L&T Technology Services
Q3 FY25 Earnings Conference Call Transcript

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Moderator: Ladies and gentlemen, good day and welcome to Q3 FY25 Earnings Conference Call of L&T Technology Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pinku Pappan. Thank you and over to you, Mr. Pappan.

Pinku Pappan: Thanks, Renju. Hello, everyone, and welcome to the Earnings Call of L&T Technology Services for the third quarter of FY25. I am Pinku. Our financial results, investor release and press release have been filed on their stock exchanges and are also available on our website, www.ltts.com.

I hope you have had a chance to go through them. This call is for 60 minutes. We will try to wrap up the management remarks in 20 minutes and then open up for Q&A. The audio recording of this call will be available on our website approximately 1 hour after the call ends.

With that, let me introduce the leadership team present on this call. We have Amit Chadha – CEO and MD; Abhishek – Executive Director and President; Alind Saxena – Executive Director and President and Rajeev Gupta – CFO. We will begin with Amit providing an overview of the company performance and outlook, followed by Rajeev who will walk you through the financial performance.

Let me now hand the call over to Amit.

Amit Chadha: Thank you, Pinku. Let me start by wishing all of you and your families an amazing 2025 filled with happiness, prosperity and health.

The last quarter, Q3 has been a strong one. Let me share key highlights of our performance:

- Revenue grew by 3.1% in constant currency led by our Tech and Sustainability segments where the demand outlook has been steadily improving.
- Tech led the growth with 11.1%, followed by Sustainability with 4.0% in constant currency.
- Our 'Go Deeper to Scale' strategy under which we made focused investments in the first half of the current fiscal has started yielding early results - visible in our deal bookings, growth and margins.

  - In Q3, we had the highest ever large deal bookings aided by eight deals across segments - one $50 Mn deal, two $35 Mn plus deal, two $25 Mn plus deals and three $10 Mn plus deals.

  - We continue to see a robust edition to the large deal pipeline - on the back of engagements with customers on both new-age product and platform development and business transformation.

  - In line with our aspiration, EBIT margin in Q3 has improved by 110 basis points to 16.2% excluding non-operational expenses on account of M&A.

- Additionally, Intelliswift acquisition was completed earlier this month. My compliments to Rajeev and the entire M&A team and Intelliswift leadership. Intelliswift will help us enhance our AI, digital and software product engineering capabilities, and expand the addressable market for us, thereby offering us a higher growth trajectory in the future.

- Over the years, we have been building a platform to recognize and celebrate engineering innovation being done by our customers. In December, we held the 3rd edition of the Digital Engineering Awards jointly hosted with ISG and CNBC-TV18.

- I am happy that this time, the event witnessed a record 230-plus nominations showcasing groundbreaking contributions. This prestigious platform underscores our commitment to innovation while fostering deeper client intimacy and vital industry collaboration.

Now let me take you through our segments

Starting with **Mobility**

- First, the positives:

  - We continue to see a growing deal pipeline in the key growth areas of SDV and Hybridization.

  - There are a good number of consolidation deals in Auto and Commercial Vehicles across all geos – US/Europe and Japan. We won two large deals in Q3, one a vendor consolidation deal with global Tier 1, and another with a new age OEM for EV product design.

  - Aero & Rail are also seeing a gradual upswing with more deals in pipe. We are in discussion leveraging our AI based solutions that address Operational efficiency requirements of Airline and train operators.

- Now let me address the challenges which are in addition to the furloughs that impacted us in Q3:

  - Select OEM’s and Tier 1’s are going through challenges and that is leading to pause in some projects and spending
  - There is weak demand in Agriculture and Construction sector due to uncertainty around potential changes in tariffs

- Therefore, we declined by 5.2% in constant currency in Q3, with some parts of the portfolio doing well while others got impacted.

- We are, however, not slowing down on technology investments, the cutting-edge solutions that we have developed for SDV - like LTTSiDRIVE – which is our proprietary framework for accelerating SDV implementation, are helping us win new engagements and expand our presence.

Overall, for Mobility we see a good number of large deals in the pipeline including at Tier 1’s and OEMs where vendor consolidation is giving us gains. We expect Mobility to show muted growth in Q4 but grow for sure and then pick up from Q1 onwards on the back of deals and new end programs that we are likely to start in the current quarter. So, this segment will grow in the current and next fiscal.

In **Sustainability,**

- We had another strong quarter with 4.0% growth in both Process and Industrial firing well.

- At **Industrial**, we're seeing large deals in the pipeline, in the $20 Mn + and upward range. These are proactively created deals that are getting seeded by aligning with the customer's business transformation linked priorities.

  - For example, we signed a large deal with a US based machinery company for the Oil and Gas sector that help them on design and development of software and connected platforms.

- Within Industrial, the Energy sub-segment is seeing an upswing in spends – especially in electric controls and micro grids.

- In **Process** segment, we continue to see strong demand across O&G and FMCG, in project engineering and plant modernization. Key clients continue to ramp up with us.

- We won a large deal to set up an Integrated operations center for a European O&G major. In addition to Plant Engineering expertise, we will cross polli-Innovate our SWC capabilities also, as it involves setting up an integrated command center for the plants. We expect to win more of such deals cross-leveraging segmental capabilities across our O&G customer base.

- In another large deal, we expanded our engagement with an O&G major to enhance their operational processes by leveraging our offshore engineering centres.

- Within FMCG, we see strong demand for plant modernization, digitization – as customers want to improve operational predictability.

Overall, for the Sustainability segment, we see an increased large deal pipeline – both at Process and Industrial and expect the growth momentum to sustain.

In **Tech,**

- We had a strong rebound with 11.1% growth led by Communications, ISV, Media and MedTech sub-segments.

- In communications, demand is strong in the areas of network performance management, network monetization and AI-driven automation.

    - We signed a $50 Mn deal with a global network provider – again leveraging our SWC capabilities, to provide Product Integration Services and to leverage AI frameworks to drive automation.

- In the Media sub-segment, we see product development and sustenance large-deal opportunities.

    - With a European media and entertainment company, we won a large deal to design, develop and deploy next-generation entertainment and broadband products worldwide.

- In the Med-Tech sub-segment, demand is being driven by QARA and Digital Manufacturing - where we are leveraging our factory of the future framework.

    - We won a large deal with a global healthcare OEM to support them in complaints handling, remediation and supply chain optimization.

- Our software-defined endoscopy solution in collaboration with NVIDIA is finding good traction with OEM's and healthcare providers.

- In SWC, we are building a pipeline in the Middle East where we see opportunities in Smart City Safety & Security and Smart Operations.

- We are quite optimistic on the ISV segment which is getting rolled up under the new sub-segment called **Software and Platforms**, as customers are spending heavily on new platforms and technologies. This will allow us to immediately have 3 Hyperscaler accounts which are 20 Mn+ each with a wider footprint. Equally importantly, we will now be able to address a service-led sector namely Retail, Fintech and Healthcare which are new and promising markets for us.

- For example, the ER&D spend in Fintech totals about $143 Bn of which $8 Bn is only addressed by service providers. Similarly, in retail there is a total spend of $ 47 Bn out of which $4 Bn is addressed and in healthcare a total of $400 Bn is there of which only $14 Bn is addressed. These new markets will add tailwinds to our growth as we look at FY26 and beyond.

Overall, we see a good number of deals in play in the Tech segment and expect growth to continue.

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

- Our engineers added a total of 54 patents in Q3 and our cumulative filings stands at 1,448. In AI/GenAI specifically, we have filed 174 patents cumulatively.

- One highlight in our AI progress - we inaugurated a NVIDIA AI Experience Zone at our Bangalore design hub aimed at enhancing AI capabilities for our clients in Mobility and Tech.

- We have started internal R&D programs on Agentic AI, an autonomous system that enables automation, autonomous operations, and will improve decision-making.

With that, let me now provide colour and discuss the outlook for the future:

- We are encouraged with the deal pipeline and the good number of large deals – in the 25-100 Mn+ range that we are closely tracking.

- These deals are across segments and have been seeded as a result of focused investments we have made at the start of the year into new age technologies and leadership.

- We expect all 3 segments to grow in Q4 FY25 and beyond.

- For FY25, including Intelliswift our revenue guidance is for near 10% growth while organically we'll be near 8%.

- And we continue to aspire for near 16% EBIT margin levels for FY25 organically.

- I want to reaffirm our ambition of building 3x $1 Bn segments and getting to a revenue of $2 Bn with 17-18% EBIT margin in the medium term.

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

Rajeev Gupta: Thank you, Amit. Good evening to all of you.

I would like to start by wishing everyone a very Happy New Year!

We had a strong performance this quarter across all parameters, Deal Wins, Revenues, Margin and Cash flow. Deal wins like Amit talked about have been the highest ever, Margins in line with FY25 aspiration. We've seen improvement in DSO and Free Cash Flows for the quarter have come in at record levels and all of this despite the seasonality of Q3 and after absorbing annual salary increments.

Additionally, we concluded the acquisition of Intelliswift which positions us well for the future growth with hyperscalers and open avenues for providing services in 3 new markets in the services-led sector namely Retail, Fintech and Healthcare.

With that, let me now take you through Q3 FY25 financials, starting with the P&L.

Our revenue for the quarter was ₹ 2,653 crores a growth of 3.1% on sequential basis. Our YoY growth for Q3 FY25 came in at 9.5%.

Gross margin came in at 29.0% after absorbing wage hikes, and SG&A for the quarter came in at 10.3% of revenue, which is slightly lower than our expected range of 10.5% -11% of revenue. Overall, we were able to improve the EBIT margin by 110 bps to 16.2% after excluding onetime non-operational M&A expense. This is in line with our commentary in Q1 and Q2 that H2 EBIT margin will be better than H1 on organic book of business.

Moving to below EBIT.

Talking about **Other Income**

Other income was ₹ 18 crores, lower on a sequential basis due to losses on hedge contracts resulting from USD appreciation.

Effective tax rate for Q3 was 27.4%, in the same range as our expectations of 27.5%.

Net income for the quarter was up 0.9% sequentially and came in at ₹ 322 crores, which is 12.2% of revenue. If we exclude onetime non-operational M&A expense, net income came in at ₹ 328 crores for the quarter.

Now moving to the Balance Sheet to highlight a few key line items:

Our Q3 combined DSO including unbilled came in at 112 days compared to 116 days in Q2, an improvement of 4 days. Unbilled days was 18 in Q3 compared to 17 days in Q2. We continue to improve this metric as we've mentioned in the past and now aspire for a target range of 110-115 days going forward.

Now let me talk about cash flows –

As a result of the improvement in DSO, our Q3 free cash flows came in at a record level of ₹ 638 crores, leading to YTD free cash flows of ₹ 965 crores which is at 101% of net income.

Our Cash and Investments stood at ₹ 3,290 crores at the end of Q3, vs ₹ 2,849 crores at end of Q2.

Now moving to revenue metrics:

On a sequential basis, $ revenue growth was 1.7% in reported terms and 3.1% on a constant currency basis. Growth was majorly led by Tech and Sustainability segments.

Now let me comment on operational metrics.

The **Onsite:Offshore** mix was similar ranges compared to Q2. Offshore percentage now stands at 58.6%. We continue to work on measures to improve to our aspiration of 60% for onshore/ offshore ratio

Client profile greater than $1 Mn – showed a sequential improvement in the 10 Mn+, 5 Mn+ and 1 Mn+ category. The client profile will continue to improve in the coming quarters as well.

Client contribution to revenue – also showed an improvement in the top 5 & top 10 categories compared to Q2. We expect revenue from top customers to improve going forward as we are running targeted programs on client mining.

Our **headcount** for Q3 was 23,465 compared to 23,698 in Q2, while attrition remained stable at 14.4% levels.

Realized rupee for Q3 were around ₹ 85.06 to the US dollar, a depreciation of around 1.4% compared to Q2.

With that, let me provide an update on our recent acquisition Intelliswift:

We completed the Intelliswift acquisition on January 3rd of this year.

I take the opportunity to thank my entire M&A team, the promoters and leadership of Intelliswift and, of course, the LTTS leadership team to have seen the conclusion of this acquisition in a record time.

To provide a recap on Intelliswift, this is a company based in California with about 1,500 employees. Intelliswift serves 4 of the Top 5 Hyperscalers and caters to over 25 Fortune 500 Companies, including 5 of the Top 10 ER&D spenders in Software and Technology.

Starting November, we kicked off an integration management program that will run for the next 12 months to identify and realize synergies on revenue and margins. Over the last 2 months of integration planning, we've already taken steps that has started to show fruition

1. To right size the organization

2. To augment leadership team with senior members from LTTS

3. By launching initiatives to improve margins and

4. Combined ISV business of LTTS and Intelliswift and created a new sub-segment "Software and Platforms" to super charge growth

Intelliswift as a business has annualized revenues of $100 Mn+ and EBITDA margin in the range of 7% - 8%. This is post taking steps that I just outlined. We still see potential to further improve the margin to double digit as we accelerate revenue growth and reduce SG&A cost by leveraging synergies with LTTS.

Now let me give you some visibility on EBIT margin trajectory going forward.

During H1 FY25, we prioritized investments towards building leadership, technology solutions and capabilities ahead of the curve with the objective to capture additional market share, accelerate growth, and improving quality of revenues. This was in line with our strategy of 'Go Deeper to Scale' to pivot on growth.

Like I mentioned earlier, our H2 EBIT margins will be better than H1, and we continue to aspire for near 16% levels for FY25 for the organic book of business.

Starting Q4, we will consolidate Intelliswift financials and expect an impact of around 150 bps on the EBIT margin. For Q4 FY25, at consolidated level, we aspire for EBIT margin to be near 15% levels and will improve to mid 16% levels between Q4 FY27 and Q1 FY28.

Before I conclude, I'd like to announce a change in our Investor Relations function. Pinku, as you all know, in addition to heading M&A for the company will assume a full-time strategic role of leading the integration management office of Intelliswift as we build our Software and Platforms business. We would like to thank Pinku for steering the Investor Relations functions for the last 8 years and building relationship with the investor and analyst community.

I would also like to welcome Sandesh Naik who now assumes the role of Head Investor Relations for LTTS. He will be connecting with the investor and analyst community starting this quarter. Sandesh joined us from a reputed Industry house in the country with 20-plus years of experience in the Investor Relations and Treasury function.

With that, I thank everyone, and I now hand it over to the moderator for questions.

Moderator: Thank you. We will now begin the Q&A session. The first question comes from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

Sulabh Govila: Thanks for taking my question. Congrats on the good deal wins that we reported, and the question that I had is whether we should think of this level of deal wins as sustainable going forward. And given the pipeline that you had right now and if you could also highlight what would be the average tenure of these deals versus, let's say, what we would have won last quarter?

Amit Chadha: Sulabh, Thank you. So, this is Amit Chadha. So, the deal wins we've got this quarter, we report $10 Mn + wins. So, this has been very robust like we said the best so far. Do we expect this to continue? We do expect Q4 to come in at similar levels because there is some deals in the pipeline that are expected to close in the very near future as you go forward. Second, the average tenure of these deal is about 3 years.

One colour, I want to provide additionally is that 3 of these deals that we have won are based on our AI, GenAI widgets and solutions as well as proprietary framework that we've established and launched in the last 6 months. Also, the pipeline as we stand today is bulkier and better than it was same time last year, last quarter, and we continue to operate. In fact, I had mentioned last time that we had reinstitutionalized and organized our large deal engine. We have appointed a senior Chief Business Officer based in Dallas to run this function, beef it up as well as provided extra hands and feet and people by segment in each of the segments that we've got to tailor made some of these deals and proposition that we take to our customers. And we are seeing a fairly good regard of uptick from our clients in this area.

Sulabh Govila: Understood. My second question is on the Automotive vertical. The outlook that we have provided for Q4 and beyond. So just wanted to understand what's driving that confidence given that a lot of peers have seen ramp-ups being delayed by clients on the deals which have been won very recently as well. And then in some cases, there have been project cancellations. So, I just wanted to get your thoughts on the outlook that you have provided here?

Amit Chadha: Sure. So, for us we actually track Mobility, which is Automotive, number one. Number two is Trucks Off-Highway as well as the Agriculture segment, and third is Aero and Rail. Now what we saw in Q3 happen was that there were furloughs that came in Automotive as well as the Trucks and Off Highway, not in Aero and Rail. We did win a couple of deals like I talked about. Now going forward into Q4, though Automotive will be something that will continue to be in a little bit of a stress in my view for the next couple of quarters, not just one quarter. But because we work in Aero and Rail and because we work in Trucks and Off-Highway, we will see the Trucks part as well as the Aero and Rail part expand. So, I'm confirming that you will see growth coming back in Q4 in Mobility. It will be there and then next year it will continue. Plus, there is a number of large deals. There are consolidation opportunities as well as transformation deals in the pipeline that will help us. Alind my colleague on the board can add a little bit of colour on what we are doing in Mobility.

Alind Saxena: Sure. Thanks, Amit. So, in addition to what Amit has said we have invested earlier in a stack, which we call LTTSiDrive which is primarily around the SDV stack that we are developing. We are seeing increased traction and acceptance of that stack by our customers. In fact, a couple of wins that we have had have been around the solution that we have created. We recently also participated in CES where we had over the last 4 days, close to 120 customers come across and visit that.

And we have achieved a good acceptance of what we are doing. We remain fairly confident that the traction will continue. Aero and Rail just a minute on that both the Rail and Aero there is an increased engagement and particularly in the areas of testing and automation around some of the solutions that we have developed on AI that's gaining traction. We continue to accept that to continue over the next few quarters and fill up the gap that we would have otherwise.

Sulabh Govila: Understood. Last is just a clarification. The benefit that we were supposed to have on the Maharashtra Cyber deal in terms of the milestone revenue booking, has that completely happened in this quarter or there is some bit of remaining in next quarter as well?

Amit Chadha: So it is for the program that we had on Maha Cyber that has been under execution under normal as we go forward. And next quarter also we will see ongoing revenues coming from Maha Cyber.

Sulabh Govila: Thanks for taking my question. I will get back into the queue.

Moderator: Thank you. Next question comes from the line of Abhishek Bhandari from Nomura. Please go ahead.

Abhishek Bhandari: Thank you to the management team and congratulations on the deal wins & the acquisitions. My question is more on financials. So, if I look at your segmental margins for the segment this quarter there was a substantial improvement in the Tech margins. And also, if you look at, I mean if you could explain why this Tech margin has jumped up almost 300 bps on a sequential basis?

Rajeev Gupta: Sure, Abhishek. This is Rajeev here. I'll take that one. So, see in case of our Tech portfolio, I mean, we did see that the EBITDA margins have been lower over the last few quarters and there was a focused effort in terms of improving margins in this particular segment which led to operational improvement. In addition to that, within Tech segment we've seen our Medical segment to be relatively higher which has resulted in what you see almost about 300 bps of incremental margin sequentially in Q3 over Q2.

Abhishek Bhandari: Got it. And is it also a reason why your fixed price contribution went up from 37% to 41%?

Rajeev Gupta: So, see I think we've talked about it earlier. We don't generally see benefits on account of a fixed price or a T&M. I mean they are fairly concentrated across portfolio. So, I would not give colour saying that if fixed price increases, it will lead to additional margin.

Abhishek Bhandari: Got it. My second question, Amit, is to you. While you're reconfirming 10% including Intelliswift and organic is around 8%. The Q4 numbers, if my math is correct is upwards of 6% growth. So, is that confidence coming on back of only residual revenue from cyber projects of Maharashtra and if we get ramp up of the projects and the pipeline or is there anything beyond that?

Amit Chadha: So, there's a little bit of background noise. But if I understand your question, it was where the growth will come from. So, number one, we expect all the three segments and all sub segments to grow number one. Number two, we are aware of the ask rate of Q4 and we are comfortable at this stage in confirming that we will be able to meet that. Number three is that the deal wins that we've had in the last couple of quarters are giving us that confidence that we'll be able to go forward with it.

So that's where we are plus there's a little bit of seasonality that will come in, of smart world that came in last year as well, but that's good for us. And as you can see the margins have improved. We'll be able to take that forward as we move forward. In addition to that, there's an inorganic part of Intelliswift that will get accounted in our books from 3rd January. And that will give us that upper end of the guidance that 10% number that we talked about.

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

Vibhor Singhal: Thanks for taking my questions and congrats on a very solid performance and a strong deal win. So, Amit, I have one question for you and two after that for Rajeev, maybe. So, I think the strong deal win as you have mentioned in the pipeline also appears to be quite strong. Any colour on the conversations that you're having with the clients in terms of their excitement or apprehension either way with the new government had to take charge in US, I mean the macroeconomic data also has been kind of robust. So, are the client conversations happening around incremental spends in the R&D new pockets being opened up or is it still a tale of caution as we had seen in the last quarter, the pre-election caution and will be some time before we are over that?

Amit Chadha: Yes. So, there are certain areas that are cutting across if I may or that we are seeing growth trends in. So, AI, GenAI, we continue to see increased traction work going on. In fact, we are ourselves investing now in Agentic AI, and when I come back in April, I'll give you a little more colour on that as we move forward.

Second, Software-Defined Everything and NextGen software is something that people are continuing to invest and do projects in. Third, Industrial Automation is attracting with Digital Twin, Digital Thread is attracting spend and budgets for this year. The re-jigging of supply chain continues and therefore, Plant as well as Oil and Gas continue to see that demand.

There's another area we're starting to see green shoots is Compute and Embedded Hardware and I will start quantifying these as we go forward in some of the project wins that we do in the subsequent quarters. And finally, there is consolidation, and transformation deals that are there in the pipeline.

Now when I look at the commentary that people are making right now see, and I'll go segment by segment. If I take the Tech segment barring a couple of Semcon majors which are publicly known to have issues, we see growth to continue in that area in the Tech segment and MedTech as well as well as the Comm Media Tech area.

If I move to Sustainability other than certain parts of Industrial Machinery that we believe are a little bit slower, but Oil and Gas, Chemicals, Electrical Power, Data Center Power, etc, continue to spend.

When I look at Mobility, Automotive is under stress and I'm acknowledging that.

However, Trucks and Fleets, and Aero & Rail continue to invest as we go forward. And then there are subareas, etc. So, I'm fairly confident and comfortable in saying that FY26 will be a better year than FY25.

Vibhor Singhal: Got it. Thank you so much for that elaborate answer. And just to recheck, you don't see any geopolitical impact at least on the verticals that you mentioned, and you expect the momentum to continue in those verticals?

Amit Chadha: See, we are a glocal company, globally at glocal. See, the Intelliswift acquisition has given us another 500 employees just in the US, mostly local citizens. We continue to provide local offers and continue to work on that providing local offers in the US, Europe & Japan. We've got recruitment engines that are sitting there that do that. And I'm fairly comfortable at this stage, unless something comes along tomorrow that I haven't thought of. At this stage, we are fairly comfortable where we are sitting for CY25 and FY26.

Vibhor Singhal: Perfect. So glad to hear that. I just have two follow-up questions for Rajeev. So, Rajeev on the margins front, a very strong performance in this quarter. Just wanted to pick your brain a bit more. I mean this quarter; we had growth driven by ROW and India which we would typically associate with maybe not as high-margin projects as maybe US and Europe. And this quarter also had the wage hike impact.

And despite that, we have not just been able to expand our overall margins but also gross margin. So, could you just provide some colour on that and how should we look at it going forward as well on the organic basis?

Rajeev Gupta: So, Vibhor, to address we did mention in our Q1 and Q2 commentary that our H2 margin will be better than H1. We had prioritized investments in H1, both in Q1, Q2. Some of these investments have yielded results, both in terms of Revenue and Margin as well and we continue to see the Deal wins that Amit articulated.

Now if I were to really look at summarizing the entire year, I have shared the aspiration that we will want FY25 to come in at near 16% EBIT levels. We continue to work upon that. That remains our aspiration. Now if I look at as a combined business and just to clarify the overall question because we are going to consolidate Intelliswift. I've also highlighted that we will come at that near 15% levels.

Now if you look at the breakdown, gross margin came in at about 29% which had probably about 100 bps of wage hike impact, we were able to absorb a large part of that. And hence you saw gross margin come down by about 30 bps. I think there's still possibility of improving. We still have avenues around quality of revenue, improvement in pyramid, operational efficiency.

On the SG&A side, you would have already seen it come at about 10.3%. Our aspiration is to maintain between that 10.5% to slightly over those levels. So, there are of course opportunities that we still continue to work towards to see the aspiration realize for FY25 on the organic part of the business to come closer to or at about 16% level.

Moderator: Thank you. Next question comes from the line of Ruchi Mukhija from ICICI Securities. Please go ahead.

Ruchi Mukhija: My questions were answered, but picking your brain now, can you give us puts and takes now which went to this quarter's margin?

Rajeev Gupta: So, I would highlight two to three things. One, of course, the growth in revenue. I mean quality of revenue always helps us to be able to continue to improve margins, that was one. Second, we had mentioned Q1, Q2 that we are going to make investments those are planned investments, in terms of building leadership in terms of building solutions and capability. Some of those investments have certainly yielded results and we are not seeing those levels of investment in Q3, of course, which leads to improvement. The third is if you look at the increment that we had planned close to about 100 bps was the impact of the increments. The increments are rolled out effective 1st November. So, it was not an impact for a full quarter. And I think given the fact that there were a lot of operational improvements. I talked about specifically in terms of the Tech business, all of these three put together certainly helped us in terms of improving the margin.

Ruchi Mukhija: Next quarter, do we see the ramp-up of the large deal win adding some cost burden?

Rajeev Gupta: See, we've been seeing large deal wins in the previous quarters also. So, I think the blend of the existing business as well as a new business, I think that's working quite well. So, we don't see an impact because of large deals ramp up in the coming quarters.

Ruchi Mukhija: And then last bit, in our Mobility vertical, could you specify how much is the Automotive exposure of ballpark would also do to distinguish how much now good growth of portfolio versus an area where we are facing challenges?

Amit Chadha: So, we don't normally provide the break-up between Auto, T&OH, and Aero. I know what you're trying to do, ma'am, you're trying to figure out as to what will be the percentages. So let me assure you that Mobility will grow on the back of some of the deal wins that we have had plus Aero and Rail, and Q1 onwards I do believe that Auto with the wins we are having will grow again. That's where we are.

So, it will be lower growth in Mobility. I mean we again working on the quantum, the quarter has not done yet just started, but Q1 onwards will be regular growth, but I'm confirming that there will be growth in Mobility in Q4, ma'am.

Ruchi Mukhija: Thank you. All the best.

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

Nitin Padmanabhan: Two questions actually. So, one is on the margins. So, to achieve the 16% organically, basically you need at least 80 bps margin expansion next quarter, but I think you'd have a 50 bps headwind from wage hikes as well and if that's uniform. And obviously, there's a SWC pickup which is also a headwind to margins. So just wanted your thoughts on what will drive this in Q4?

Rajeev Gupta: All right. Sure, Nitin. So let me clarify. I think what you said in terms of the seasonality of the SWC business is correct. I mean we tend to see SWC business to be higher in H2 relative to H1. And yes, I think there's been a conscious effort in terms of improving margins on the SWC business as well. So, it's not going to be as much of a headwind compared to what we saw in the previous year.

Having said that, there are a lot of tailwinds that we continue to operate with. One, of course, the growth, I talked about the quality of revenues that will be a positive factor in Q4 as well. The second is I think levers like optimization of pyramid, offshoring, operational efficiencies. These are all areas that we look at in terms of seeing the margins that we aspire for.

I think, the math part that you talked of, maybe I'll request you if you can talk off-line to Pinku and Sandesh because we don't believe that will require us to see the margin uptick to that level, but you can certainly take it offline. Like I said, we continue to aspire to come near to 16% level and we believe it's got a fair bit of comfort level around it.

Nitin Padmanabhan: Right. A clarification on, earlier you mentioned EBIT margins will be near 15% levels and improved to mid-16% between Q4 FY27 and Q1 FY28. Did I get that right?

Rajeev Gupta: Okay. Thanks, Nitin, to bring it up. Let me clarify. The aspiration for FY25 on the organic book of business is near 16% EBIT levels, that's one. Second, we are going to consolidate Intelliswift business beginning Q4. The acquisition concluded on 3rd January. As a result of that acquisition, we will see an impact of 150 basis bps on account of that business. That business is a $100 Mn annualized business with an EBIT margin range of 7%- 8%. And we aspire for Q4 as a combined financial to come near 15% level. So that's the second one.

In terms of the integration plan that we put over the next 8 quarters, we see the overall consolidated financials to improve to mid-16% levels between Q4 FY27 to Q1 FY28. So, I hope that's clear, Nitin. I just wanted to break down. There are three steps to it.

Nitin Padmanabhan: Yes. It is absolutely clear. Thank you so much for that. Just one last one is on the Automotive side, it would be great to have your views on how you're seeing customer behaviour across the three regions which is the US, Europe and Asia. How are you seeing relative demand across those three regions and how do you see recovery between those regions?

Amit Chadha: So, Nitin, thank you. Nitin, two things here, I will address Automotive, but my friends and colleagues in Sustainability and Tech are starting to feel very ignored and bad. So, I'll address that as well for you from a demand standpoint. So Automotive, look, if you look at it from a spend standpoint, I do expect that Tier 1s are in a clear challenge and a challenging environment globally across the regions.

And no one region is better than another and you've seen this play out with various results, etc. Now if you look at OEMs, I do see the West Coast OEMs continuing to spend and the Detroit majors also making room in terms of expansion. There are a couple of European OEMs that are continuing to spend and, in the Software -Defined Vehicle area, let’s be clear. And Japan seems to be a little resilient as well.

So do I expect Automotive to come back to rebound very quickly. No. If I was looking at our crystal ball, I think that it will be Q2 of next financial year. When you see that something meaningfully coming back in that area. Having said that, Industrial is growing. The supply chain region, the new plants coming up, the Industrial Automation is actually fuelling a lot of opportunity growth and pick up in the Sustainability sector that we call it which is Discrete and Process manufacturing.

We also see the Tech spends coming back and are back already. So MedTech as well as Comms Media, Semiconductor, Consumer Tech, Hyperscalers actually spending very well. Barring a couple of Semcon majors, Semcon also is spending. So I would request when you build a model to keep that in view because that our world of three segments and trying to build a billion dollar in each is what I would focus on, given that we are CrossPolli-innovated across and therefore, we'll be able to weather a storm of Automotive which is a small part of our entire portfolio in a much better manner.

Moderator: Thank you. Next question comes from the line of Vikas from Antique. Please go ahead.

Vikas: Hi, Sir. Thanks for the opportunity. I have two questions. First, following the acquisition of Intelliswift, we were confident of achieving an organic growth of 8% to 10%. What factors have led to this revise in outlook that now we are expecting our organic growth to be closer to lower range, that is around 8%.

And my second question is in the previous quarter, you mentioned election-led uncertainty and macro led to -- that has had some impact on deal booking. Now that Q4 deal bookings are similar to Q3 is what you believe will happen. Is that primarily due to catch-up from the first half where closures were weak as previously indicated or this is more structural?

Amit Chadha: I'll answer the second question first. So, deal wins yes, in H2 are stronger than H1. And see, we made some investments in H1 and that have helped us and build the differentiators further that is helping us with the wins in H2. And given where the pipeline is right now, I do expect current levels or similar levels going forward to stay. So that is point number one, plus the structural changes we have made in terms of creating more pipeline, etc.

On the first part look when we came to you at the beginning of the year, we had told you clearly we are at between 8% - 10%. And we have also stated that we will have to sell in the year to be able to get to that 8% - 10%. Now some deals get delayed at times and Automotive slowdown was not anticipated at the level that the Automotive slowdown has happened, but every year you go through something will fall off, something will fall on, this happens. And that's why there is a range.

So, I am actually pleased that we are within that range that we are coming in at. In addition to that, if you remember, we had an aspiration to get to that $1.5 Bn run rate which is organic plus inorganic. And we are pivoting on growth. I actually would like to call out and I'm surprised I didn't see any questions coming in that area, but see we had been missing, if you ask me, in the tech-led, the service-led ER&D which some peer group companies have been leveraging fairly significantly.

The service-led ER&D which is in Fintech, Retail and Healthcare is actually another area that will show expansion and promise. Now it will take a little bit of time and that's why I said that as I look at FY26, I look at FY27 our own models were right up to FY31. We do see that becoming a contributing factor of growth as we move forward. And that is an additional channel your company has opened with the Intelliswift acquisition.

Vikas: Thanks a lot. Thank you.

Moderator: Thank you. Next question comes from the line of Manik Taneja with Axis Capital. Please go ahead.

Manik Taneja: Thank you for the opportunity and congratulations for the steady performance. Just wanted to prod you further with regards to an aspect that you've highlighted with regards to a factor that aided your margin performance in terms of the quality of revenue what would that imply? Is there some element of milestone-based revenue recognition, given what we see from your geographical breakup of revenue?

Is that the way to essentially understand that? And the second question was with regards to SG&A expenses. We went through significant investments in first half. How should we be thinking about this cost on a go-forward basis over the next 4 quarters to 6 quarters?

Rajeev Gupta: So Manik, let me take your question on SG&A first. See, we've talked about a range and in Q1, Q2, we were ranging more towards 11.5% of revenue for our SG&A cost. That has now come down to almost 10.3% levels. What I would guide is to factor a range of between 10.5% - 11% for our SG&A cost because we will continue to look at opportunities.

So, it's always going to be a continuous effort. Now coming to the margin part. I think I articulated the factors that helped us in terms of improvement in margin. One, the fact that look there has been growth a decent growth that we saw in Q3 which by the way is a seasonal quarter. If you were to ever compare previous years. I mean, Q3 is a tough quarter to navigate, but we have indeed seen growth coming in this quarter.

And, of course, when I talk about quality of revenue, it essentially means that these investments that we called out in H1 have yielded benefit. A lot of these projects are -- basis new technologies that we've been able to take to the customer and offer them as solutions and capabilities which has led to higher deal wins. And of course, growth in segments such as Sustainability and Tech.

And within that, particularly Industrial and Medical which are our high-growth segments have started to show improvement. I think we called out in addition to Plant Engineering, Industrial is showing promise and that indeed is happening. Similarly, in the Tech segment Medical is continuing to show promise from year on and those are a few factors that have aided in the margin.

To me, again, bunching it all together this is what I really call about the quality of revenue which helped us on the margin side. Going forward also, much like what Amit talked about in terms of the growth aspiration to be between 8%-10% that should aid us in Q4 in addition to a lot of the operational efforts to improve margins.

Manik Taneja: Sure. And second question was with regards to the way we are seeing our headcount metric trend. We've been -- while you've been talking about a higher fresher intake through the course of the year, when I look at your headcount addition has been very muted through the course of FY25 year till date. How should we be thinking about this metric going forward given the strong deal activity and your expectations of growth pickup across almost all the segments?

Amit Chadha: If you ask me, there are a couple of things that have fundamentally changed in the industry over the last couple, 3 quarters, maybe 6 quarters, etc. See if I'm going to tell you that our headcount has been flat YoY, we have still delivered YoY 8.7% in constant currency terms. Now where do we go from here? I can tell you that the way we are right now, we've been able to so it's not just improving our utilization. It is A, improving our utilization. B, there's a lot more automation AI that is being leveraged for operations.

Third, there are widgets, etc. that we are being able to use. So that therefore, if you look at it we stopped providing utilization at some point because we said it's no longer a relevant metric. I'll be honest with you; I don't think that adding headcount in our industry is going to be a lead indicator of growth anymore.

If anything, lead indicator of growth is going to be TCV intake as you go forward. Also, companies that continue to invest in technology will continue to survive and thrive because the old business is going away. So, if I look at next year and I say that I'm going to do better than current year, please don't expect headcount to get added drastically, though there will be headcount addition.

There is a non-linearity that is coming in, in the revenue growth aspect, given automation given all these aspects. And you will continue to see that play out not just with LTTS, but the industry in general. Having said that, we are reiterating our commitment to add 2,000 plus freshers in FY26.

Work is already underway. That like Rajeev said will help us in the pyramid further and we will continue to work on various other optimization measures, including increasing offshoring, increasing managed projects, leveraging our widgets, etc, to improve the margin and unlock further value for customers and then for ourselves as well.

And some of you that were there in IAD would have seen some of the tools that we showcased around AI, in Medical we showcased tools in Software-Defined life cycle that is allowing us to be able to execute and testing. That is allowing us to execute projects with lesser headcount.

Moderator: Thank you. The last question comes from the line of Karan Uppal from Phillip Capital (India). Please go ahead.

Karan Uppal: Amit, just wanted to check the outlook on Oil and Gas sub-segment. The incoming US President is quite vocal of increasing the crude oil production levels which ideally should be beneficial for this vertical in terms of Brownfield and Greenfield investments. So how are you thinking about this from next year perspective?

Amit Chadha: So, Karan, I did mention during my commentary as well that Oil and Gas, Chemicals will continue to grow. They're not just that they are doing more drilling or any of that. But there is the output is changing. The chemicals that are coming out of these refineries now as an output is different than it was 5 years ago, 7 years ago.

So, there is upgrade of plants happening. The whole supply chain is being changed there and that is again creating work for us. We are very actively -- in spite of headcount being flat, we are very actively hiring in the Plant Engineering segment. We are also seeing a lot more Digital Thread, Digital Twin, Industrial Automation work coming out in the Oil and Gas, Chemical area. And I expect this to continue through CY25 and beyond, and I see an upside there.

Karan Uppal: Okay. Thanks for that. Secondly, on Auto vertical. So SDV was believed to be a big growth driver for ER&D players. So, do you believe that this SDV opportunity, the large deals in SDV is pushed back by a few quarters due to the stress in OEMs?

Amit Chadha: No. What's happening is, see the SDV spends are there. But like my colleague talked about, Alind talked about that some of these model years that were being developed, they have decided to push the model. So whatever features they were thinking they will develop for model year, let's say, 27 or 28, they're pushing it out for model year 30. So, if they push it out for model year 30, that means that they will take another 2 years, so they're not going to be able to spend that money. That is one.

Second, there was a lot more focus on Electric, Hybrid that was happening and that has sort of pause right now because given the change in direction potentially that may come in US, Europe. US and Europe relax the conversion in the rules by a few more, let's say, 3 more years. So, they get 3 more years to do that.

Third, nobody is talking about it, but we're seeing early projects coming out in range extenders. So earlier you would have hybrid means you've got an ICE engine and then you're going to have an electric motor with it. Think about the other way around where you actually have an electric stack up and you've got a fuel engine or a gas engine that's a range extender that allows you to buy the vehicle and then drive it not just in a suburban area, but also in the rural area.

So, a lot of that discussion going on. See, I was -- we were at CES like my colleague said, there's a lot of new advancements, but then you need paying customers. And I believe that given a couple 3 quarters, a lot of excitement in new models, but will take a little bit of time is how we see it.

But having said that, a lot of that what is happening and those that were at CES or saw the commentary will realize where last year CES was largely automotive. This year CES was balanced around Automotive, around Off-Highway, around Consumer Electronics, around health care as well as industrial and AI, of course. So, it was a very balanced experience, I would actually recommend that you do get some notes on CES.

We'll be happy to talk more about it. But we will give you the colour and complexion of how the world will grow beyond automotive and in spite of automotive.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we have reached the end of Q&A session. I would now like to hand the conference over to Mr. Pinku Pappan for closing comments.

Pinku Pappan: Thank you all for joining us on the call today. We hope we were able to answer your queries. If there are any follow-ups, we'll be happy to address them. With that, we are signing off for today and look forward to interacting with you through the quarter. And I wish all of you a very good evening and a good day. Thank you. Bye-bye.

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

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