



## **Tata Consultancy Services Limited**

### **Q3 FY15 Earnings Conference Call.**

**January 15, 2015, 19:00 hrs IST (09:30 hrs US ET)**

**Moderator:** Ladies and Gentlemen, Good Day, and Welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you. And over to you sir.

**Kedar Shirali:** Thank you, Inba. Good Evening and Welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the 3<sup>rd</sup> Quarter of Fiscal Year 2015 ending December 31<sup>st</sup>, 2014.

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 website.

Our leadership team is present on this call to discuss our results. We have with us today – Mr. N Chandrasekharan – Chief Executive Officer and Managing Director; Mr. Rajesh Gopinathan – Chief Financial Officer; Mr. Phiroz A. Vandrevalla – Director; and Mr. Ajoy Mukherjee – Head of Global Human Resources.

Chandra and Rajesh will give an 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 and anything said on this call which reflects our outlook for the future or which could 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 'Quarterly Fact

Sheet' available on our website and which has also been e-mailed out to those on our mailing list. With that, I would like to turn the call over to Chandra.

**N. Chandrasekaran:** Good Morning, Good Afternoon, Good Evening to all of you. First of all, let me start by wishing you all a wonderful 2015.

Specific to this call, I am happy to say that in a seasonally weak quarter, we have delivered a good set of numbers, despite the usual headwinds that I had spoken about in the last call. We had a constant currency sequential growth of 2.5% that is better than what we had in the Q3 of FY 14. This translated into a growth of 2.9% in Rupee terms; however, we have flat revenues in Dollar terms -- purely an optical phenomenon -- on account of the very sharp cross-currency volatility we saw this quarter.

The growth has been pretty broad-based across markets, across industries. In constant currency terms, Banking, Financial Services, and Insurance grew slightly above the company average, despite the lingering weakness in Insurance we had spoken about. Similarly, Manufacturing, Hi-Tech and Telecom stood above average sequential growth as well as Life Sciences, Travel and Hospitality.

Retail sector grew only by 1% as expected on account of the usual holiday season clampdown on new projects that we see.

From a geography perspective, all the regions grew very well; US showing a 2.1% in CC terms, Europe growing a 6.6%, UK declined by 1%, that is primarily due to the Diligenta headwind that we see.

If you look at the service lines, with the exception of ADM every other segment grew very well and growth was led by Consulting and Asset Leverage Solution with a significant growth.

The best optics in this quarter is the client metrics; we had significant additions across all bands; \$100 million+, \$50 million+, \$20 million+, \$10 million+, \$5 million+, \$1 million+.

Across the board, client additions have been extremely satisfying and that puts us on a strong base for the future.

In terms of utilization, we are at an all-time high of 86.7% ex-trainees and 82.1% including trainees but in this quarter we have lesser number of working days, furloughs, and also people availing lot of leave given that opportunity. The gross employee addition was very good at 16,561 and the net addition of 4,868, taking the employee count well over 318,000 people

The deal pipeline remains strong; several large deals were closed. The operating margin was healthy at 27%, within our desired band.

When you look at the future, I would say that the demand pipeline is strong. The order book this quarter has been healthy. There is nothing unusual that we see with respect to a customer or in a specific geography. The energy sector is under stress and that will have headwinds. Apart from that from a geography perspective, the momentum is across the board; US, UK, Europe, Latin America, India all look positive.

From an industry perspective we expect Retail to bounce back, now that the holiday season is over. BFS has a strong pipeline, Insurance, we still have some headwinds in Diligenta, and all the sectors like Life Sciences, Manufacturing, Hi-Tech, Telecom, and Media all have a very strong pipeline.

Services again Infrastructure and Digital Enterprise Solutions, Assurance, all of them look good.

So, we are very positive and feel very happy with where we are and we are seeing opportunities in **Digital Transformation**. Customers are partnering with us as “The Partner of Choice” in reimagining the future. We also have tremendous opportunities in **Simplification**, where customers have to move to Cloud, have to rationalize the data center and transfer his operations and retire legacy systems, etc., . Then, the

**Governance** area, including real-time visibility, cyber security and regulatory compliance, etc., is another set of opportunities that we see.

We are investing in platforms, investing in digital capabilities, digital studios, digital re-imagination tool kits, automation platforms -- a significant number of investments we continue to make.

We feel good about where we are and look forward to a very good CY 2015 and FY 16. With those comments, I would like to pass it on to Rajesh for more details.

**Rajesh Gopinathan:** Thank you, Chandra, and Good Evening, everyone. Let me quickly go over the headline numbers once again:

Our 3<sup>rd</sup> quarter revenue of Rs.245.01 billion represents a growth of 2.9% Q-o-Q and 15.1% year-on-year. In constant currency terms, our revenue growth is 2.5% Q-o-Q.

Sharp falls in major currencies like GBP, Euro and AUD against the USD in the last quarter, added up to a significant negative cross currency impact of 2.5% resulting in a flat revenue growth Q-o-Q in dollar terms. Revenue in USD terms is \$3.931 billion, which is a growth of 14.3% year-on-year.

Our INR revenue growth of 2.9% can be broken down into business growth of 2.5% at a currency benefit of 0.4%. The former is made up of a volume growth of 0.4%, constant currency realization growth of 2.3%, and an offshore shift impact of (-17) bps.

Moving on to the Operating Margin, currency movement resulted in a margin benefit of 0.4%. Net of increased SG&A expenses, EBIT margin was at 27%, a Q-o-Q margin expansion of 19 basis points. Our net income margins stayed flattish Q-o-Q at 22.2% despite a lower interest income from the depleted cash balance and a slightly higher effective tax rate of 24.1% boosted by forex gains of Rs 2.41 billion.

Our account receivables was at 80 days outstanding in dollar terms down by one day. Operating cash flows during the quarter stood at Rs.50.73 billion, which is 93.2% of the net income.

Our invested funds as of December 31<sup>st</sup> was at Rs.186.35 billion. Lastly, the board has recommended an interim dividend of Rs. 5.

With that, we can open the line for questions.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from Anantha Narayan of Credit Suisse. Please go ahead.

**Anantha Narayan:** I had a couple of questions. The first one was for Chandra. I know you may be hesitant to give us some indications of growth this year versus last year, but it will be helpful if you could give us some color on how the general trends look at the beginning of this year versus the same period last? And the second question was for Ajoy. In terms of attrition, while it still remains very good relative to the others, it has been going up. I was just wondering, were there any specific employee programs that are being put in place?

**N. Chandrasekaran:** In terms of the color, the US is definitely in a strong position this year compared to last year. The second trend I would say is that the default is Digital. So everything that we are going to do is going to involve Digital in some form. What it means is that with the customers that we have been working with on a number of pilot engagements and in different areas, now it is all coming together. With many customers with whom we have strategic relationships we have an opportunity to be “The Partner of Choice” and with some of them we have already become their Digital partner, so we are thinking it holistically how do we bring all these technologies, not only the Cloud, Analytics and Big Data and Internet of Things, Automation, everything how do we bring together in reimagining the future. So these programs I would expect will be a lot more strategic and lot more long-term. That is the second trend.

The third, we have had a little bit of a rollercoaster ride in Latin America, but I think from here on, I expect a gradual growth curve which is going to be a good curve in Latin America. I think the same is going to be true for India as a geography as well.

I think the investments that customers are making in Retail are pretty significant. BFS also is an industry which is going to grow not only in the US, but also in Europe. We see many of our clients in Europe engaging with us a lot more strategically in BFS and scaling the operations and engagement that we have with them.

Japan has done well in the last quarter. I think we have a very strong client base, so we expect that we can make it count.

From our client metrics point of view, I am extremely happy with the kind of client additions that we have had in this quarter. Those additions at the various bands mean a lot in terms of what is in store for the future.

So I think that is how I'll describe the trends. There are no account-specific headwinds that I see. Diligenta is a headwind. It has had a decline last two quarters and may be that will continue for a few more quarters.

**Ajoy Mukherjee:** From an attrition point of view, it is about 13.4% at this point in time, which is the last 12-months' attrition. If we look at the absolute number of people who have left as far as this quarter is concerned, it is marginally down as compared to the last quarter. So that is where I think I would leave it.

**Anantha Narayan:** I have a follow-up on that point. Last quarter, I would assume would also be a quarter where the attrition is seasonally higher, so I am not sure whether the QoQ comparisons are really relevant. But, broadly my question was, are you comfortable with the current levels or do you think it merits some sort of action?

**Ajoy Mukherjee:** From a current level point of view, we would definitely like it to come down a bit. That is definitely what we would like to do. Attrition is also a

factor of the overall growth in the industry, so that is definitely playing out to a certain extent. But overall, as I said, it is a bit lower than last quarter and we will definitely try and bring it down further as we go forward.

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

**Mitali Ghosh:** Just on the decline in constant currency revenues in UK, it would be helpful if you could discuss perhaps how the business is ex-Diligenta, and what is the outlook that one should expect in both Diligenta and the rest of the business?

**N. Chandrasekaran:** Diligenta has had a decline for 2 or 3 sequential quarters and it is going to have a sequential decline definitely in the next 2-3 quarters I expect at this point in time, unless some of the deals that we are pursuing get closed. All the deals that Diligenta pursues are long cycle deals, so currently I do not see a closure in the next few months.

So that is one headwind that we have in UK, but apart from that, if you really look at the client profile, we do not see a negative growth in any account that we operate in.

Having said that, in this quarter, the Retail accounts did not grow and some of the Financial Services accounts have been flattish or had a little bit of growth.

However, I do not expect any problem in any of these accounts. All of them have a good growth momentum; they will pick up. So we should deliver incremental growth in the UK after accounting for the shortfall we have in Diligenta

**Mitali Ghosh:** In terms of this quarter, did it pan out any differently than what you perhaps expected going into the quarter, any areas where you were surprised negatively or positively? How do you see the spending trends in this current March quarter, directionally, could we see a pickup in sequential growth?

**N. Chandrasekaran:** In this quarter, definitely, we had said that we will have two headwinds – fewer number of working days and the furloughs – that panned out to be so. Additionally, at the mid-quarter call, also we had given indications that we are not seeing pickup in discretionary spend, we are seeing absolutely no spend in the discretionary areas in certain sectors. The Energy sector I think has done worse than what we expected, we did not have that indication at the beginning of the quarter. During the quarter definitely it started having difficulties. So those are the three comments that I would like to make.

I do not want to give you guidance but from here, we expect momentum to pick up because discretionary spend will happen in Retail, all those projects are picking up momentum. So from here we are expecting volumes to pick up.

**Mitali Ghosh:** In terms of margins, how should we think about the margin outlook ex-currency given that productivity initiatives and also likely payback from investments in the last couple of years?

**Rajesh Gopinathan:** Mitali, as you said, our investments are calibrated based on the headroom that we have from the currency outlook; however, currency is a short-cycle phenomena and our investments are long-cycle investments. We will take a call on it depending on how the currency settles down and we will discuss it over a period of time.

We had taken the same stance when the currency moved in the opposite direction and subsequently have initiated those investments that we had spoken about. At the overall margin band as of now, we continue to maintain our target band of 26% to 28% and we are currently nicely poised at the mid-point of that band. Our impact from currency volatility is likely to be fairly high and it will be in any direction that the currency moves in. Long term changes to margin trajectory we will communicate it if and as they crystallize.

**Mitali Ghosh:** My question was of course ex-currency. Should one expect that there will be any payback from the investments in the last couple of years on



the productivity initiatives, or would you rather hold it steady ex-currency?

**Rajesh Gopinathan:** The expectation obviously from all our investments is that they will provide us a payback both in terms of revenue growth as well as in terms of incremental margin improvement. However, you got to keep in mind that these investments go through a certain period of investment and then the returns start improving.

France is in the second year of our investment. In Japan, we are in the first year of our investment. These are fairly early stages of these investments, so I do not think it would be appropriate to start extrapolating any immediate benefits from it, but strategically, both these investments are very-very important, and we are fully committed and quite happy with their progress.

**Mitali Ghosh:** Any update, Ajoy, on the campus offers being planned and any increase in fresher salary?

**Ajoy Mukherjee:** Campus offers we said we will be doing 35,000 to join in FY-'16, I have already released 32,200 offers, we have visited about 410-417 institutes so far and the remaining 3,000 we will be doing now to February. And as far as campus salaries are concerned it remains the same, there is no change.

**Moderator:** Thank you. The next question is from Viju George of JP Morgan. Please go ahead.

**Viju George:** It seems that from your commentary on the state of the demand and from reading of the IT budgets as they stand today for 2015, there is no sense to be worried about the environment, you feel pretty good about demand, right? Is that reading correct?

**N. Chandrasekaran:** Absolutely.

**Viju George:** The other question I had was specifically with regard to Financial Services. In the last half of 2014, and also probably early into this year, we have seen and will see fines being paid by banks in various

geographies. Is that going to be impacting IT Services spending in any manner from your experience and from your reading of the situation?

**N. Chandrasekaran:** From my experience and reading of the situation, that will actually result in a lot of transformative opportunities because everyone is trying to change their cost structures; and cost structure is not about only offshoring. Those days have gone. It is not about offshoring or outsourcing or anything; it is about simplification. In some places, you do Cloudification. In some other places, you could have shared services. I think it is a combination of technology, automation and productivity play. So I think there are significant opportunities that are out there.

**Viju George:** Lastly, taking the same thing in Financial Services ahead, we are hearing of or seeing captive operations in India plan to ramp up in 2015, at least a few of them also announced plans to increase their headcounts. Is that potentially something that might cut into spend for somebody like TCS, considering that some of the banks being talked about are some of your large customers?

**N. Chandrasekaran:** I do not think so Viju, because all the customers that we work with are large institutions and they have always had some form of a captive or the other. Captives have a role. They are created for a specific purpose. So it is not correct to generically brand that okay, we are going to eliminate partnerships and go captive. I always say this, okay, I want to reiterate it so that you get the context.

I think the technology business is at the cusp of tremendous opportunities. First, because the rate at which these technologies are changing is so rapid, customers need to adopt these technologies to invent themselves for the future. We call it 'Digital Reimagination'. Second is that they need partnerships because the skill levels that are required and the ability to have the right team for the right engagement and to be able to move forward very quickly they need more partnerships than ever before, not only for financial institutions, for all customers. And the capabilities that as a company TCS has built and the size, scale, the track record, the relationships, the strategic

partnership that we have built are so strong and we can do a lot more stuff today than we have done before. So you see, these combinations have to be looked at, that presents us a unique opportunity.

Captives will be there, captives will have a role, and we can go into lot of details about each of the banks and what captive they are thinking about. So that is something that will happen, but I see that as co-existence and not as a threat.

**Moderator:** Thank you. The next question is from the line of Ankur Rudra of CLSA. Please go ahead.

**Ankur Rudra:** Chandra, could you comment about the large deal environment? are you seeing any changes there in terms of maybe the sizes of deals there?

**N. Chandrasekaran:** Ankur, I think it is a mixed bag. There are transformative opportunities where the deal sizes are pretty large, especially what I call 'simplification', where a combination of things are involved – whether it is Application, whether it is Infrastructure, whether it is moving Infrastructure to Cloud or Applications to Cloud or setting up shared services. Those kind of engagements are transformative and their deal sizes are large.

Digital Transformation, though it is long-term related, it is more a partnership, and customers are bringing this for a lot more money. The pilot stage is gone and as I said, the default is digital. So there the deal sizes vary. It may not be as large as the other types of deals I talked about a few minutes back.

**Ankur Rudra:** Chandra, just on your comment about you are expecting a big uptick from Digital spending over the next year, will that be an incremental source for your momentum or will that be a replacement of some other work you may have been doing in the last couple of years?

**N. Chandrasekaran:** It will be both, but when I say that, you have to take it in a perspective because if you are doing an Infrastructure Maintenance and the

customer wants to go to a combination of Public and Private Cloud, so you transform the customer from where the customer is today to a new footprint. So, there will be some incremental and there will be some replacement.

Wherever you are thinking about completely designing the channel strategy for the customer, how does the customer react on a real-time basis with real-time promotions, real-time analytics... whether it is picking data from all the existing systems and from the social media and from anywhere else to be able to respond and those are new systems that you are building.

So I think it will be a combination of both, but that is the way it has been. You did mainframe systems and when customers moved to client server, you helped them to build that technology, then you moved them to Internet, and you help them to build that technology, and over a period of time, the legacy went away. So that will be a transformative path, but this is not a one-to-one. It takes time and there is a lag effect. That is how the industry plays out.

**Ankur Rudra:** The EBIT margins are clearly in your band right now from a comfort zone perspective, but as you mentioned there is a lot of FX volatility. Would you be in the short-term shying away from making incremental investments from here on and hence operating leverage can show through in margins?

**Rajesh Gopinathan:** No, I do not think that we will calibrate it on a Q-o-Q basis. As I said, our investments are fairly long cycle investments. From a strategic perspective, we remain committed to our investments. Investments that are already on the ground will be supported fully as per our plans. So I do not expect any change to our investment strategy on a Q-o-Q basis, but our appetite and how we execute will of course be calibrated by what we see on the currency side.

**Moderator:** Thank you The next question is from the line of Mukul Garg of Societe Generale. Please go ahead

**Mukul Garg:** I have basically two questions; the first one is on Europe. Chandra, are you still seeing some concern in the European market outlook as commented last month or is there a different view now from the company?

**Rajesh Gopinathan:** Mukul I will take that. Last month's commentary was given by me and we had not indicated any weakness in Europe. In fact, we had called out specifically saying that we still expect to do decent growth in Europe, and we have reported a 6.6% CC growth in Europe. So the European market and the European economy continues to go through its struggles which is fairly public information, but our demand outlook in Europe remains strong. We believe that our competitiveness in that space and our market acceptance by our customers, both because of the skills we bring to bear as well as our business model is even more relevant to that market. So we are fully committed to the market and fairly confident about it.

**Mukul Garg:** The second question was if you look at realization versus volume, this quarter, you had 230 bps improvement in realization and only 40 bps in volume. A few days back, we heard exactly the opposite from one of your peers who had high volume and low realization. So, just wanted to understand how we should look at this going forward – is this something we should look at individually or should we look at it on a combination?

**Rajesh Gopinathan:** Going back again to the same commentary that you had mentioned about in last month, we had pointed out that seasonally Q3 is always a quarter where volume growth is fairly muted and volatile because of the impact of both holidays as well as furloughs. If you go back you will see that volume growth mostly trends down.

We had also pointed out that given the way these numbers work out, the reported realization numbers and the way it is calculated, typically shows an uptick based on the number of holidays to the total number of working days and the mix of projects. Per se the set of numbers that we have reported is in line with normal trends, they might be up or down compared to that kind of a trend line, but we do not see any change to that seasonality. Our overall seasonality also, of H1 being better than

H2, is something that we have always maintained and that seasonality is also playing out. So I think the numbers here are fairly in line with typical trends and there is no change for us to comment on.

**Moderator:** Thank you. The next question is from the line of Sandeep Shah of CIMB. Please go ahead.

**Sandeep Shah:** Chandra, just the question in terms of the Digital. As you are saying that it is now default, so can you give a color in terms of the average size of the deals, number of deals, which are coming from the client or the average spending from the client now versus what it used to be earlier, because one of your global MNC peers who has a size of the revenue double than you, they are already at a high-teen in terms of their scale to their digital revenue? So, if you can also share some light what is your scale in the Digital and how we foresee this business to grow going forward because one of the global MNCs is already saying that it should grow at high teens over the next few years?

**N. Chandrasekaran:** As I have said, the default is Digital, so everything we are going to do in the future is going to be a combination of these technologies and customers are having clarity of thinking after doing a number of smaller engagements. So everyone is thinking about the future as a roadmap.

As we partner with companies as their transformation partner in the re-imagination journey, there is a significant uptick in revenues. The deal sizes cannot be estimated because it will be a roadmap, you will do many engagements in the roadmap, be a partner. This is not one deal but a complete set of engagements that you will do in order to get to the point where you have to get to.

I know you are looking for specific numbers, but we do not give a split because the way we look at Digital is that it is going to be everywhere. So, we will think about what kind of metric to give and then come back to you.

**Sandeep Shah:** In terms of the margins, if we look at the first nine months of this year versus nine month of last year, rupee has slightly depreciated, for us

the utilization has gone up significantly, despite that the gross margin has gone down by 270 bps. Now coming into FY16, the utilization is all-time high, and we are also in the cusp of making investment, while the SG&A has been down from our earlier highs of 18%-19%. So what tailwinds we have in terms of compensating the headwinds which can come through the wage inflation in a constant currency going forward?

**Rajesh Gopinathan:** Sandeep, as we have been consistently discussing through this whole period of currency volatility, if you go back in the period that you said and if you step backwards a couple of quarters beyond that period also, we had a 300+ basis point improvement in our operating margin primarily coming from the currency side of it, we had gone up to operating margins of 30%, at that time we had pointed out that we would watch the currency situation and if we see the opportunity, we would start investing and utilizing that opportunity to drive our investments.

In the subsequent period, we have invested in France, we have invested in Japan, and we have invested in significantly growing various service lines, which are emerging service lines which are delivering decent returns to us. These will appear as a combination of dilution at the gross margin level or in the SG&A level. Investments in certain geographies will appear as reduction from the gross margin side of it. So this is in line with what we have said. The numbers that you see are the impact of the strategies that we have explained to you and executed on.

In terms of going forward on our opportunities, it is about incrementally improving the returns on our investment, which as I said is a long cycle activity and also calibrating incremental investments which we will continue to do.

**Sandeep Shah:** So, do we foresee some of the normal tailwinds through the utilization will play out going forward or we would like to invest in the employee growth in terms of the future demand, which we foresee?

**Rajesh Gopinathan:** We will fully invest in employee growth to capture whatever demand is there. We are leaders in terms of the growth side of it and we do not intend to lose that opportunity.

**N. Chandrasekaran:** I think both are important. On the one hand we will definitely continue to grow in the way we are growing, because there are plenty of opportunities, so much work to be done, but there will be automation opportunities, platforms which we are heavily investing in. So I think both will co-exist.

**Sandeep Shah:** On a book-keeping, I do agree that furloughs has impacted, but that was true in the last two years, while last two years, if you look at December quarter, the volume growth was 1.8% and 1.3%. So, what was apart than Energy as a vertical where there is some amount of additional impact where the growth is not above 1% in terms of volume growth?

**Rajesh Gopinathan:** There is not much to call out in terms of comparing year-on-year between a few hundred basis points here or there. We have explained to you the scenario this year that there is nothing else to call out on.

**Moderator:** Thank you. The next question is from the line of Ravi Menon of Elara Securities. Please go ahead.

**Ravi Menon:** I have two questions. One is, if you could give the proportion of revenues denominated in Australian Dollar and Japanese Yen, that would be great?

**Rajesh Gopinathan:** We are not breaking out our denomination in Japanese Yen but our operations in Japan are pretty much in line with what we had indicated, so we are running at in the range of about slightly less than about 150 billion JPY a quarter, which is what we had spoken about, about ie a JPY 600 billion annual run rate. On the AUD, I think you can take that offline.

**Ravi Menon:** Conversion ratio for offers to joiners from campus improved, because if I recall correctly, we had made about the same number of offers for



last year and we had 16,500 freshers join over the first nine months now versus 13,400 last year?

**Ajoy Mukherjee:** Yes, the joining ratio is slightly better than what we had last year. So it is about 72-73% at this point in time this year.

**Ravi Menon:** Consulting has shown very strong growth this quarter. Could you give us some color on what sort of projects are seeing traction and which verticals?

**N. Chandrasekaran:** Most of these engagements are to do with either Digital Consulting or Analytics or Channel Strategies. There are no specific verticals that I can give you, I think it is just across the board.

**Moderator:** Thank you. The next question is from the line of Omkar Hadkar of Edelweiss. Please go ahead.

**Sandeep:** This is Sandeep here. A couple of questions; one for Chandra, first, on how you are seeing Artificial Intelligence going forward – do you see it becoming an integral part of the Digital space, because it is still not classified along with it, but the way people are spending on the Digital side and the amount of non-human involvement, which is expected to come to process the data, will it integrate at some point of time with that? Secondly, a follow up question for Ajoy. Last 4-5 quarters, Ajoy, we are seeing consistent increase, some basis point every quarter on attrition, and at the same time utilization is also improving. So, is there a correlation between that or I am reading too much into it?

**N. Chandrasekaran:** I think on the Digital side, three years ago, we came up with a theme called 'Digital 5 Forces'. We said that five core technologies namely, Mobile, Cloud, Big Data, Analytics, Social Media, and Artificial Intelligence, are going to play a very integrated role because each of these technologies while they can do so much and can bring certain capability, but collectively the interplay of these technologies is really-really powerful and that is what we are seeing. You will see more of that happening.

**Ajoy Mukherjee:** As far as attrition is concerned, as I said it is 13.4%. Utilization is definitely a plan that we have from the very beginning of the financial year itself, that we will be moving it up. The rest of it, I think you reading a bit too much, because if you look at the hiring numbers, we said we will be hiring 55,000 and we are definitely going to do more than that. So it is not that because attrition is going up, as a result utilization is going up.

**Moderator:** Thank you. Our next question is from Ankit Pande of Quant Capital. Please go ahead.

**Ankit Pande:** My question is around your comment earlier Chandra about, the macro you said as soon as the holidays are over, Retail will bounce back that seems to suggest a weakness in the macro, because holidays are generally supposed to be stronger for Retail. So if you could reconcile this fact with what you have earlier said that in general, client spending is up, if that is what you have said, could help us reconcile whether the macro is really good or not versus your own commentary that you are seeing growth and pickup in general spending?

**N. Chandrasekaran:** I think not only this year, I have always said that my commentaries are always based on what I hear from clients. I never try to interpret the macro in the client situation.

But to give you a couple of points with respect to Retail, all the retailers are very committed to going Digital because they want to be able to effectively compete with online players. It is a big bet for them. They have to transform, they cannot do that unless or otherwise they have the capability to be able to recognize customers in every channel across channels, to be able to dynamically price a million SKUs. So there are so many different imperatives that the retailers face because of the online e-tailers. So, their commitment, their spend to doing this transformation is total.

But it does not happen during the holiday season primarily because their priority is keeping the lights on, keeping the systems running 24/7 and ensuring that every holiday sale is maximized, because retailers

make most of the profits in that quarter during the holiday season. So, these are the reasons why the Digital and other spends do not happen during the holiday season.

**Ankit Pande:** On that, if you could just help us understand, if you are actually winning or getting the market in the pipeline, say \$100 million deals, very much related to Retail specifically, is that the case?

**N. Chandrasekaran:** I am saying that our deal pipeline in the Retail is very strong and we have been winning deals. But as I said, with Digital deals, it is not that one single deal that is signed of that value, but you become a partner in the Digital Transformation with the customer, then you kind of create the whole thing, multiple engagements you will be doing. We will see an uptick in Retail.

**Ankit Pande:** Have you quantified the number of large deals that you won?

**N. Chandrasekaran:** We said 7.

**Moderator:** Thank you. Our next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.

**Srivatsan Ramachandran:** Hi Chandra, just wanted to get your comments on the strong discretionary spend you are seeing in BFS. Would it be fair to say that this would in some form have a positive rub off for the product business offers?

**N. Chandrasekaran:** Some will be. Yes.

**Srivatsan Ramachandran:** In terms of the areas where discretionary spend historically, it has been on risk and compliance, do we see it is now expanding beyond these areas?

**N. Chandrasekaran:** Risk and Compliance, and also Digital.

**Srivatsan Ramachandran:** On the Digital front, just wanted to understand from a skill set or front end or the Consulting skill sets, what will be the typical people we would be hiring, because that is not necessarily the existing employees

or skill sets that would work from a client point of view, so I just wanted your perspective on it?

**N. Chandrasekaran:** We have been building these capabilities over the last few years. It is not that we are investing in these now, whether in terms of hiring talent laterally from different backgrounds, whether it is in terms of setting up labs, or design studios, we have made all the investments.

We have hired a lot of people laterally over the last two to three years. They come from different backgrounds – they come from consulting companies, they come from startups, they come from e-commerce companies – all these backgrounds are there. We have capability building centers in India, where we train a lot of people for design roles, architecture roles, etc.

This is something that we have been building up over a period of time. You cannot hire in one quarter or two quarters. It takes time, because you got to hire these people, you have got to integrate. So it is a journey, it is not a one quarter effect at all.

**Srivatsan Ramachandran:** My last question is positive commentary both on Latin America and India. Would it be more to do with macro or are you seeing any some client-specific positivity that is driving the thought process?

**N. Chandrasekaran:** It is currently to do with our own execution, our own client data that we have, it has nothing to do with macro.

**Moderator:** Thank you. Our next question is from Moshe Katri of Cowen and Company. Please go ahead.

**Moshe Katri:** Chandra, you indicated that some of the trends that you are seeing in Financial Services were large banks that are having to deal with some of the large SEC fines, focusing on reducing costs and that will result in some pretty large transformational opportunities in this space. Should we think then typically large transformational opportunities have very long sales cycles? Could that mean that this year will be rather back-

end loaded for you guys and maybe for the space in terms of revenue contributions from the US-based Financial Services vertical?

**N. Chandrasekaran:** I cannot comment whether it is going to be back-ended, but I would agree with you that these deals could take longer than the normal deals because of the sheer size and the way the customer would want to do it. Not every bank and every financial institution will approach it the same way. Each institution will approach it differently, so the deal cycles could be longer, but I am still not going to comment on it being back-ended. In my experience, I have always felt that the growth always comes in the first half, and I have never had a situation of catching up in the second half.

**Moshe Katri:** And then because they are focusing on some large transformational deals, could that also mean that the budget cycle for some of the larger banks will be longer than usual this year?

**N. Chandrasekaran:** No, I do not think so. I think they have their budget cycle intact, but how they spend the budget may vary, depending upon how the deals happen.

**Moderator:** Thank you. Our next question is from Joseph Foresi of Janney Montgomery Scott. Please go ahead.

**Joseph Foresi:** Can you give us some idea of how revenues from Digital differ – are they shorter cycle, are they more discretionary, is the margin profile different? I am just wondering as that becomes a bigger piece of your business, how we should think about that affecting the general flow of your finances?

**Rajesh Gopinathan:** From the perspective of margin profile and size profile, Digital is like any other new technology change. Typically they come in with a higher realization profile and a lower margin profile. Margin is a combination of maturity of the technology as well as the scalability of the project. So as the projects increase in scale, as the projects increase in scope, it allows us to deliver them in a more structured manner and a more optimized manner. Digital is no different from that and it is likely to go

through this cycle. We are seeing increasing trends towards expansion of the size of the projects and more structure being brought to it, but early days yet of technology adoption.

**Joseph Foresi:** Are we getting close enough to an inflection point where you start to break it out as a vertical or an offering?

**Rajesh Gopinathan:** I wish I could go back to my chemistry lab and do titration on this, but it does not work that way. It is a slow process of change and it will happen.

**Joseph Foresi:** Given the drop in oil prices, I wonder what your thought is on the potential uptick in Retail. Are these long strategic projects that are not driven by an uptick in Retail because of consumer spending, or is there some other element tied to the general economic environment?

**N. Chandrasekaran:** You mean energy sector or the linkage between the oil price and the retail sector?

**Joseph Foresi:** I am thinking oil on Retail.

**N. Chandrasekaran:** Cannot comment on that.

**Joseph Foresi:** But I guess when you said, you are going to see a pickup in Retail though, you are talking about standard projects that would take place regardless of what the economy brings, correct?

**N. Chandrasekaran:** Yes.

**Moderator:** Thank you. Our next question is from Edward Caso of Wells Fargo. Please go ahead.

**Edward Caso:** Can you remind us of your exposure to the Energy sector and what you are hearing from clients in that sector please?

**N. Chandrasekaran:** The revenue from the Energy sector for us is a little over 4%.

**Edward Caso:** What feedback are you getting from the clients?

**N. Chandrasekaran:** I think that in that sector, we expect some headwinds.

**Edward Caso:** Can you talk a little bit about utilization and how far it can go? TCS as well as some of your competitors have made great strides in moving that level up, despite the fact that the service offering mix seems to be changing, which seem to make it more difficult. Is there another 100, 200 basis points of opportunity here or could it come back the other way?

**Ajoy Mukherjee:** As far as utilization is concerned, when we started the year our play was to improve the utilization, and if you look at our utilization improvement over the last two years, I think you will definitely see a considerable improvement in utilization. We have always been maintaining that utilization is also a size of the total scale, because at some point in time it is finally the absolute number that comes in play. And whether we have more room for improvement in utilization? We do have certainly some room for utilization, but I will not like to calibrate as to how much at this point in time.

**Moderator:** Thank you. Our next question is from Keith Bachman of Bank of Montreal. Please go ahead.

**Keith Bachman:** Could you talk a little bit about the Application Maintenance and Development space? Your growth there was I think weaker than many other parts. What are the trends that you are seeing in that area? If you could specifically address pricing with that Application Development and Maintenance?

**N. Chandrasekaran:** I think the Application Maintenance having low growth or flattish growth is to do with the furloughs pretty much and this is standard business. The volumes are down so that is reflected there. It is a pure volume-based business, so that is what you see there, but I think the pricing is stable. By and large, we are not seeing any specific indication on pricing.

**Keith Bachman:** So if you looked out over the next 12 months, would you expect your Application Development and Maintenance business to grow in line with your overall business or would it be less or more, how do you see that trend unfolding as you look out?

**N. Chandrasekaran:** I think since the other services like the Infrastructure, Digital and Enterprise Solutions will have faster growth, definitely you will see the Application business growing slightly below the company average.

**Keith Bachman:** And do not expect any incremental pricing pressure from here?

**N. Chandrasekaran:** No.

**Moderator:** Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

**N. Chandrasekaran:** Once again I want to thank all of you for attending our Earnings Call. As I said, it is a seasonally weak quarter and we have turned in a good set of numbers. We are quite happy with where we are. We expected this quarter to have headwinds in terms of the number of working days and in terms of furloughs which we faced, but where we are today, we feel quite positive with the deals getting closed and the pipeline being stronger across markets like US, UK, Europe, Latin America, and India, and also industries, BFS, Retail in particular, Manufacturing, Healthcare, Hi-Tech. All these industries are doing quite well. So, we are hoping to have good CY 15 and FY 16. Thank you so much and see you once again in April.

**Moderator:** Thank you, members of the management. Ladies and Gentlemen, on behalf of TCS that concludes this conference. Thank you for joining us and you may now disconnect your lines.

**Note:** *This transcript has been edited for readability and does not purport to be a verbatim record of what was said during the call.*