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October 20, 2023

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 18, 2023

With reference to the captioned subject, please find enclosed transcript of the Earnings Conference Call held on October 18, 2023.

Kindly take the above on record.

Thanking you,

Yours faithfully,
For LTIMindtree Limited

Vinit Ajit Teredesai
Digitally signed by Vinit Ajit Teredesai
Date: 2023.10.20 21:28:18 +05'30'

Vinit Teredesai
Chief Financial Officer

Encl: As above

"LTIMindtree Limited's Q2 FY'24 Earnings Conference Call"

October 18, 2023

MANAGEMENT: ***Mr. Debashis Chatterjee*** *– Chief Executive Officer & Managing Director*
Mr. Sudhir Chaturvedi *– President, Markets*
Mr. Nachiket Deshpande *– Chief Operating Officer*
Mr. Vinit Teredesai *– Chief Financial Officer*
Mr. Vinay Kalingara *– Head, Investor Relations*

Moderator: Ladies and gentlemen, good day and welcome to the LTIMindtree Limited Earnings Conference Call. Please note that this conference is being recorded. 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 management's opening remarks. I now hand over the proceedings to Mr. Vinay Kalingara, Head Investor Relations, LTIMindtree. Thank you and over to you, sir.

Vinay Kalingara: Good day, everyone, and welcome to the LTIMindtree Quarter 2 FY'24 Earnings Conference Call.

Today, on the call, we have with us

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

Mr. Sudhir Chaturvedi – President, Markets;

Mr. Nachiket Deshpande - Chief Operating Officer and

Mr. Vinit Teredesai - Chief Financial Officer.

We will begin with a brief overview of the company's quarter 2 performance, after which we will open the floor for Q&A.

During the call, we could make forward-looking statements. These statements consider the environment we see as of today and carry risks and uncertainties that could cause our actual results to differ materially from those expressed in today's call. We do not undertake to update any forward-looking statements made on the call.

I will now turn the call over to DC for his opening remarks.

Debashis Chatterjee: Thank you, Vinay. Good evening, and good morning to everyone on the call. Thank you for joining us today.

We are pleased to report strong financial and operational performance in Q2 despite an ongoing challenging business environment. Our results highlight the strength of our capabilities, our disciplined execution, and the exceptional value that we continue to deliver to our clients as they navigate their current business priorities while also transforming for the future.

Our revenues came in at a healthy USD 1.08 billion, which marks a year-over-year growth of 5.2% in USD terms and 4.4% in constant currency. Our sequential revenue growth in constant currency was 1.7%, and in USD terms, it was 1.6%.

Our Manufacturing and Resources vertical continues to grow, with a year-over-year increase of 16.2% in USD terms. Our BFSI vertical grew 5.9% year-over-year in USD terms and is navigating an environment of caution within the industry. Our Hi-Tech, Media and Entertainment vertical showed a decline of 1.3% year-over-year due to a higher base but continued its growth momentum sequentially, registering a growth of 1.9%.

Geographically, our North American market, which accounts for 73% of our revenues, grew by 6% year-on-year, while Europe continued its strong growth trajectory with an impressive 10.2% increase year-on-year, both in USD terms.

Our EBIT margin for the quarter came in at 16% after absorbing wage hikes across the board, and our net profit margin was 13.1%.

We added 30 new clients in the quarter. On a year-over-year basis, we increased our count of USD 10 million+ customers by 13, while our USD 20 million and USD 50 million clients have increased by 3 each. It is worth noting that we also experienced a sequential increase in our USD 10, 20, and 50 million clients, indicating the success of our cross-sell and upsell through our account mining efforts.

Our order inflow for the quarter was a robust USD 1.3 billion, registering a growth of 20% year-on-year. With this, our H1FY24 order inflow stands at 2.7 billion, a 19% growth over H1FY23.

We continue to see the prioritization of spending from discretionary areas to cost optimization. This is driving significant deal momentum towards large, longer-tenure deals for vendor consolidation.

Our strategy of exploring cross-selling and upselling opportunities within our existing accounts continues to yield positive results for us. While cost optimization remains a primary focus, clients are still investing in projects that have a clear ROI and contribute to their business growth.

I would like to call out a few important deals that we signed this quarter.

One of the largest semiconductor manufacturers in the world has chosen LTIMindtree as their key digital transformation partner to modernize its SAP application landscape, enrich user experience, streamline business processes, and deliver contemporary digital operations across both SAP S/4HANA and SAP Cloud Solutions.

A leading US-based apparel retailer with over 900 stores selected LTIMindtree for a multi-year managed services deal for application and infrastructure services.

A US-based insurance and retirement major has awarded LTIMindtree with a multi-year application development and maintenance program. This program comprises 500+ applications across different services: Development, Testing, and Maintenance.

A US-based global fast-casual restaurant chain chose LTIMindtree as their strategic Digital Transformation Partner to provide Application Development and Support, Data and Analytics, Quality Engineering and Assurance Services.

We remain invested in the integration of GenAI into our solutions. We have engaged in over 100 conversations and have 20+ active engagements with our clients. In addition, we are developing two key offerings on our platform - Canvas.ai lite and Canvas.ai control plane. Canvas.ai lite will focus on productivity use cases for developers, while Canvas.ai control plane will enable secure, moderated, and responsible use of AI with the choice of commercial, open-source, and custom LLM models.

We have collaborated with several partners to revolutionize our offerings and provide unparalleled value to our customers. Furthermore, we plan to train over

10,000 employees by the end of the third quarter. This will help us build a skilled workforce and stay ahead in an ever-evolving AI landscape.

With that, let me now turn to our industry verticals.

Our Banking, Financial Services and Insurance business grew 5.9% year-over-year. Our Insurance vertical has remained resilient even amidst prevailing industry headwinds, owing to significant deal wins. There is continued caution in the sector because of seasonal and macro uncertainties. Large financial institutions are actively seeking opportunities to consolidate and optimize their spend.

Our Hi-Tech, Media and Entertainment business experienced a decline of 1.3% year-over-year due to a higher base, although it grew by 1.9% sequentially. We expect to continue to maintain our growth momentum in Q3.

Our Manufacturing and Resources business showed a healthy growth of 16.2% year-over-year. We expect to sustain our growth trajectory in the manufacturing sector on the back of our expansion into new accounts.

In the Energy and Utilities sector, the outlook remains promising. The increase in large AMS/IMS deals from Utilities clients and our ability to secure such deals indicate expectations of consistent growth.

Our Retail, CPG and Travel, Transportation and Hospitality business grew 4.8% year-over-year. Our Retail and CPG vertical has seen an uptick in the large deal pipeline across its portfolio, with several deals expected to close in Q3. Our Travel, Transport, and Hospitality vertical has witnessed a recovery in the international leisure and business travel sectors.

Our Health, Life Sciences and Public Services business grew by 1%, year-over-year. In the healthcare sector, we are observing significant traction in data-led transformation deals. In the life sciences industry, our domain expertise is increasingly being recognized. I am pleased to share that LTIMindtree was recently recognized as a major contender in Everest Groups' Life Sciences Smart Manufacturing Services PEAK Matrix® Assessment 2023.

In terms of geographies, North America contributed 73.4%, Europe contributed 15.3% and ROW contributed 11.3% of the revenue during the quarter. In the European market, we saw a 10.2% growth, year-over-year, primarily due to the successful ramp-ups in key accounts.

As anticipated, attrition continues to be stable. For the quarter, our TTM attrition was 15.2%, down from the 17.8% recorded last quarter.

I will now turn over the call to Vinit for Q2 financial highlights.

Vinit Teredesai: Thank you, DC. Good evening, and good morning to everyone on the call. In quarter 2, we delivered strong, profitable growth while continuing to invest in our people. We are pleased with our disciplined execution amid the prevailing macroeconomic uncertainty. Let me now take you through the financial highlights.

Our revenues stood at USD 1.08 billion, up 1.6% sequentially and 5.2% year-over-year. The corresponding constant currency growth was 1.7% quarter-on-quarter and 4.4% year-over-year.

EBIT margin came in at 16% compared to 16.7% in the previous quarter. This is after absorbing the impact of wage hike cycle across the entire workforce, including promotions and corrections wherever applicable. The salary hike was effective July 1. The wage hikes resulted in a margin impact of 200 basis points, which was partly mitigated through an increase of 60 basis points due to improvement in utilization, and 70 basis points from operational efficiencies and absence of visa cost.

Our margin improvement program commenced last quarter and is yielding promising results. The program is well on track, and as we continue to take a proactive approach to identify areas of optimization, we remain confident of being in the 17% to 18% EBIT margin range as we exit FY24.

Net forex loss for the quarter reduced to USD 0.3 million, compared to a loss of USD 1.5 million in the previous quarter.

Despite the reduction in surplus cash balance due to dividend payments, we had another quarter of strong treasury income of ₹140 crore due to our focus on treasury and a robust investment strategy.

The effective Tax Rate (ETR) for the quarter was 23.5% compared to 25.0% in Q1FY24.

The PAT margin for the quarter was stable at 13.1%. Basic EPS was ₹39.3 for the quarter compared to ₹38.9 in Q1FY24.

The DSO, including unbilled revenue, remained stable at 94 days compared to 93 days in Q1 FY24. The unbilled DSO has significantly reduced to 26 days compared to 33 days in Q1FY24. The billed DSO has increased to 68 days due to this significant reduction in unbilled. The increase in billed presents an opportunity to focus on collections, and we endeavor to bring the billed DSO below 60 days in the coming quarters.

The operating cash flow-to-PAT continues to improve and is at 92.1% this quarter on account of strong collections as against 89.8% in the previous quarter. Furthermore, FCF-to-PAT has substantially increased from 36.1% to 75.1% year-over-year.

Our cash and investment balances stood at USD 1.08 billion or ₹8,947 crores compared to ₹9,235 crores in Q1FY24.

Return on equity (ROE) for the quarter was steady at 26.9%.

As of September 30, 2023, our cash flow hedges stood at USD 3,612 million, and hedges on the balance sheet were USD 369 million.

Our utilization (excluding trainees) further improved to 86.6% compared to 84.8% in the previous quarter on account of continued bench optimization.

We onboarded 1,400+ freshers this quarter. We continue to align our headcount additions to our requirements based on the demand and our efficiency program.

The Board of Directors have approved an interim dividend of ₹20 per equity share of par value ₹1 each.

We are pleased to announce that we have received three awards at the prestigious Bombay Chambers DEI Awards 2023: First runner-up for Disability Confidence & Inclusion, second runner-up for LGBTQIA+ Inclusion, and first runner-up for DEI Champion.

LTIMindtree has been certified as Water Positive, much ahead of our 2030 target. Our efforts align with the Green Carbon Energy & Environment Services' Water Positive Gold Standard, and we have achieved an impressive 2.8 Water Positive Index.

All these recognitions validate our firm commitment to our ESG goals.

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

Debashis Chatterjee: Thank you, Vinit.

In the face of ongoing, escalating macro uncertainties leading to cautious client spending, we continue to strengthen our position as a partner of choice for our clients. Although we anticipate above-average furloughs in Q3, we are confident that our robust order inflow and healthy deal pipeline will help us deliver a stronger H2FY24, setting a promising stage for FY25.

Our integration activity was a significant milestone in our ongoing path to success, thanks to our team's hard work and dedication. With the completion of this activity, we are now strategically placed to take advantage of the market recovery and further cement our place in the industry leaders' quadrant.

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

Moderator: The first question is from Nitin Padmanabhan.

Nitin Padmanabhan: Second half requires 3.7% CQGR for 7% growth. Do you believe high single digit growth is at risk?

Debashis Chatterjee: Thank you, Nitin. All that we can say at this point of time is our H2 definitely will be better than H1. And as we have covered in our prepared remarks, all the opportunities that we have been focusing on and the deals that we have closed in the last two quarters, they seem to be ramping up well, but of course that is offset by some furloughs and some pressures in terms of the cost takeout in the existing book of business as well. But overall, considering all the aspects, we still feel that our say H2 will be definitely better than H1.

Moderator: We will take the next question from Abhishek Bhandari.

Abhishek Bhandari: Could you please talk about the demand trends in the BFSI vertical and where the client priorities are? On related lines, are the deal ramp ups taking longer than usual?

Sudhir Chaturvedi: In BFSI, firstly, let me just separate banking and insurance. So, in the banking sector, we're seeing clients remain very cautious about spending, and we're seeing that across the board. The deal activity in banking, though, continues to be strong. And there are a few deals that we have signed in the first half of the year and the deal pipeline continues to be strong. These are efficiency, cost takeout type of deals that we are seeing in the market.

But we're also seeing deals where we are seeing some level of investment that certain clients, especially in the FinTech space are making on modernization of their tech stack. So that's the banking commentary. We also expect that the furlough season in Q3 in banking and we expect that to be on the lines that we've seen before.

In terms of insurance, we've grown well, we've had double-digit growth in insurance year-over-year. And we are continuing to see spend in those areas, despite high CAT losses that insurance clients have suffered. But that's mainly on the account that they're continuing to modernize their tech stack.

So, insurance, we see resilience, banking, we're seeing continued deal activity, but cautiousness in spending. In terms of ramp up, actually deal ramp up times are not taking, that's proceeding as per what we sign in contracts. But what is taking longer is essentially the decision-making cycles are much longer.

Moderator: We will take the next question from the line of Ankit Jain.

Ankit Jain: What is the reason for sharp jump in SG&A this quarter? Levers for margin improvement from here on given utilization is already running at 86% plus.

Debashis Chatterjee: I think the primary reason is we have gone through the revisions and the hike cycle as we said from July that is the primary reason otherwise there is no other reason for the SG&A. I mean, if you look at the overall gross margin, I think the impact that you see is because of the wage hikes. Vinit, do you want to add anything?

Vinit Teredesai: And obviously a little bit of a provisioning on a conservative basis that we have done with reference to some of our unbilled revenues, etc.

Moderator: The next question is from the line of Gaurav Rateria.

Gaurav Rateria: How are you able to get confidence on 2H? Is it based on BFSI recovering or led by other verticals?

Debashis Chatterjee: Well, the confidence that we get on H2 is not just BFSI, but across the board. As Sudhir articulated about BFSI, but even if I look at the other industry verticals, we have also baked into the fact that there will be larger than average furloughs and which is going to be extended beyond BFSI.

So, keeping all these things in mind, we also have closed opportunities in Q1 and Q2 and all the deals that we have closed, I think they are going to ramp up very nicely in the next two quarters. That gives us the confidence that, and there's a significant, deal activity right now as we speak, as far as Q3 is concerned. And we expect many of them to close in Q3 as well. So given all those things, the strong pipeline, the deal momentum and the activity, and the deal closures that we had in the last two quarters, which are ramping up nicely, we have the confidence to say that H2 will be better than H1.

Moderator: Next question is from the line of Ruchi.

Ruchi: Could you elaborate on which particular segments of business will see higher than usual furloughs?

Sudhir Chaturvedi: So typically, there are a couple of industries usually banking and hi-tech, which have furloughs in December. But what we are seeing, as DC mentioned, is we are seeing this in more sectors beyond these two. And these two sectors are already cautious about spending. So, it will be on the lines of some of the more conservative furloughs that we've seen in the past.

Moderator: The next question is from the line of Abhishek.

Abhishek: Can you characterize demand trends in BFSI? What services are clients investing in? Any initial thoughts on CY '24 spends and when we could see an acceleration and momentum?

Sudhir Chaturvedi: Well, I think, we are speaking to clients, this is their budgeting quarter. So, they usually budget between October and December for the next calendar year. And we are seeing that, I mean, recent geopolitical tension aside, I think the commentary prior to that was a lot of it would depend on the interest rate cycle, especially in the, both the US and European markets.

But there was a feeling that, you know, there would be, increased spending from the next calendar year. But I think it is yet to be borne out. I would say that we should wait for a few more months or a couple of months more to understand exactly what, impact the recent events are going to have on client priorities going into calendar year '24.

Speaking about us specifically, as DC mentioned, you know, for us on the back of the deal wins that we've had, and despite, you know, some of the commentary that we've shared with you on furloughs, we think both Q3 and Q4, we are poised to make sure that H2 is better than H1. And that's on the back of our own specific, the deal signed deals and continuing deal momentum.

Moderator: The next question is from the line of Karan Uppal.

Karan Uppal: You mentioned that client focus is on cost optimization, which is leading to vendor consolidation. Have you gained market share in the last few quarters? And as a follow up, are you doing that without BPO offerings? And are you able to participate in mega deals?

Debashis Chatterjee: Well, I think when you talk about efficiency deals or cost focused deals, it kind of leads to vendor consolidation. I can only say that we have participated in several vendor consolidations and from whatever we have seen so far, we are in good shape. I mean, of course you win some, you lose some, but at this point of time, we have done very well in the vendor consolidation situations and most of the opportunities that we are chasing right now, it doesn't really have a BPO, but over a period of time, that's something which will be also looking at as we are setting up as we are expanding our platform operations business.

Moderator: The next question is from the line of Apoorva.

Apoorva: Based on the type and nature of deals in the pipeline and the renewal cycle, what is the book to bill required to get to low to mid-term growth?

Sudhir Chaturvedi: See, we've got a strong order book, right? We have 1.4 billion in Q1 and 1.3 billion in Q2. And the Q1 order book included a large renewal as well. So, this quarter's order intake is on the back of essentially multi-year deal wins that we've had, large deal wins that we've had, and continuing momentum that we are seeing in the market.

So, that's where we are essentially, there isn't a direct correlation with book to bill because we know there is a lot of business that is time & material, that is actually won and delivered during the quarter itself. So, it's a combination of factors.

My suggestion is if you look at all our parameters, especially if you see what's happened with our account pyramids. So, our Focus 100 program is paying dividends because our greater than 10 million clients are up 13 year-on-year, 20 million are up three year-on-year and 50 million are also up three year-on-year.

So, it's a combination of account mining, all the cross-sell/ upsell efforts that we're doing, as well as all the large deal invitation. So, the thesis we had going into the merger that these would be the areas that would drive future growth is what we are seeing driving the growth as well as the order book.

Apoorva: A follow-up to that question, how are synergy opportunities or conversion playing out with respect to the $1 billion synergy pipeline that you had mentioned?

Vinit Teredesai: As we have mentioned that the synergy, the cross-sell, upsell opportunities have started playing out. Obviously, at this point of time, we do not think we can publish a meaningful number, but we definitely promise you by the end of the financial year, we will start publishing our synergy benefits, both on the revenue and cost to the extent possible on an annual basis.

Debashis Chatterjee: Yeah, and just to add onto what Vinit said, from an organization standpoint, when you talk to our sales teams and the market-facing teams, they have a very clear view in terms of how to increase the cross-sell and the upsell. Like for example, if you are working with a client and you are delivering three service lines, can we increase it to six service lines? So, there are specific KRAs that we are driving. And if you look at the $10 million+, $20 million+ and $50 million+ accounts from one year back to now, you will see a steady increase in those numbers and that basically means that the cross-sell and upsell is working as we have planned.

Apoorva: Could you elaborate on the outlook for BFSI, any impact seen from the organization restructuring in the large banking account, do you see that as a consolidation opportunity or are you seeing continued cost pressure in that account?

Sudhir Chaturvedi: My commentary on BFS, I already mentioned, the client that you are mentioning, we actually don't see any impact from that. The work that we do has been over many years in key areas of the bank that continue to be the drivers for the bank, whether it's corporate banking, it's governance, risk and compliance. So those areas remain resilient as the bank continues to grow in those areas. I will still call out that banking is a sector that does have furloughs in Q3, but other than that, we do not see any impact.

Moderator: The next question is from the line of Shraddha.

Shraddha: Could you elaborate on the seasonality in the manufacturing business that we see play out every second half? Will it play out this time as well? And as a follow-up, whether the growth in the hi-tech was top client or broad-based?

Debashis Chatterjee: So, let me answer the second question first and I will request Sudhir to add on the manufacturing. See we do not really talk about any client specific, but at an overall level, when you're talking about hi-tech, it has been fairly broad based, I can say. And let Sudhir comment on the manufacturing.

Sudhir Chaturvedi: Yeah, I mean, we expect that it will continue on the same lines as previous years on manufacturing.

Moderator: We'll take the next question from the line of Darshit.

Darshit: Could you provide a view on revenue and both EBITDA & PAT margins going forward in the next two years to three years? And the key drivers broadly along those lines?

Debashis Chatterjee: Well, I think when we came together as LTIMindtree, we had to set certain goals and we set some goals from a short term, medium term, which was mostly focusing on the cross-selling and the up-selling. And we also set a goal from a longer-term perspective where we laid out an aspiration to become a $10 billion enterprise over a period of time. It will take four years, five years, combination of organic as well as inorganic.

And we also set two other goals. One is synergy revenues, as well as improvement of margin over a period of time. We also said the revenue synergy should be more front ended as we go over the next three years, four years. And the synergies in terms of margin, which we called out as 200 basis points will be more back ended. So, these are the things that we are targeting right now. These are the broad level framework that we have laid out.

I can only tell you that, when we came together, day one 14th November last year, we were more focused on the integration. I think we did the integration in record time. We also ensured that all the solutions that we want to take it to the market, the training, our go-to-market, workforce, all those things have been done so that we can do the cross-selling and the up-selling properly.

And just two weeks back, the management team actually met together and we rolled out our overall exercise for the larger strategy, which is like, how do you get to the $10 billion mark over a period of four years to five years? That is kind of underway as we speak. I cannot share any more details at this point of time, but I just want you to know that, we have a short to medium as well as a longer term plan. And we are working towards each of those activities as we go along.

Moderator: We'll take the next question from the line of Ravi Menon.

Ravi Menon: Hi-tech, media entertainment is a vertical that is challenged for most, but you have done well. Is this due to new deal wins, or is it just a matter of different set of exposures, such as lower telecom?

Debashis Chatterjee: Well, I think I will let Sudhir provide some color, but before that, let me tell you that when you work in a particular vertical, you also try to take the best practices and the learnings from one account to another account. I think that's something which is working very well as far as hi-tech and media are concerned. And that's something which we are doing very aggressively as a part of our cross-sell and upsell plan. And what you see is a culmination of that. It's also a reflection of the portfolio of clients that we have.

I mean, sometimes the portfolio of clients is more important than rather than just looking at the overall industry. So the portfolio of clients that we are managing, I think we are able to expand into those clients fairly well, fairly aggressively. Sudhir?

Sudhir Chaturvedi: Yeah. So, we grew 1.9% sequentially this quarter in hi-tech, media & entertainment, and we expect that growth trajectory to continue because the growth is broad-based, it's across multiple accounts as well as new logos. We are also seeing opportunities for essentially, software product development and investments that clients are making in some of this, in their own tech stack modernization, as well as some of their processes from a sales and marketing perspective, some of the investments that they're making. That is something that we see in the pipeline right now, which also gives us a good mix of efficiency spend, plus sort of new product development and some sales and marketing spend.

Moderator: We'll take the next question from the line of Vibhor.

Vibhor: Specific to H2, what is the outlook for BFSI and retail sector? Is the growth that we have seen in the hi-tech in Q1 and Q2 sustainable in the second half of the year?

Debashis Chatterjee: I think Sudhir has already answered that question, but maybe Sudhir you can just briefly summarize once again, if you do not mind.

Sudhir Chaturvedi: No, as I said, overall H2, better than H1 at the company level, which means our two top sectors, in BFSI, especially insurance, will continue to try and be the growth driver for the sector. And the deal activity that we see in banking, which is going to help us maintain the growth that we expect to see. In terms of hi-tech, media and entertainment, we think we've got some good broad-based accounts as well as the new logo related growth opportunities available to us.

So again, notwithstanding the furloughs that we'll see in Q3, I'll just repeat that from an outlook perspective, we expect to see that both of these sectors will show growth in H2 and therefore, the H2 better than H1 commentary.

Moderator: We'll take the next question from the line of Anmol.

Anmol: On the deal wins, we would like to understand from the perspective of LTIM that your peers have indicated strong wins, which is not translating into revenue to that extent to which it should have. Are clients transferring work from one provider to another in lieu of higher efficiency gains or is this something related to pause or cancellation of higher discretionary work won previously?

Sudhir Chaturvedi: So, the deal win momentum is continuing, but I think what we are seeing is that existing programs when they come to an end or clients having reduced budgets in this financial year, that so essentially the second part of your question is where there is some pressure in terms of client spending as well as therefore reflected in our performance and in the existing world, especially the discretionary part of their spend.

But the good thing, as I said, is these multi-year deals are actually structured deals. And we've seen several of them on the table. This gives us growth opportunities over the next three years to five years. And more importantly, also gives us predictability in terms of how we plan for the execution of these deals. In discretionary, you have to do a lot of just-in-time hiring and execution. Whereas here we can take a more planned approach to execute these programs. And therefore, from a longer-term perspective, these deals will stand us in good stead going forward.

Moderator: The next question is from the line of Mohit Jain.

Mohit Jain: This is on the book to bill ratio. The book to bill is not going up. Could it be because the revenue conversion rates are better? From a pipeline or deal announcement standpoint, are we gaining momentum or is it similar to the previous quarters?

Debashis Chatterjee: Well, on the book to bill ratio, I'll let Vinit comment, but where we are right now, I think it's a comfortable range, comfortable ratio. And if I get your second question in terms of announcing deals, when we come to the quarterly earnings, we always talk about the pipelines and the deals and the closures and how the client metrics are moving, but please also understand that wherever possible we do announce deals, but they're also client confidentiality. So, if we don't announce, doesn't mean that we are not winning deals. And what we win is reflected in the other metrics that you see.

Vinit, Sudhir, you want to add anything? If I missed out.

Vinit Teredesai: No, I think so the book to bill ratio as DC rightly said, it is in a comfortable range. Please understand that the nature of deals that we are signing now are definitely long term oriented deals. So, to that extent there is a transitionary phase going on and it will settle down, but we are pretty much comfortable with what we are getting in our order inflow at this point of time.

Mohit: Our margins are slightly below expectations on a year-on-year basis, when would you expect to come back to your planned margins? And a related comment, could you elaborate on the sharp increase in the SG&A in the context of growth?

Vinit Teredesai: So, Mohit, we have always mentioned that what you're comparing today on a year-on-year basis is a merged entity versus two entities working differently. We are now completing four quarters after the merger gets over. So, from next quarter, if you look at it, you'll see a year-on-year comparison of merged entity financials. So, to that extent, you need to have that differentiation available with you.

Secondly, as we have already mentioned in our margin program, if you look at our current quarter also, we have delivered 16% margin, which is just a 0.7% drop in our operating margin after absorbing a 200 basis point of full wage impact. And this is basically because despite a little bit of a challenging business environment, we continue to do our cost optimization program, which is yielding results and offsetting our other headwinds that we are getting.

As stated earlier, we are confident that we will be able to exit the FY'24 with an operating margin between 17% to 18% and build upon that. As mentioned in our Investor Day earlier, we expect a 200 basis point over this 17% to 18% by FY '27.

Mohit: A follow-up on the margin question, the utilization is high, do you think we can sustain it at these levels?

Nachiket Deshpande: Yes. So, I think our utilization is high, but at the same time, the market situation on hiring, joining ratios and availability of talent has also improved. So, we feel confident that we will be able to maintain this utilization and manage our just in time hiring in line with our expected revenue growth.

Anmol: How do you foresee your headcount addition going ahead? Do you think we have to increase headcount aggressively to service growth or do you think there is still room for utilizations to inch up?

Nachiket Deshpande: So, we do not target a particular headcount increase as we go into the quarter. It is always reflective of how our business growth is shaping up. We had three quarters of decline in the headcount. This quarter, with our utilization at the peak, we have seen a net increase in the headcount.

So, we will continue to see the same trend in the next two quarters as well as we go along. As I said earlier, we do not see any need for us to sharply increase our headcount in order to deliver the growth. We will do it in line with the current market conditions and our ability to hire. I think we will be able to do it in line with the growth expectation in the subsequent two quarters.

Moderator: We will take the next question from the line of Abhinav Ganesan.

Abhinav Ganesan: Do you expect BFSI to grow faster than the company average in H2? Is this giving you the confidence of H2 better than H1?

Sudhir Chaturvedi: So, we don't give industry specific color. But what I'm saying is the banking insurance is a key sector for us and we see deal activity and where we are in existing accounts. I think it will remain a key vertical for us and we will see broad-based growth.

The key thing for us is we're seeing broad-based growth across multiple verticals. In fact, DC called out in his comments as well that, retail and consumer goods, for example is place where we have several large deals in the final stages right now. So, growth will come from multiple verticals across the board, so that is what we are focused on.

Abhinav: Would the travel hospitality segments maintain their growth in H2? What are the key drivers of growth in these segments?

Sudhir Chaturvedi: Travel is doing, obviously there's record travel happening right now and the hospitality sector also continues to grow. But there are rising cost pressures there as well, that are being faced in terms of inflation and as well as increase in sort of people costs in those sectors.

We expect those two sectors will continue, some of the modernization or experience transformation work that they were doing and the investments that they were doing are being done over a longer period of time now. But for us, that sector based on, deal wins that we called out in today's prepared remarks as well, then the back of the deal wins will see steady progress in that sector.

Moderator: The next question is from the line of Ashwin Mehta.

Ashwin Mehta: What is our expectation on growth that comes from pass-through in 2H and a follow-up, do you see margins increase from here on in a scenario of higher furloughs, contribution of pass-through and utilization at its highest in the last 10 quarters?

Debashis Chatterjee: We do not specifically talk about pass-through, but I can only tell you that this is very negligible in the overall context of the business. I can say that the confidence that we have in terms of our margin ending up between 17% to 18% exit rate in Q4, this is after factoring all the other impacts that we can have potentially like a furlough, etc. So, we are fairly confident that we should be able to get to that path in Q4 as we have always been saying.

Moderator: The next question is from the line of Girish.

Girish: How would you characterize the mood of clients? Would you say that they seem more optimistic or pessimistic today compared to say six months back? Do you think we will have an annual budgeting exercise, or will it be more tactical spending, which is month by month or quarter by quarter? So, we will probably not get the full picture in early 2024?

Debashis Chatterjee: Well, I can only say that most of our clients have a typically January to December fiscal. So, keeping that in mind, they are getting back on the drawing boards as we speak in terms of their overall plans. I can only say that the cautiousness that we have seen in terms of spend that has continued and that will probably continue till end of this year. Hopefully we should be able to see some spend coming back as we get into the new calendar year. But beyond that, it is very difficult to call out at this point of time unless we go through a few more months.

Moderator: The next question is from the line of Urmil Shah.

Urmil Shah: What is the planned employee addition in H2, is the optimization that you have spoken about of headcount, is that complete?

Debashis Chatterjee: I think Nachiket has already answered that to some extent, but maybe you can just.

Nachiket Deshpande: We do not target a particular headcount or the headcount addition, As we said, our utilization is at a level where we would like to maintain it at that level, may not take it up further. And we continue to look at our headcount addition proportionate to our revenue growth that we are expecting in Q3 and Q4. So, that headcount increase momentum will continue in the next two quarters.

Moderator: Next question is from the line of Rohan Nagpal

Rohan Nagpal: Anecdotal evidence suggests that deal duration is going up. One of your peers came on TV and said that average deal duration has gone up from 2.5 - 2.7 years to 3.2 - 3.5 years. Could you provide some color on the change of duration in the deals that you are currently seeing? That is the first question. Is the growth a result of ACV increasing or increase in deal duration?

Debashis Chatterjee: Well, it is both, but let me explain to you one thing, when you talk about the transformation kind of work, they may be short cycle deals opportunities, but they tend to get renewed as we complete one program and go to the next program. Whereas if you look at the efficiency or the cost takeout deals, you cannot really commit to that efficiency to the client unless it's a slightly longer tenure because you need to understand the environment and then do a few things in terms of whether it is Gen AI or whatever you say. All those things can be done only when you have a longer tenure.

So that's why I may not be able to give you some specific about average deal tenure, but I can only say that the number of deals where the tenures are, higher, those deals are significantly increasing. In fact, most of the deals that we are closing right now are longer tenure deals and more of cost takeout or efficiency types.

Moderator: The next question is from the line of Aniket.

Aniket: Is your margin guidance intact? If yes, what are the levers present to achieve that guidance in FY '24?

Vinit Teredesai: Yes, as I mentioned in my comments, we are confident of exiting the FY '24 with that 17% to 18% operating margin range. And remember that the couple of levers that we have identified, we have talked about pyramid rationalization. While we may not see a drop in our utilization, or increase in utilization, we do not anticipate the utilization may continue at a flat level. So, we'll continue to hire as the need comes in.

We are working on programs which will help us in terms of improving our margins in terms of certain clienteles whereby they have been low. So, productivity efficiency, bench optimization - multiple of these common levers which are available. As you remember that, these two companies came together at a time when both the companies were growing very, very fast. So, we had a little bit of an excess flab into the system.

We had mentioned this very categorically that do not look at headcount additions for the next three quarters, and we will hire as the need comes in. We are using all these levers and they are helping us in terms of offsetting the headwinds that are coming our way. At the same time, obviously our efforts will be to grow our business at a faster pace, and continue to maintain the industry leading quadrant position, which will help us in terms of absorbing some of these headwinds.

Moderator: The next question is from the line of Salil Desai.

Salil Desai: A follow up to Sudhir mentioning that some new deals you are getting are structured deals. Can you please elaborate on what kind of deals these are and the scope of these deals with an example?

Sudhir Chaturvedi: Structured deals are where it's essentially large multi-year deals where, the combination of the scope is usually across multiple towers and therefore, involves global client locations, etc. So, an example of a structured deal would be a deal which involves an element of people take over from our clients, right?

Those deals are structured differently from the normal sort of typical outsourcing deals that we do. So that's what we mean by structured deals, involving other parameters. And frankly, we welcome these deals because this is a good, long-term commits that clients do on the back of, of such structured deals.

Moderator: We will take the final question from the line of Abhishek Kumar.

Abhishek Kumar: When you say 2H better than 1H, are we talking about better Y-o-Y growth or sequentially better 2H compared to 1H? Asking this question as 2H comps on Y-o-Y basis is favorable?

Debashis Chatterjee: Well at this point of time, without getting into too much detail, we can say that 2H will be definitely better than the first half at least on a sequential basis. So that is all I would say and leave it at this point of time. We are very confident that as we said, we have factored in all the furloughs, which seem to be a little more than what we usually used to have, and after factoring all those things, we still feel that, we will have a H2 better than H1, at least on a sequential basis.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. On behalf of LTIMindtree Limited, that concludes this conference call. Thank you all for joining and you may now disconnect your lines.

(This document has been edited for readability purposes)

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