



Tata Consultancy Services Limited

**Q3 FY12 Earnings Conference Call.
January 17th, 2012, 20:00 hrs IST (09:30 hrs US ET)**

Moderator

Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kedar Shirali of TCS. Thank you. And over to you, sir.

Kedar Shirali

Thank you, Melissa. Good day and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Third Quarter of Fiscal Year 2012 that ended December 31, 2011. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter. The financial statements, results presentation and press releases are also available on our web site.

Our leadership team is present on this call to discuss our results. We have with us today Mr. N. Chandrasekaran – CEO and Managing Director, Mr. S. Mahalingam – CFO & Executive Director, Mr. Phiroz A. Vandrevalla – Director and Mr. Ajoy Mukherjee – Head of Global Human Resources.

Chandra and Maha will give a brief overview of the company's performance followed by the Q&A session. As you are aware, we do not provide specific revenue or earnings guidance. Anything said on this call which reflects our outlook for the future or which can be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

We have outlined these risks in the second slide of the analyst presentation available on our website and which has been mailed out to everyone on our mailing list. With that I would like to turn the call over to Chandra.

N. Chandrasekaran Thank you, Kedar. What I would like to do today is to give you a quick overview of the results of Q3 and also address some key points regarding the future.

I am happy to report that we have had another strong set of numbers in this quarter. You know the numbers; the revenue growth in terms of INR terms is 13.5% and constant currency is 4.5% and USD terms is 2.4%. And in terms of operating margin, we have been able to expand it 213 basis points. The net profit is at Rs 2807 crores which is a 18.4% Q-o-Q and a little over 23% on Y-o-Y.

In terms of client addition, it has been healthy, we added 40 new clients and deal signings have been on track and we signed at least 10 large deals. Again, it is broad-based. These deals have come from all markets; three from US, four from Europe, including UK and two from Asia Pacific.

In terms of Industries, three each from Retail and Banking and one each from Telecom, Insurance, Hi-Tech, Manufacturing, Utilities and Life Sciences. So it has been pretty broad-based, from across markets and across sectors.

And in terms of the deals that we are pursuing it is healthy.

We have added a large number of associates, over 18,000 associates; attrition levels have come down to around 12.8% and IT Services attrition is below 12%. In terms of utilization, it is at roughly about 82% excluding trainees and including trainees it is about 74%. So, we have been able to manage healthy utilization, a good gross or net addition of associates and also the deal pipelines remains healthy.

Now, when you look at the future, I want to talk about three points. The first one is the macro. We all know what is happening in Europe and there is a lot of commentary and there is a downgrade of some countries and there is also a lot of talk about the Eurozone, what is going to happen, etc. So I would not elaborate on that, I will take that as a given and it will follow its normal course.

But on the ground, if you look at the budgets for the next fiscal year, what we did was to look at our top 120 customers. Out of the 120 customers, 96 customers have finalized their budgets. And out of the 96 customers, two-thirds of them have either increased their budget or remaining flat. The remaining one-third have reduced their budget for the next fiscal year.

In terms of discretionary projects, we looked at a sample of 130 discretionary projects across industries, across markets that we have been pursuing in this quarter. Roughly 50% of those discretionary projects experienced a delay in decision making. None of the projects have been canceled. Some projects got closed later than they were scheduled to. So that is the trend we are seeing.

So if we have to articulate all of these in terms of what it means, we feel that the pipeline remains intact and there are no cancellation of projects. So, we are confident at this point in time. Having said that from a discretionary spend perspective, the delay in the projects can mean a lag in the ramp-ups in terms of volumes for those projects.

Those are the comments I want to make with respect to the outlook. Otherwise, things are business as usual from our point of view. With that, I would like to turn it over to Maha to give a color on the Q3 performance.

S. Mahalingam

Thanks, Chandra. As Chandra has mentioned already, our Q3 revenue of Rs. 132.04 billion represents a sequential growth of 13.5% and Y-o-Y growth of 36.6%. Translated into dollars our revenue of \$2.586 billion represents a Q-o-Q growth of 2.4% and Y-o-Y growth of 20.6%. Removing the negative cross currency impact of 2.1% and

expressing the dollar revenue in constant currency terms our revenue was \$2.640 billion, that is a sequential growth of 4.5%.

The break-up of quarterly revenue growth in INR terms is as follows: Volume growth (+3.2%), constant currency realization (+198) basis points, offshore shift (-64) basis points, currency benefit (+8.95%).

The currency windfall helped us to expand our EBIT margin by 213 basis points to 29.25% even after accounting for some increased costs in this quarter. The impact of different levers on the operating margin is as follows:

Currency (+282) basis points, shift to GDC (-10) basis points, rate productivity impact (-94) basis points, provision for bad debt (-10) basis points, others (+45) basis points and that gives us (+213) basis points.

The Rupee slide also meant a higher ForEx loss of Rs. 3 billion in this quarter. Despite that, we expanded the net income margin by 90 basis points to 21.9%. Effective tax rate for the quarter was 22.6%. DSO for the quarter was 81 days. Invested funds stood at Rs. 96.8 billion.

In conclusion, we have delivered a good growth in a seasonally weak quarter at the time of global macroeconomic uncertainty. At the same time, we have maintained our pricing discipline and our cost discipline despite the windfall from the weakened Rupee.

With that we can open the line for questions.

Moderator

Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on your touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2.' Participants are requested to use handsets while asking a question. We have the first question from the line of Joseph Foresi from Janney Montgomery Scott. Please go ahead.

Joseph Foresi First question is you talked about how you are seeing some delays in decision making. Wonder if you could talk about what would cause those delays to turn into cancellations and what would cause them to increase or decrease?

N. Chandrasekaran I think we want to clarify it a little bit. There are two types of spends happening: projects which are outsourcing in nature, transformational in nature, efficiency driving in nature. Those things are happening on target. But when we look at the projects which are discretionary in nature which are developmental projects, building new capabilities, then we find that across sectors, across markets, roughly half of those projects getting delayed. But we have not seen any projects being canceled. I think the reason I would say is extra due diligence. When they are spending money on developmental projects for new capabilities, they are spending more time in due diligence. That is the only rationale.

Joseph Foresi And you just mean that as we look out that next calendar year that you are expecting a slow start for the year, as one of your competitors have sort of indicated and then a ramp as we go into the year.. how does that affect the seasonality of the.....

N. Chandrasekaran I would not say that it is going to be back-ended for the whole calendar year. I would just say that as we are entering the year the discretionary projects which should start ideally sometime in January may not start in January, I hope they will start sometime in the quarter. That is the way we are interpreting it.

Joseph Foresi And then just one last question from me: as you look at your basic services, verticals and geographies, can you give us a breakdown which should perform well in this type of environment and the ones you are a little bit more concerned about. If you could just take a look at your offerings and give us a breakdown? Thank you.

N. Chandrasekaran If you really ask me about the performance we are particularly happy because it is very secular. All our industries have grown and all our markets have grown. If you look at the market perspective, Europe

has done well, UK has done well, US has done well but slightly lower than the Continental Europe and then we have also grown in Asia Pacific and India, which had an issue last quarter. So I think it is pretty much an all-round growth.

By industry, all the industries have grown. The volumes this quarter compared to last quarter is low, primarily due to the seasonality of having fewer working days. Otherwise, all the industries have, by and large, grown.

Particularly, if you take Telecom, it first grew last quarter after many quarters. I had said that we need to wait one or two quarters and this quarter it is more or less flat or slightly negative. The deal pipeline in Telecom is good. We have won deals in Telecom. So I expect Telecom to grow from here.

So I think from an industry point of view, Retail, Consumer Goods, Manufacturing, Telecom, Utilities, Life Sciences – all have shown good traction if you look at the order book and the deal flow point of view. Insurance has also done well. So, I am not particularly negative on any sector at this point or negative on any market at this point.

Moderator

Thank you. The next question is from the line of Moshe Katri from Cowen & Co. Please go ahead.

Moshe Katri

Chandra, it was not very clear from your commentary – some of the project ramp-up delays you mentioned, are they concentrated in one or two verticals? Is it more focused in Europe Vs North America or across the board? I think will be helpful if we get a some more color on that, thanks.

N. Chandrasekaran

No, the discretionary projects in general, there is no specific pattern, there is no specificity in terms of a market or industry. When we took a sample of 130 discretionary projects in general, half of them had a delay in decision-making and a delayed start in the last three months. That is the data point I am giving you. As I said, it is primarily due to

more rigorous due diligence in those projects. That is the way we interpret it.

Moshe Katri What gives you the comfort that these projects will start sometime during the quarter and that could not be the beginning of a maybe a prolonged spending freeze on discretionary work?

N. Chandrasekaran I don't have a crystal ball and I don't predict the future. Having said that, we have not seen any cancellation of projects. Second is that when I said delays, some of the projects have started as well. It is just that if we expected the project to start on November 1st, it is not starting on November 1st. Sometimes, there is a month delay, sometimes there is a six-month delay, and sometimes there is a movement from Q3 to Q4. Those kinds of patterns we are seeing. So based on all the data points we have, we should expect a lag in terms of ramp-up for discretionary projects limited to Q4.

Moshe Katri Understood. Can you give us any commentary on pricing trends which is something you do every quarter?

N. Chandrasekaran Pricing has gone up this quarter, but overall, we believe that the pricing is going to be stable in a very narrow band, exactly as I said last quarter. It is going to be hard to get increases unless there has been a scheduled increase. If there is a scheduled increase, you will get that. Otherwise, it is going to be very hard, especially with the current macro environment being what it is but there are no decreases as well. So it is going to be stable in a very, very narrow band.

Moderator Thank you. The next question is from the line of Mitali Ghosh from Bank of America. Please go ahead.

Mitali Ghosh Mr. Chandra, it would be quite helpful if you could give us a bit more detail on the Banking vertical and the trends that you are seeing there in terms of spend, in terms of growth obviously and also the kind of services that you are seeing some demand?

N. Chandrasekaran I had talked about sample of 120 top clients and 96 of them have finalized the budgets and I said two-thirds of them have either a flat or an increase in budgets. There is no sector-wise trend here. Even in the Banking and Insurance sector, we see some clients are increasing, some clients are flat, and some clients are dipping. So from our point of view, we have not seen any shocks, any negative vibes, in the Banking and Financial Services sector at this point in our client portfolio.

Mitali Ghosh And are there any trends that one can draw in terms of service lines overall, where you are probably seeing more demand where there is more risk?

N. Chandrasekaran Definitely, from a Banking and Financial Services point of view, there is spend happening in regulatory areas. There is spend happening in Business Intelligence. Also, in terms of optimizing the infrastructure and we are also seeing some consolidation among vendors as well. So, these are the types of things.

The other area which is very strong, whether it is Banking, whether it is Insurance or Retail, is the digital consumer. Building applications for mobile use and also incorporating analytics and **big data** and so on and so forth. That is the other area that we are seeing traction. These are the four or five different areas in which we are winning deals.

Mitali Ghosh Overall Enterprise Solutions saw a good growth for you this quarter but it is typically more discretionary in nature. So how should we think about that going forward?

N. Chandrasekaran Mitali, it is not that every project is getting delayed, that is why I was pretty specific. 130 projects were the sample and we took the sample across industries, across markets and also different sizes – a truly representative sample I would say, and 50% of them are on track. We were bidding and we won and they started and everything happened on time. The remaining 50%, there is delay, some are kicking in with the lag of one month, some are taking more time, etc. So I would not draw too many conclusions whether it is Enterprise Solutions or BI.

You saw SAP numbers. They have had one of the best quarters. So, I do not want to be overly negative. At the same time, I don't want to say that macro does not matter.

Mitali Ghosh And just in terms of campus offers how many campus offers have been made so far and if you have a target perhaps?

Ajoy Mukherjee We have given 43,600 campus offers and with that we have closed our campus season as far as this year is concerned. They would start joining from June-July onwards.

Mitali Ghosh Ajoy, what is the kind of fresher to lateral hiring you are targeting?

Ajoy Mukherjee That we would do all our business planning somewhere around February-March and that is the time depending upon the business demand we will work that out. At this stage the only certainty is the number of campus offers which is 43,600.

Mitali Ghosh Just one last quick question for Maha. Maybe I missed it, but did you give the outstanding hedge details in the beginning?

S. Mahalingam There are two types of hedges. The first one is the revenue hedge. We have \$1.7 billion outstanding, of which \$1.3 billion is for Q4 that is the March quarter and the remaining is for the subsequent period and as we can see there is not very much. In addition to that we have \$1.1 billion in terms of receivable hedges. So whenever I talk in terms of the currency rate and so on, it really applies to the revenue hedges.

Moderator Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta I had a question in terms of cash flows. Cannot reconcile the fact that despite our operating income over the last nine months having grown at 25% our operating cash flow has actually declined and our free cash flow has also declined Y-o-Y over this period. And this is despite no material deterioration in our DSOs. So what exactly explains this deterioration and do we see a reversal in terms of that?

- S. Mahalingam** There are two points that you have to look at. One is we are in a growth environment and therefore, the growth environment itself is taking additional working capital in the organization and the second one of course the exchange that you will see. So, those are the two things that you have to factor in. All the others are normal, whether it is dividend, capital expenditure and so on. The one way to calculate this from a current account is in terms of looking at the last 12 months revenue and then looking at a percentage and we have not seen much of deterioration in regard to that.
- Ashwin Mehta** Because in terms of cash flow from operations looking at a percentage of sales, there is a deterioration from around 19% for the last nine months versus the previous year same period. It is 14% in this year versus 19% last year. This is in dollar terms that I am talking about.
- S. Mahalingam** All that I can say, Ashwin is that from a pure quality, we can get into a lot of these questions and we can forward it for the benefit of everyone. We have not seen any reduction in the quality from a cash flow point of view.
- Ashwin Mehta** And secondly, in terms of OCI losses what would be the OCI balance currently?
- S. Mahalingam** I think at this moment in time it is about Rs. 890 crores.
- Moderator** Thank you. The next question is from the line of Divya Nagarajan from UBS. Please go ahead.
- Divya Nagarajan** Just a couple of questions; I know we kind of discussed the vertical split but initially you spoke about two-thirds of the budgets where clients have closed have actually been stable to positive. One, is there a color you can give us in terms of your vertical exposure there, has there been any sector where you have seen more negative budgets than the rest? And secondly, how relevant is an annual budget in this kind of a year where there is greater scrutiny on budgets, do you think that budgets could be announced but they will not be spent through the year, is that a possibility?

N. Chandrasekaran Divya, it's a good question. I try to see a pattern but there is no pattern. And in every sector, I have a mix in terms of customers spending more, spending less and also being flat. Just because there is a budget cut does not mean that our volume is going to go down. We have been winning market share there. Just because there is a budget increase does not mean that we should have a significant volume in that account. That we should keep in mind. But by and large I do not see a pattern.

The second thing is the sense I am getting is that all the decisions that people are taking today is fully knowing what is going on. That is what is different now compared to two to three years ago. So as I said before I do not have a crystal ball I cannot predict the future, I really cannot comment on it but by and large I feel that customers are aware of what is going on and then deciding on their plan in that context. To that extent there is likely to be more certainty in what they say now than what they said two, three years ago.

Divya Nagarajan And secondly, I think just coming back to how you are feeling about the growth in 2012, has your optimism waned in the last three months compared to where we were at the end of the last quarter numbers or do you think you are as confident as ever going into 2012 despite the ongoing uncertainty?

N. Chandrasekaran All I want to say is that I have not changed my views in the last three months.

Moderator Thank you. The next question is from the line of Edward Caso from Wells Fargo Securities. Please go ahead.

Edward Caso My question is on the wage side. We have heard a little bit about some sort of maybe pulling back of wages, one of your competitors suggest that maybe overall wage increase is in the single-digit. Could you comment about your fresher offers and how those offers are versus a year ago and also maybe any thoughts you can offer on the overall wage outlook?

- N. Chandrasekaran** I think we would decide the wage increases, etc. in the next quarter, towards the end of the current quarter. But having said that definitely it is likely to be in single-digits. I cannot tell that number right now. Ajoy, do you want to add any color?
- Ajoy Mukherjee** I think the other question was related to the fresher hires. The fresher hires that we have done this year vis-à-vis what we did last year there has been no change in salary, the hires are on the same compensation level.
- Edward Caso** Can you talk a little bit about the Business Process Outsourcing part of your business, what is the tone there?
- N. Chandrasekaran** It has been healthy. If you look at the current quarter, they have grown in INR terms 13.1% and in constant currency terms by 4.1% qoq, so it has been pretty healthy. We have also won a couple of deals in Business Process Outsourcing during this quarter, good important marquee wins and the pipeline is healthy.
- Edward Caso** And a final question: the wave of consolidation after the Lehman issue, is that consolidation of vendors still happening or is that pretty much steady state at this point?
- N. Chandrasekaran** It depends on the particular customer situation. In some customers, definitely, vendor consolidation is happening. In some other customers there are projects to consolidate environment infrastructure applications. So it has happened. It is a mixed bag really. Can't really have a broad brush statement.
- Moderator** Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.
- Viju George** I am just trying to understand when you talk about discretionary projects, what per cent of revenues would you classify as discretionary, is it just straight addition of Enterprise Solutions or Business Consulting or Business Intelligence and Consulting or is there something that that is more layered? Just trying to understand

what per cent of your revenues might be vulnerable to a lag in decision-making?

N. Chandrasekaran In general, I would say discretionary to be 20-25% at the overall portfolio, out of which some of it will come from the past signings and all of it doesn't reflect in the current quarter. And as I said it is not a uniform thing. On the sample we took, about 50% of the projects are on time, the remaining 50% is where we saw the delay. Some are delays within the quarter and some are delays which are moving across quarters. So I think when you project the volumes for Q4 we need to take that into account and moderate it. If you ask me straight that is the only message I am trying to get across.

Viju George But I also at the same time noticed that your people addition numbers have been pretty strong in this quarter and I think you are just about 9,000 or so away from the next quarter numbers from a different perspective. Looks like you would be doing maybe 10,000 more than that. So in a way people addition numbers don't seem to square up so well with the slight muteness in commentary, if I may point that out.

N. Chandrasekaran Viju, we are not going to change people addition number based on one data point in one area of the market. Second thing is we do not see this as phenomenon for the entire calendar year. Let me say that.

We do not think that the growth is going to be back ended or anything for the next fiscal year. So we want to be prepared for the next fiscal year and we will be adding additional 15,000 people at least during Q4. All I am saying is that currently as we leave Q3 we have experienced this and we will see that impact to some extent in Q4 and we will be watching all the discretionary projects as we move along in Q4. But otherwise, we are not seeing a cause of alarm of any kind for us to stop hiring or anything like that. Our utilization is 82%. So we are okay. And actually, Viju, if you see the margin that we have delivered, yes, there has been margin improvement due to the currency but our utilization dropped from last quarter to this quarter by more than a per cent and yet we have shown a credible margin

improvement, so execution has been pretty good. We have taken all that into account and we are staying the course on hiring.

Moderator Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan R Just wanted to get your commentary as to how you look at some of the projects that are coming up for re-bid that are given out onto those timeframe because TPI was putting quite large number is coming up for renewals, so just wanted to see how do you see any vendor churn happening and what kind of win rates you are having?

N. Chandrasekaran We are definitely winning market share, but at the same time we do not bid on every one of those projects because of the nature of those programs. We will bid on some of those projects and not some others because of asset takeover and so on. But we are looking at a healthy deal pipeline as we look at things today. We have delivered good wins and are currently pursuing a good number of deals in all markets. So we will have our reasonable share.

Srivatsan R And in terms of Europe, especially Continental Europe, do you see an increased acceptance towards cost takeout deals than a couple of years? just wanted to see how are clients in Continental Europe looking at, is there an increased urgency especially on cost takeout deals?

N. Chandrasekaran Cost takeouts, transformation, combined deals with cost takeout over the first 18 months followed by transformation... all those kind of deals we are seeing. We have done well in Europe in Q2, you saw the numbers, and then we have done well again in Q3. Deal signings in Europe for the current quarter have been good. As I mentioned earlier, four deals came out of Europe, including both Continental Europe and UK.

Moderator Thank you. The next question is from the line of Keith Bachman from Bank of Montreal. Please go ahead.

Keith Bachman When you mentioned that two-thirds of the budgets you see as flat so therefore one-third will be down, where was that number last year about this time?

N. Chandrasekaran I do not have that data. I did this a lot more meticulously this year because we wanted to see a lot more trends and I cannot really give a like-to-like comparison from last year to this year.

But I would say, as I said some time ago, everyone who is deciding on the budgets are a lot more knowledgeable about the environment today. They know the context in which they are making these decisions.

So, those are the data points I can share because a lot of analysts have been asking me over the last month or so, any color on this, so we have really tried to make sure that we give you a very good perspective. I don't want to give you a more data that can lead to any misleading conclusion. So there are no specific patterns we see that we can give you, but I think it's quite good I would say.

Keith Bachman Let me try two more if I could then, if the budgets are still getting settled, can you give us any color or perception on scope or duration changes? In other words, are clients looking at smaller chunks, if you will, of spending with either dollar or timeframes or is the scope for duration relatively consistent compared to last year?

N. Chandrasekaran I think you will have to repeat it. I think it is too complicated for me.

Keith Bachman Just in terms of the dollar amount of contracts being bid out, are clients shortening up either in terms of --

N. Chandrasekaran Not really. There are two ways to look at it. The transformational deals, the contracts which are cost takeouts, they are very large and those contracts are not slowing down. In fact, the 10 large deals I announced today all are quite large; they are \$50, \$100, \$150, \$200 million type sizes. So they are not coming down in size. That is one.

Second, if you look at the discretionary contracts, they vary from \$0.5 million up to tens of millions. I have to clarify this very carefully: there is no pattern to suggest there is a change in the way they contract, or a change in the way they split the money, etc. The only conclusion I could draw is that they are doing a deeper due diligence especially when they are doing a developmental project. That's the only conclusion I could come up with.

Keith Bachman On the third that presumably have lower spending level or lower budgets, is there any patterns that you could draw from that, is that most for Europe, is it more financial services and any patterns in the clients who are indeed lowering budgets or appear to be lowering budgets?

N. Chandrasekaran No, honestly, there is no pattern and it is not sector-specific, it is not market-specific. In fact, when we did this analysis we were going through one of the things that we wanted to come up with is, can we narrow it down to a particular market or a particular type of client or industry. No, there is no such pattern.

Let me also point out that on this base of about 120 clients, when you look at large companies, if one-third of them are going to have a decrease in budget, we also have to know that in any year there will be some of them who will have a decrease in budget.

So, the thing to look for is the speeding up or on-time decision making in projects, and no cancelation of projects. Those are the things that we should look for. It is not to say that out of these one-third, how much are they going to reduce, are they going to increase it by another \$50 million, \$100 million, that is not what I would look for. I would look for whatever visibility we have and whatever projects we are bidding, for everything to stay on course in terms of decision-making. That's what I would look for.

Moderator Thank you. The next question is from the line of Sandeep Shah from RBS Equities. Please go ahead.

- Sandeep Shah** Is it possible to breakdown the pricing increase of two percentage points in terms of rate card versus non-rate card as there is some 40% increase in the hardware and license revenue as well as the pricing increase is not being reflected in a margin increase?
- S. Mahalingam** Sandeep, we will not be able to break the pricing increase into different categories. And the second thing is that we take out hardware revenue while calculating all these.
- Sandeep Shah** So pricing increase is excluding the revenue coming from hardware?
- S. Mahalingam** That's right.
- Sandeep Shah** And Maha, is it possible to give us the volume increase in the international business?
- N. Chandrasekaran** I think it is pretty standard. Both of them are more or less the same. I think there is a few percentage points difference between international and domestic. The domestic has grown largely volume based. There is no pricing increase. It's about 14% on a 13.5% global increase in revenues. So from volumes point of view and a constant currency point of view it's not material.
- Sandeep Shah** And this time, there is some slowdown within the top 2 to 5 clients as well as top 6 to 10. So is it a quarterly aberration or is it more to do with the decision making delays impacting some of the top clients?
- N. Chandrasekaran** Not really. Actually, the top clients have stayed exactly at the same level [as % Rev] as last quarter. They have grown exactly at the company level. And the 2-5, 5-10 have all grown in absolute terms. You will always find aberrations in the 2-5 and 5-10; sometimes they will grow below the company average, sometimes they will grow above the company average but the important thing is that all of them are growing.
- Sandeep Shah** And last question, Maha: is it possible to give some color on the revenue may kick in from the Friends Life contract in the fourth quarter? Some range if you can?

- S. Mahalingam** Yes, some revenues will kick in, but I think we will have to watch the situation and then we will hopefully be able to give you some idea sometime in February.
- Sandeep Shah** And even that 15,000 number of employee addition includes 2000 coming through Friends Life?
- S. Mahalingam** 1900, around that.
- Moderator** Thank you. The next question is from the line of Aarti Mishra from CLSA. Please go ahead.
- Aarti Mishra** This is regarding the Friends Life's deal. Could we know what kind of margin impact with this deal have and what kind of margin are we looking at for the next few quarters regarding Friends Life?
- N. Chandrasekaran** We do not give specific dealwise margins. All I would say is that Diligenta margins are continuously improving quarter-on-quarter, and it will be increasing going forward also every quarter sequentially.
- Moderator** Thank you. The next question is from the line of Priya Sundar from Avendus Securities. Please go ahead.
- Priya Sundar** I just wanted to understand what is happening in Europe. The whole industry has done extremely well in this region. So is it that you are seeing a lot more offshoring happening or you are seeing new offshorers are coming in. And particularly, when given the macro environment what are you seeing in Banking space in Europe?
- N. Chandrasekaran** As I said that we have seen good growth in Europe, not necessarily all of it from Banking; it has been broad-based. We have got clients in multiple sectors. But we are not seeing anything specific and the deals that we have won in Continental Europe are non-Banking. But we are pursuing Banking opportunities as well.
- Priya Sundar** No, the thing is given all the macro concerns in the Eurozone and the crisis that is going on, what is it that actually driving offshoring in the region?

N. Chandrasekaran I think everything cannot be linked only to the Eurozone crisis, because as I said, companies are driving efficiency. And when they have to drive efficiency they adopt a number of things; they look at offshoring, they look at vendor consolidation, they look at application consolidation, they look at rationalization, they are even open to BPO Offshoring, and they are consolidating their SAP footprint. So many different things are happening and European companies are also adopting to all these opportunities.

Priya Sundar You are actually seeing new investments also happening in Europe other than your RTB investment?

N. Chandrasekaran There is some CTB as well, but a lot of it is RTB.

Ajoy Mukherjee I think there was a question that was asked earlier which is whether 15,000 employee addition includes 1900 from Friends Life that would come in. And the answer to that is actually no. This 15,000 does not include that. I just wanted to clarify it.

Moderator Thank you. The next question is from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor Just want to get your sense in terms of the pricing discipline in the industry. Are you seeing anyone among the offshore vendors especially dropping the ball and trying to go after volume? And especially among your major accounts, are you seeing any such thing happening?

N. Chandrasekaran Pankaj, I would like to stay away from commenting on competition. I hope you understand.

Moderator Thank you. The next question is from the line of Vishal Desai from Alchemy Shares & Stock Brokers. Please go ahead.

Vishal Desai I just wanted a sense in terms of your service offerings, I believe application development has seen a rather slowing growth from Q1 going into Q3. Any views you all can share on that front to get some clarity?

N. Chandrasekaran No, I don't think that you should read too much into that, because Application Development and Maintenance is still growing and application development portion is very discretionary in nature. As I said that we have seen delays in the decision-making in such kind of projects that is reflecting in the numbers. I would wait for next quarter to see whether it is continuing or not, but we have seen some delays in this quarter in the Application Development space.

Vishal Desai Just if you could give me some clarity in terms of how much would be the maintenance component out of this total 44%?

N. Chandrasekaran We do not share that, we do not break that because it keeps changing. If we give a number, in the next quarter it completely changes then it's a problem.

Moderator Thank you. The next question is from the line of Sandeep Agarwal from Antique Finance. Please go ahead.

Sandeep Agarwal I have a question for Chandra and then I have a follow-up question for Ajoy. First, Chandra, we saw a good performance in this quarter also in fact. But like earlier also you have mentioned and I agree that cost efficiency and things will drive growth in Europe, but we were expecting some more growth in the BFSI part probably and also the churning in the vendor that was, what is your view on that, how it is picking up?

N. Chandrasekaran I think from a growth perspective at the end of last quarter during the analyst call we had clearly said Q3 is going to be a weak quarter, primarily because the number of working days are less and that has reflected in all the verticals, not necessarily in BFSI. So, that is the only comment I have with respect to the volumes which we expected. And what was your second question?

Sandeep Agarwal My second question was primarily basically how you are seeing like that almost as you have mentioned that one-third of the clients have shown basically some cut in the budget. Is it just a normal thing which

happens every year or you are seeing this to be exaggerated this time?

N. Chandrasekaran I really do not have data point at the same time last year to say how many of them have cut the budget this year compared to last year. But it's fair to expect that some of them will cut budgets in any year. That's where I am. So I am more focused on all the projects getting kick started and all the decisions continuing to be made on time. That is the only thing I would look for.

Sandeep Agarwal And I have a follow-up question for Ajoy. I just wanted to know like we were last time talking about a comfortable range of 82% to 84% on the utilization front and an attrition level of 11.5-12% maybe is a comfortable level, but now my question is like suddenly the utilization has started dipping, although I agree that Chandra last time also mentioned that you are comfortable between 82% to 84% on the utilization level, but is it possible that we can have a consistently 83% to 84% range rather than 82% to 84% range going forward because of the kind of base on which we are operating?

Ajoy Mukherjee As we have maintained, 82% to 84% is the comfortable range. This quarter, as Chandra mentioned, we dipped from 83% to 82% i.e. about a percentage point dip, but still maintained our margin. Our goal is to operate where, given the overall scenario, we are also prepared for a slight drop if it comes to that. He talked about the 15,000 hires that we will be doing this quarter and all that we have covered.

Moderator Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan Chandra, you talked about vendor consolidation in the financial services domain. Are you sensing anything different in this round of vendor consolidation compared to what happened in 2008 and are you seeing any entry of new players or are you seeing any kind of predatory pricing, what is the trend you are seeing there, can you just compare it to what you saw last time.

N. Chandrasekaran No, first is that I am not singling out financial services for vendor consolidation. All I was saying was across sectors, the efficiency drive is resulting in any one of the following: we are seeing vendor consolidation, we are seeing infrastructure consolidation, and we are seeing application rationalization, application consolidation, a variety of things – that was the context in which I said. And I am not seeing anything peculiar this time around compared to any other time. Actually, I have no data point to report there that is positive or negative.

Pinku Pappan And second question is on IMS. You had three strong quarters of growth. Anything different you are winning here or what is the kind of deals that you are getting here, what is leading to the rebound on growth there?

N. Chandrasekaran I think it is a practice that is growing very well and we have built a lot of capabilities and deal pipeline is good and we continue to bid for large engagements and are also winning. Many of them are global as well. So the pipeline is good and robust. We should continue to see the growth in IMS.

Pinku Pappan And lastly, on Telecom, you are talking about the good deal pipeline. Are you seeing that mostly in emerging markets or is it US, Europe too?

N. Chandrasekaran Across the board.

Moderator Thank you. The next question is from the line of Nitin Padmanabhan from Motilal Oswal Securities Limited. Please go ahead.

Nitin Padmanabhan This is with regard to the increase in realization this quarter by 198 bps. Somehow was not able to reconcile even from a portfolio perspective as to why that increase could be, if you could just throw some color there?

S. Mahalingam This is calculated based on the blended realization that we get and therefore there are many multiple points. I think your issue comes in

because you are seeing realization increase but you have not seen any improvement as far as the margins are concerned. So, all that we are essentially saying is that there is a lot of moving parts here. There is the issue of the different mix of services, different mix in terms of locations and also different mix in terms of resources, different mix in terms of geographies, so there are many points here.

N. Chandrasekaran Also from shift towards global GDCs.

S. Mahalingam Those are the kinds of factors.

Nitin Padmanabhan So shift towards global GDCs should be a bigger factor compared to the others?

S. Mahalingam That is a bigger factor.

N. Chandrasekaran That and the market mix - both are bigger factors than others.

Moderator Thank you. The next question is from the line of Rachael Stormonth from Nelson Hall. Please go ahead.

Rachael Stormonth I noticed a number of the service lines have seen a significant slowdown in revenue growth this quarter. I would like to ask you about the BPO service line and also about the Asset Leveraged Solutions. To what extent is the latter cyclical phenomenon? And also can you explain why the slowdown in BPO revenue growth?

N. Chandrasekaran Did you ask only about BPO or did you asked about something else?

Rachael Stormonth The software as well.

N. Chandrasekaran Asset leverage solutions is doing very well if you go back and look at the last several quarters, it has been continuing to grow. This quarter, it has been almost flat in the constant currency terms. In INR terms it has been about 6% but constant currency terms it is flat compared to the previous quarter. But the deal wins have been healthy. If you look at the last five or six quarters, it's been continuously growing and especially when practice is growing and it is small compared to the

larger units, you should always expect that there will be sometimes muted growth, sometimes heavy growth. But asset leverage solutions is one area which we are very bullish about. We have got a fantastic set of assets and portfolio ranked very well by all the analysts and delivering great results for the last several quarters. I expect that this will do well as we go into FY13.

Rachael Stormonth So the growth will be lumpy. Could you explain the slowdown in BPO space?

N. Chandrasekaran BPO has not slowed down, BPO has delivered a Q-o-Q growth of 13.1%, and on a constant currency basis it has grown 4.1% as opposed to a 4.5% of the company. So it is pretty healthy. It's not slowed down.

Moderator Thank you. The next question is from the line of Shashi Bhushan from Prabhudas Lilladher. Please go ahead.

Shashi Bhushan Just wanted to understand that one-third of those clients, 120 clients where there is possibility of cut in the IT budget. Where are they actually placed in client bucket? Is it towards the higher end or lower end or evenly spread across bucket size?

N. Chandrasekaran Let us not dissect this number any more because any data point I have will be data points which are not consistent enough to give you any meaningful guidance. All I would say is that – if that's your question – there is no risk in our top clients. All our top clients are doing well. The pipeline we are seeing with our top clients is quite good.

Shashi Bhushan And 50% of the discretionary projects that are seeing some delays. Are those projects deferred beyond Q4? Now if yes what percentage of those projects have been deferred beyond Q4?

N. Chandrasekaran I would not know it. I expect them to start during the Q3, some of them started with the delay, some of them have moved into Q4 but whether they will go beyond Q4 I will not know today because I don't have a forecast from the customers that they are moving beyond Q4. We

expect them to start sometime in Q4 but I don't have any other information. If I hear anything, I will be the first person to talk to you guys.

Moderator

Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand the floor back to Mr. Shirali and the management for closing comments. Please go ahead.

N. Chandrasekaran

Thanks to all of you for joining the call. We are quite happy with the Q3 numbers, more than the numbers, the constant currency growth. The fact that it is secular, it is growing across markets and across industries is satisfying. We are quite happy with the utilization where we are. We have a good bench strength. And the deal signings have been good. Frankly speaking in terms of the budgets, we are quite happy with where we are. I would like to watch the discretionary projects. I do expect a volume impact due to the late start of the discretionary projects as far as the Q4 is concerned. But going forward we remain very positive about FY13. Thank you very much and wish you all a wonderful 2012.

Moderator

Thank you gentlemen of the management. Ladies and gentlemen on behalf of TCS that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

[Note: This transcript has been edited for readability]