I mean what we are looking to do essentially is to build capability in the white spaces and that is the length we are looking at.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Pinku Pappan for closing comments.

Pinku Pappan: Thank you all for joining us on the call today. We hope we were able to answer most of your questions. I am available on email so please write to me if you have additional queries. Look forward as always to connecting with you and we wish you all safe times and a great evening. Thank you.

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

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