



L&T Technology Services

Q2 FY25 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY25 Conference Call of L&T Technology Services Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing “*” and 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, Mr. Pappan.

Pinku Pappan: Thank you, Dorwin. Hello, everyone, and welcome to the Earnings Call of L&T Technology Services for the Second Quarter of FY25. I am Pinku, heading Investor Relations. Our financial results, investor release and press release have been filed on the stock exchanges and are also available on our website, www.ltts.com.

I hope you 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 1 hour after the end of this call

With that, let me introduce the leadership team present on the call today. We have Amit Chadha – CEO and MD; Abhishek – Executive Director and President; Alind Saxena – Executive Director and President; 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 statements and performance.

Let me now hand the call over to Amit.

Amit Chadha: Sure. So, I hope I'm audible. So, thank you, Pinku, and thank you all of you for joining us on the call today.

If I look back at 2021, we created a vision, a mission and a value charter. And based on that, we are repositioning our brand as **Purposeful. Agile. Innovation**. This embodies the fundamental way of how we will do business and deliver meaningful transformation for all our stakeholders.

- Purposeful – stands for our vision of building a sustainable tomorrow and a better world, leveraging technology and delivering inclusive growth for all stakeholders.
- Agile – relates to our ability to learn, evolve and adapt to changing technologies, market dynamics while harnessing the imagination of our engineers.

- **Innovation** – involves anticipating and investing in future technologies, systems and processes to bring world-class solutions to our clients across products, processes and operations.

As we continue to pivot on growth, this refreshed positioning will help us accelerate ‘engineering the change’ for our clients. I’m confident this will create a platform for the future and establish LTTS in 3 strategic segments – Mobility, Sustainability and Tech, and build each of them into standalone billion-dollar units over the coming years.

With that, let me provide the key highlights of our **Q2 performance**:

- We had a strong quarter with revenue growing by 3.9% sequentially, which was broad-based across Regions and Segments. Sustainability led the growth with 6.5%, Mobility grew by 5% and Tech by nearly 1%.
- We won two \$20 Mn deals, four \$10 Mn deals and two significant empanelment agreements. These wins have been across segments.
- Our customer mining has seen steady improvement on YoY and QoQ basis. The number of \$30 Mn accounts has increased to 7 now, up by 1 QoQ and 3 YoY. Similarly, the number of \$10 Mn accounts has increased to 33 now, up by 2 QoQ and YoY.
- In line with our earlier commentary, we have made focused investments into our 3 segments – and we are starting to see the results in terms of pipeline, deal wins and revenue growth including this quarter. These investments have impacted our EBIT margin in H1. We expect with growth improving and larger deals in our strategic areas, the EBIT margin trajectory will move upward.

With this, let me provide segmental performance and outlook.

Starting with **Mobility**,

- we had a strong 5% growth in Q2 on the back of 6% in Q1, driven by large deal ramp-ups in SDV and Hybridization.
- As we had highlighted during the Investor and Analyst Day, a lot of the SDV development is happening at the OEM end and our exposure and presence at OEM’s, especially with the European and US OEM has increased significantly over the last year.
- The key value proposition that we offer to our customers is advanced automotive solutions across ADAS, virtualization and AI for specific use cases, digital twin, connected Apps, SDV/ Digital cockpit – all of which accelerate the time to market and help them stay competitive.

- In Trucks and Off Highway, we continue to see good demand as Hybrid and SDV adoption continues to rise.
- We launched LTTSiDrive – our proprietary framework for accelerating SDV implementation, applicable for both Auto and Trucks and Off Highway. We've already won 2 programs – one each in US and Europe leveraging LTTSiDrive.
- Within Aero and Rail, we are beginning to see more deals in Rail. We signed a partnership with Etihad Rail for the development of digital solutions and creation of an intelligent transportation system. We have multiple solutions in Rail leveraging AI and augmented reality that have been successfully deployed by customers.

Overall, we see a robust deal pipeline for Mobility. However, Q3 will be slightly soft on account of seasonality. We expect this to rebound in Q4.

In Sustainability,

- In line with our expectations, we saw a strong rebound in Sustainability performance at 6.5% growth.
- As compared to Q1, where only Process (Plant Engineering) was firing, in Q2, we had Industrial performing equally strongly.
- We are seeing a turnaround in Industrial as customers are looking ahead and investing as they see a more promising outlook.
- These investments are towards automation in the form of digital platforms, manufacturing and supply chain optimization.
- As a result, there's a strong demand for setting up centres of excellence for clients around the same.
- In the Process sub-segment, we continue to see demand in projects engineering and plant modernization.
- Leveraging digital technology is a priority for our customers – one of the large deal wins in Q2 is with an O&G customer where we are developing a digital twin of the refinery – which allows the customer to see an integrated 3D view of all the assets in the refinery.
- Similarly, in an empanelment, we are a Projects engineering partner for a new plant where we are setting up a command center, that will allow them to remotely control and manage the refinery.

- In the CPG sub-segment, the C+1 strategy is benefiting us, as customers are setting up new plants and expanding operations in India. We are, therefore, seeing an uptick in project engineering in India from our global clients.
- Leveraging our deep expertise in Industry 4.0, we have now launched our proprietary Factory Next framework for the factory of the future – covering smart sensors, edge, robots, IIoT and data lakes. Our framework enables cobots to enhance productivity. this is getting good traction. We have started two deployments in the US

In summary, for Sustainability, we are seeing a good number of deals in the pipeline – both at Process and Industrial and expect the growth momentum to sustain in Q3 and beyond.

In Tech,

- We had a good growth in our Semcon and ISV sub-segments.
 - With our Hyperscaler accounts, we have won 2 deals – one on device and other on platform engineering. These have gone into execution in October.
 - Given the tailwinds in AI, Semcon sub-segment continues to ramp-up for us with multiple programs across the value chain.
- In Comms and Media, while performance was soft in Q2, we are seeing a few transformational deals that could potentially close in Q3 in the area of network management and vendor consolidation.
- In the Med-Tech sub-segment, we continue to see a rebound led by our strategic focus areas of QARA, Digital Health and Digital Manufacturing
 - As part of our collaboration with a leading AI Semcon major. We're building an AI solution for a customer for image enhancement and vision care.

Overall, with the pipeline in large deals in play, we expect Tech growth to improve in Q3, led by our work with Semcon, Hyperscalers and Med-Tech.

Now, a few updates on our **Technology and Innovation Charter:**

- Our engineers added a total of 51 patents filings in Q2 and our cumulative filings stands at 1,394.
- The innovation is also reflected in the rankings we have been ranked as leaders by:
 - HFS and IoT services.
 - Avasant in Digital engineering Services
 - Zinnov in data and AI.

- To help customers accelerate their AI/Gen AI journey, we have launched GenIQ – a software development platform for AI applications.

Let me now discuss our **outlook**:

- Our pipeline continues to grow at a very healthy pace with a good number of large deals in the \$ 25 - 100 Mn range.
- We are tracking these deals closely and expect a good number of closures in Q3 and early Q4. In fact, some of these would have closed in Q2 itself, but got delayed due to elections and macro-related uncertainty.
- The common thread in most of these deals is clients are excited about LTTS' differentiated solutions and positioning and want to leverage our expertise as they continue to develop new products and transform their operations, manufacturing and supply chain.
- This priority was further validated during our recent concluded client advisory council meeting, which consists of 16 members, with combined market cap of \$2 Tn and a revenue of \$400 Bn.
- We are thus confident of broad-based growth continuing in the coming quarters and reaffirm our FY25 guidance of 8-10% revenue growth in constant currency and aspiration of 16% EBIT margin levels.

Before I close, I do want to reconfirm that we stand strong in wanting to build three \$1Bn segments and get to revenues of \$2 Bn with 17-18% EBIT margin in the medium term. This ambition has been met with excitement by our employees, leaders and support from our key customers and board members. We remain committed to this journey.

With that, I now hand over to Rajeev. Thank you and look forward to taking your questions.

Rajeev Gupta:

Thank you, Amit. Good evening to all of you.

I would like to start by saying that our 'Go Deeper to Scale' strategy is indeed showing encouraging results. We had a strong quarter with broad-based growth and deal wins across Segments and Regions.

As we had indicated during our Q1 commentary and Investor Analyst Day, we are pivoting on growth. Accordingly, we've been making investments ahead of the curve in building new tech capabilities and adding leadership in Segments for Delivery and Sales across the globe. Consequently, this has impacted H1 FY25 EBIT margin.

With that, let me take you through Q2 FY25 financials, starting with the P&L.

Our revenue for the quarter was ₹ 2,573 crores, a growth of 4.5% on a sequential basis. Our YoY growth for Q2 FY25 came in at 7.8%.

Our gross margin remained flat. However, on account of investments in sales and technology, our SG&A as a percentage of revenue increased by 40 bps sequentially. Hence our EBIT margin for the quarter came in at 15.1%, slightly lower compared to Q1 FY25.

Now moving to below EBIT.

Talking about Other Income.

Other Income was ₹ 53 crores, slightly higher on a sequential basis due to forex gain.

Effective Tax Rate for Q2 was 27.4% within the range of our expectation of 27.5%.

Net income for the quarter was up 1.3% on a YoY basis and came in at ₹ 320 crores, which is 12.4% of revenues.

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

Our Q2 DSO was at 99 days compared to 102 days in Q1, unbilled days was at 17 days in Q2 compared to 23 days in Q1. The combined DSO, including unbilled, stood at 116 days compared to 125 days in Q1, which is within our target range of 115 to 125 days for the year.

Let me now talk about cash flows.

As a result of improvement in DSO, our Q2 free cash flow came in at a healthy ₹ 417 crores, leading to YTD free cash flows at ₹ 328 crores. We will continue the effort to improve cash flow during the rest of the year.

Our cash and investments stood at ₹ 2,849 crores at the end of Q2 versus ₹ 2,784 crores at the end of Q1. This is after final dividend pay-out of nearly ₹ 349 crores in Q2.

As you would have seen today, the Board approved an interim dividend of ₹ 17 per share.

Now moving to revenue metrics:

On a sequential basis, \$ revenue growth was 3.9% in reported terms and 3.4% on constant currency basis. We saw a broad-based growth in Q2 with all segments growing sequentially, led by Sustainability and Mobility segments.

Moving to operational metrics.

The Onsite:Offshore mix was at similar range as compared to Q1. Offshore percentage now stands at 58.3%. We continue to work on measures to gradually improve this metric to our aspiration of 60%.

The T&M revenue mix was 62.5% in Q2, slightly lower as compared to Q1.

Client profile – which indicates a number of million dollar plus accounts, has shown a sequential improvement in the \$30 Mn, \$20 Mn and \$10 Mn-plus category. The client profile will continue to improve in the coming quarters.

Client contribution to revenue – has shown an improvement in the Top 20 & the Top 10 category as compared to Q1. We expect revenue from top customers to improve going forward as we are running targeted programs on client mining.

Headcount was at 23,698 in Q2 compared to 23,577 in Q1, while attrition has slightly gone down as compared to Q1.

Realized rupee for Q2 was around 83.90 to the US dollar, a depreciation of around 0.6% versus Q1.

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

As mentioned by Amit and me, we have prioritized investments in H1 FY25 to accelerate growth, build leadership and technology solutions ahead of the curve. We expect this will lead to a step up in revenue growth and better quality of revenues, providing us with a path of \$2 Bn revenue aspiration and EBIT margin of 17-18% range in the medium term.

In addition, we will continue our improvement efforts on operational levers like offshoring, pyramid optimization, higher productivity using tools and reusable platforms and indeed SG&A optimization.

For FY25, we reaffirm our revenue guidance of 8-10% and expect H2 EBIT margin to be better than H1 and continue to aspire for a 16% EBIT level for the year.

Thank you. Now I hand over to the moderator for questions.

Moderator: Thank you very much. The first question is from the line of Bhavik Mehta from JPMorgan. Please go ahead.

Bhavik Mehta: Hi thank you. A couple of questions. Firstly, Amit, if I look at the ask rate for the next two quarters now, it has gone up significantly. Now I understand that 4Q is a seasonally strong quarter because of SWC, but how should one think about Q3 given it is typically a weak quarter from a seasonality perspective, and we did highlight that mobility growth could slow down because of that? So, what gives us confidence of still achieving even the lower end of the guide? And was there a thought process at least cut the guidance at the lower end because it just seems like the top end of the guidance is out of reach right now?

Amit Chadha: Yes. So Bhavik, we are reiterating and holding our guidance. There was a similar question that was asked last quarter as well. On the ask rate, we are well aware of ask rate. And given the pipeline that we have got and the order conversion we've got, we are fairly comfortable with

where we are. I would not like to state whether we are at the top end or bottom end, but there is work to be done, but we are fairly comfortable on where we are right now.

Bhavik Mehta: The second question was on margins. I remember last time, it was mentioned that margin trajectory should improve from Q2 onwards, and we have seen margins declining this time despite not having wage hikes. I'm assuming we'll have wage hikes in Q3. So how should we think about margin trajectory from here on?

Rajeev Gupta: Thank you, Bhavik. This is Rajeev here. So, I'll answer two parts of the question. One, of course, the improvement on the EBIT margin. We indeed see EBIT margins improving from Q3 onwards. And on the wage hikes, yes, we plan them to be in Q3 and will be effective from November onwards. So, we will see likely two months of impact in Q3 for increments.

Just to complete, the point, we should likely see in a full quarter an impact of close to about 100 bps to 125 bps on account of increments. The fact that this is two months in a quarter, it will be lower impact to start off with, but conscious of the fact, we aspire for 16% EBIT levels, and we'll be able to absorb this increment in Q3 as well.

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

Ravi Menon: Congrats on a very good quarter. I wanted to understand why Tech was flat, more or less this quarter, despite SWC, which should be slightly positive to the seasonality? And second part of the Maharashtra cybersecurity deal, wasn't there any revenue this quarter?

Amit Chadha: So, in Q2 Tech grew about 1%. Like I said, that the Hyperscalers did well for us in this quarter. There was a couple of specific areas where the projects got over, etc. But Q3 will be a good quarter for Tech as well as for Sustainability because we've got the visibility right now, in fact, close to announcing a significant collaboration with an AI major. We'll do that, and you will see that coming out. So, we're fairly comfortable there. Now in terms of cybersecurity, it continues to grow. We don't call out cybersecurity as a percentage of revenue just like AI, but both AI, Gen AI projects as well as cybersecurity in OT as well as products, cybersecurity continue to expand for us. We are actively hiring in these areas.

Ravi Menon: I was asking specifically about the Maharashtra cybersecurity deal that we had.

Amit Chadha: Yes. So that was launched. There's some work still to be done in that area. So, I was thinking, you were talking about cybersecurity internationally in the US and European clients. So specifically, to Maha cyber, it got launched. Congratulations to the Maharashtra government for thinking ahead of the curve and helping us execute or asking us to execute the project. It's not completed yet; it has been launched. There's other work to be done there. So, it will continue for a little more time.

Ravi Menon: There seems to be no fixed asset increase on your books even though the Maharashtra cybersecurity got launched?

Amit Chadha: There's a little bit of hardware assets, but largely a software project, like we had mentioned that Maha cyber actually is more like a traditional LTTS project, if you ask me the way we have executed it. We run it as a software program. And that is a marked departure from what SWC used to be. In fact, we have a pipeline now that is built up for SWC in the Middle East as well. And as we move forward, hopefully, we should be able to announce some closures there as well. So we are on that trajectory, and we have committed to you on SWC that we'll start to internationalize it, take it to more master, software SI, the asset light. So, we're working on all these directions right now.

Ravi Menon: Thanks for the clarification. And Q3, how should we think about SWC? I know that Q4 is supposed to be really good. But how is the seasonality for Q3?

Amit Chadha: Think about Q3 as a growth quarter in revenues and margins. And on the previous question, I want to reiterate, when Rajeev had made commentary about 2 quarters ago, he had said H1 margins will be lower than H2, and that's what has happened. And if you look at it, the gross margin is maintained. The increase is only in Q2 in SG&A, which is sales cost, which has started to give us backlog and then will give us revenues as well as tech investments where compute, storage costs are fairly significant that we have had to incur for AI investments and SDV and factory Next launch.

Moderator: The next question is from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: So, my first question is on the deal wins. I just wanted to understand, we had called out in the analyst meet that our pipeline is 2x of last year. And on top of that, we expect win rates to improve, which would translate into higher number of deal wins being reported going forward. So just wanted to understand by when one should expect to see a higher number of deal wins on a realistic basis? By when do you think that can happen?

Amit Chadha: Sulabh, thank you. So, see, if you look at the deal wins, the absolute value TCV deal wins are higher in Q2 as opposed to Q1. That's number one. Two is that we have a significant number or a large number of \$50 Mn deals as well as a couple of \$100 Mn deals and a lot of \$25 Mn deals. And we are comfortable to say that we are trying to get them closed in Q3 for us and then operationalize in margins towards the end of Q3 and then Q4 from there.

Just like the Maha cyber deal that we have got, which is fairly quick paced. So, we are looking at some of this to come in. And we will start seeing some of that reflecting out either in press releases or through the quarter or at the end of the quarter as we go forward. We've actually appointed a large deals leader, Chief Business Officer for Strategic Initiatives in large deals, based out of Dallas, Texas, and we have reorganized the team and we're taking it forward.

Sulabh Govila: Understood. And with respect to Mobility as a segment, just wanted to understand what you are hearing and seeing on the ground, particularly in Europe with respect to how OEMs are behaving? Have you seen any sort of project cancellations? Or have you seen any pause in the ongoing projects that are going on? So just wanted to understand what's the outlook from your perspective there.

Amit Chadha: Sure. See, we had a strategy about 8, 12 quarters ago that we will start to improve our OEM dependency and reduce our dependency on Tier 1s. That has played out well for us because now, the percentage revenue from automotive and Trucks & Off Highway that we do with OEMs has seen a quantum shift towards OEMs as opposed to Tier 1s. So, Tier 1s exposure has been, I will not say minimized. We love the work that we do for anybody. We respect our customer relationships. But in our top 30 accounts, we've got OEMs now more than Tier 1s, right. So that's number one.

Number two, when it comes to OEMs in the US and Europe and the one that we work with in Japan that we had shown the recording to you during the IAD, they continue to work with us. We have not seen any slowdown there.

Tier 1s, there's a couple of them that are in a problem, and we are actually creating deals to help them overcome some of their transitional pressure that we've got. I've got my President and Executive Director colleague here. He'll add to this Mobility now on in terms of the work that we're doing in other areas.

Alind Saxena: So, in addition to what Amit said, what we are also seeing is an increased spend on the SDV side. And for most of our customers here, we are seeing those requirements come up throughout. So that we do see continuing. Now on the traditional engineering that we have been doing, there are deals that we are working on, which are on consolidation, which will we believe, help perhaps in Q3, Q4 as we go through on increasing our revenue and footprint in our customers. But that's making us more strategic to our customers. And that trend, we believe, will continue from the point where we are at today.

Sulabh Govila: Okay. Understood. And last question on margins from my side. Rajeev, when we say that there is a 2-month impact of wage hikes in this quarter, which is roughly about 80 bps. So, what are the tailwinds you have on the margins, which will negate this, and you'll be able to deliver a growth on QoQ basis on the margins?

Rajeev Gupta: Sulabh, to understand your question, of course, you did the math, right? I mean, 2 months in the quarter, about 80 basis points on the increment side. Your question is more to understand what are more tailwinds that can likely have an impact of margin. Did I get that correctly?

Sulabh Govila: Yes. So, what will help you negate this headwind, which is there...

Rajeev Gupta: Understood. I mean first and foremost, Amit talked a lot in terms of pipeline, large deals, quality of revenue. These are all tailwinds that will help in terms of margin accretion. The second is, look, a lot of the investments that we called out indeed have played out in H1. So that's behind us, right? So, like we've said earlier, H2 margins will be better than H1. So, you will see margins increase anyway in Q3.

Last but not the least, we'll continue to see productivity improvements. So, this is on account of optimization of pyramid, in terms of offshoring and also as we continue to see Fresher intake,

we will see a lot of deployment on some of the newer deals that should lead to margin improvement.

Sulabh Govila: Just a quick clarification. When we say better quality of deals, does that translate into higher gross margins than the deal?

Rajeev Gupta: Yes, it does. And in addition to that, right, and these have been all focused initiatives, we will also see likely accretion coming from improvement in bill rates, right? These are focused initiatives that we do, and we tend to target an X amount of dollars coming from improvement in bill rate.

Amit Chadha: I'll add that we've sequentialized. If you ask me, we planned this out to make sure that when the investments were there, we didn't do the increments. And now that we've got tailwinds coming in the margins, we are doing the increment. So, it's a thought-through strategy to be able to deliver the 16% level that we initially guided at the beginning of the year.

Moderator: We have the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Yes. On the margins, do you think, whatever increase we have seen in the SG&A, is there any element which will not be there next quarter, or everything will be growth driven in terms of the margin offsets broadly?

Rajeev Gupta: So, see, I've already mentioned to that. Again, maybe I'll sound repeating what I mentioned. A lot of the investments that we called out in terms of AI, SDV, Factory Next future, building the leadership, all of that has taken place in H1, right? So, when you talk about going forward, these are not going to repeat, right? So, you will see some of that normalization come into SG&A costs. Our SG&A costs have indeed increased if you look at it on a YoY basis. We see they will normalize between that 10% level, and that's what we're working towards.

Nitin Padmanabhan: Got it. That's very helpful. On the Maha cyber deal. Do you think is there's any milestone payment that could come through considering they've gone live that should also help the margin? Or it would just be the SG&A benefit?

Amit Chadha: Are you asking us payments? Are you asking us revenue?

Nitin Padmanabhan: Revenue. So, any milestone revenue that comes through, which will flow through and add margin.

Amit Chadha: See, there is various elements there. There are payments to be made, etc. and yes, there is a milestone payment that will come through that will also help. So, these are all part of the planning that we have done at the beginning of the year as we saw these projects unfold. So that's why our comfort for delivering growth in the margins comes from some of these elements.

Nitin Padmanabhan: Got it. Got it.

Rajeev Gupta: I can just add to that, right. So, Maha cyber as a project, this is a fixed price project, right? And all these milestones are planned, and all revenue recognition is tied to those milestones being achieved. And we are, in fact, on target in terms of achieving those milestones, which, of course, will trickle down in terms of revenue.

Nitin Padmanabhan: Okay. That's very clear. Now on the growth, I think what the guidance is implying is 4.5% to 7% kind of CQGR for the second half. Now I think based on your comments, it's basically based on the deals that are already in the bag plus closures that you expect in Q3 that will drive a stronger Q4 along with the SWC seasonality that should help you land within the range. And so -- is that the broad thought process? Is that a fair characterization?

Amit Chadha: Yes. I couldn't have said it better. Thank you so much. You're absolutely right. And there was a couple of deals that we were hoping that we'll close it this quarter. They wouldn't have increased our revenues, because this was the revenue we had planned. But they should slip into October and close. So that's where we are broadly, but we are comfortable in that right now.

Nitin Padmanabhan: Okay. But you are not worried? There's no worry on any extended furloughs or any such thing considering macro at this point in time? We're not seeing anything on the horizon?

Amit Chadha: We are seeing furloughs in automotive, like I said, and that's why we said it will be a little soft. The other areas don't get so impacted by furloughs, but this is a work in progress. We are fairly comfortable with the stage, like I said, but there is an election uncertainty that we'll go through, and we'll see where it goes.

Moderator: We have the next question from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: And I know you've answered a lot of questions around the implied arithmetic's, etc. But Amit, when you spoke last quarter, you have spoken about a very strong pipeline, and which was reiterated even during the Analyst Day. In the current quarter, when you spoke, you said that you did see some delays due to election related uncertainty etc. Do you think -- and given what you're talking about third quarter, do you think we'll probably see good deals versus now and thereby helping us in terms of growth in Q4 or probably just gets pushed through the next year given the typical seasonality of Q4 quarter? That's question number one.

And the second question was for Rajeev. If you could help us understand how the fresher intake for FY25 has progressed through both Q1 and Q2. And the likely trajectory in terms of fresher onboarding for the rest of the year?

Amit Chadha: So, the pipeline is, YoY, bigger. QoQ, bigger, number one. Number two, the number of serious \$100 Mn deals, \$50 Mn deals, \$25 Mn plus deals is higher than where it was two quarters ago, right? We continue to work with our clients to get these two closures. The reality is that there is a little bit of question around which way policies will be after the US election, reality. We do think that when we spoke to you last time, we were expecting some of this.

Having said that, nothing is grinded to a halt. Decisions continue to be made. And if all goes for whatever we forecast right now at this stage, we will have a decent Q3 and a bumper Q4.

Rajeev Gupta: Yes, I'll take the second part of the question. So, in terms of fresher intake. For FY25, we planned around 2,000 freshers to be hired. We've been implementing that. So accordingly, we've seen freshers in Q1 and Q2, that intake has indeed happened. In fact, this year, our fresher intake will be higher than what it was last year. Last year, we did close to about 1,500 freshers hiring. So, like I said, we will do close to about 2,000 fresher hiring in FY25.

Manik Taneja: Would it be possible to get the number for H1 and thereby probably trying to understand the impact in terms of...

Rajeev Gupta: We don't share so much of specific information, but we'll certainly let you know the annual plan that we have. That's where it is.

Moderator: The next question is from the line of Vibhor Singhal from Nuvama Equities.

Vibhor Singhal: Congrats Amit and team for a very solid execution in this quarter. So, Amit, just wanted to dwell on two aspects. One is on the Mobility segment. You mentioned that you are looking at a seasonal weakness in Q3 in the Mobility segment. Are we certain about the fact that the weakness that we're looking at is more of seasonal and not much of structural? We've had a couple of auto OEMs, some of the profit warnings.

We've had, a couple of your peers already talked about weakness in the auto segments, specifically in Europe and specifically in Germany. Where spends on most assets have been curtailed. SDV continues, but I think those are also kind of talked about in harsh tones. So, any colour on that would be very helpful?

Amit Chadha: So Vibhor thank you, I'll do a little bit and then I'll request Alind to add. See, when you look at Mobility, the reason we've said seasonality is because normally, last year also, and if you look at two years ago, these guys leverage our Q3, their Q4 holidays to try and offset some of their costs, and therefore, we see that seasonality coming.

Now -- and I will say very clearly, OEMs, we continue to see expansion. And I knock on wood, as I said, with our differentiated solutions. But Tier 1s has been a little bit of a challenge. They've had a challenge themselves, and they have passed their challenge on to us. Having said that, because our Tier 1s are in a challenge and we, as nice and good partners, are trying to find solutions where we can help them pick up some of that work. And leverage our capabilities, like we had done the deal with FORVIA in Q1. We similarly can do some more of those deals, and that is where the pipeline is very strong to see what can flow. We closed this quarter, and that operationalizes in Q4 for us and helps us in growing.

Second part is the investment in SDV. I'm sorry, actually Alind should talk about it. The investments made now...

Alind Saxena: No, I think Amit covered it. So, you know that we have launched the new solution, LTTSiDrive, which is picking up speed, which is getting attention, and which is helping us move. Now to your point, very specifically about the industry and specifically in Europe. So, we are not seeing

large cancellations or stoppages of work. There is a slowdown, which is there for sure. So, the growth trajectory, especially short-term in Q3, maybe like we have said, would be muted.

Otherwise, we remain very aspirational of continuing our presence and our strategy with our customers. We think that that's going to play out well for us in long-term. This is the time to align with our customers and be able to continue to provide those services at good quality, which I'm very thankful that our team is doing, and we'll stay focused on that and move on.

Vibhor Singhal: Amit, the second question, is on the Maharashtra Cyber Security Project. So just want to understand the dynamics of it. So, you mentioned there is some bit of work left on this -- in the project. After that, we will probably get a milestone payment. And post that, does this project come to an end? Or is there some other maintenance revenues that will keep clicking on for the next forthcoming years as well?

Amit Chadha: Let me say that see Maha cyber, there's some stuff that we can't share specific to a contract, there is stuff that we can't. So, what we can share is there is work to be done and completed. It's been launched. A part of it is live, there is other parts that are not live that need to get done over the next three to six months. Beyond that, there's an O&M phase that we have got in this that we will execute over a five-year period. So that's where that is that we are doing.

Vibhor Singhal: I'm assuming the O&M part, of course, be significantly lower than the kind of work that we're doing at this point of time, but it will continue for the five-year is what you're expecting?

Amit Chadha: Yes, yes.

Moderator: The next question comes from the line of Ruchi Mukhija from ICICI Securities.

Ruchi Mukhija: So, you guys mentioned about a weak seasonality in Mobility due to furloughs. I wanted to check, is this broad-based across client or skewed in few accounts only?

Amit Chadha: Yes. So, is it broad-based to specific clients? Let's say it's largely broad-based. I mean this is a Detroit phenomenon. This is a Europe phenomenon, yes.

Ruchi Mukhija: In other two verticals, do we have any early indications for furloughs from the clients?

Amit Chadha: No. Normally, no. So, we don't have early indications of furloughs for Tech. We want to actually confirm for Sustainability, actually, in the Process area, they are asking us to ramp up, right? In Tech, also, the orders we have won, we talked about today, we are ramping up in Q3. Tech will ramp up Q3 for sure. Sustainability will ramp up Q3 for sure.

Mobility, all I'm saying is soft. Allow us some time to work it. The quarter is not done yet. We continue to work across the globe and my colleague, Alind talked about LTTS iDrive and others. These are license revenue programs. We in fact generated a couple of those this quarter. So, we continue to work on those absolutely.

Look, again, Ruchi, so I can say this not just to you, but everybody. See we've always been, our whole goal has been to be transparent and be upfront, so we don't create any surprises. We had come in the year; we had told you about the margins. We're following our trajectory. Revenues we have followed our trajectory and that's why we're saying Mobility may be soft but work to be done. The quarter is not over just actually -- the quarter has just started.

Ruchi Mukhija: Appreciate this. Thank you and all the best.

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

Abhishek Shindadkar: Hi, good evening and congrats on a good quarter. I have couple of questions. The first one is regarding the furloughs, especially for the Aero and also your comments on the Tech furloughs. So, the commentary by one of the OEMs in Aero has been relatively weak, so any colour in terms of furloughs for that space?

And the second is on the Tech side. So, is your commentary on furloughs driven by the ramp-up of the project or it is generally in the Tech space, furloughs this year could be lower than last year? That's first question. The second question is for Rajeev. The accounts receivables number or the absolute increase has been material over H1 compared to the revenue growth.

Now is this largely related to one cybersecurity project or are we seeing -- generally seeing a delayed cycle across customers and the last one is for Amit again. Any comment on the sequential decline in the number of active clients? Thank you for taking my questions.

Amit Chadha: Okay. So, Abhishek. Thank you. Let's divide this up. Aerospace furloughs, Alind, would you like to say something? Does this impact us or not impact us?

Alind Saxena: Not majorly. I mean we have seen furloughs previously in Q3 as well and this is a regular phenomenon that happened. Yes, and we are referring to one particular customer and there will be some rippling effect of that down to some of the customers that we work with, but that's something which is manageable that we are working with, and I don't see any major impact on that beyond what we have already talked about.

Amit Chadha: Now on Tech, see the furloughs are a normal phenomenon, but as you win deals, you're able to overcome that because you're ramping up, but it's broadly arithmetic. And therefore, I'm saying Tech will increase, confirmed pipeline, confirmed bookings that will help.

That said your third question was sequential decline. I'm trying to see where there is a sequential decline in clients. Is there a material nothing. In fact, I thought that we had improved. I thought somebody will complement us today that the number of 50 Mn accounts and all that has gone up. Let me just see Abhishek I don't think - so there is no material impact.

Abhishek Shindadkar: Got it. And maybe Rajeev can answer on the accounts receivables.

Rajeev Gupta: Yes, Abhishek, let me answer on the accounts receivables. I was just waiting for Amit to conclude. So, look, Abhishek, I tend to guide in terms of the DSO. Our range is between 115 to 125. We came in at 116 days which is the lower end of the DSO guidance, and we continue to work to improve this.

Now movement in terms of accounts receivable, etc given that we are a growing business, you will always see that. So, I will not have you worry about the fact that look for one quarter, you see an uptick because largely we'll continue to manage how we look at DSO and optimizing and of course improving on the free cash flow.

Abhishek Shindadkar: Understood. And just a follow-up to that we have been referring to a milestone payment also. So, assuming that comes in, would our free cash flow to net income number be similar to FY24 in FY25?

Rajeev Gupta: Yes. We aspire to maintain that. In fact, I did clarify it even during the Investor Analyst Day, it's following a very similar pattern like we had in FY24 where our H2 free cash flows were better than the H1 free cash flows, you will likely see that same trend mapping out even in this year.

Abhishek Shindadkar: Absolutely. Thank you for taking my questions and best wishes for the rest of the year.

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

Sandeep Shah: Congrats on good execution. Rajeev the questions -- sorry to harp again on the margins, but if I look at the aspiration and target is 16% versus first half being 15.3%. So, second half you have to do 16.7% kind of an EBIT margin to achieve the full year at 16% versus that we have wage hikes which is coming into play in Q3, Q4 and there would be a ramp-up in SWC business which is generally the low margin business versus your traditional export business. And we are starting on a base of 15.1%. So, what can go wrong in terms of achieving this target?

Rajeev Gupta: So, Sandeep, I think some of the parts I have already talked about, but maybe I'll kind of repeat and reiterate that. So, one we did call out that look H1 will have investments. Consequently, we'll see H2 to be better compared to H1 in terms of EBIT margin. So, you're starting off with a better base compared to what you're seeing in H1. It will definitely improve on the account that we will not see those levels of investments in H2.

Second, you have tailwinds in terms of growth. Amit talked about deal wins, growth, all of that is mapped in Q3 and Q4 which also will aid in terms of margins. Another part is that look our productivity improvement initiatives continue, and we will see benefits from those. See the fact that we've got revenue growth plan. We've got some of the initiatives already working. We continue to aspire for the 16% level, right? Now what can go wrong is the fact that, look we see large deals coming, which may have a start. But as of now, I think some of that is already factored in. So, the fact that look we continue to follow the revenue part should allow us to meet the 16% level for this year.

Sandeep Shah: And that's the bookkeeping for the Maharashtra cyber security project, is it fair to assume the bulk of the Phase 1 of the revenue in terms of the project completion could be booked in Q4 and Q1 of next year rather than Q3 of this year?

Rajeev Gupta: So maybe without getting the specifics because we already talked about bookkeeping, I'll probably keep it at a level which is understandable. We talked about the fact that Maha cyber is a fixed price project and it is milestone based. So, as we meet the milestones, we recognize the revenue. I think Amit, already talked about the fact that, look you've got a capex part of this deal, which continues to be executed.

The remaining part of it is over the next 3 to 6 months, then follows the maintenance part, which is going to be over the course of next 5 years. We are on course, and that's at least to ensure that look, we are -- and like I said, some of this is already planned for. It's not that we will see any one-off bump because of it, it's all planned for in Q3 and Q4.

Sandeep Shah: Okay, thanks and all the best.

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

Dipesh Mehta: A couple of questions. First about SG&A. You indicated about some normalization of SG&A spend. Do you expect absolute number to go down because of the investment which we made, and you highlighted in a few areas where we made investment? AI, SDV leadership all that stuff. So, first question, whether absolute amount of reduction you are expecting or absolute remain same revenue growth will drive some kind of percentage benefit?

Second question is about headcount. If I look at headcount addition remain muted, considering the ask rate what we are aiming for in H2. Do you expect headcount addition to mirror it, reflecting the ask rate? Or you think there is enough utilization potential available, which can require much lower headcount addition entering into H2?

And last question is about segmental margin. If I look Tech and Sustainability margin, segment margin remain under pressure for both the segments. So, if you can provide some details on what is playing out because Sustainability had a good quarter, but margin remained under decent sizable pressure kind of thing?

Rajeev Gupta: Dipesh, let me answer to all 3 of your questions. So first, on the SG&A side, I think both will play out, both the percentage and the absolute will play out. I already talked about that SG&A should normalize at about 10% levels. So, we should see certainly an improvement. And part of that will come because you're seeing growth. Part of that will come in absolute as well, right.

Second, in terms of the headcount addition. What you may have noted over the past few quarters, I think we've got the headroom to deliver growth with the headcount that we've had, even going forward, at least for the next couple of quarters, we see the headroom. Some of that has been planned consciously given that we have some large deals going on. So, we've got the headcount ramp up. Keeping in mind that these deal wins have transpired or likely to transpire. So, you will

not see a lot of headcount addition coming in the next 2 quarters. And that also dovetails to the fact that look, you will see revenues drop down to margins.

Lastly, on the segment margin. So, if you look at Mobility at about 19.4%, that indeed has improved compared to Q1. If you look at Sustainability, it has been around that 25% to 26% level. What you saw in Q1 was probably slightly better off compared to where it has been. So, it's kind of normalizing between that 25% to 26% level. Wherever there's an opportunity to see revenue and optimize in terms of cost, you will definitely see that trickle down in terms of margins for Sustainability.

Tech, it's a mix of a lot of businesses, including Smart World. Like you've known Smart World relatively is at lower margins compared to the other businesses. But what you will see in H2, this business also will have improved margins relative to what we've seen in H1. So those are some of the points I wanted to share for your questions, Dipesh.

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

Pinku Pappan: Thank you all for joining us on the call today. We hope we were able to answer most of your questions. If there are questions that you'll still need clarification on, I'll be happy to answer them. And we really hope to meet all of you during the course of this quarter. With that, on behalf of the leadership team here, we are signing off and have a good day. Thank you.

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

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