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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 July 17, 2024

With reference to the captioned subject, please find enclosed transcript of the Earnings Conference Call held on July 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
Q1 FY '25 Earnings Conference Call”
July 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
Ms. Nikita Raja – Investor Relations

Moderator: Ladies and gentlemen, good day, and welcome to LTIMindtree Limited Q1 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mrs. Nikita Raja from the Investor Relations team at LTIMindtree. Thank you, and over to you, ma'am.

Nikita Raja: Thank you, Neerav. Good day, everyone, and welcome to the LTIMindtree Quarter 1 FY '25 Earnings Conference 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, Chief Financial Officer.

We will begin with a brief overview of the company's quarter 1 performance, after which we will open the floor for Q&A. During the call, we would 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 this call.

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

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

I want to start by expressing my deepest gratitude to Mr. A. M. Naik, who retired as our Chairman and Board member last month. As a Founder Chairman, his vision and guidance have helped us establish ourselves amongst the largest IT services companies in the country. We are committed to carrying forward his vision and taking the company to greater heights. I

also want to congratulate our new Chairman, Mr. S. N. Subrahmanyam and look forward to his continued guidance.

Let me now share commentary on the market environment and our performance in Q1 FY '25. Though the market environment remains unchanged, we see some green shoots of recovery. Clients continue to focus on efficiency via cost takeout or vendor consolidation deals. However, we are seeing early signs that they are beginning to deploy the savings in additional budget towards kicking off high-priority transformation programs and making foundational investments for AI. We are seeing this play out more in BFSI and Technology, Media & Communications, our largest verticals. Additionally, the ramp-up in deals we had talked about in previous quarters is beginning to reflect in our revenues.

We are pleased to announce Q1 revenues of US \$1.1 billion, growing 3.7% in constant currency and 3.5% in dollar terms on a year-on-year basis. Our sequential revenue growth in dollar terms was 2.5%. On the margin front, our EBIT margin for the quarter was 15%, improving by 30 basis points sequentially and our net margin was 12.4%.

Our order inflow for the quarter was US \$1.4 billion. In the current business landscape with a focus on cost takeout and vendor consolidation, clients appreciate the clear value proposition we bring, and we believe we have significant runway ahead of us to capitalize on this aspect.

Let me highlight a few such deal wins during this quarter.

A major US airline chose LTIMindtree to provide platform engineering and operation services, leveraging its global delivery footprint in the US, UK, Poland and Australia.

A US-based insurance and retirement corporate has awarded LTIMindtree a multi-year Application Development and support program. This program comprises 100+ applications across different services in the new business portfolio.

A US headquartered company that provides data center solutions to hyperscalers, cloud and enterprise customers has awarded LTIMindtree a

multiyear deal to provide port-based management services in application development, data engineering, infrastructure support, testing and ITSM.

Across deals, we see a significant AI play and AI-driven reimagination. We are also witnessing good activity on MSA signing and expect that to drive growth in the upcoming quarters.

Now let me spend some time on our industry verticals. The BFSI vertical grew by 2.9% quarter-on-quarter and de-grew by 2.7% year-on-year. We see BFS customers starting to scale up high-priority programs with momentum across subsegments. Regulatory compliance continues to be a key spend area, followed by data plus AI, consumer experience and vendor consolidation.

Technology, Media and Communications grew by 7.9% quarter-on-quarter and 11.9% year-on-year. Some key themes playing out here include business model transformation and platform operations.

The Manufacturing & Resources vertical grew by 1.8% on a quarter-on-quarter basis and grew by 10.5% on a year-on-year basis with a continued focus on areas of ERP transformation, data modernization and Industry 4.0.

Our Consumer Business saw a decline of 0.7% on a year-on-year basis.

Our Healthcare, Life Sciences and Public Services vertical grew by 0.1% year-on-year.

In terms of geographies, America, which made up 75.1% of our revenue, has grown by 4.4% on a quarter-on-quarter basis. Europe made up 14.4%, and the Rest of the World made up 10.5% of our revenue. We are committed to expanding our global footprint and being the preferred global partner for our clients. We recently inaugurated our regional headquarters in Saudi Arabia's capital Riyadh, as part of the expansion in the Kingdom of Saudi Arabia and the Middle East. This follows the recent announcement of our joint venture with Aramco to create an IT services company in the Kingdom. This will enable LTIMindtree to support, manage and direct its strategic business initiatives in this region. We have also opened offices in Calgary and Shanghai and look forward to expanding our presence in Brazil. We now have delivery presence across all key global locations.

As per our recent survey in collaboration with an external research agency, more than 85% of enterprises are looking to accelerate their AI-related investments. Many customers are progressing from the Proof-Of-Concept stage and looking to deploy AI use cases across the enterprise. Scaling of these AI solutions within the enterprise will require investments in infrastructure, data governance, data lineage, explainability, etc. Our strong presence in these areas gives us a distinct advantage to partner with our customers on their scaling journey.

Knowledge management, customer service, intelligent content insights and generation, document summarization and software engineering are some key areas that are early adopters of AI. I am happy to report that we are assisting a majority of our top 100 clients in AI and related areas.

A key impediment to the broader enterprise adoption of AI is scaling. A platform-based approach is critical to ensure that the right security and responsibility guardrails are consistently adopted. We are systematically investing in our Canvas.ai platform to enable customers in this journey. Our investments in Fosfor, our data-to-decisions product suite and forging partnerships with leading players in this space give us a distinct advantage. These partnerships range from semiconductors to AI governance.

In order to thrive in these disruptive times, it is critical that organizations make a significant pivot to AI. Our strategy of “AI for Everything”, “Everything for AI” and “AI for Everyone” is helping us drive this cultural change within LTIMindtree as well as our other clients.

This culture change will only be effective if the entire organization rallies behind it. To energize the enterprise, we organized our first AI-centric event, “**IgnAIte**” this month across campuses bringing clients, partners, analysts and employees together to explore the unlimited possibilities of AI and our work around the same. This in-person event was organized across 6 cities, 30 units participated in it, which showcased 100-plus solutions, involved 17 partners and hosted 50-plus delegates from the industry and adviser community. Over 20,000 associates participated in this event, which was a tremendous success.

As customers prepare for AI adoption, there is increased spend on tech modernization in Data, Digital Engineering and Enterprise Apps. Efficiency gains from cost takeout and vendor consolidation are freeing up funds to support modernization efforts, which is also driving the uptick in demand.

We are beginning to gain traction in the platform operation service. We have signed our first major deal in this space in tax and mortgage processing. Our focus is on reimagining the existing processes with a platform plus AI approach. We see a good opportunity to leverage our presence in verticals and other service lines to drive end-to-end process transformation for our clients.

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

Vipul Chandra:

Thank you, DC. Hello everyone and thank you for joining the call. Let me take you through the financial highlights for the first quarter of FY '25, starting with the revenue numbers. Fiscal year 2025 started in line with our expectations. For the first quarter of FY '25, our revenues stood at US \$1.1 billion, up 2.5% sequentially and 3.5% year-on-year. The corresponding constant currency growth was 2.6% quarter-on-quarter and 3.7% year-on-year.

EBIT for the quarter was INR13.7 billion, translating into an operating margin of 15% compared with 14.7% in the previous quarter. The absence of project cancellation impact of the last quarter and operational efficiencies led to margin improvement of more than 100 basis points. This was partially offset by headwinds from higher visa cost of 50 basis points and higher SG&A on account of travel and marketing events.

The effective tax rate for the quarter was 25.6% compared to 24% in Q4 FY '24.

PAT margin for the quarter remained flat sequentially at 12.4%, however, reported PAT moved to INR11.4 billion this quarter compared to INR11 billion last quarter.

Basic EPS was INR38.3 for the quarter compared to INR37.2 in Q4 FY '24.

We have achieved further progress in reducing our DSO. Our billed DSO improved to 55 days versus 57 days in Q4. And with that, the total receivable

days, including unbilled, is at 78 days for Q1, an improvement of 2 days sequentially. This is in line with our aspiration of reducing the total DSO.

The operating cash flow to PAT was 109.9% against 89.8% in the same quarter a year ago. Free cash flow to PAT came in at 88.6% compared to 72.6% in the same quarter a year ago. The cash and investment balances stood at US \$1.36 billion or INR11,334 crores compared to INR11,525 crores in Q4 FY '24. Return on equity for the quarter was at 23.9%. As of June 30, 2024, our cash flow hedges stood at US \$3,740 million, and hedges on the balance sheet were US \$269 million.

As a result of a ramp-up in deals won, our utilization, excluding trainees, increased to 88.3% from 86.9% last quarter.

For the quarter, our TTM attrition remained stable at 14.4%. We onboarded around 1,400 freshers this quarter.

We are pleased to announce that LTIMindtree was ranked in the Financial Times Climate Leaders Asia Pacific 2024 for the third year in a row for its best performance in reduction of greenhouse gas emissions intensity, over 2017 to 2022, related to revenue and transparency and sustainability disclosures.

We are also delighted to share that LTIMindtree has attained a fabulous score of 4.7 out of 5 in the FTSE4Good 2024 ESG assessment with environmental and governance pillars scoring a 5/5.

LTIMindtree was conferred the winning award at the “Disability Confidence and Inclusion” category for the second consecutive time at the Bombay Chambers DEI Awards 2024.

Recognitions like these are a testament to our continued efforts on the ESG front to create a sustainable future for all our stakeholders.

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

Debashis Chatterjee: Thank you, Vipul. We have had a positive start to FY '25 and are seeing promising, though early, signs of recovery in demand. We expect the momentum to continue in Q2. The broader macro environment has remained unchanged, and businesses continue to adopt agile strategies to cope with the

economic conditions. We expect the market to follow this path for FY '25, where the focus will continue to be on cost takeout, but also on select high priority transformations. As clients continue building their AI momentum and graduating AI beyond the proof-of-concept stages, we are well-positioned to capitalize on this opportunity. We will remain close to our clients and adapt if there is any significant change in the business environment.

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

Moderator: Thank you very much. The first question is from the line of Abhishek Pathak from Motilal Oswal. Please go ahead.

Abhishek Pathak: So I have a couple of questions. Firstly, on BFSI, could you please help define these high-priority transformation areas and how these have changed let's say, from the past quarter where the banks were just shy of spending on them? That's one. And the second question is on enterprise-wide GenAI, which verticals do you think adopt, they scale up the fastest? In other words, which verticals do you think already have a lot of data estate in place? And secondly which verticals have a better business case to scale up GenAI in your opinion?

Debashis Chatterjee: Okay. Thank you. I'll let Sudhir answer the first question and then Nachiket will follow on. Sudhir?

Sudhir Chaturvedi: So on BFSI, what we are seeing is in a key clients, especially in the banking sector, we are seeing that clients actually are dealing with high priority transformation projects, which had got paused last year as they had focused mostly on the efficiency agenda. Some of the programs that were started during post-pandemic, are now beginning to get accelerated as clients look to reduce their technical debt and build better systems in order to support their businesses.

So that's the overall trend that we are seeing, and that's why those high priority projects are back. We are also seeing vendor consolidation happening in this space as clients look to refresh their vendor landscape and we've been on the right side of the vendor consolidations here in BFSI with several new MSAs signed with top-tier BFS institutions in this space.

Nachiket Deshpande: In terms of the AI adoption, I think it's across the industry. We see many companies across industry segments adopting AI. Of course, BFS and Tech tend to lead based on the already made investments in their data programs as well as significant ROI anticipated on some of the AI business use cases. But we are also seeing good momentum on manufacturing, especially on computer vision-related AIs in the Industry 4.0 area as well as in the healthcare and the life sciences space. So in a way, it's across industries, but these four industries probably would see a lead on enterprise adoption.

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

Nitin Padmanabhan: Hi good evening. In the prior two quarters, we did have some element of pass-through revenue. But if you look at the other expenses, that hasn't really tapered. So just wanted your thoughts on how pass-through revenues have behaved during the current quarter. And the second one was on compensation increases. Do you believe that those are in line for payout next quarter?

Debashis Chatterjee: So I think as far as the pass-through is concerned, the pass-through in Q1 is fairly similar to what we had in Q4. So the growth that you'll see, I don't think the pass-throughs have paid any significant role in Q1. And the other thing is in terms of compensation, we are looking at our Q3, which is the second half of the year, where we will do the wage hike. And we are working through that. We are kind of at the planning stage as far as that is concerned.

Nitin Padmanabhan: Sure. And just one more, if I may. Sudhir, you mentioned that there's a push for high-priority projects at this point in time. There are a couple of elements at play. One, you have elections which are on the corner. And you have enterprises who have maybe not spent for 5 to 6 quarters to the extent that we would have liked. So do you think this is just a bump for elections? Or do you think this is something that can sustain and we should see a consistent improvement from here on. How would you think about it based on what you're seeing in the market?

Sudhir Chaturvedi: So Nitin, if you look our top 3 verticals have all grown. And when we reflect on this, though I commented mostly on BFS in my previous response, I think what we are seeing is that the core modernization efforts, that clients have started to undertake are continuing because that tech that creates problems

with resilience. So what happens is -- in fact, when I speak with CIOs, that's the word that is coming up most often that they're building higher resilience in their IT systems as well as modernizing them, which was the agenda.

So that agenda is a long-term agenda. So therefore, we feel that those projects will continue. Now of course, there are elections around the corner. But I think what we see clients having done is, despite the macro and the interest rate situation, they've actually assumed that for the foreseeable future, I would say, for the next 18 to 24 months, they have assumed a similar environment and are investing on the basis of that. Now we'll see whether the election disrupts that, and that's part of the reason why DC also says that we are calling out this momentum continuing into Q2, and we'll stay close to our clients and see what happens in the H2 of this year.

Moderator: Thank you. Next question is from the line of Sudheer from Kotak Mahindra Asset Management. Please go ahead.

Sudheer: Thanks for the opportunity. DC, first question on your comments on clients deploying additional savings and budget. So are we sort of calling out a trend of pent-up demand playing out here after several quarters of tech spend rationalization?

Debashis Chatterjee: I think if you have listened to our commentary in the last few quarters, we have always been saying that the entire profile of spending shifted from transformation to cost takeout and that cost takeout trend is not changing. It's still going on. And even in the last few quarters we have seen pockets where clients were taking the dollars out from the cost takeout initiative and trying to fund the in-flight transformation.

So that was going on. But now what we are seeing is that is happening a little more aggressively as Sudhir articulated. And that's pretty much for the high-priority programs. They are trying to ensure that they can restart and kind of continue with that. So I think that's what we are seeing and that's where the demand is coming from.

And also if you look at our overall revenues, the deals which we had won which was slow to ramp up, they have finally ramped up. So that is also reflecting in terms of our growth and we have been favourably positioned as

Sudhir said in some of the vendor consolidation. All these things are helping us.

Sudheer: Second question on the strong growth within Technology, Media and Communications. If you can add further color on the subsegment level both in high-tech and comms. Is this growth being driven by the top account or is it broad-based? Secondly, on the communications side, some companies have still been seeing revenue declines here. Any sense on what we are seeing in terms of our portfolio?

Debashis Chatterjee: Okay. Let me request Sudhir to take it.

Sudhir Chaturvedi: So in Tech and Services we are seeing broad-based growth, both in tech and in services. In fact, we're seeing a return to growth in services this quarter. Our comms presence is quite small. In fact, it's a net new vertical for us in certain countries. So we are entering this vertical. We've got a couple of clients. So that's the way to look at our comms presence that this is going to be a new growth engine for us in the future.

Sudheer: Thanks Sudhir. Thank you so much. All the very best.

Moderator: Thank you. Next question is from the line of Vibhor Singhal from Nuvama Institutional Equities. Please go ahead.

Vibhor Singhal: Thanks for taking my question and congrats on a solid performance after two rather dismal quarters. My question was on the client buckets. I think our top five client bucket has been quite strong, probably led by the top line as well and has grown quite sharply, but I think our top 5 to 10 bracket if we see has been an issue I think all through the year. And this quarter also the top 5 to 10 bracket has actually declined both on a on a Q-o-Q and Y-o-Y basis. Why is it that this bucket is something which is kind of dragging our growth down? And what is the outlook on the specific set of clients and then I have a follow-up for Vipul.

Debashis Chatterjee: So Vibhor if you look at the top clients for the individual quarters there could be a little bit of volatility, but on a year-on-year basis I think the buckets are fairly stable. But if you look at the top 40 clients they have shown broad-based growth both on Y-o-Y as well as Q-o-Q basis. So I think we are more

keen to track it on a slightly longer duration rather than just looking at quarter-on-quarter.

Sudhir Chaturvedi: As DC was saying, look at it that at a wider base on the top 40. So the contribution of this from a net perspective of the buckets have increased significantly. So some of these are based on the cusp, the numbers reduced, but if you see the quantum of revenue generated by each bucket that has gone up and that's what we track.

Vibhor Singhal: Got it. So on a coronary Sudhir if I could ask, I mean, the top 40 clients have been doing better than the company average. So that automatically means that the non-top 40 clients have actually been performing rather below the company average. Is there any tail end rationalization that we are looking at or is it just a function of top 40 growing higher than the other guys?

Debashis Chatterjee: I think you hit it on the nail. I think the rationalization of the tail is an ongoing process and that is something which will continue as we go along.

Vibhor Singhal: Got it DC. Thanks a lot. Vipul, just one question from my side on the margins. I think this quarter we of course had a sharp cost in terms of visa cost, but in terms of the utilization which has now reached more than 88%. Going forward, what are the margin levers that you are looking at to take margins back to our premerger margin levers of around 18%. Of course, that will take time for the next 2 years to 3 years. But in the near to medium term what are the margins levers that you're looking at, given utilization at the levels that they are at.

Vipul Chandra: So Vibhor the margin levers that we are looking at are primarily going to be the growth itself which will drive the margins because once the growth comes in and which is what DC said that we expect the momentum to continue in Q2, that will happen. Other levers that we are looking at is pyramid. The pyramid itself has to be corrected over a period of time and that is an ongoing effort which the management team is working on. And thirdly wherever possible we have to reduce discretionary spend to kind of improve the margins. But I would say the first and second are the more pertinent levers for driving the margin growth from here.

Vibhor Singhal: Got it. Thank you so much for taking my question and I wish you all the best.

Moderator: Thank you. Next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: It is a continuation from the previous question. What kind of margins are you looking at from a 1- 2 year standpoint now that a little bit of growth comfort is coming back into the numbers? So that is one. And second while we are looking optimistic from a first half perspective there is no growth in TCV yet. So how should we look at TCV from say last 4, 5, 6 quarters average perspective?

Debashis Chatterjee: Yes. As far as the margin is concerned , we have highlighted earlier as well that we have put a program in place which is to take the margin up over a period of time. I mean there is a very robust program that we are running as far as the margin improvement is concerned. That program is going to be on and margin is not a one quarter phenomena. It's a discipline. So that's the thing that we are trying to do at this point of time.

So given that scenario, our overall goal does not really change. I mean it's just that we called out in the last fiscal that we given where the year was, we probably have to defer in terms of our timeline. So I still cannot define a timeline, but I can certainly tell you that our endeavour is that if the margin program works well then the margin will keep on going up steadily as we get into the following quarters. And what was your next question?

Mohit Jain: TCV growth.

Sudhir Chaturvedi: So on order intake if you look on LTM basis we're comfortable where the order intake is and we've also got several deals which are on the cusp of being signed right now and have moved into Q2. The other aspect to look at is as we have short-cycle demand right now that we are seeing that flows into the order intake as we essentially close that short cycle demand and start to build that. T&M billing that converts from resource requests to billing and then that translates into the order intake and that's what we'll see.

You have to think about it more in terms of -- we saw this trend, I'm just talking in terms of not the level of demand, but the trend when post-pandemic and short-cycle demand starts with resourcing and then picks up, that's what we are seeing. So comfortable with where the order intake is right now.

- Mohit Jain:** So my TCV is flat Y-o-Y. So 1Q '24 versus 1Q '25, if the number is same, is there a change in tenure that you have observed 1Q '25 versus 1Q '24?
- Sudhir Chaturvedi:** No. So actually 1Q '24, we had a very significant large deal that was signed in the High-Tech segment at that time, that's reflected in that order intake that's what you saw. On 1Q '25, think of the deal tenures in terms of the work that we are doing. So as I said these high-priority transformation projects, are long-term projects. So the deal tenure is the same. It's just the way that clients are looking to contract, that is a bit different. I mean it's that short cycle resource-based demand.
- Mohit Jain:** Okay. Thank you, sir. That's all.
- Moderator:** Thank you. Next question is from the line of Manik Taneja from Axis Capital. Please go ahead.
- Manik Taneja:** Thank you for the opportunity and congratulations on the steady performance in the current quarter. Just wanted to get your thoughts with regards to how one should be thinking about hiring for us given where the current utilization is? And also, if you could give us some sense in terms of how should we be thinking about our subcontracting cost maybe over the course of next 12 to 18 months?
- Nachiket Deshpande:** So from a hiring perspective given that we are seeing the similar momentum going into Q2 as DC said, that's also resulting into a pretty significant increase in our demand pipeline. And hence our hiring will increase in proportion to that in Q2 given as you said utilization is at an all-time high.
- So we will have to step up or we are stepping up our hiring in accordance with the demand that we see in Q2. And hence we would see healthy net headcount addition in Q2.
- Manik Taneja:** Sure. And if you can probably further on the sequential improvement, typically between Q1 and Q2 we see a significant improvement in terms of sequential growth rates. Is that something that you are building as a base case for FY '25 as well given what you're seeing with your customer behaviour?
- Debashis Chatterjee:** No, I think if I understand your question you're talking about any kind of headcount movement in Q2?

Manik Taneja: No, DC. My question was with regards to sequential revenue growth improvement that was seen between Q1 and Q2. Historically, that number essentially sees a significant improvement. That's the reason why I was just checking if with regards to the positive commentary on seeing this momentum continuing into Q2, are you expecting similar trends to play out with Q2 growth being better than Q1?

Debashis Chatterjee: You're basically asking something more than what I have already told you. But I think it's fair to say that we have started on a good footing. We have developed a good momentum, and the momentum will continue in Q2, that is for sure. And it's too early to call out for the rest of the year. But at least in some verticals, like I can call out, say, BFSI, BFS especially, I think we can see the momentum continuing till end of the year as well for the full year. But it's difficult to call out every industry at this point of time. But at a broad level, the momentum is continuing into Q2 as well.

Moderator: Next question is from the line of Ankur Rudra from JPMorgan and Chase. Please go ahead.

Ankur Rudra: Just a few questions. Number one, you've mentioned multiple times the momentum has improved and good to hear you sustain. Could you distinguish between what is the change in the underlying demand environment? Because in your prepared commentary you said it's unchanged. Your client mix behaviour and your own execution?

Debashis Chatterjee: Yes. So Ankur, when I say the environment has not changed, it's still a scenario where clients are still focused on cost takeout and efficiency as a priority. I don't think that has changed and that's what we mean by that environment is fairly similar. But having said that, if you have seen the growth in Q1 and if I say that the momentum continues into Q2, the factors are probably a few.

First of all, the deals that we had closed in the previous quarters, they are now fully ramped up, which is helping us. And as I think we have articulated earlier that some of the verticals like BFS, the high-priority projects are kicking off, which means the clients are willing to selectively start the spend. Even in some cases, we have seen some vendor consolidation. We have been favourably positioned in those vendor consolidations. And the other aspect

which gives us the confidence getting into Q2 is we have signed multiple new MSAs this quarter, which will help us in terms of revenues as we go into the next quarters.

Ankur Rudra: And maybe a follow-up to that. I think Sudhir mentioned the short-cycle demand that's coming back. How broad-based is that across industries?

Sudhir Chaturvedi: It's in our top three verticals, which is what I said earlier, which contribute about 80% of our revenue.

Ankur Rudra: Could you characterize this as discretionary or it's not right to characterize as discretionary in any way?

Sudhir Chaturvedi: I think the traditional definition of discretionary, I would not use that. What I would say is that high priority transformation programs, the things that are building resilience, some of the core modernization programs, which is why we are seeing it reflected, and I'll request Nachiket to build on this ,that in the service lines, we are seeing this growth .We are seeing it in data and AI. We are seeing it in ERP and we are seeing it in digital engineering. So those are the three areas which are what I talked about the modernization spend is where they're continuing in the core areas of these verticals in our clients, which is why we feel that this will sustain.

Debashis Chatterjee: And I think we can also add that some of the clients we see, they are making the investments in terms of AI. They are building the foundation for AI, and that's the investment they are looking at.

Ankur Rudra: Maybe just last question for me on the AI side. Is there any way to share how material these AI initiatives are for you in terms of proportion of the contract or proportion of revenues or projects, especially as you move from proof of concept to scale? And also as a follow-on, maybe down the road, will this be more of a revenue driver or a margin driver?

Debashis Chatterjee: Well, let me take a stab at it and then I'll request Nachiket to chime in. See, as far as AI is concerned, our view is that if I just poll the top 100 clients we have, almost 85% of those clients are doing something or the other in terms of AI. And AI is going to be very pervasive. It's like every aspect of your business, you will be leveraging AI. So it is probably going to be difficult to

kind of quantify revenues as far as AI, but rather look at how quickly you can make AI more pervasive within your business.

I think that's the focus we have and whatever we have done within the organization so far, if you heard my prepared remarks where we talked about the event that we organized as IgnAIte, and we are going to repeat a similar thing at on-site with the entire sales population sometime next week, we are pretty much infusing AI into all our service lines so that the organization is absolutely ready in terms of AI.

I think those are the aspects which are keeping us busy. AI is definitely important to have that kind of capability, which will help us in terms of closing opportunities, but it will be all available in pockets very pervasive across the client organizations. Do you want to add anything, Nachiket?

Nachiket Deshpande: And I think DC talked about “AI in everything”, and “Everything for AI”, right? So the second part, as the enterprises are getting ready for AI adoption, their spend is happening in having GPU infrastructure, getting their data strategy right, have trust and explainability on data, make sure the governance on the data is right and then they're building business use cases. So for them to finally deploy AI, the spend happens in these areas, which is where the demand is seen. So if you actually look at it, as Sudhir said, our demand in the service line is a direct reflection of customer spend in getting ready for AI.

Moderator: Next question is from the line of Dipesh from Emkay Global Financial Service. Please go ahead.

Dipesh: A couple of questions. First of all, I just want to get a sense about EBIT margin. I think last quarter, you indicated about more like flattish for the year. Our salary hike now we are giving in Q3. So considering where we are in Q1 from EBIT margin, are we comfortable for more or less flattish kind of EBIT margin performance for the year, and steady improvement subsequent period, which can lead us to our aspirational margin range?

Second question is about hiring. So if you can give us some sense about fresher hiring plan. If you can repeat Q1 number and for the full year, how we are looking at fresher hiring plan?

And last question is about I think some of the places you indicated about core modernization you're seeing some uptick. If I look at your deal intake, it is not showing any material change. So whether client is also dividing the core modernization into bits and pieces kind of thing, which may give you better visibility, but not getting converted into similar deal intake. So if you can give some color around it.

Vipul Chandra: So firstly, I think on your margin question, we are expecting the margins to improve from here on. And yes, the efforts are there as per our margin improvement plan, which we have already put in place to improve the margins as we go along in the year. As we had called out earlier, the only thing we are saying is that the target margin levels that we had talked about earlier that may be getting deferred by a few quarters. So that's why we are not calling it out right now in terms of timeline by which we will reach those levels.

Nachiket Deshpande: Second question was on fresher hiring. So I think as DC said, we had 1,400 intake on fresher hiring this quarter. And for the remaining three quarters in the year also, we are as per our plan on fresher hiring. So there is no change to that. And I think with this current 1,400, we have also exhausted all the backlog of offers that we had in the market earlier. So we continue to remain on target for our fresher hiring plan.

Sudhir Chaturvedi: And in terms of the core modernization response, see the thing is it's an engagement model. So clients are trying to do this within this year. And therefore, there is no time for them to structure this as a deal and put it out to bid, etcetera, which is why I said that is why I called it short-cycle demand. It's essentially a change in engagement model where clients are looking to contract with us. Because you are doing core modernization, you have to do in areas of your strength. We know that this demand is with us. It's the engagement model that is different.

The other aspect as DC mentioned a couple of times is the vendor consolidation is also taking place in the sector. As efficiency agenda continues, those savings are being utilized for these high-priority programs. So being on the right side of both the efficiency agenda as well as the transformation programs is what is leading to our commentary on momentum.

Moderator: Thank you. Next question is from the line of Rishi Jhunjunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjunwala: Actually, most of my questions have been answered. Just a quick bookkeeping one. If you look at our depreciation and our interest expense, we have gone up very sharply over the last 12 months. Depreciation is up by almost 27%, interest expense is up by almost 67%. Just trying to understand what is driving that and if there is any one-off in there?

Vipul Chandra: It's primarily as you have called out depreciation and lease are both relating to real estate investments that we have been making in terms of increasing our office capacity. I think we had talked about it earlier also that post-COVID some of these investments have been lagging and we have been now investing in our businesses and also preparing for our employees to start coming back to office in more numbers. We are also initiating a lot of employee engagement programs in order to increase collaboration and improve the synergies between the employees. So overall, it's an effort in that direction and it's a part of ongoing business investment.

Rishi Jhunjunwala: These are sustainable levels, yes?

Vipul Chandra: Yes.

Rishi Jhunjunwala: Okay, thank you.

Moderator: Thank you. Next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Congrats on the good revenue performance. Want to talk about the BFSI growth. How broad based is it that and which parts of the vertical are we seeing growth in?

Debashis Chatterjee: The growth is fairly broad-based. And as I think Sudhir called out that there are consolidation that we see in some accounts and especially in BFSI, we are favourably positioned in some of the vendor consolidations. And given the current visibility and the momentum at least for BFSI, we can say that the growth seems sustainable.

Ravi Menon: And just a clarification on the TCV. You spoke about MSAs and many of the short cycle programs where it's more about primary material engagement. I

guess this is not really included in TCV because it's not predictable event and contracted demand?

Sudhir Chaturvedi: No. So what happens is as we contract and we get the duration of the engagement that's when it translates into order intake. That's when we take it into consideration. Other order intake is taken as we sign a large deal for example, that's taken immediately. This happens over the course of the year as we staff and build.

Ravi Menon: Okay. Thanks. I appreciate it.

Moderator: Thank you. Next question is from the line of Ashwin Mehta from AMBIT Capital. Please go ahead.

Ashwin Mehta: The first question is in terms of wage hikes. If you can remind us is it 3Q that you are looking at a wage hike this year?

Debashis Chatterjee: Yes, it's a second half of the year and it's Q3.

Ashwin Mehta: Okay. And just a follow-up in terms of hiring. So given where the utilization is and where our headcount is ex of freshers, do you see a substantial headcount addition possibly more laterals skew in that given what you're talking on growth?

Nachiket Deshpande: Yes. For Q2, definitely we see a significant increase in our lateral.

Ashwin Mehta: Okay. And still, despite that we'd still be flattish from a full year perspective because ideally second half should start to have the wage hike impact also for us.

Vipul Chandra: As I said that the margins are expected to remain at current levels or maybe improve from here. But yes, as we decide upon the wage hike quantum and timing to some extent that impact will start playing out. So since we have not yet decided on the quantum, we'll give you further guidance on that as we go along in the year.

Ashwin Mehta: So the last one was in terms of second half seasonality typically, you have a stronger seasonality in second half because of the pass through that kick in for us. Do we envisage a similar kind of a scenario especially when you are talking about the momentum continuing in BFSI in the second half as well?

Debashis Chatterjee: When we called out the momentum in BFSI is because we definitely see that there's a lot of opportunities in terms of, as Sudhir articulated, there is growth that we are seeing, and there are short cycle projects that we are seeing in BFSI. And we anticipate that should continue beyond Q2 as well.

Ashwin Mehta: Okay, thank you DC and all the best.

Moderator: Thank you. Next question is from the line of Anmol Garg from DAM Capital Advisors. Please go ahead.

Anmol Garg: Just two questions. Firstly, I want to understand what kind of deals that the company is winning in AI? So are these more annotation labelling kind of work, which is generally low pricing in nature? Or it includes more of a high-quality work? If you can indicate the typical size and duration of such deals.

Nachiket Deshpande: So most of the deals, as I called out are in the areas of preparing enterprises to get ready for AI. So for us, that AI spend is translating into a significant number of data engineering projects, data lineage, governance-related projects as well as the platform build-out project. As we talked about for enterprise adoption of AI, what's the important element for all enterprises is to look at a platform-based approach in order to have the responsibility and the security elements consistently implemented.

So building out those platforms hence, digital engineering type of demand and then preparing data and explainability and lineage in that data resulting into data and AI-related demand. That's kind of the demand that we are seeing. And of course, there are vertical-specific and function-specific use cases but that is a continuous process. It's like a factory model, the use cases continue to evolve and various functions within the organization continue to build a number of new use cases as we go along.

Anmol Garg: Sure. Secondly, I want to understand your take on the supply buildup. So as we are seeing more discretionary demand coming back should we assume that the company will start materially building up supply. I mean, not just in 2Q but going forward as well? Or are we sticking to just-in-time hiring and use of subcontractors in case there is a demand spike which comes in?

Nachiket Deshpande: Even the last quarter, we had called out, for us our comfortable utilization levels are 85% to 86%. And we are right now almost 200 basis points or even

more higher than our comfort level. So, we definitely will continue to build supply so that we come back to that comfort level of utilization.

And also on the demand, I think as Sudhir said, it's not necessarily the discretionary that we saw in the past but it is more related to the engagement model being short cycle but the demand is around the modernization. So we do expect that the demand is more long term but the engagement models are staffing base and hence, it doesn't show up in the deal wins in the TCVs. But the demand is more secular demand than a conventional discretionary that you would have seen in the past.

Anmol Garg: Sure, thanks.

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

Abhishek: Sudhir, we compared the demand to post-COVID. And separately, you also mentioned about the demand sustaining until December, probably, I did not understand these comments. What I'm trying to understand is that post-COVID, we saw a demand for couple of quarters or probably till almost 18 months. So, can you just reiterate or somewhat elaborate that point?

Sudhir Chaturvedi: Yes, I think I should clarify what I mean by that. See post-COVID what happened was there was a modernization spend across the board, and that involves significant moves, for example, a lot of cloud migration, etc. It was in significant areas, including a lot of work in the experience area, etc.

Which is why there was a combination of essentially transformation projects and significant discretionary spend that happened. Now what we are not seeing is a return of that discretionary spend. What we are seeing is those transformation projects have started around that time, and these are long-term programs, these are Fortune 1000 companies, right? So they run these programs over multiple years. Those programs, if you remember, we had talked about having been paused or slowed down last year as clients look to prioritize the efficiency agenda only. Those are the programs that are now coming back on track.

In fact, pausing those programs has caused some issues in their IT estate. And therefore, clients are looking to get back to those programs and accelerate the

completion of those programs. That is the demand we're seeing coming back. The discretionary part, we have yet to see.

Abhishek: So just a follow-up to that. So you also mentioned about the short-cycle projects. So, fair to assume that at least for the next 2 or 3 quarters the short-cycle projects would fill up our pipelines?

Sudhir Chaturvedi: Yes. I've used the word short-cycle, perhaps the better term would have been sprint-based, right? So most of these modernization programs, as Nachiket was talking about, are a combination of digital engineering, data etc. And these are run in Agile methodology. So the Agile methodology is basically you run sprints and you fund the sprints.

So I think that is perhaps a better way to explain this. There are the sprint-based release of funds is available to us. And that's why we know that this demand is almost exclusive to us and will continue, at least in the sector. We specifically called out BFS as a sector for it, and that's what we are seeing. So that's the way to look at this.

Abhishek: Thank you for taking my question, and best wishes for the future.

Sudhir Chaturvedi: Thank you.

Moderator: Thank you. Next question is from the line of Girish Pai from BOB Capital Markets. Please go ahead.

Girish Pai: There was some discussion around vendor consolidation where there is a refresh of the vendor landscape, and you mentioned the multiple MSAs signed. What is it the incumbents didn't do, which led you to get those number of MSAs?

Sudhir Chaturvedi: I wouldn't say there is one secular trend across all of these MSAs. Each of these MSAs were signed in different verticals with different clients, have different requirements. I think, but what I'm saying is that the vendor consolidation trend continues as part of the efficiency agenda of our clients. And in certain cases, there are some vendor-specific issues that our clients are seeing, which is why they're also looking at consolidation.

- Girish Pai:** And my second question is , the industry has been talking about some ramp-downs and reprioritization by customers. So in this particular quarter, you didn't see any of these clients do that, is that how I should look at it?
- Debashis Chatterjee:** Not at all. We talked about some cancellations in the last quarter before that. Absolutely, there's nothing like that.
- Girish Pai:** One last question, Saudi JV, when will it ramp up? And will it have similar margins to the corporate margins that we have today?
- Sudhir Chaturvedi:** So Saudi JV is in the incorporation stage right now. Multiple jurisdictions need to give us approvals for the incorporation to be completed. So we are in that process right now. It will take time to ramp up. So once we incorporate and start to ramp, we will give you more guidance on that at that time.
- Girish Pai:** Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, we will take that as the last question. On behalf of LTIMindtree, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.
- Sudhir Chaturvedi:** Thank you.