



Tata Consultancy Services Limited

Q1 FY2012 Earnings Conference Call
July 14th, 2011, 20:00 hrs IST (10:30 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 turn the conference over to Mr. Kedar Shirali of TCS. Thank you and over to you sir.

Kedar Shirali

Thanks, Melissa. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' financial results for the First Quarter of Fiscal Year 2012 that ended June 30th, 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 the 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. Chandrasekaran, Chief Executive Officer and Managing Director, Mr. S. Mahalingam, Chief Financial Officer and Executive Director, Mr. Phiroz A Vandrevalla, Director, TCS and Managing Director of Diligenta and Mr. Ajoy Mukherjee, Head of Global Human Resources.

Kedar Shirali

As usual 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 results presentation which is available on our website.

One last point: this is the first quarter in which we are reporting our financials in IFRS in place of US GAAP. To facilitate comparison with prior year performance, we have provided unaudited extracts from last year's quarterly consolidated income statements and the year-end balance sheet under IFRS. You can find this too on the Investors page of our website, www.tcs.com.

With that, I would like to turn the call over to Chandra.

N. Chandrasekaran Thank you, Kedar and good morning, good afternoon, good evening friends. Thank you for joining this call for the First Quarter results of the Financial Year 2012.

From a TCS' perspective, it has been an exceptional quarter on all counts. As you may have already seen, we have delivered sequential revenue growth of 6.3% in Rupee terms, 7.5% in Dollar terms and a sequential volume growth of 7.4% in the first quarter. What it translates to, in terms of incremental revenue, is about \$168 million which is the second highest incremental revenues we have delivered in all our history.

What is more satisfying for us are the metrics, in terms of how well the growth has come across industries, markets and services. If you take the geography perspective, we have grown in all the markets in which we operate. Our emerging markets – Middle East & Africa, India and Asia Pacific have delivered a double-digit dollar growth. And our major markets, namely, US, UK and Continental Europe have delivered high single-digit growth rate.

From an industry perspective, we have seen double-digit growth in Telecom, Retail and Hi-Tech industries and we have had very good growth coming from BFSI and Manufacturing industries as well. In all the other sectors also, we were happy with the performance. From a

services dimension again, we have grown in all our service lines and the growth mix is pretty satisfactory.

If you look at the customer metrics, we have expanded the number of customers in the revenue bands of 10 million, 20 million, 50 million and 100 million handsomely in each and every band.

Then if you look at the offshore movement this quarter we have also had a good offshore movement that has contributed to the margin improvement, details of which Maha will provide shortly.

Then if you look at the deal closures, it has been pretty good. We have signed at least 10 key deals, large deals, this quarter and they have been pretty broad-based. And if you look at the deal pipeline, the pipeline is very good, robust at this point in time. The top 15 deals that we are chasing are well distributed across US, UK, Europe and the emerging markets; similarly in terms of the industries in which we operate.

The utilization has been pretty good. Excluding trainees, we have maintained it at about 83.2%, as we had said in the last earnings call.

If you look at overall environment going forward, I would like to make the following observations.

The first is that the global environment is uncertain and it will continue to be so for some time to come, primarily because things are different in different markets. There are markets in which unemployment is an issue, there are markets where you have inflation problems, markets in which there is civil unrest, and there are markets in which there are natural calamities, so all kinds of things are going on. But talking to clients, meeting with clients, and looking at our deal pipeline, all I would say is that the clients are going about executing their plans in a very stable manner, so that they are able to excel in their operational environment as well as drive their growth initiatives. That is presenting a number of opportunities.

From a TCS' perspective, we have not seen any let up in the demand environment – it continues to be robust. And the addressable space for us continues to increase. What we do as a firm today and how we partner with clients as a firm today is very different from what we used to do few years ago. This varies according to industry. We are partnering with clients in their transformational agenda and what that is, varies for every industry. If you take Banking and Financial Services, we work with customers in transforming their retail business or getting a single customer view, a single bank view or reengineering their custody platforms, payment platforms.

Or if you take the Retail industry, it could be in terms of building an e-commerce platform for them. For another industry, it is getting their loyalty engine in place. If you look at some other industry, it is supply-chain. Helping us participate in this transformation agenda is our ability to partner with customers in solving higher level business problems and capturing the downstream revenue. It requires skills in enterprise solutions, it requires consulting skills, domain skills, architecture skills and executional skills and we are able to bring all of that to bear, both in capturing the demand as well as executing it.

So overall, I think we are well-placed and with those comments I will turn it over to Maha.

S. Mahalingam

Thanks, Chandra. As mentioned already, our revenue of Rs. 107.97 billion translates into a sequential growth of 6.3% in Rupee terms and year-on-year growth of 31.4%. In Dollar terms, our revenue of \$2.412 billion is a quarter-on-quarter growth of 7.4% and year-on-year growth of 34.4%. Constant currency revenue was \$2.383 billion, a growth of 6.2% quarter-on-quarter.

The breakup of our quarterly revenue growth in Indian Rupee terms is as follows: Volume growth is + 7.45%. Exchange is + 10 basis points. Realization is - 50 basis points. Effort mix is - 75 basis points. And it adds up to 6.3%.

Moving on to margins, you might recall that in April we had given a 12-14% wage hikes in India and varying amounts in other countries. As expected, this had an immediate impact on the first quarter's operating margin. Despite higher utilization and operational leverage from top-line growth, this quarter's reported EBIT margin of 26.2% represents a sequential decline of 2.1%.

I want to just make one observation here. We have moved from US GAAP to IFRS and therefore at the time of drawing last quarter's IFRS accounts, the margins had improved slightly through a one-time adjustment to 28.3% (from the 28.1% we reported last quarter under US GAAP), but that benefit we do not have in this quarter. I am just emphasizing to say that because we have a difference of 23 basis points between the two, the real margin drop has been 1.90%, but I will let that remain as it is.

The impact of different levers on the operating margin is as follows: Currency is - 9 basis points. Impact of wage hike was - 251 basis points. Offshore shift is + 7 basis points. Rate / productivity improvement is + 115 basis points. Coming to SG&A efficiencies, the first component is - 15 bps towards provisioning for bad debts and the second component is - 61 bps towards others. Therefore, we come up with the difference of -214 basis points.

On Net Income, our Other Income was higher this quarter from foreign exchange gains of Rs. 797 million compared to the last quarter. As expected, our tax rate went up following the expiry of Software Technology Park scheme benefits, what we refer to as 10AA, and the tax rate now is 22.7%, giving us a net margin of 22%. Lastly, our DSO for the quarter was 83 days. Cash and liquid funds stood at Rs. 105.2 billion.

In conclusion, we have made a very good start in the opening overs of the current innings - to use a cricketing metaphor. The growth momentum continues and our execution engine is humming along nicely, managing that demand very well.

The controls in the institutional framework we have put in place are ensuring that the growth is not at the cost of financial discipline or operational rigor. And regardless of one quarter's margin decline, we continue to make investments in the various initiatives that we consider important to our future sustainability.

With that we can open the lines for questions.

Moderator

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Moshe Katri from Cowen & Company. Please go ahead.

Moshe Katri

Hey thanks. Congratulations on a very strong quarter. I have a couple of follow up questions. Maha, pricing was down. May be you can talk about that a little bit and about pricing trends in general. Net client additions were a bit light during the quarter compared to what we have seen in the past. And this is in the context of what is going on in general. And then, finally, can you keep on running at such high utilization rates down the road? Maybe some feedback on that. Thanks.

S. Mahalingam

Moshe, pricing is only a 50 basis points impact on the revenue analytics and that is really turning out to be stable. I do not think we have found anything where we have reasons to worry about any decline. At the moment, of course, our stand is that it is a stable environment.

Moshe Katri

And talk about a bit about net client additions during the quarter.

N. Chandrasekaran

I think the client additions have been quite good overall. There will always be quarter-to-quarter variations in the net client additions because there are two or three things that happen in our environment. With some clients where we do large projects, after we finish those, we don't have repeat business – in our business model that is a reality. You will see churn because of which you would always find that net client addition may sometimes be not as good or strong as some other quarter. But that is not a concern at all. Overall, the clients that we have got this quarter, the type of engagements – the quality is all pretty good I would say.

Then, on utilization, my answer is that as a company, we have grown large. We have over 200,000 employees now and percentages should not be the measure. Even at the current utilization levels, we still have enough people on the bench, and enough people doing other activities. If you recall, in the last earnings call I said we are going to be looking at operating between 82% to 84%. So I do not see our utilization excluding trainees coming down at this point in time. We would be comfortable operating between 82% to 84%.

Moshe Katri Thank you.

Moderator Thank you. The next question is from the line of Ankur Rudra with Ambit Capital. Please go ahead.

Ankur Rudra Thanks for taking my question and congrats for the very strong quarter. Just a couple of questions on the strength in the telecom vertical. Could you comment on the nature of deals you have been winning, and was there any one-time element? I noticed you mentioned there was a bit of discretionary involved. Second question on Europe. What is really driving the growth there? And what are you seeing different from some of your peers? Just finally, a bit on Energy and Utilities, the weakness in the quarter, was that one-time or is that something we should be worried about? Thanks.

N. Chandrasekaran There is nothing one-time about Telecom. In the Telecom vertical, the growth has predominantly come in the Emerging Markets. If you look at our growth in the emerging markets as I said, between India and Asia Pacific and Middle East&Africa, we have had a significant growth and there we have had some transformational projects in Telecom. This is discretionary spend and these are quite important and sizeable contracts and that is what is driving the Telecom growth.

We should still not be bullish on Telecom, primarily because I would like to see annuity kind of contracts also increase in Telecom. Currently, I think the growth is coming significantly from the discretionary spend. So there will likely to be some volatility in the way our Telecom portfolio is going to perform. But having said that we are looking at growth.

The second question you had with respect to Europe – I think Europe is doing well, in fact, not only did we deliver well this quarter, we have signed some good deals in Europe and we are also negotiating the signings of more such deals. So I think the Europe will continue to do well from here and it is coming across Retail, Financial Services, at least these two sectors. Also potentially, we may grow in Insurance and other sectors. So I think Europe is doing well.

Ankur Rudra Just on the point if I may, is that a bit more competitive gaining of share as opposed to the market being strong, because we have not heard similar remarks from some of your peers?

N. Chandrasekaran I do not know how you interpret the market being strong. All I can tell you is that it is not necessarily taking market-share away from somebody else. Some of the deals we have won are from first time outsourcers. In fact, one of the deals that we have been selected for, but not yet signed – so it will come in the next quarter, is a deal which is totally discretionary. It is a transformational deal, not an outsourcing deal. So there is a mix of deals in Europe and our closings and pipeline are quite healthy at this point. Europe will do well in near-term. How it does in the long-term is something that we are going to wait and watch.

Then, with the Energy and Utilities sector, I do not think that you should get worried. It is a one-off, primarily because last quarter we had substantial revenue coming from completion of a fixed price project that has not repeated in the June quarter. The sector size for us is small, so any such deal closure or aberration definitely affects the growth performance. I do not think there is any cause for worry. It should grow from here.

Ankur Rudra I guess, one last one if I can include that. Just on the comment from Maha on the DSOs – they have been inching up a bit and I guess also there was an impact on the cash conversion. Is that mainly because of the growth in India?

- S. Mahalingam** We found that a lot of money came in early July. We have not really seen any impact either from India or outside. It is just a matter of conversion of that into cash which happened towards the beginning of the month.
- Ankur Rudra** All right. Thanks a lot and best of luck for the remaining quarters.
- Moderator** Thank you. The next question is from the line of Joseph Foresi from Janney Montgomery Scott. Please go ahead.
- Jeff Rossetti** Hi. Thank you for taking my questions. This is Jeff Rossetti for Joseph Foresi. Just wanted to see if there was any updates regarding your hiring guidance and also the hiring onsite and how that might affect your offshore onsite mix going forward?
- Ajoy Mukherjee** On hiring, we said at the beginning of the year that we will be doing 60,000 during this fiscal. At the moment we are keeping that the same. As far as Q2 is concerned, we will be doing somewhere between 17,000 to 20,000 gross hires. So that is the number that we are looking at, at this point in time. As far as offshore leverage is concerned, that is something that we are constantly tracking and monitoring, so that we improve on our performance.
- N. Chandrasekaran** But onsite hirings will go up from the current levels.
- Jeff Rossetti** Okay, thank you. And then just can I also ask for a little bit of additional color? I know you gave some regarding your pipeline with respect to Europe. Could you also maybe provide just broadly a little more detail about those 15 deals that you mentioned and how might be with respect to transformation and maintenance deals that you are seeing? Thank you.
- N. Chandrasekaran** I think from a deal perspective if you take the top 15 deals that we are chasing, they are well distributed, at least four each in US, UK and Europe and the remaining three in the emerging markets. They are more discretionary deals now, than we had a year ago or six months ago. So I feel that the discretionary spend is slowly coming in. And we

need to wait for the deal closures and then the revenues to kick in so we cannot comment in this quarter, it will take time, but we are quite happy with the geography mix, the industry mix as well as the mix of annuity versus transformation.

Jeff Rossetti Thank you. Congratulations.

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

Edward Caso Hi, thank you. Good evening. My question is around your ability to hire and your view towards wages. After your recent increases, do you believe that they will be sufficient for the forward year or do you sense a still very tight market in India, which may require sort of tweaking to promotions or bonuses or maybe even another round of increases?

Ajoy Mukherjee From a hiring point of view, yes, we are able to hire and we are not seeing any kind of challenges. As far as wages are concerned, we do our increments once in a year which is on the 1st of April. Having said that, in our compensation scheme, we do have a variable pay and that pay-out depends upon the performance of the organization, performance of the unit and that is something that we will use based on the company's performance. So we are not really seeing any kind of a wage pressure at this point in time.

Edward Caso My other question, my last question is around US and UK visas. Could you give us your sense for how is the market right now? We are understanding that the rejections for the US ones are running 40%, up from say, 5% a year or two ago, so much more hostile environment as far as actually getting approval. And if you could give us an update and if that could be impacting your business.

N. Chandrasekaran The only comment I have is that as the unemployment situation remains tough, we tend to expect regulatory changes and visa-related issues. From our point of view, we have been getting the number of visas we need and we have also applied for enough number of H1 visas as per our business plan and what we see for the next 12, 18 months.

I'll make one additional point – the environment demands very strong rigorous planning around how you staff your engagements. We are doing a lot of work in and around this. The planning that is required in kicking off projects and executing projects – that has got a lot of attention within the company. We are spending a lot of time on this.

Edward Caso Thank you. Congratulations.

Moderator Thank you. The next question is from the line of Ajay Diwan from Seligman. Please go ahead.

Ajay Diwan Yeah, thank you and congratulations also. I was curious, your competitors at Infosys, just yesterday or a couple of days ago, were saying that they had seen some extension in sales cycles and longer decision making. You do not seem to see any of that. Is there any kind of explanation you could offer, maybe, for that contrasting view?

N. Chandrasekaran No, what I can tell you is based on what we see from our client segment and the kind of deals that we are chasing. I would not be able to say anything more.

Ajay Diwan Okay, thank you.

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

Viju George Yes, hi. Congratulations to management. You seem to be raising the bar with every quarter. I just had one question on the supply side. When I look at some of the net hiring numbers in this quarter and I combine that with the fact that utilization is already 83%, does it mean that you are still in a very well positioned to take advantage of maybe a much better quarter, maybe in Q2, previously that has been your strongest quarter?

N. Chandrasekaran Viju, first of all, this quarter i.e. Q1 is the quarter in which our hirings are a little lower compared to Q2 and Q3, that is how traditionally it has been. So hiring will go up from Q2. And the reason for higher number that Ajay has indicated is also the utilization. Our utilization is running

pretty high. As you can see at 83.2% while we would like to operate at 82-84% utilization, still the fact of the matter is that it is pretty high. Then with regard to your comment on a still better quarter I want to be little cautious because we have just had an exceptional quarter of, as I said, \$168 million, which is the second highest incremental revenue in our history. So you should keep that in mind when you look at the future. I cannot say anything more.

Viju George

Sure, thank you so much. All the best.

Moderator

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

Sandeep Shah

Yes. Just wanted to check with increasing news on the macro concerns. Are you witnessing any decision-making in terms of any discretionary projects which were supposed to start getting delayed as your comments indicates that the discretionary ramp-ups have been better versus what you saw in earlier quarters?

N. Chandrasekaran

We are not seeing any delays in decision making in the discretionary projects.

Sandeep Shah

And in terms of the India revenues, is there any one-time revenue where system integration or the hardware related portion in this quarter?

N. Chandrasekaran

India revenues do not have any one-time but the point is that the India revenue always has higher discretionary revenue in nature. So I would not put it down to any one-time or one-off that we have got. It is all projects that we have been executing and they have been ongoing.

Sandeep Shah

Is it possible to give some color in terms of the volume growth in the international business?

N. Chandrasekaran

I do not have it handy but it is pretty close, because the size of the international business we have is much higher compared to domestic business. You see the growth rates high in India, but it is on a much smaller base. So it is pretty close, a few basis points down.

- Sandeep Shah** Actually even what you had said in the reply to a previous question where Q2 on a high base growth rate may be you have been cautious on the growth rate, so the same logic do you also expect in terms of your international revenue which has grown at 6.9% in this quarter?
- N. Chandrasekaran** Are you saying it is good or bad?
- Sandeep Shah** No, what I am trying to say is your reply to a previous question that this quarter growth being higher....
- N. Chandrasekaran** We do not give guidance. And all I would say is that all the operating metrics are good, the demand environment is good, and we have had a good quarter. We are not giving any alarms but at the same time I do not want to set an unreasonable expectation.
- Sandeep Shah** Okay, thanks.
- Moderator** Thank you. The next question is from the line of Diviya Nagarajan from UBS, please go ahead.
- Diviya Nagarajan** Hi Chandra and Maha congrats on a yet another great quarter. My question is related to your comments earlier on TV, you said that you do not see the ongoing macro uncertainty have any impact on IT decision making. Could you elaborate on that? What gives you the confidence that this will not translate into slower decision-making in the rest of the calendar?
- N. Chandrasekaran** Divya, I do not think I quite said that. Let me exactly say what I said. I said the macro environment continues to be uncertain and I do not think that is going to correct in near term because we are seeing many different things and many different types of problems in different parts of the world. Second point I said is that, having visited many customers and also looking at our pipeline, we have so far not seen any impact of the macro in our current business demand environment. I have not commented anything about the future.
- Divya Nagarajan** Right, so what I am asking is that how do you think this is going to translate if the macro uncertainty continues?

N. Chandrasekaran Your guess is as good as mine. All I can tell is that I have been visiting customers and I have been reviewing deal pipelines. The trends I have seen is that we have been able to convert the deals into wins and able to start engagements and deliver. We have also seen an increase in the discretionary projects in our pipeline and in the deal closures. So far we have not seen any impact of that in our operating environment.

I also said that going forward we just need to continue to watch and if there is any change, we need to be nimble enough to be able to work with the customers in whatever the business demands. Those are the comments I made. I will never be able to say how a macro environment will affect the business flow. That is something I won't be able to comment.

Divya Nagarajan And some color on Europe? Europe has done reasonably well for you this quarter. Could you give us some breakdown on which industry verticals the sub-segments within Europe did well for you this quarter?

N. Chandrasekaran In Europe, from a revenue point of view, it has come fairly distributed. We have done well in Retail, we have done very well in Travel, we have done very well in BFS and Insurance. So these are the sectors we have done well. And in terms of deal wins, we have also won a couple of deals in Europe and if you take the future deal pipeline, the deal pipeline is good both in U.K. and in Continental Europe.

Divya Nagarajan And lastly Maha, earlier we were indicating that ex-currency, we would be looking at holding margins steady, so can we expect margins to improve from the seasonal weakness that we saw this quarter?

S. Mahalingam I have always talked about an operating margin around 27% and we certainly do see margins improving from this current level. As you know, this has really happened as a result of the wage hike and we should be in a position to take care of it as we move along.

Divya Nagarajan Thanks and all the best for the rest of the year.

- Moderator** Thank you. The next question is from the line of Sangam Iyer from AlfAccurate Advisors, please go ahead.
- Sangam Iyer** Hi, congratulations on a great set of numbers. Just a continuation of the previous question, could you give us some idea on the margin levers going forward for us?
- S. Mahalingam** See, the margin levers continue to be the same. We will apply all of them. As I said, at this moment in time, pricing is not available. If it happens, it is going to be a major margin lever. The second one is onsite-offshore. We are at a good level, so I do not expect higher offshore. But other than that, whether it is employee pyramid, whether it is in terms of SG&A cost management so that it delivers higher revenue, all of those will be applicable. So there is really no change. All that it requires is that you play all these elements together and make sure that as growth happens, you are able to take part fully.
- Sangam Iyer** Thanks a lot sir.
- Moderator** Thank you. The next question is from the line of Srivatsan Ramachandran from Spark Capital, please go ahead.
- Srivatsan R** I just wanted to get a better understanding of what is happening in Continental Europe specifically? Are they seeing more first time outsourcers/offshorers working with us? Just wanted to understand how you would view it from next 3 to 4 quarters point of view in the current macro economic weakness that we are seeing in Europe specifically?
- N. Chandrasekaran** I think the type of deals we are winning are either transformation deals, which are replacement of their core systems or building new platforms, for example, retail companies and e-commerce platforms and so on. And third is definitely operating efficiencies, it could be either from taking market-share away from an existing incumbent or first-time outsourcers. So I think it is a combination and these are the three types. Obviously it is not plenty but it is a reasonably robust pipeline for the base on which we are operating. And actually we have

done well this quarter, both in terms of revenue and also the deals we have closed, which gives us confidence that we will do well in Europe.

Srivatsan R Wanted to just understand in detail or most likely more in markets like France where labor laws are a lot tight, I just wanted to see how our clients looking at maybe wherein they may have to let go some of their clients or are they asking vendors to transition their staff into the books of the vendors. Just wanted to know specifically on tighter labor markets like maybe France or may even Germany to some extent?

N. Chandrasekaran Markets like France are tough, that is all I can tell you.

Srivatsan R Maha, just wanted to get an update on the hedge strategy and hedge book at this point of time?

S. Mahalingam Hedging strategy remains the same. We have a certain rate to protect and we are doing that. At the moment we have got for Q2, that is the September quarter, we have got about \$1.1 billion in terms of revenue hedges and they are at around a little under Rs 45 to protect, but they will take part in upside if Rupee depreciates. So for the year as a whole, we have got \$1.7 billion which includes this \$1.1 billion.

Srivatsan R Anything for FY13 at this point of time?

S. Mahalingam There is some small position, about \$600 million beyond FY12. And we will build up those positions as we go along.

Srivatsan R Just wanted to get your guidance on CapEx and taxes?

S. Mahalingam CapEx, as we had said at the beginning of the year, is about Rs. 2.3 Bn and we seem to be well on our way to meeting it.

Srivatsan R And tax?

S. Mahalingam Tax, I had said will be 23%; this quarter we are at 22%.

Srivatsan R Thanks a lot sir.

Moderator Thank you. The next question is from the line of Nitin Mohta from Macquarie, please go ahead.

Nitin Mohta Thanks for taking my question. Chandra, earlier you talked about change in the addressable space versus what you are operating in few years ago. Can you please share what does that mean in terms of the competition that you are facing? Is it that you are not facing competition from Indian players any longer, just your thoughts there?

N. Chandrasekaran No, I think it is not fair to say that. There are credible players in India and we face competition from a mix of Indian players as well as multinationals. I have been saying for quite some time that now, there is only a single list; there are no two different lists. I think there's a set of credible firms which compete for the business and the list varies by market as well as by industry segment and by type of deals.

If you are doing big transformation deals in Financial Services, we face a certain type of players. If we look at Retail it is different. In Europe it is different, in US different but there are some minor variations but overall, the number of transformation deals that we compete in, the type of resources we are having to bring in, the collective power of the company from a domain knowledge, from a technology knowledge as well as tools and processes as well as the execution capabilities – all that we are able to bring in being a strategic partner for our clients. So the scale, size and type of deals is what I was referring to when I said that we are seeing an expanding – not just expanded – space.

Nitin Mohta Thanks and congrats for a great quarter.

Moderator Thank you. The next question is from the line of Vishal Agrawal from Citigroup, please go ahead.

Surendra Goyal Hi. Good evening this is Surendra here. Chandra, just one question on pricing. Your pricing commentary seems to have moderated a little bit over the last three months. I was just trying to understand if anything

has changed in the last three months and should we expect pricing to increase over the course of FY12?

N. Chandrasekaran See, I do not think I have changed my commentary at all, neither the tone nor the body language, to put it in analyst terms. All I have said is that the demand environment is very good and this should result in pricing. And even in this quarter, what you should look at is the double-digit growth in all the emerging markets. The sequential change in geography mix you should take into account. So we have done quite well even in this quarter, and I do expect to see some pricing uptick, but it is getting delayed. It is not coming in as expected for various reasons, but I do think that sometime in this fiscal year we should see an uptick, maybe the later part.

Surendra Goyal Maha, just one data point, what would be the constant currency growth rate for the international business?

S. Mahalingam Constant currency growth rate for international business I don't have that ready at this moment in time, I think it is close to about 7.4% but I will have to reconfirm.

Surendra Goyal Sure, I will take it from Kedar later, thanks a lot.

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

Pinku Pappan Thanks for taking my question. Chandra, could you talk about your win rates in these transformational projects over the last 12 months, how that trend has moved and specifically with respect to the competition too, are you seeing anyone being more competitive, more aggressive there?

N. Chandrasekaran I think it is quite good. All I would say is that there are two metrics to look at here. One is the number of transformation deals in which we compete and the second is our win-rate. If you look at the number of transformation deals in which we compete, it is higher in certain sectors and not so higher in certain other sectors. I would like to see

us competing in more transformation deals, across sectors. Currently in some sectors we are doing very well, in some other sectors we are not competing enough. So that is something that I would like to address. But in the sectors in which we are strong, where we are competing, our win rate is pretty good.

Pinku Pappan And those sectors would be?

N. Chandrasekaran Let us leave it for now.

Pinku Pappan Ajoy a question for you. Can you talk about how easy or difficult it has become to hire laterals in the market? Are you seeing any tightness there and are you confident that you can hire laterals going forward if you see a certain spurt in demand?

Ajoy Mukherjee Yes, from the lateral hiring point of view, there should not be an issue. We are finding the talent and I am not even seeing any kind of wage pressure. I think that question was asked earlier and I mentioned that, yes, we are able to hire.

Pinku Pappan What do you expect the mix is going to be this year in FY12 the lateral to fresher kind of mix?

Ajoy Mukherjee The mix as far as the Q1 is concerned for the India hiring was 75:25, 75 laterals, 25 trainees and that this is seasonal because most of the trainees start joining from Q2 onwards. So we are looking at it from a quarter-to-quarter point of view.

Pinku Pappan But for the year what kind of mix do you see?

Ajoy Mukherjee For the year, in the beginning itself, we had mentioned somewhere around 50:50 is the kind of split and I still think that it will be somewhere in the same range.

Pinku Pappan Thank you very much.

Moderator Thank you. The next question is from the line of Girish Pai from Centrum Broking, please go ahead.

- Girish Pai** Thanks for taking my question. Chandra, this is for you. In the press release you are quoted saying that the uncertain global macroeconomic environment demands that you adopted an entrepreneurial approach. Now what exactly would you mean by that?
- N. Chandrasekaran** All I am saying is that if you go back the 2007/2008 situation, we all got shocked in the situation, so the reaction time was not good. Both from a customer point of view and also from our point of view, the reaction time was pretty weak. So at this point in time, we have got to be flexible and agile enough to be very entrepreneurial at that time should there be a macro pressure coming in any market, any industry, to react quickly. React in what way, what manner is very difficult to say today because we do not know if there is going to be an impact and what the impact is going to be. That is what I am talking about.
- Girish Pai** Just a couple of other questions. On pricing, are you not getting even increases based on cost of living increases?
- N. Chandrasekaran** No, we are getting price increases in new contracts as well as in contract renewals. But for it to translate also it takes time.
- Girish Pai** My last question is to Ajoy. You mentioned that you work with business associates, what kind of number do you have as of the last quarter and what does that look like vis-à-vis say a year back?
- Ajoy Mukherjee** The number will be less than 4%.
- Girish Pai** And what was the number say, first quarter of last year.
- Ajoy Mukherjee** It is very much kind of similar. So there is not much of a change because for the most part, we recruit people so that they build a career within TCS. What we are doing is try to keep it within 3% to 4%.
- Girish Pai** And this number is part of the company number or it is outside of the company number?
- Ajoy Mukherjee** The headcount does not include these business associates.

Girish Pai Thank you.

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

Pankaj Kapoor Hi sir, good quarter. Congratulations. Just want to understand in the context of these financial services clients in your recent discussions are you picking up anything different from what they are saying versus what they were telling you maybe three months back? Also if you have noticed anything different in their spending pattern more so on the discretionary spend areas?

N. Chandrasekaran The financial services clients we are doing well, Pankaj. In fact we are seeing discretionary spend opening up in financial services.

Pankaj Kapoor Any changes in their spending patterns, are they looking at long-range projects still in terms of something which is flowing in over the next 2 to 3 years?

N. Chandrasekaran I can only tell you the themes, it varies from client-to-client, how they choose to spend. The themes again are operational excellence, transformation or reengineering and compliance. These are the three themes.

Pankaj Kapoor Just one more on, especially the clients in Europe, have you been seeing any pickup in trends like clients asking for a higher onshore or near-shore delivery?

N. Chandrasekaran There is nothing specific I can say to answer that. And because there are times when deals require complex structuring, we skip those deals. So I can talk only about the deals that we qualify. Some of the deals that come for play are very complex in terms of the deal structures and we do not pick those deals. In fact there are a few deals during the last 3 to 4 months where we had to not participate and disqualify it from our pipeline, primarily because the deal structures were different and there are others who want to do these deals. So I can only tell you that we try and keep the business model simple.

- Pankaj Kapoor** Okay, thank you and all the best.
- Moderator** Thank you. The next question is from the line of Ashwin Mehta from Nomura. Please go ahead.
- Ashwin Mehta** Congratulations on good set of numbers. Had a question – typically Q2 has a higher proportion of freshers, but given that you added less than 2% headcount in this quarter and are running at 83% utilizations, do you see either of the possibilities, utilizations temporarily being higher than your guided range or more upfront lateral hiring in Q2 for the ramp ups that you see?
- Ajoy Mukherjee** See, Q2 I said we will be doing between 17 to 20,000 gross hires. That is the gross addition that we will have. At the moment given the kind of demand that we have, I think we do have sufficient manpower that we need in order to fulfill that demand, including the hiring that we will do in Q2.
- Ashwin Mehta** But in terms of pattern 2Q would still be skewed significantly towards freshers?
- Ajoy Mukherjee** In terms of pattern, yes, it will be skewed towards the freshers, it will be somewhere around 50:50 kind of a split.
- Ashwin Mehta** Okay, thanks a lot.
- Moderator** Thank you. The next question is from the line of Sanil Daptardar from Sentinel Investments, please go ahead.
- Sanil Daptardar** Just wanted to know about how you plan to use your cash? Your cash balance continues to build up on your books. Could you just give a color on that?
- N. Chandrasekaran** There are two things: one is, definitely, we are continuing to make our investments. And from an acquisition point of view we will keep looking and whenever we find right asset, we will need the cash.

- Sanil Daptardar** Any plans to increase the dividends or start buyback or other than the acquisitions any other use for the cash?
- N. Chandrasekaran** Our dividends are one of the benchmarks in the industry. We continue to pay very handsome dividends and whenever we feel that there is excess cash and we do not need it, then we give special dividends like we did last year. So that is our policy.
- S. Mahalingam** At the moment, nothing is being debated.
- Sanil Daptardar** On the volume growth that you talked about 7.4% I guess, just can you give us a color on what was the sectoral breakdown? What sectors contributed the most to the volume growth and how do you see going forward, when you are talking about healthy pipelines between different sectors?
- N. Chandrasekaran** Retail and Hi-Tech contributed significantly to the volume growth as well as Telecom, BFSI and Manufacturing.
- Sanil Daptardar** And when you look at the pipeline where you are seeing the most healthy pipeline, what sectors are you seeing the healthy pipelines?
- N. Chandrasekaran** It is pretty distributed. If I take the top 15 deals, 5 of them are in BFSI, 2 each in Telecom, Manufacturing, Utilities and Travel, and then we have a couple of deals in Media and Hi-tech.
- Sanil Daptardar** Just one last question on the pricing. Of course, this quarter you had a 50 bps decline in pricing, you talked about you are getting price increases, but that might take some time to materialize. Can it be inferred that you might be bidding for some low value work, or it is not the case?
- N. Chandrasekaran** I think I have given enough data points for you to believe that we are doing a very high quality business.
- S. Mahalingam** 50 basis points is neither here nor there. That is why even in the previous quarter, when we had a 1% increase, we did not make much of it.

N. Chandrasekaran Yeah, I just want you to notice that today we have a margin at 26.2%, which is a pretty good margin. We have been very careful in choosing the deals that we want to do and we continue to make investments in opening new markets and as I said, our transformation engagement pipeline is going up. So there are enough data points I have given you on how we are shaping our business.

Sanil Daptardar Thanks a lot.

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

Sandeep Agarwal Hi Chandra, Maha, and your team, congratulation for a very good quarter. Just one question: you just said that you will be adding more number of freshers probably in the second quarter, so just wanted to have some light on the utilization part. What I believe is that in second quarter, you will have a 100 basis point kind of utilization decline, if you take into account the trainees. Is my assumption correct?

N. Chandrasekaran See, we in general want to operate 82% to 84% excluding trainees. Including trainees if the training influx will increase definitely you will see a decline in the utilization including trainees.

Sandeep Agarwal So what I believe is that next quarter probably there will be some decline from the current level, so that's what I believe. So is my assumption correct, that's what I am asking?

Ajoy Mukherjee Your assumption is right for utilization including trainees but not for utilization excluding trainees.

Sandeep Agarwal Okay, thanks.

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

N. Chandrasekaran Thank you. Thank you all for joining this call. In summary, I would like to say that we have started the year quite well with an exceptional quarter.

We are happy with both financial numbers and more importantly the operating numbers. We are seeing a very broad-based growth, it has come across markets and across industries and we are seeing the kicking-in of the discretionary spend from the deal closures.

We are seeing the demand environment continuing to hold and we are happy with the way our business has increased with all our existing customers. We have added more customers in the 20 million band, 50 million band, and 100 million band, which is very satisfying. We have already talked about utilization, which we will keep at 82% to 84%. So overall, I think we are off to a good start and we are happy with where we are. Thank you very much for your support.

Moderator

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

Note: The transcript has been edited for improved readability.