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National Stock Exchange of India Limited,
Exchange Plaza, Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051

The BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

NSE Symbol: LTIM

BSE Scrip Code: 540005

Dear Sir(s)/Madam,

Subject: Transcript of Earnings Conference call held on October 17, 2024

With reference to the captioned subject, please find enclosed transcript of the Earnings Conference Call held on October 17, 2024.

Kindly take the above on record.

Thanking you,

Yours faithfully,
For LTIMindtree Limited

Angna Arora
Company Secretary and Compliance Officer

Encl: As above

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LTIMindtree Limited is a subsidiary of Larsen & Toubro Limited



“LTIMindtree Limited
Q2 FY '25 Earnings Conference Call”

October 17, 2024

MANAGEMENT: *Mr. Debashis Chatterjee – Chief Executive Officer & Managing Director*
Mr. Sudhir Chaturvedi – President, Markets
Mr. Nachiket Deshpande – Chief Operating Officer
Mr. Vipul Chandra - Chief Financial Officer
Mr. Vikas Jadhav – Head, Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to the LTIMindtree Q2 FY '25 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 star then zero on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Vikas Jadhav, Head of Investor Relations, LTIMindtree. Thank you, and over to you, sir.

Vikas Jadhav: Thanks, good day, everyone, and welcome to LTIMindtree's Quarter 2 FY '25 Earnings Call. Today on the call, we have with us

Mr. Debashis Chatterjee, Chief Executive Officer and Managing Director;

Mr. Sudhir Chaturvedi, President, Global Markets;

Mr. Nachiket Deshpande, Chief Operating Officer; and

Mr. Vipul Chandra, our Chief Financial Officer.

So, we'll begin with a brief overview of the company's quarter 2 FY '25 performance, after which we will open the floor for Q&A. Just want to remind you that during the call, we could make certain forward-looking statements. These statements consider the environment as we see as of today and carry risks and uncertainties that could cause our actual results to differ materially from those expressed today in today's call.

We do not undertake to update any forward-looking statements made on this call. You can find these forward-looking statements in our earnings release also.

With that, now I turn over the call to DC for his opening remarks.

Debashis Chatterjee: Thank you, Vikas. Good evening, and good morning to everyone on the call. Thank you for joining us today. I'm happy to report that Q2 was a good quarter marked by broad-based sequential growth we experienced across all

our verticals and geos, and several multiyear deal closures in manufacturing, energy and utilities and BFS verticals. We consolidated our standing in an existing account through vendor consolidation and long-term revenue commitment, securing a US\$200 million plus TCV over a 5-year period. Our large deal pipeline remains robust with several deals nearing final decisions. These positive trends are reflected in the strong hiring of over 2,500 employees during this quarter. We also opened 22 new logos during the quarter.

With that preamble, let me summarize the numbers. I am pleased to report a sequential growth of 2.8% in U.S. dollar terms against the backdrop of a largely status quo IT spend environment. Q2 revenue stood at US\$1.13 billion and was up by 4.4% in constant currency and 4.7% in dollar terms on a year-on-year basis. On the margin front, the EBIT margin for the quarter stood at 15.5%, an improvement of 50 basis points sequentially, and the net profit margin was at 13.3%. Q2 order inflow stood at TCV of US\$1.3 billion.

In a continued challenging macro environment, the need for a substantial shift in pivot towards AI is quite clear to us.

To lead in this new AI influenced business environment, we did a complete LTIMindtree level pivot to an AI-first approach, which continues to drive our success amidst these disruptive times.

I will today share with you our AI strategy, which is anchored in three core principles.

“AI in everything”, ensuring we reimagine everything we do with AI,

“Everything for AI”, creating a supportive ecosystem for all AI innovation to scale within the enterprise.

And lastly, “AI for everyone”, democratizing AI for the benefit of all stakeholders.

Let me elaborate further on these three components of our AI strategy. First, we will adopt AI ourselves and transform the way we work by infusing “AI in Everything” we do. For example, we are enhancing experiences with

the help of Gen AI-augmented creatives and content; we are also running and optimizing campaign operations with AI powered tools. Our knowledge fabric-driven agent and Copilots-based IT operations, is helping unlock the next level of efficiency and productivity. We are leveraging AI for legacy modernization. For security operations, we are focusing on AI-driven threat detection and response. We are using Vision AI for industry 4.0 use cases, like defect detection in metals. We are reimagining platform operations with an AI first approach in areas such as underwriting, claims processing and customer service operations.

We also recognize the challenges our customers are facing in scaling AI for the enterprise, which could be in the form of trust in data, cost of scaling, AI safety, adoption or human impact. To address these challenges, we collaborate with our customers to engineer platforms that enable AI at scale. This commitment forms our second principle, “Everything for AI”, which encompasses preparing data foundation and infrastructure for AI, building trust and observability, and implementing the right controls for Generative AI application. Just to illustrate the scale we have achieved in a short span, the LTIMindtree AI platform we launched earlier has been adopted in 40+ customer environments to achieve the same.

The third principle of our AI strategy, “AI for everyone”, focuses on empowering people and humanizing AI. We aim to achieve this by

Firstly, developing copilots and navigator apps tailored for every persona.

Next, creating AI solutions that are humane by incorporating the right guardrails, bias management and trust.

And lastly, addressing use cases that leverage AI for the betterment of humanity and contribute to solving global challenges.

We are already seeing positive outcomes from this strategy, both in terms of value delivered to our customers and the impact on our generative AI-based deals in pipeline.

For example, for a financial services major, we have doubled the first-time resolution percentage for the contact center.

Our “AI in Everything” strategy is driving success across our service line offerings and industry verticals, enabling us to win deals by leveraging Generative AI capabilities. Let me share with you some examples of AI-powered wins for the quarter.

A U.S. global manufacturing leader chose LTIMindtree as a preferred partner for its global application management and transformation services. We used our AI first NextGen operations framework to enhance efficiency, foster innovation and speed up transformation. This opportunity arose from vendor consolidation, where we became the sole partner for the customers from four existing vendors. This was the largest multiyear deal for LTIMindtree.

A major global financial institution selected LTIMindtree to collaborate on modernizing their wealth data platform. We utilized advanced automation technologies along with Gen AI to improve customer experience and broaden the customers' global market reach. This was achieved by developing a new data taxonomy, adopting cloud technology for faster service delivery to clients and partners, modernizing mainframe and reducing operational costs.

We have been selected by a leading U.S.-based energy utility company as its long-term strategic partner for end-to-end IT operations in the AI-first model.

We have won an infrastructure transformation and managed services deal from an engineering major on the back of our AI-powered IT operation solutions.

We are clear about the role of the ecosystem in this pivot. We are consistently launching AI solutions and offerings through our partner ecosystem, which not only amplifies our AI strategy but also acts as a powerful channel for growth.

For instance, LTIMindtree and IBM have launched the IBM AI Innovation Center at Bengaluru's Hebbal campus. This center will develop top-tier solutions to speed up clients AI adoption. It will highlight advanced technologies and innovative AI, machine learning and data science solutions featuring IBM Watson.

We are empowering our workforce by providing them with generative AI tools and training through our Edutech platform, Garuda. This platform offers tailored training pathways based on employee skill levels and technology backgrounds, featuring curated programs from both our internal service lines and partners. Currently, 63% of our workforce is trained and equipped with Gen AI capabilities.

To summarize, our AI pivot and what it means for our business, we remain committed to investing in developing our AI intellectual properties as well as vertical and horizontal solutions. These investments are poised to deliver substantial results by fostering innovation, enhancing operational efficiency and driving a competitive advantage.

Let me now spend some time on our industry verticals. Q2 growth was led by the BFSI vertical, which registered a sequential growth of 4%. Banks focus on cost cutting through restructuring, along with our strong relationship and execution track record have benefited us in gaining market share. We have a robust, large deal pipeline in this vertical with a few deals in the final stages. We are seeing more BFSI clients working towards getting data ready for AI.

After a significant sequential growth of 7.9% in Q1 in the Technology, Media and Communications vertical, Q2 witnessed a further 1.9% sequential growth, with a year-on-year growth of 12%. While cost optimization continues to remain the dominant theme for both hardware and software vendors, there has been a focus on infusing AI and Gen AI in products to enhance customer experience. This is expected to scale up further as the market matures.

The Manufacturing and Resources vertical witnessed a steady growth of 0.7% on a sequential basis and 5.8% on a year-on-year basis. We see continued traction in ERP, while also gaining market share in vendor

consolidation, leveraging our “AI in Everything” theme. As mentioned earlier, we closed a deal of over US\$200 million in TCV in this vertical.

Our Consumer business experienced sequential growth of 2.6%, aligning with the overall company performance. Growth in Q2 was driven primarily by the TTH and retail sectors. We are employing AI to enhance customer engagement and as an entry strategy for some of our smaller verticals.

Following a 7.9% drop in the Q1 revenue, the Healthcare, Life sciences and Public sector vertical experienced a 5.9% sequential growth.

In terms of geography, America, which contributes 75% of our revenue has grown by 7% on a year-on-year basis. Europe contributed 14.4%, and the Rest of the World contributed 10.6% of our revenue.

On the people front, our headcount rose to over 84,000 at the end of the quarter as we added 2,500+ employees during the quarter. For the quarter, our LTM attrition remained stable at 14.5% compared to 14.4% last quarter. We onboarded 1,100-plus freshers this quarter.

This quarter, we introduced an initiative called LTIM Rhythm, our vision of the future of workplace. LTIM Rhythm encapsulates our commitment to fostering a collaborative, flexible and dynamic workplace environment, that not only caters to the evolving needs of our clients, but also ensures the holistic development of our associates. This also helps us in implementing our strategy of “AI for Everyone”, which we articulated earlier.

I will now turn over the call to Vipul for the financial highlights.

Vipul Chandra:

Thank you, DC, and good evening, everyone, and thank you for joining the call. Let me take you through the financial highlights for the second quarter of FY '25, starting with the revenue numbers.

Our Q2 revenue stood at US\$1.13 billion, a growth of 2.8% sequentially, and 4.7% on a year-on-year basis in dollar terms. The corresponding constant currency growth was 2.3% quarter-on-quarter and 4.4% year-on-year.

Our EBIT margin expanded by 50 basis points to 15.5% as compared with 15% in the previous quarter majorly on account of absence of visa costs.

Net forex gains for the quarter increased to US\$9 million compared to US\$1.6 million in the previous quarter.

Leveraging our strong cash position alongside efficient investment management, we achieved an investment income of INR212 crores this quarter.

The effective tax rate for the quarter was 25.8% as compared to 25.6% in Q1.

PAT margin for the quarter was 13.3% as compared to 12.4% previous quarter. Reported PAT climbed to INR1,252 crores this quarter compared to INR1,135 crores in last quarter. Basic EPS was INR42.3 for the quarter as compared to INR38.3 in Q1 FY '25.

Billed DSO increased to 60 days versus 55 days in Q1 '25, which is still a reduction of 8 days versus Q2 of the prior year. The unbilled DSO, however, reduced by 2 days. The total DSO was at 81 days compared to 78 days in the previous quarter. We continue to focus on our billing and collection efficiency to move towards our aspired target DSO of approximately 75 days.

The operating cash flow to PAT was 74.2% as against 109.9% in Q1. Free cash flow to PAT came in at 54.5% compared to 88.6% in Q1. The cash and investment balances stood at US\$1.43 billion or total INR11,974 crores compared to INR11,334 crores in Q1 FY '25. Return on equity for the quarter was at 23.8%.

As of September 30, 2024, our cash flow hedges stood at US\$3,907 million, hedges on the balance sheet were US\$326 million.

Our Utilization, excluding trainees in the quarter was at 87.7% compared to 88.3% last quarter. This is in line with our continued investment in our growth momentum.

The Board of Directors have declared an interim dividend of INR20 per equity share.

We're pleased to announce that LTIMindtree has attained a rank of 13 across sectors and rank 5 in IT and communication sector, in Business World India's Most Sustainable Companies Top 50 listings for 2024.

We're also looking to use our ESG capabilities to help our clients achieve their ESG goals. In line with this, LTIMindtree has launched a new comprehensive digital transformation and ESG platform, Smart Spaces 2.0, which can help with end-to-end ESG reporting across key factors while delivering predictive maintenance and repair input.

These recognitions and actions serve as a testament to our proactive approach to integrating sustainable practices.

I now hand it back to DC for the business outlook.

Debashis Chatterjee: Thank you, Vipul. Despite the challenging environment, our growth remains steady and in line with what we had indicated in the last quarter. We are cautiously optimistic about this momentum carrying forward into Q3. However, historically, Q3 experiences seasonal headwinds as well due to furloughs and fewer billing days, which could moderate this momentum to some extent. Additionally, wage hikes for all employees in Q3 are expected to put pressure on our margins.

Nevertheless, our strategic shift towards AI has resulted in a robust buildup in our deal pipeline. With strong deal wins, sustained deal traction in our key verticals and significant hiring in Q2, including freshers, we are well positioned as we move into the latter half of the fiscal year.

With that, let me now open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: The first question is around the deal pipeline. So just wanted some color around that. How has that grown? And what's the nature of the deals that you have? Are you witnessing more short cycle deals than you did in the last quarter? And is that reflecting into better ACV trends?

Debashis Chatterjee: Sudhir, do you want to take that?

Sudhir Chaturvedi: Sure, DC. So, I think from a large deal momentum perspective, the pipeline continues to be strong. It has grown to over \$5 billion right now from a large deal perspective. In terms of the demand trend that we're seeing, we're seeing significant traction in the BFSI vertical, as you can see in our growth numbers as well. And that vertical is also characterized by having demand, which is, I think short cycle perhaps the wrong term. What we are seeing is that we are actually doing both a combination of deals as well as being opening new logos as well as the new MSAs also that we mentioned last time in our call, where we spoke about how we are being chosen as a preferred supplier.

So, the combination of factors that is now resulting in a pipeline that has a combination of large deals and being on the right side of vendor consolidation as well as demand from a slight increase in discretionary spend.

Sulabh Govila: Understood. Secondly, I wanted to check what's leading to softness in the top 6 to 10 client bucket? The revenue in this bucket has gone down from \$85 million a quarter to now \$75 million, \$76 million in the last 2, 3 quarters. So is there any client-specific issue here that you're facing?

Debashis Chatterjee: I think it's fair to look at the top 40 clients, and we also don't tend to look at on a quarter-to-quarter basis, we rather look at an overall yearly basis. And I think from that perspective, we are doing fairly well. If I look at my top 5, top 10, top 20 and top 40 client segments, the concentration risk has slightly reduced. But at the same time, if I look at the top 40 clients, they are still grown this quarter sequentially. In fact, all the buckets, top 5, top 10, top 20, top 40, there is a sequential growth, which is good for us. So overall, I think the account mining is working, which is what our focus has been, and we are happy about it.

Sulabh Govila: Understood. And the last question is on the margins for Vipul. What should be the impact of wage hike that we should be baking in 3Q? And what would be the offsetting factors that can help you negate the impact?

Vipul Chandra: So in terms of our wage hike impact, you could take it maybe approximately 200 basis points, which will be partly offset by our continued operational efficiencies, which we had started driving any which way, 2, 3 quarters back and which are continuing. Some of those operational efficiency drivers will continue to kind of offset and the growth that we are also looking for. So some of these things will partially offset the impact, but may not be the full impact.

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

Nitin Padmanabhan: So, you spoke about furlough. Are furloughs similar to what you have seen in the prior year? Is it better, is it worse? That's the first one. The second is what are the areas where you continue to see weakness in the market from a vertical perspective where you want to see some improvement? And finally, with regards to the large deals which you announced, that is the vendor consolidation with an existing client, if I'm right? And if that is the case, then in which vertical is this? And by when do you expect to start seeing ramp-up here?

Debashis Chatterjee: Yes. So, Nitin, let me just try to answer one by one. Your question on furloughs. We realized that last year, the furloughs were a little more than what we had anticipated. So, our expectation this year is that the furloughs will be back to the regular levels that we used to have. So, it is not going to be as high as it was last year. So that's on the furloughs.

If you ask me about specific areas, if you look at the growth that we have, in fact, all the 5 segments that we report our revenues on, all the segments have grown. But I would have liked my Travel and Travel Tech (vertical) to do a little better because there are certain situations where some of our clients are dependent on specific issues, which we don't have much control. And that is one area where we are hoping that some improvement happens as we go along.

And from your large deal perspective, the deal that we talked about, and I think we called out in our opening remarks as well, it is part of our manufacturing vertical. And it is a combination of both renewal as well as significant additional scope, almost you can say half, half. And that's how it is a \$200 million plus deal. And the transitions have already started for this deal, so the deal will start ramping up in Q3.

Nitin Padmanabhan: In which geography would that be?

Debashis Chatterjee: It's in the U.S.

Moderator: The next question is from the line of Vibhor Singhal with Nuvama Equities. Please go ahead.

Vibhor Singhal: Congrats DC on a solid quarter. Just two questions from my side. Firstly, on the BFSI vertical, very sharp recovery from what we saw especially in the last 2 quarters of the last financial year. You also talked about some of the deals in BFSI, which are there in the pipeline and we should be able to close very soon.

So just to look at the outlook in the sector, do you expect the growth momentum in this vertical to continue, especially after the interest rates also coming in? What are the specific areas in the BFSI that you're looking at in terms of higher expense, let's say, capital markets or insurance or which part of those businesses? Any color on all those aspects would be helpful. And then I'll have a follow-up question.

Debashis Chatterjee: Yes. Thanks, Vibhor. So, if I understood your question, let me just give you some color on BFSI. We are first of all, very pleased with the growth coming back in BFSI. But specifically, about the growth, it is primarily led by BFS. The growth is fairly broad-based across all the clients that we have. We have been winning these deals in two scenarios. One scenario is wherever we have been incumbent, and there is a vendor consolidation. It has worked out favorably for us. And also in a situation where we have not been present, it's a new logo for us. We have won that kind of deals as well.

I must say that bulk of the wins that we have had in this BFSI has been mostly cost takeout and efficiency-oriented deals. Having said that, our strength in governance, regulatory and compliance also helped in terms of driving some of the spends in this area. And I can only say that the cautiousness that we had in terms of discretionary spend, that has not significantly changed. So, we still see not much of discretionary spend coming back. But as I articulated in whatever opportunities we are getting, there is a significant momentum that we have generated.

Vibhor Singhal: Got it. So the discretionary spend, those remain on hold. That we have not seen any change from, let's say, the last quarter?

Debashis Chatterjee: Yes. I don't think there's much change in terms of discretionary spend. It is yet to come back.

Vibhor Singhal: Got it. Now secondly, we see only high-tech vertical. Of course, we had 2 quarters of very solid growth and this quarter was a bit soft. So any color on that given you spoke a lot about the Gen AI application that we are moving to the Canvas platform. So how is the spend in this vertical? Are the users of the hyperscalers also going to drive the growth in this vertical? And given that will our relationship with the top client that is also the high-tech vertical clients, will that also help us in this vertical, not just immediately, but let's say, over the next 3 to 4 quarters?

Debashis Chatterjee: Well, the thing is the Tech clients, both the Software as well as the Hardware vendors, I think they will always look at the new technologies like AI, Gen AI very aggressively. So the focus still remains significantly in terms of cost take out. And you must have also heard that quite a few clients, they're not necessarily just our clients, they have been also doing some layoffs. But as far as our portfolio is concerned, I don't think there is anything to be concerned about as of now because we still have a good growth coming from across the board in terms of high-tech clients.

Vibhor Singhal: Got it. Just one last question, if I could just squeeze in. In the last call that we have mentioned that large part of our pipeline, we have not pivoted towards cost takeout deals. So is that pivot now bearing us fruits as you mentioned, of the BFSI deals for cost takeout deals? And do we intend to

continue on that path? Or do you believe maybe in the next couple of quarters, we expect the discretionary spends to come back, and then there could be some mix and match of the deal pipeline there.

Debashis Chatterjee: I think the most important pivot that we have done is for us to be ready to support Transformation as well as efficiency deals. I think that's the biggest pivot that we have done in the last several quarters. And at this point of time, we have closed quite a few cost takeout deals, and that is kind of driving the growth. Now when the discretionary will come back, it's very difficult to say. We'll probably get an idea when the clients are going to their budget session, which is not very far away. But of course, as we get to know, we can always share with you, but it's a little too early to predict in terms of what is coming, given the fact that it has been on a pause for quite some time.

And I think what is most important for us is that, as I said, we can play on both the sides. We can play on the cost takeout side, we can play on the transformation side equally well. I think that's the biggest pivot that we have gone through.

Moderator: The next question is from the line of Manik Taneja with Axis Capital. Please go ahead.

Manik Taneja: DC, just wanted to prod you with regards to the near-term outlook that you've suggested. If I understood correctly, you said, the momentum that we've seen in the first half or the first couple of quarters, there should be some moderation to that in the third quarter. And the second question was for Vipul. If you could help us with the quantum of wage hikes that we have implemented and are they implemented for the full quarter? Or unlike one of our group companies, is it a partial impact? And the last one related to margin, if you could talk about your thought process about the medium-term improvement in margins that we were looking to achieve in a couple of years?

Debashis Chatterjee: Let me take the first question, and then I'll request Vipul to cover the other two. So Manik, as far as the H2 is concerned, we are cautiously optimistic about the momentum that we have generated. We have told in Q1 that the

Q1 momentum will continue to Q2 that has happened. But at the same time, we are cautiously optimistic about this momentum carrying into Q3.

Because historically, Q3 has the seasonal headwinds as well as furloughs and fewer billing days, which could moderate this momentum to some extent. But at the same time, the deals that we have closed in the last 2 quarters, they have ramped up and they continue to deliver growth. So, the momentum from that perspective will continue, but the furlough impact is still not known. So, we have to just wait and watch. Vipul?

Vipul Chandra: So, and the other two questions which you asked, I think I mentioned that the impact of wage hike is going to be around 2% on our margin and it is a full quarter impact. As far as the margin improvement, your operational efficiency initiatives that I spoke about, largely is going to be driven by revenue growth and the pyramid correction that we are working on.

And as you would have heard in the opening remarks from DC that we have added 2,500 plus headcount in this quarter, of which 1,100 plus are freshers. So, we are working towards getting that utilization rate down, which we have talked about in the last quarter. At the same time, we are also focused on correcting the pyramid as we go along. And some of those operating efficiencies will keep going on.

Manik Taneja: If I can just chip in with one more question. While not having substantial increase over the course of recent quarters, we are once again beginning to see an increase in terms of on-site mix of headcount. Do you think we continue to see this increase further, given the nature of demand or you would be switching to extract some more efficiencies from a higher offshore mix?

Debashis Chatterjee: Let me request Nachiket to take that. Nachiket?

Nachiket Deshpande: This is actually not a strategic lever that we look at from an improvement standpoint. It is actually a result of our business in specific deals. So, we don't expect that to vary a lot. Let's say there was a marginal increase in the on-site which was this quarter, there is a quarterly fluctuation. I wouldn't read too much into it.

Manik Taneja: Okay. And is there any timeline now for that 17% to 18% EBIT margin that we wanted to achieve in a couple of years?

Vipul Chandra: So again, as I mentioned in the last quarter as well, to get to that kind of a margin number, which we are aspiring for, the journey has gotten elongated mainly because of the external environment as well. Unless and until the industry starts seeing double-digit kind of growth again, it's difficult to kind of move on that journey in a fast manner. So right now, I think the focus has to be more on maintaining the margin and wait for the growth to come back.

Moderator: The next question is from the line of Rishi Jhunjunwala with IIFL Institutional Equities. Please go ahead.

Rishi Jhunjunwala: Most of my questions have been answered. Just one basic understanding of the business as it stands now. Now when LTIMindtree were two different companies, LTI used to have a revenue trajectory wherein second half used to be better than first half in most of the years in a normal spending environment. Is it fair to say that as a combined entity now we are very similar to how some of our larger cap peers are wherein first half typically in a normal environment would end up being better than second half?

Debashis Chatterjee: Well, let me just take a stab at it. I mean, whatever you do, whatever you say, but it also depends on how clients spends are and how the overall macro looks like. So that's an experience that we had in the last fiscal. But at this point of time, as we see, the momentum that we have had in the first half and the deals that we have closed, ramp-up that has to happen, that momentum should continue, barring the uncertainties and the seasonality that we have in Q3. I think we should just leave it there and see how it plays out rather than trying to get ahead of ourselves.

Rishi Jhunjunwala: Right. The other question is just in terms of the kind of yield we are generating on our investments and cash. It seems to be north of almost 8%. So just wanted to understand the nature of investments we are doing?

Debashis Chatterjee: Let me request Vipul to take that.

Vipul Chandra: So in terms of the investments that we are doing, I think most of the investments are in mutual funds on the debt side, either money market or G-Sec and corporate bond portfolio in the mutual fund. The better investment efficiency that we have been talking about has been more proactively shifting the duration in line with the change in interest rate environment in the market, which has helped up generate or catch the interest rate move properly as it has happened in the market.

Moderator: The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: I have two questions on furloughs and let me ask them together. First, I just want to understand how to read furloughs? When you say furloughs this year would be a more normalized furloughs, does that mean that the pressure on budgets are easing and therefore, because furloughs generally coincide with budgeting cycle. So does that kind of suggest that budget next year could also be normal?

That's question number one. And question two is some of your peers have said that furloughs this year would be similar to last year. But that could be because of difference in portfolio clients, etcetera. So, when we say it is more normalized, which areas or which vertical we are seeing furloughs normalizing? And is there any pockets where you see that furloughs could still be similar to last year?

Debashis Chatterjee: Okay. So, it's a little too early to predict about the budget cycle, etcetera, given the fact that in the U.S., elections are also on our way. So as far as budgets are concerned, budget for this year was already baked in and furloughs are normal. And what we had last year, again, furloughs are also reflective of the portfolio of clients that we had. So, from that perspective, we are going to be definitely better compared to last year in terms of the furloughs that we, better from a positive way from our perspective.

So that's all I can say that last year was a little different, but we'll get back to a normal furlough year as far as this year is concerned. But difficult to talk about budget, with all the U.S. elections and all these things overhanging on us.

Moderator: The next question is from the line of Abhishek Pathak with Motilal Oswal. Please go ahead.

Abhishek Pathak: So, on discretionary spend, our comments are, I think, slightly cautious as compared to the players who have reported so far. Just wondering like what's the divergence here? I mean, is it a portfolio mix? Or is it a more short-term election-led or furlough-led approach that's leading us to be slightly cautious? That's one.

And the other bit is, of course, the growth this time has been fairly broad-based. So is it fair to assume that whatever recovery that's happening on the client side is now finding more legs and it is becoming more widespread. And just if that is the case, how comfortable are we on the headcount? What's the comfortable level of utilization that we think we should operate at? And in case growth really comes back in earnest, how would we sort of look at the hiring strategy from hereon?

Debashis Chatterjee: So, Abhishek, you asked quite a few questions. Let me see if I can remember an answer. First is when you talk about discretionary, let me just take a step back and explain to you how we will normally classify the programs and the projects that we do for our clients. One is the efficiency, longer-term cost takeouts. That's number one. Number two is when clients are investing in terms of building out new applications, which is like could be revenue facing applications, front-end applications, etcetera.

That is pure discretionary spend. And I would say there is a third category, which is clients also have to deal with a lot of regulatory stuff, like governance, regulatory compliance stuff from time to time, which is not exactly a maintenance, but they need to still spend money to get those things out of their way.

Now I don't know as far as we are concerned, we try to identify our programs in these three categories. But for some, maybe the regulatory and the discretionary could be the same thing. So we don't know how people classify. But as far as we are concerned, we definitely have been seeing a lot of traction in the cost takeout. We have been seeing a lot of traction in terms of governance, regulatory, compliance wherever we work with our

BFS clients. On the discretionary when clients are trying to build new applications, I think it has been kind of on a pause for the last more than 5, 6 quarters.

And I think once the U.S. elections are over, probably there will be some initiative from the clients in terms of looking at discretionary. But as of now, it is fair to say that except for AI-related investment, which clients are doing, where we are participating with them, I don't think there is any other area where clients are spending on discretionary. So that's the first part of your question. I think what was the second question?

Abhishek Pathak: Just a bit around hiring and if the growth recovery is more broad-based, what's the comfortable level of utilization? And how do we hire from here?

Debashis Chatterjee: So I think this quarter is a very good quarter for us because we are able to report a broad-based growth. And all the segments that we report on every segment has grown, which is a very good news and which is a very positive sign. But of course, we will expect that the growth continue to be broad-based. So, from your perspective, from our perspective of utilization, we definitely -- we have always called out that we are operating at a utilization which is probably slightly higher than what we would like.

Our target utilization range will be something around 85%, that will be ideal. And one of the reasons why we were operating for the last several quarters at a slightly higher utilization is also to ensure that we get the benefit of the two organizations coming together, utilizing the bench from two organizations so that we kind of reduce the bench and make best use of it.

So there was a specific design why we could operate at a higher utilization. But obviously, as the growth comes back, we will aim to be at 85% utilization and which will also kind of mean that there will be a headcount addition accordingly. We always try to add the headcount based on the business scenario. I think you can do the math, and you can see that there will be headcount addition from this point as we go along.

Moderator: The next question is from the line of Rahul Jain with Dolat Capital. Please go ahead.

Rahul Jain: Yes. It would be great if you could give some color both quantitative and qualitatively on the deal signing during the quarter.

Debashis Chatterjee: We don't really talk in too much of detail, but Sudhir do you want to give some color?

Sudhir Chaturvedi: Yes. We reported an order intake of \$1.3 billion. I mentioned the overall large deal pipeline also of \$5 billion. And being on the right side of vendor consolidation deals. The deal momentum continues to be good across. So pipeline is also strong and healthy across the board. And so I think in terms of the verticals that we are winning deals, again you can see it's a combination of BFS as well as manufacturing leading the deal win cycle, but we're also seeing opportunities across all our verticals in terms of the large deal activity that we see.

Rahul Jain: And just one bit on the consumer side of the business, if you could give any color how we plan to revive growth prospect here. Again, the deal win does not feature this space? So anything more input here would be helpful.

Debashis Chatterjee: Yes. And I think this will be. Sorry.

Sudhir Chaturvedi: We already mentioned that there is some softness that we are seeing in a couple of our travel clients and our Travel Tech clients. I think that's when I talked about the pipeline, the pipeline is across all verticals, including the consumer business. So we expect as we enter the new calendar year, I think things will start to improve there.

Moderator: The next question is from the line of Aayush with B&K Securities. Please go ahead.

Aayush: So, a couple of questions. So first is again on the consumer business. So just wanted to understand more that when we said that some of the clients are having some issues in the TTH vertical. So, when are we expecting those client issues to get resolved? Or are there any kind of green shoots to be available that we are seeing and the growth from the next quarter or maybe like in the next-to-next quarter?

The second question is for on the margin front. So if I see that our SG&A cost has been trending upwards, not that much, but yes, definitely quarter-on-quarter basis, if we see 12.5% becomes 12.7% and then 12.8% as a percentage of revenue. So what sort of comfortable range are we having that can subsidize the SG&A expense? And are we like investing in towards hiring the salespeople to chase to large deals or some kind of investments are we doing there?

Debashis Chatterjee: So, on the first question that you asked, since you are asking for something very specific, let me tell you that the Travel and Travel Tech clients that are part of our portfolio, they are also dependent on specific airline manufacturer, which is the Boeing in terms of delivery. I think that is something which is a well-known fact that there has been severe issues, and I think they have been forced to scale back in terms of their spend and which is impacting us. I always say that what happens to us is a reflection of not only just the industry, but the section of clients we have as a part of our portfolio, and that's going through. Hopefully, there should be some turnaround, but I don't think it's easy to say at what point of time things will change.

And as far as the other thing within the consumer portfolio there is the real estate portfolio and ever since the interest rates have been very high, there has been impact. But as the interest rates and the mortgage rate come down, I think hopefully, there should be more opportunities in terms of spend with those clients. I think that will be my way of looking at the consumer business. I'll request Vipul to answer your other question.

Vipul Chandra: So, I think the other question was on the SG&A cost going higher in this quarter and whether we are comfortable with this increase, and it will come back.

So answer to that is that we have had some seasonal events, sales event, which come up in this quarter, either in Q1 or Q2. And that's the reason for this increase in Q2 versus Q1. Minus the sales event, if you look at the SG&A, then it would have been probably a bit lower. So, our operating efficiency steps include steps on controlling the SG&A costs as well.

Aayush: Just a follow-up for Sudhir, if you can just explain because we are having a bit more exposure to the SAP. So, what sort of traction are we eyeing for the SAP because we are hiring on the SAP front and what is the kind of demand are we seeing on that front?

Sudhir Chaturvedi: Sorry, I didn't quite catch that question, please. Could you just repeat it again?

Aayush: So, I just want to understand more about from the SAP angle, like how are we eyeing the demand traction from the SAP and the hiring front, specifically for the SAP capabilities?

Debashis Chatterjee: Are you referring to SAP?

Aayush: Yes, yes.

Sudhir Chaturvedi: Okay. Yes, from an SAP perspective, we know that there has been an increase in demand because of the S/4HANA implementations that our clients are doing. Again, we're working on several implementations right now. We are a top-tier partner of SAP. So for us, the ERP segment, which is what we call our core service line offering is continuing to grow well. And there is good traction in that market. Again, some of that is reflective in the growth and the deal signings that we are seeing in the manufacturing vertical specifically.

Moderator: The next question is from the line of Girish Pai with BOB Capital Markets. Please go ahead.

Girish Pai: I have three questions. Did I hear it right that the wage impact will be about 300 basis points? That's question number one. Second, would the average resource cost for a Gen AI skill infused IT service organization be higher? And the third is with regard to mainframe modernization, especially in the BFS space, there's been a lot of talk of Gen AI changing the picture there. Are you seeing anything changing on the ground on this particular aspect?

Debashis Chatterjee: So, let me request Vipul to take the first question and then...

Vipul Chandra: On the first question, I think what I had said was 200 basis points, not 300. So, I think that's a simple answer.

Nachiket Deshpande: And when it comes to the Gen AI skill set, it will be across the spectrum. So if you talk about key talent, which can build algorithms, platforms and models that talent would be an expensive talent because it's a very niche and very in-demand capabilities. But if you look at the large part of our talent pool that will need knowledge of using Gen AI in improving their significant productivity. And that's where I think we are focusing on building that talent ground up, cross-skilling and upskilling all of our talent to be able to leverage Gen AI capabilities.

Of course, there are some additional skill sets that we would require as well as around data tagging, around content moderations and a lot of these skills that are needed in order to fine tune and train the models. That's a very different skill set than what we traditionally had. And will also come at a very different price point and a different background as well. So, we need to look at it. It's not one thing that will define, but there will be continuum of those skill set with the Gen AI.

And the other part is mainframe modernization. DC already referred to one deal in his prepared remarks which included in BFSI segment which had a significant mainframe modernization component in it. And we are seeing a good traction around mainframe modernization, especially driven by Gen AI team, which can significantly cut the lead time and the cost required to modernizing all those applications.

Moderator: Ladies and gentlemen, we take the last question from the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: I actually wanted to take your thoughts around GCC activity that we are seeing, including with some of our larger hospitality clients recently. So, would be great to get your perspective as to how you think this plays out for our business over the medium term?

Debashis Chatterjee: Well, Manik, GCCs are not something that is happening today. It has been there for several years. And we, as a company, have been very clear that we

have to work with the GCCs and coexist with the GCCs, because if you look at the strategies of the GCC, they also have a very clear view in terms of identifying areas where they work with partners.

So, we are working with many of our clients who also have GCCs working with them with the U.S. teams as well as with the GCC. So that will continue. So, I don't think there is anything specific that we need to worry about. We just need to continue what we have been doing.

Moderator:

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. On behalf of LTIMindtree, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Safe Harbour

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