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

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

**Subject: Transcript of Q3 FY24 Earnings Conference Call**

Dear Sir / Madam,

Please find attached the transcript of Q3 FY24 Earnings Conference Call organized by the Company on January 16, 2024, for your information and records.

Thanking You,

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

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

Encl: As above



**L&T Technology Services Limited**  
**Q3 FY24 Earnings Conference Call Transcript**

*For the Earnings Call held on January 16, 2024, 19:00hrs IST*

**MANAGEMENT:**      **MR. AMIT CHADHA – CEO & MD,**  
                                 **MR. ABHISHEK SINHA –COO & EXECUTIVE DIRECTOR,**  
                                 **MR. ALIND SAXENA – PRESIDENT, SALES & EXECUTIVE DIRECTOR,**  
                                 **MR. RAJEEV GUPTA – CFO,**  
                                 **MR. PINKU PAPPAN – HEAD, INVESTOR RELATIONS**

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

**Moderator:** Ladies and gentlemen, good day, and welcome to the L&T Technology Services Limited Q3 FY 24 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 call is being recorded.

I now hand the conference over to Mr. Pinku Pappan, Head of Investor Relations. Thank you, and over to you, sir.

**Pinku Pappan:** Thanks, Zico. Hello everyone, and welcome to the Earnings Call of L&T Technology Services for the third quarter of FY24. I am Pinku, Head of Investor Relations. Our financial results, investor release and press release have been filed with the stock exchanges and are also available on our website, [www.ltts.com](http://www.ltts.com). I hope you've had a chance to review them. This call is for 60 minutes. We will try to wrap 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 this call ends.

With that, let me now introduce the leadership team present on this call. We have Amit Chadha, CEO and MD; Abhishek, COO and Executive Director; Alind Saxena, President, Sales and Executive Director; 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 of the company.

Let me now turn the call over to Amit.

**Amit Chadha:** Thank you, Pinku. I wish everyone a very Happy New Year as well as a very Happy Lohri, Pongal, Makar Sankranti, based on what you celebrate.

With that, let me start with the key highlights of our **Q3 performance:**

- We grew by about 1% sequentially with all 5 segments growing for the second quarter in a row, which is a good sign, shows secular growth.
- Medical led the growth with 2.4%, while Transportation and Telecom Hitech grew by about 1% each.
- We are pleased that 2 of our business units - Europe and Industrial Products, have now scaled to USD 200M run-rates on an annualized basis each.

- Our deal wins were healthy – 6 deal wins of \$10M+ TCV, which includes one \$40M, one \$20M deal and a third one was a \$10M+ deal in Cyber. Additionally, we had 2 significant empanelment wins.
- Our operational performance continues to be strong – We improved our EBIT margins to 17.2%
- Last quarter, we had talked about how we were investing in SDV or *software Defined Vehicles*, AI and cybersecurity.
- We made notable progress in each of these areas, and I shall provide details of the same in my segment commentary.
- In December, we held our second client advisory council meeting, consisting of 16 members with a combined market cap of \$2 Tn, and revenue of \$400 Bn. We also hosted the second Digital Engineering Awards along with ISG and CNBC. We gained a lot of perspective and insights from these meetings which is baked in our growth strategy.

Let me now start with **Transportation**,

We see a continued build-up of deal discussions around new technology across all 3 sub-segments - Auto, Commercial Vehicles and Aero.

- SDV is where the next big wave of spending will happen. Last quarter, I talked about how we had started engaging with multiple customers across OEMs and Tier 1s to help them in their SDV journey. You would have also seen our announcement of partnering with AWS to accelerate the development of SDV.
- I am happy to share we won an empanelment with a US Auto OEM to define their SDV architecture. In this multi-year partnership, we will help them in the development of the system, software architecture and integration. This is a milestone win for us and will help us in our ongoing SDV discussions with multiple OEMs and Tier1's in US and Europe.
- I also want to highlight that SDV is becoming relevant in Commercial Vehicle segment too - which follows the same trend as Auto - by investing first in EV and now SDV. With a US construction and mining giant, we have been working on their EV platform, and now we are helping them on SDV architecture too.
- We continue to see EV related spending moving from new products to our product optimization, benchmarking and performance improvement.

- On the Aero side, we won a large deal in avionics. We are also having deal discussions with a few new logos in new-age aerospace like electric/hybrid aircraft, building on our earlier wins.

Overall, 3 large deal wins and the SDV win in Q3 give us a lot of comfort of strong growth continuing in Transportation.

**In Plant Engineering,**

- We had broad-based growth across FMCG, O&G and Chemicals.
- The key highlight of Q3 was the start of a significant relationship with **bp** - as part of which, we will help them in operational excellence and low-carbon initiatives.
- This marquee client win reflects our 2 decades plus Plant engineering design expertise combined with digital transformation capabilities, that we've been investing in.
- The broad demand trends across all 3 sub-segments are similar - as customers invest in new capex due to more regionally self-sufficient supply chains, embark on plant modernization to increase efficiency and look at sustainability investments - like reducing energy consumption and moving towards greener fuels.

We are excited about the pipeline and strong customer spending outlook that gives us confidence of Plant Engineering growth continuing.

**At Industrial Products,**

- We are seeing good growth within Machinery and Power sub-segments although Building Automation remains challenged.
- Demand is driven by customer investments in digital platforms, need for higher product efficiency, factory optimization and sustainability.
- Lifecycle assessment is an emerging area of demand - we are working on AI driven automated solutions that will reduce time to market for our customers.
- Cybersecurity continues to be of interest as legacy systems and products are getting connected and modernized.

We are optimistic on growing in IP, which will be driven by digital products and supply chain resilience.

**In Telecom & Hitech,**

- We are seeing signs of a turnaround in Semcon with the spending freeze in the past few quarters being lifted slowly.

- In Q3, we won a large deal with a Semcon major to consolidate their labs.
- Demand is strong in the VLSI chip design space for 5G and AI related chipsets.
- In addition to the alliance with Palo Alto, we have now signed a \$12M deal in cybersecurity with a Telecom Network OEM. We are seeing a very good acceleration in our Cybersecurity practice post the addition of SWC talent. This deal is our second large deal leveraging SWC in the global market.
- We are seeing good opportunities in network automation and digital infrastructure management as Telcos look at cost take-outs and performance improvement.
- We are partnering with Telcos to help enterprise customers leverage next generation communication networks for industrial automation, security, and material handling.
- In Media and ISV, we are seeing more cost takeouts and vendor consolidation opportunities as focus turns towards higher productivity and efficiency.

Overall, we see a good pipeline in Telecom & Hitech and expect growth to continue gradually improve as the deals get closed.

Lastly, in **Medical**,

We had a good performance in Medical, led by the ramp-up of a large deal win that we won in Q2.

- Demand is driven by 3 key areas:
  - Digital platforms to enhance patient experience and diagnostics
  - Complaints handling and remediation
  - Digital manufacturing and supply chain optimization.
- We see a great potential in leveraging AI in Healthcare - For e.g., we have developed an AI solution for Complaints Handling that is finding good traction with customers. This differentiated solution combines AI with domain specific context like regulation to improve process efficiency.
- You would have also seen our press release of our collaboration with NVIDIA to develop Gen AI and Advanced Software-Defined Architectures for Medical Devices.

Overall, we believe budgets will be constrained in Medical in the short term, but we see consolidation and AI driven opportunities to help drive growth forward.

Now a few highlights on our **Digital Engineering and Technology progress**:

- Our engineers continue to innovate. We had a total of 51 patent filings in Q3 & as you are aware, the pace of filing has increased - our cumulative filings are at around 1,250 from around 1,000 a year back.
- In AI, which is one of our 3 investment focus areas, we have filed a record 53 patents till date across segments like Transportation, Medical and Industrial Products.
- We have partnered with the likes of NVIDIA, AWS, Google Cloud, which will help us create AI and automated solutions to address our customers' priorities.
- The result of our investments can be seen in industry rankings - Zinnov, in their 2023 rankings, have rated us as leaders across 14 engineering domains and an overall ER&D leader for the **8<sup>th</sup> year in a row**. Additionally, we've been rated as leaders in Data and AI Engineering Services, Digital Engineering Services and Industry 4.0.

Let me now discuss the **Outlook**:

- The common themes emerging from customer discussion is that spends in CY24 will either increase slightly or remain the flat but will not see declines.
- Secondly, clients are actively considering core vs contextual spends and there will be deals as they try to move contextual work to providers like us.
- Third, there will be cost takeout and value engineering opportunities on product and supply chain as customers focus on higher productivity and efficiency. The contour, size and colour of deals will change and will require deployment of next-gen skills.
- As an outcome of this, we have seen our pipeline improve over the last quarter, deal velocity being similar to Q2.
- We are working on multiple double-digit deals in SDV, AI, Digital and Next Gen communications that will help our trajectory.
- We are expecting strong wins in Q4, and for FY24 we re-affirm our revenue growth guidance of 17.5% to 18.5% in constant currency.

In summary, it is my belief that winter is over and spring is around the corner.

With that, thank you. I will stay back for questions, and I now hand over to Rajeev.

**Rajeev Gupta:**

Thank you, Amit. Good evening to all of you and wish you a very happy new year.

Our Q3 FY24 performance was healthy with double digit YoY growth both on revenue and profitability, and improvement in operating margin.

Let me now take you through Q3 FY24 financials, starting with the P&L.

Our revenue for the quarter was as ₹ 2,422 crores, a growth of 1.5% on sequential basis. Our YoY growth for Q3 came in at 12.3%.

EBIT margin grew by 10 bps to 17.2%, largely driven by gross profit margin improvement. The EBIT margin is in line with our aspiration of 17%+ for FY 24.

Moving to below EBIT,

Let me talk about Other Income

Other Income was ₹ 49 crores, higher on sequential basis due to onetime gain from release and consolidation of facilities.

Our effective tax rate for Q3 was 27.6%, in the range as our expectations of 27.5%.

Net income for the quarter was up 13% on a YoY basis and came in at ₹ 336 crores, which is 13.9% of revenue.

Moving to balance sheet, let me highlight the key line items.

DSO came in at 102 days at the end of Q3, flat as compared to Q2; Unbilled days was 18 days in Q3 compared to 16 days in Q2. The combined DSO, including unbilled stood at 120 days compared to 118 days in Q2, which is within our target range of 115-125 days for the year.

Talking about Cashflow.

Our YTD Free Cash Flow was at ₹ 628 crores, which is at 65% of Net Income.

This fiscal, we have incurred higher capex for technology investments and consolidation of facilities. We aim to improve collections and DSO to drive higher FCF conversion going forward.

Our cash and investments stood at ₹ 2,273 crores at the end of Q3 versus ₹ 2,270 crores at the end of Q2. This was flat due to interim dividend payout of nearly ₹180 crores in November.

Moving to revenue metrics.

On a sequential basis, \$ revenue growth was 0.9%, both on a constant currency basis and in reported terms. We saw a broad-based growth in Q3 with all segments growing quarter-on-quarter, led by Medical Devices segment.

The segmental margin performance was better in 3 out of 5 segments on a sequential basis, with improvements in Transportation, Telecom & Hitech and Plant Engineering segment.

Now let me comment on operational metrics.

The Onsite:Offshore mix has moved slightly towards Onsite as compared to Q2. Offshore percentage now stands at 58.7%. We continue to work on measures to gradually improve this metric for our aspiration of 60%.

The Fixed Price revenue mix was 38.5% in Q3, higher compared to Q2 on account of movement in milestone-based contracts.

Client profile – which indicates number of million dollar plus accounts, has shown a sequential improvement of 2 customers in the \$20M+ category. The client profile will continue to improve in the coming quarters.

Client contribution to revenue – Has shown a slight improvement in the Top 5 & Top 10 Categories as compared to Q2. We expect revenue from top customers to improve going forward as we are running targeted programs on client mining.

Headcount decreased sequentially by 582 employees on account of initiatives to improve productivity, while Attrition dropped by 90 bps to 15.8% as a result of both internal employee engagement measures and reflecting the industry wide trends.

Realized rupee for Q3 was around 83.3 to the US dollar, a depreciation of around 1% versus Q2.

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

Despite a challenging year, we have delivered consistent margin so far and continue to remain focused on maintaining FY24 EBIT margins at 17%. This will continue to happen through a combination of revenue growth, operational rigor, productivity improvements and cost optimization measures.

Amit has already highlighted that; we are seeing all 5 segments grow and have a good pipeline of opportunities across segments. With technology shifts towards SDV, AI, Next Gen Communication and Cybersecurity, we will continue to make necessary investments to support capability building and future growth.

Having said that, we maintain our medium-term aspiration of 18% EBIT levels by H1 FY26.

With that, I now hand it over to the Moderator for questions. Thank you.

**Moderator:**

Thank you very much. We will now begin the Q&A session. The first question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

**Vibhor Singhal:**

Yes, hi. Thanks for taking my question and congrats on a very solid performance. So, Amit two questions from my side. One question is a very thrilling concluding statement from your side that the winter is over and spring is around the corner.

So just wanted to understand, I mean, what has changed vis-à-vis three months ago that gives you this confidence? I mean, the deal wins had been strong for us through the year, and we have been giving quite solid performance as well. We are looking to grow 17.5% - 18.5% this year now, which we were also expecting at the end of the last quarter. So, what has changed in the client conversations or the outlook or the demand environment which gives you the confidence to basically say that?

And then I have a follow-up question. Basically, a bit on the mathematics of the revenues. I mean, last time, I think we had discussed that SWC business has a seasonality for better H2 than H1. This quarter, the Telecom business doesn't appear to have grown sharply on a QoQ basis. And now as per the maintained guidance, the ask rate for Q4 becomes very high, around 5% - 8%. So, is that seasonality in SWC more Q4 driven? And how does this math for the guidance work out to be?

**Amit Chadha:**

Vibhor, thank you so much. So, number one, Vibhor, when we talked in October, what I had mentioned to you was that we were polling our customers, talking to them, asking them what's happening, where is their head right now in terms of spend, etc.

So, what we have seen is, as we continue to close deals quarter-on-quarter, and I had also shared with you that deals are taking longer – that has not changed. Deals are taking longer to close, they are taking double the amount of time, effort, etc.

We had built up a good set of deals that were in play and that have because just by the sheer volume of those, they continue to close on a regularized basis, and that's what we have announced and you've seen that. There are still deals in play right now as I speak that potentially could close in the next couple, three weeks that will help us in the current quarter as well & this is across the board. This is not just SWC. I want to confirm that.

As we have talked to our clients, what we take away is that we believe 4 things that come out at a very broad level. 1) Software Defined 'everything' is something where people continue to create spend areas for CY24. 2) Broad commentary from our customers and their actions thereon have been that they don't see cuts in CY24. They see steady or slightly higher in CY24. So, we are starting to see some of those ramp-ups for ourselves as well. 3) People are going to a lot more regionalized and localized supply chains, and that means a lot more work in Plant Engineering and Digital Manufacturing, and we are seeing that as well as a positive. And finally, there is an acknowledged shortage of talent, engineering talent in Europe, and we have seen advantage of that as we've seen Europe growing for us.

So, with all that said, if I may, we do believe that CY24 should bode well. And again, we continue to work on this. We continue to have conversations. We continue to meet our clients and be in the marketplace. In fact, I'm actually heading out tonight, I am flying back. Very short trip. I want to stay in the market if I can. Our President Markets is leaving today. We want to

make sure that we are as much in the marketplace with our clients as possible, and that gives us a little bit of confidence as we stand today.

**Vibhor Singhal:** Got it. Very helpful, thanks for that detailed expansion. My second question, if you could take that please, in terms of the maths for Q4, which appears to be quite high in around 5% - 8%. So, is that going to be a seasonality thing driven by SWC? Is that going to be a recurring feature of the business now that we have this, when you had mentioned H2 to be better than H1?

**Amit Chadha:** So, thank you so much Vibhor, to ask that. So let me state this. My math in constant currency is approximately between 4% - 7% sequential growth. And I can confirm to you that as we stand today, I am fairly comfortable between that 17.5% - 18%, and we are working towards the upper half of the range. There is a number of deals in play. We are anticipating some large deals that will add revenue in Q4. In addition, there is a ramp-up anyway committed for Q3 deals – that have started. So, I hope that gives you a complete answer.

**Vibhor Singhal:** So just to extend on that. So, you got that math. So that 4% to 7% growth you're seeing is going to be a broad-based growth, and this is not necessarily driven by some seasonality in SWC?

**Amit Chadha:** I am confirming that the 4% to 7% growth will be secular across verticals, barring Medical, which I said will be muted in the immediate term.

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

**Amit Chadha:** Yes.

**Moderator:** Thank you. Next question is from the line of Dipesh from Emkay Global. Please go ahead.

**Dipesh:** Yes. Thanks for the opportunity. Two questions. First, just want to understand about the two empanelment agreement which we highlighted. Can you just provide more detail, whether the deal which we announced, that is part of that deal or these are two separate things? And this quantification may be separate. So, if you can provide some sense about the quantification or maybe potential size of this engagement. And whether it is different in the way we earlier used to have deal signings. So, if you can provide some context to it.

Second question is about the medium-term aspiration, \$1.5 Bn, which we indicated. Can you provide some sense? Because it still requires significant growth trajectory to continue. So, like Q4, we expect 5-odd percentage kind of thing for next four quarters. So, if you can provide some colour around it. Thanks.

**Amit Chadha:** Thank you so much. So let me address the \$1.5 Bn first, and then I'll go to the others. Our aspiration to be \$1.5 Bn remains. It did bake in some amount of inorganic part, and therefore, we are evaluating it. So please allow us, when we come back in April – at the end of the March quarter, to come back and give that clarification to you. We have an active M&A pipeline as well. So please allow us till March to come back and give that clarification completely to you. But the aspiration is there. It still remains, that's number one.

Now on empanelment, etc, I'll answer it two ways. So, there are six \$10M + deals, okay? And of that six \$10M, one is a \$40M deal, the second one is a \$20M deal. The third one, which I want to call out is a cyber \$10M +deal. And then there are three other \$10M + deals.

In addition to this, there is an empanelment with bp. We are calling it an empanelment. It's the beginning of a relationship which we will work together on and build up in the areas of green energy as well as digital transformation. We will work with them. And we are going to work very hard to see how we can get this to a top 10 client for ourselves. We're working very hard with our customer, developing that relationship. There's a team already working, and it will contribute positively to the revenues of the company for FY24.

The second one, I would request my President Markets to talk about a little bit, and that is an empanelment for Software Defined Vehicles with an Auto OEM. Alind, over to you, if you want to give a little colour on that.

**Alind Saxena:**

Right. Thank you, Amit. So, as you are aware, we have made broad investment in SDV over the years. We have created some solutions. This is one of the fulfilment that has come through. There is an increased traction that we have on SDV. There is a lot of work which is going to be done by the OEMs as they take control of the complete vehicle history and future. So, we are one of the selected parties. The ramp-up has actually already started in different geographies. We expect it to continue over the next few quarters, with the majority of that happening between this quarter and next quarter, and then it will stabilize, or it will grow as we see the demand come back. But we're excited about this.

We also can confirm to you that there is another one that we are working on with a major Tier-1, which we should see in the next few weeks come through as well. Both of them add to the SDV story that we are developing, and this is to be played out over the next year.

**Dipesh:**

Thank you.

**Moderator:**

Thank you. Our next question is from the line of Ravi Menon from Macquarie. Please go ahead with your question, sir.

**Ravi Menon:**

Hi. Thank you for the opportunity. I just wanted to ask about Automotive. Do you think that if the European Union dilutes 2035 sunset for ICE engines, that could be potential headwinds in the traction we've seen in Automotive?

**Amit Chadha:**

Thank you so much for that. Look, I would look at the Automotive spends coming out actually in multiple areas. So, it's not just electric. The Transportation spends are coming out in Software and Connectivity. They're coming out in Electrification, of course, Hybridization. They're coming out in Connected Mobility, in the area of additive manufacturing and in interiors. So, there've multiple parts.

In fact, think about a car as an experience zone, a transmission zone and connected zone. I mean, that's broadly how you look at a car. So, there are various kinds of spends that are happening. And we believe that that should continue. Also please realize that the kind of work that we get

is generally about, on a model year, that's about four years out. So, these short-term blips here or there don't impact the design cycles. If anything, they're a lot more planned, etc. So, at this stage, for Q4, for next year, we do think Transportation will continue to grow across Automotive and Commercial vehicles.

**Ravi Menon:** Great. Thank you for that detailed answer. And on Aerospace, you had been empanelled by Airbus, if I recall right, as one of the strategic vendors. So, I know that unlike say, one of our competitors, we don't have any manufacturing facility as such. So, do you think this is a disadvantage for you in Aerospace compared to peers who have that capability?

**Amit Chadha:** No. Because look, Manufacturing is a very different ball game. We are not a manufacturing entity. We are an Engineering & Technology Entity. We are in fact seeing, in the Aerospace and Rail & one of our wins, \$40M+ win has been in comms in the rail network area, we believe that there's a lot to be done on connectivity around & there's a lot of stuff to be done in avionics, and we'll see how things progress.

**Ravi Menon:** Thank you so much and best of luck.

**Moderator:** Thank you. Our next question is from the line of Bhavik Mehta from JPMorgan. Please go ahead with your question, sir.

**Bhavik Mehta:** Thank you and Happy New Year to the management. So, three questions. Firstly, just on the quarter itself like what surprised you positively and negatively in terms of the demand in the different verticals.

Secondly, last time, you had spoken about pressures in Telecom & Hitech, Plant Engineering and Medical. Now you highlighted that Medical still remain under pressure but is the worse over in terms of demand for Telecom & Hitech and Plant Engineering and will we start to see growth accelerate from here on?

And lastly, on the guidance, 4% to 7% for the fourth quarter. How much of this confidence is coming from the deals which have already been won and you started ramping up vs the deals you are aiming to close in this quarter? Basically, trying to understand what is the risk that you miss the guidance when you report in April? Thank you.

**Amit Chadha:** So let me address it this way. The positives that we saw in the current quarter was 1) All five segments grew & that is important for us. 2) Positive sign for us was the lowering of our attrition rate because our attrition rate came down further. 3) 53 patents that we have filed in AI & then there's a lot of others in terms of the deal wins, etc, that we have had.

The negatives, very honestly, if I look at it, was that I would have potentially hoped the number of vacations and the number of furloughs could have been slightly lower and would have helped us a little bit in this quarter. But no harm done, because I do see that work life balance is becoming very important for our colleagues across the world and people are taking serious vacations or seriously taking vacations. So, we are seeing that impact coming in the last 2 years on us, and it's a trend. I'm seeing that & on a different conversation, I'm happy to dwell more

into details. But we've seen that, post-COVID, people taking a lot more vacations than they normally do. So that was & not strictly a negative, but was one of the things that we had hoped for differently.

Now let's go to guidance and our confidence. So, if I look at it, it's a 4% -7% growth sequential that we are looking at constant currency. So, if I take 4% -7%, I think 4%-5.5% – do the translation – We talked to you already about the fact that the lower end of the guidance – I'm fairly confident about. It's the upper end zone of the guidance that I'm working towards. So, if you translate that to the quarter, that's what I'm working towards. And we'll see how it goes, and we'll keep you appraised as we move forward. So, the lower end of the guidance includes already the stuff that is ramping up and the upper end will include stuff that we'll win as we take forward.

**Bhavik Mehta:** Okay. Just on the vertical, so Telecom & Hitech and Plant Engineering going to grow from here on? Or do we see some pressure out like in Medical?

**Amit Chadha:** I'm sorry, can you repeat that, Bhavik? It was a little unclear.

**Bhavik Mehta:** I was asking, the Telecom & Hitech and Plant Engineering verticals, have we reached the bottom over there and can we start to see growth accelerate from here on? Or do you think it's going to be gradual recovery which might take another three to six months.

**Amit Chadha:** Thank you. So, Plant Engineering, we are hiring very actively. And I do believe that you will see growth from here on & don't see a problem in Plant Engineering. Hitech as well, you will see growth will be there. It will be a slightly more gradual than Plant Engineering. Plant Engineering will pick up faster and prior to Hitech in terms of % growth.

**Bhavik Mehta:** Okay, that's helpful. Thank you.

**Moderator:** Thank you. Our next question is from the line of Akshay Ramnani from Axis Capital. Please go ahead.

**Akshay Ramnani:** Hi, thanks for taking my question. So, first question is on the geography side. So, Europe has been doing very well for us for the past 4 – 5 quarters & US at the same time has been flattish. So, can you explain this dichotomy and help us understand which verticals in Europe are doing well and which verticals in US are pulling the growth down?

**Amit Chadha:** Okay. So, I'll give this thematically. So, if I look at Europe today, Europe is growing on the back of three or four things. Number one is Transportation, number two is there is growth in partly Industrial Products and partly Plant Engineering. There is not a lot of Medical in Europe, it's very small. So that's where you're seeing the growth areas coming from. Digital Manufacturing, which plays into Industrial Products & Plant Engineering as verticals and even in Transportation. So, we're seeing that growth in these four areas. So, Transportation, Industrial Product, Plant Engineering, and Digital Manufacturing – which is a horizontal, is where we see growth in Europe. And you are right. The team has done very well. We are proud of the team. I'm thankful to our delivery and sales leaders that have together made this happen. If you remember, some

quarters ago, there was a question with Europe strategy & I had promised you that we will come around, and I'm happy that, that growth is very visible.

Now let's go to the US. The US has got all five verticals & we've been constantly challenged in Telecom & Hitech area. And at one time, there was a weak Semcon, there was a weak ISV, and that had been the problem. In the current quarter, currency wise it has shown a degrowth. But I want to confirm to you that from a geography standpoint, which includes some India currency billings or rupee currency billings, US has grown but not on the same pace as Europe, but it has grown. Leading the growth in US today is by Plant Engineering, Transportation, IP and Medical, while Hitech has been pulling it down.

I do have confidence that as we move forward into the subsequent quarters, there are some deals that are being talked about within the US & in Europe and as they fructify, you will start to see this balance getting better.

Last, ROW. I do want to confirm that Japan in constant currency grew for us yet again in this quarter, and you will continue to see growth in Japan. Japan is largely focused on Automotive, IP and a little bit of Hitech. And all 3 of those have done well for us.

We are trying to build Medical in Europe & Japan, we are trying very hard. It takes a little bit more time because this is a conservative sector. Work continues to be done in this area. But I assure you, same time next year, I should be able to give you more in Medical & in both these areas.

**Akshay Ramnani:**

Thanks for that detailed answer, Amit. So, another dichotomy which I wanted to tie in was your comment on the winter being over, and the headcount metrics which we saw are reducing this quarter. So, I guess last quarter also, we fell short of our initial target of getting 750 net adds. In H2, we were supposed to onboard 1,000 additional freshers, but it looks like it didn't happen in Q3. So, can you help us reconcile this dichotomy of a good demand visibility but a reducing headcount in Q3?

**Amit Chadha:**

So, winter and spring also comes with wearing sweaters and taking them off and wearing jackets and taking them off. So, part of de-layering happened as winter got over. So, we have de-layered the organization. On a serious note, we have reduced some areas, we have consolidated certain areas and functions, and you have seen that impact in headcount reduction in support staff between last quarter and this quarter. That is over. What we had to take as actions is complete. So, you will see positive headcount going forward, but we are improving our utilization in billable headcount – though we don't announce the exact utilization numbers anymore, but we've actually improved utilization by more than 100 basis points, and that has helped us in being able to bill more as we move forward. You will see positive headcount as we go forward. And that's part of our balancing act as we move forward to take it forward.

I also want to confirm to you that we have made whatever offers we had made to campuses, we will honour all of that and conclude getting everybody on board with the time we end March. And we have made close to about 1,200 offers for next year to freshers already, and we are actively looking at how many more we need as we move forward.

- Akshay Ramnani:** Thanks for taking my questions.
- Moderator:** Thank you. Our next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.
- Abhishek Shindadkar:** Hi, good evening. Thanks for the opportunity and wish everyone a happy new year. Sir, my first question is on the organic growth. I know you may not dissect the number the way we would like. But if I had to ask you that what we did until now and your commentary of Q4, is it a fair assessment that the organic growth for the current year is relatively better than what we had thought at the start of the year?
- Amit Chadha:** So, Abhishek, a very happy new year to you as well my friend. See, look at it this way, we've actually merged the whole thing. In fact, I was telling the Board also today. If you say SWC for me now, it's actually an accounting method that I'm having to do it externally, do it for purposes of comparing stuff, but I can tell you that operationally, it's all one team now. There are people that were supporting our India programs have now actually been deputed to support the cyber win that we have had where we have started work. There's a telecom project with an operator & an OEM that we had won last quarter, and same team is supporting them as well. I look at some of the work, I have had to fly in a couple of people from India into the Middle East to have conversations on some comms project. In fact, some of our international talent & domestic talent have worked hard to win this \$40M win that we have had, etc.
- So difficult for us to parse it. But I do want to say that our overall growth that we've had this year, of course, we've had surprises, and we've continued to share with you whenever we have seen those, etc. But as we move forward, I believe it's one team providing a lot more secular growth as you see things go forward.
- Abhishek Shindadkar:** Thanks, sir. Thanks for the elaborate answer. My second question, again, is more about FY25. I know it's a little early but given your comments that standing in FY24 Jan, you appear to be more confident than in Jan 23 – So, if I take those two comments and again go back to the organic guidance that you started off last year, would it be fair to assume that next year's guidance, at least the base case scenario, should be the starting point of last year?
- Amit Chadha:** So, Abhishek, my request will be please allow us another couple of months to go back, talk to clients, look at how things are going because it's a developing situation. We of course are optimistic, but I want to be a little cautious here.
- That's why I said spring is around the corner, I didn't say 'spring is here.' So, allow me to travel to 'spring is here' and come back to you. Please allow us April, and I promise you that we will again come back, provide a detailed colour to you on where we see things. But like I said, initial client conversations, CY24 looks to be better than CY23. No reductions that I've heard of.
- Abhishek Shindadkar:** Great. Thank you for taking my question and best wishes for the year.
- Moderator:** Thank you. Next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

**Sandeep Shah:** Yes, thanks. Thanks for the opportunity. Amit, the first question is one of your large peer on the engineering R&D has called out that he's seeing green shoots on the discretionary engineering R&D spend. So, are also witnessing the same? And if yes, is it across most of the industry segments which we operate?

**Amit Chadha:** Sandeep, I will say that if I look at the five segments, right, that we operate in, I definitely see more regionalized supply chains creating more opportunity in Plant Engineering and Digital Manufacturing. If I look at Hitech, we do believe that AI as well as Semcon will play a better part in FY25 and CY24 as opposed to others. If I look at Industrial Products, there is some pain still in some subsegments, but anything connected to Oil and Gas seems to be growing.

If I look at Transportation, OEMs are doing well. Select Tier 1s are in a problem, but there are select Tier 1s that have transformed themselves and their business models and are doing well. If I look at Medical, I continue to see them being conservative. But there is enough and more work to be done once they get over the conservatism.

One reality also is, Sandeep, that legacy spend is not growing. And that has been part of the challenge that we've had in FY24 as well, and the spending that we are doing, investing and creating AI solutions, in building next-gen CoEs, tying up with AWS, Google and NVIDIA, filing these patents in AI, all this is to be able to refresh the skill set. We've actually trained more than 2,000 people already in AI. And the whole goal is, we are aware, we know legacy spends will continue to go down.

So, I may answer it another way. In three years' time 60% of what we are doing today will be different while we continue to grow. We have to acknowledge it and then we have to invest in it, I can promise you, growth will continue. But if we continue to depend on legacy spend, it will be a problem.

So those wheels are turning. Like they say, change the wheels on the bus while it's running. That's what's happening right now.

**Sandeep Shah:** Okay. This is really helpful. Amit, is it possible to share the split in terms of legacy revenue vs digital revenue for us?

**Amit Chadha:** See, again, I may again say it another way. More than 60% of our revenue is digital. But what was digital three years ago, today have moved to being into support mode and therefore wants to be minimized. So, look at it this way. See, there will be more optimization. And when I shared with some of you a case last time, there's a Gen AI model that we have created & it's called our eAI framework that we've created, and it's on our website. And we were able to take a particular test case & machines that we were testing in 1,700 hours, we were able to do it in 176 hours. So that's the kind of cut that you're looking at. So, unless you are clear, unless you are able to ramp up, unless you are able to provide more value, and like we have done, we've gone into hardware. So, Gen AI is not just software and data, its actually hardware, which is HPC, Hyper-Computing, Embedded Software Development as well as AI apps and Data. And that's why you've seen us tie up with NVIDIA, with AWS, with Google because we believe in this four-layer architecture, and that's where we think we will prevail and be relevant as opposed to others.

**Sandeep Shah:** Okay. Thanks for the detail answered. Just one observation. If I look at the 4QFY23, my comments – including SWC, we have grown at 10.4% sequentially. And within that, almost 74% of the incremental growth has been driven through SWC. But I think this year, we are saying fourth quarter growth may not be skewed towards SWC seasonality, it would be evenly spread out. Is it the right way of looking at it?

**Amit Chadha:** So SWC does have a seasonality in Q4, and that will be there. But I'm confirming to you that the other three verticals other than Hitech will also grow. And this is a quarter in play, so we'll see what percentage they grow at.

**Sandeep Shah:** Okay. Thanks, and all the best. Congrats on a good execution.

**Moderator:** Thank you. Our next question is from the line of Girish Pai from Nirmal Bang Equities Private Limited. Please go ahead.

**Girish Pai:** Thanks for the opportunity. Amit, when you said the winter is over, is that applicable only to you or for the broader ER&D players in the market?

**Amit Chadha:** Look, I do believe and somebody quoted our peers, the larger peer as well about green shoots. You heard us talk about – somebody talks green shoot, somebody says winter and spring. So broadly, I think that I do see that & I'm not being biased because I'm responsible for L&T Technology Services or an engineering company, I'd say in general for the industry. Look, I do believe that ER&D has a different cycle than IT. ER&D is being leveraged by customers far and wide to create new revenue streams, to be able to fortify their market positioning with more, better products; at times, shoring up their bottom line by being able to improve the supply chain path. So, there is a direct correlation to top line and bottom line by ER&D.

So, I have seen, in my more than a decade in this sector, that this sector actually helps clients pull out of a bad year. It helps clients in improving and changing their services to their customers, and therefore it's a tool. So, I would say that the green shoots or winter done spring around the corners, seems to be an industry phenomenon that you should look at.

Again, to be seen as you move forward. And step by step as we move forward. I assure you, as we come back to you in April, we have conversations with you between now and then, we'll continue to keep you appraised and as we move forward. But one reality is that the pipeline is bigger than we had same time last year. We continue to ideate. We continue to reconfirm, etc, and continue to create proposals and take it to our customers, and value propositions.

**Girish Pai:** Okay. My second question, there have been a lot of media reports around slowdown on the EV side. There's some discussion around inventory buildup and all that. So, is that having any impact on the Auto ER&D services side?

**Amit Chadha:** So, look EV, there's no I mean, and I'm sure you guys read a lot more on the subject, that EV component suppliers are in a problem because a lot of those components are being provided from China at different price points to what European and US Tier 1s are able to provide at. That is creating a kind of a shift where a lot of US and European Tier 1s are trying to get to lower

price points on the equipment, on the components that they are supplying by doing value engineering, etc. So, there is that spend that is there.

But there is bigger spend in Software Defined Vehicles that is coming out by the OEMs and a lot more work happening on the SOC side for Automotive that is there. And I believe that overall, the spend may remain the same, the colour of it may change from one pocket to another.

**Girish Pai:** And lastly, you mentioned about 4% to 7% as a range for growth for 4Q. Does the 7% depend on some of the deals that you're going to win in the quarter and 4% is broadly in the bag because it's based on your deals won by 3Q?

**Amit Chadha:** My dear friend, I should say it like this. I do feel very comfortable with the lower end of that 4% to 7% range that we have talked about. But I can't say it's in the bag because I have not invoiced it yet, the quarter is not over. But I'm reconfirming to you that the lower part of that 4% to 7% is I'm comfortable with. The upper part of the 4% to 7%, we are working towards, and there are deals in the quarter that have to be closed and there is an immediate ramp-up to those, and we know what those are, etc.

**Moderator:** Thank you. Mr. Girish Pai may we request you to return to the question queue for follow-up questions. Our next question is from the line of Surendra Goyal from Citi Group. Please go ahead.

**Surendra Goyal:** Amit, Happy new year. The billable headcount reduction of 2% is not usual ahead of a sharp recovery, 4% to 7% kind of growth, at least based on what we have seen in the sector in the past. I'm just trying to understand, what are we missing here? Is the nature of deals changing significantly? Are there more system integration driven business or anything that we should be kind of aware of when we are thinking about this dynamic?

**Amit Chadha:** Sure. Thank you. So here are the following – the things between Q3 and Q4 that you should think about. Number one, the number of working days in Q4 are higher than Q3 and the number of leaves and furloughs in Q4 are much lower as compared to Q3, So that's one reality.

The second one is that we have optimized headcount and we have been able to improve utilization and we will continue to do that as we move forward. Third, we have had people join us earlier in the quarter now rather than later in the quarter, and that will again give us that. So there will be an element of system integration that will come in as well. So, it's all those four playing out together.

**Surendra Goel:** Understood. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question of our Q&A session. I would now like to hand the conference over to Mr. Pinku Pappan for closing comments.

**Pinku Pappan:** Thank you, everyone, for joining us on the call today. We hope we were able to answer most of your queries. We look forward to interacting with you down the quarter and helping you

understand more about our journey. With that, moderator, we can close the call. I wish everyone a very good day, and goodbye from all of us here in the management team. Thank you.

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

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