



Tata Consultancy Services Limited

**Q1 FY14 Earnings Conference Call.
July 18th, 2013, 19:00 hrs. IST (9:30 hrs. US ET)**

Moderator

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

Kedar Shirali

Thanks, Inba. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' financial results for the first quarter of fiscal year 2014 ending June 30th 2013. 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 statement, results, the presentation and press releases are also available on our website.

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

Chandra and Rajesh 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 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 analyst presentation e-mailed out

to those on our mailing list and also available on our website. With that I would like to turn the call over to Chandra.

N. Chandrasekaran Thank you Kedar and it is my pleasure to speak with all of you. We have had another solid set of numbers in this quarter. The highlights are: the volume growth has been very, very good at 6.1%, the highest in the last 7 quarters, our constant currency revenue growth is 4.83%, growth in rupee terms is 9.5% and in dollar term is 4.1%.

This is in spite of the fact that our India market has not done well, we have had de-growth of about 5% in the India geography. If you look at the international market, growth in constant currency is 5.8% and the growth in dollar terms is 5.4%. It has been an excellent quarter and the US has done extremely well with a CC growth of 6.1% and again UK and Continental Europe in CC terms have done very well; Continental Europe has done about 8.9%, and UK has done about 5.4% in constant currency. So it has been excellent all around from a market point of view.

From an industry point of view we have done well again in Financial Services which has grown 3.4% in the constant currency terms. If you look at the BFS in our international markets, it is much higher because some of the India degrowth affected BFS growth as well.

Then, our growth in industries like Telecom, Retail, Life Sciences, and Manufacturing, all of which has been very, very good. Overall we have grown in every single industry in which we operate.

From a services point of view, it has been a very healthy mix of annuity revenues as well as discretionary spend. On the discretionary side, the growth in consulting is very, very good; 19.2% in constant currency terms, and growth in Digital Services is solid in terms of both deal wins and revenue flow. Enterprise Solutions, in our international market, has also done well.

So overall, growth across our market, industries and services portfolio is very well rounded.

The order book this quarter has been spectacular. Although we do not announce or publish order book numbers, it is very healthy and we announced ten deals; these ten deals come across each of the verticals; a couple of deals in Financial Services and the remaining deals are one each across each of the verticals. The deals have come from multiple markets, but definitely a significant number has come from the US.

So the metrics from a financial performance point of view and the order book point of view are very healthy.

Employee attrition has been at an all-time low. IT Services attrition is 9.55%, our best ever in the last 5-6-years. Then if you look at the BPO attrition, again it has also come down over the last few quarters. So we have a lot of stability on the employee aspect as well.

Looking forward, I feel that we are extremely well positioned with our deal pipeline and our sales force on the ground. Utilization levels, which we said we will improve, are at 82.7% excluding trainees and at 72.5% including trainees. There is headroom there and we will definitely try and improve that as we move forward in this fiscal.

So we are well positioned and we look forward to an exciting year in FY 14.

I would like to turn it over to Rajesh to offer some comments and after that we will take questions.

Rajesh Gopinathan Thank you, Chandra, and thank you everyone for joining in this call. I will quickly repeat the headline numbers and then we will go on to questions.

So we have had revenue of Rs.179.87 Bn in this quarter, which is a growth of 9.5% in INR terms on a quarter-on-quarter (QoQ) basis, and 21% INR growth on a year-on-year (YoY) basis.

The revenue in dollar terms is \$3.165 Bn which is a sequential growth of 4.1% and a YoY growth of 16%. In constant currency our QoQ revenue growth is 4.8%.

A breakup of the 9.5% quarter-on-quarter INR growth is as follows: The volume growth is + 6.1%, the impact of exchange has been + 4.6%, the impact of realization or change in realization has been -1.6% and the benefit due to a slight shift onsite in the revenue mix has been + 0.34 percentage points.

On the margin side, we have reported an operating margin of 27% which is 50 basis points up sequentially from the last quarter. The operating margin improvement of 50 basis points includes 161 basis point benefit from the rupee depreciation and SG&A improvement of 96 basis points, which includes an 89 basis points flow through due to the absence of a one-off expense that we had reported last quarter. We have announced wage hikes effective 1st April across the organization and the total impact of that on the margin is to the tune of 172 basis points. Overall we have had some decline in terms of the realization impact on the margin line is 35 basis points, totally giving us the 50 basis points improvement on a QoQ basis.

At the net income level, our margin declined by 79 basis points to 21.1%, it has two-three main items in it, the more significant one being a swing in the Other Income line, coming from the forex loss. We had reported a Rs 1.24 Bn forex gain last quarter; as against that, we have had a Rs 1.04 Bn forex loss this quarter, a swing of about Rs 2.30 Bn. That has been a major one that I would like to call out on the net side.

Our accounts receivable and DSO stayed flat at 82 days in dollar terms. Our invested funds we ended the quarter with Rs.158.6 billion in invested funds. And finally I would like to report that our board has

recommended an interim dividend this quarter of Rs. 4 per share. With that I will now open up for questions.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Moshe Katri of Cowen and Company. Please go ahead.

Moshe Katri

The first question is for Chandra. Our mid-year spending survey showed some increased appetite for funding of discretionary work and transformational work. Is this apparent when looking at your pipeline, sales cycles, and conversation you are having with clients? And then can you place your comments on the context of the various verticals and regions?

N. Chandrasekaran

If you really look at the results you can clearly make out that our numbers have come from both, annuity revenues and traditional deals, as well as Transformation deals though we do not breakup the Digital, that is a separate area. But if you look at Consulting and also the deal wins that we have had in the Digital space, discretionary spends are kicking in.

Obviously, the appetite for discretionary spend is much more in the US than in Europe. Having said that, there are also some wins across sectors and we definitely see a good investment going on in discretionary transformation deals especially in adopting Digital Solutions whether it is Big Data, Analytics platforms or Responsive Web Design, Omni Channel – those kind of opportunities are across Retail for example, across CPG companies and across some of the financial institutions. So there is definitely an uptick, and we see that in our deals as well as in the pipeline.

Moshe Katri

And then for Rajesh, just a follow-up. Can you go through and maybe quantify the various moving factors impacting EBIT margins during the quarter?

Rajesh Gopinathan Yes, so what I called out on the margin impact was essentially at the EBIT level. So we have 3 main factors there. First of all, is the margin benefit coming through from the rupee depreciation, which as I said was a net positive impact of 161 basis points at the EBIT level; and second impact has been the wage hike impact. We give wage hikes in the first quarter, so starting April 1st we have announced wage hikes for all our employees, and the total impact to the EBIT was 172 basis points and finally, we had certain one-off expenses last quarter, the absence of which gave us a positive swing of 89 basis points this quarter.

These are the three main line items that result in an overall 50 basis points improvement, along with some amount of impact due to the realization decline.

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

Keith Bachman I have two questions. First one is, your volumes were very strong across the board including in the US. Could you just give any characterization on what the discussions are with your clients as it relates to the immigration issues and what are your mitigation plans in the event that something does happen that decreases the efficiency effectiveness of your business model? And then I have a follow-up please.

N. Chandrasekaran I think on the immigration issue, I would like to say only the following: I think all of you, like us, are tracking what is happening in terms of the bill. It has to go through a process, and we will know what the final form and shape of the bill is going to be, hopefully sometimes later this year. And there are many different scenarios, so it is very difficult to hypothetically answer, but we are very actively engaged in the process with all stakeholders and also with our clients. Our clients fully understand the situation and also the possible scenarios and as you will imagine, the scenarios could be different with different clients,

depending upon the type of engagements we do, size and scale of engagements we do, etc. and we are very closely engaged.

There are many different actions that we can take and we are working on them and we will see how it goes. All I would say is that we are very agile, we are watching this very closely, engaging in the process very tightly to see that we present our point of view and working on the scenarios that arise. Whether it is a wage increase, whether it is a local hiring, whether it is a combination of the resource pool, etc. all those things are different scenarios. That is what I would like to say.

Keith Bachman Let us change the subject for a second. Can you talk about the present and talk about the competition in the ADM space? What are you seeing there from a behavioral perspective from your competitors, pricing and is there margin implications, what do you see there today and how do you see that unfolding over the next couple of quarters? And that is it for me.

N. Chandrasekaran I think from ADM perspective, you always have situations where some people may bid differently, and it is all about solutions, and we have so far been able to maintain the pricing discipline and win the deals where we participate and gain market share. So I am not overtly concerned about pricing but this question keeps coming up.

I feel that the pricing environment overall is stable. If you take a 3-4 quarter perspective there is a quarter in which we are flat, there is a quarter in which we gain, there is a quarter in which there is a small dip, so this has been the scenario and my own view is that in the next couple of quarters or three quarters if you look at it, it is going to be flattish pricing. I do not think that it is going to be either decline, and for sure, there is not going to be an increase. It is going to be flattish and we have maintained that always and we have been able to follow some discipline and gain our share or win our share of business.

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

Ankur Rudra

Chandra, clearly you have been able to maintain a very broad-based growth this quarter and also it clearly appears that you are doing particularly better than your peers, both international and Indian on discretionary spending. Could you maybe help us understand? And I also appreciate that a lot of your growth may be coming from digital solutions as opposed to transformation deals which are more legacy led by either greenfield or brownfield ERP opportunities. Can you help us maybe by elaborating on how your solutioning or go-to market may be superior to peers to help achieve this?

N. Chandrasekaran

I can only tell you what we do. I do not want to comment on competition, but from our point of view, I think the mix is quite good. There are trends in markets and industries. Genuinely I believe we are paying attention and being as specific as we can be.

If we take Financial Services, there are both opportunities; opportunity on the cost-out side, consolidation efficiency those kind of engagements as well as on the discretionary side. The revenues are shrinking and there is definitely a new cost-base that is being looked at, that requires lot of price cut because that alone will not achieve what the institutions want. So it's typically a transformation where you are retiring systems or going to a single system or rationalizing infrastructure or moving some things to Cloud. I mean, there are a variety of approaches by which these things are being done including automation, heavy automation in maintenance, production support, etc., so there are varying things that happen.

On the discretionary side, responsive web is a major idea and Omni-channel is extremely important. So there are different technologies at play. Data is a very major initiative, not only Big Data, but just the data architecture, because all compliance requires a huge stability in the data architecture since pulling out of the data is all real-time in the current environment. So there cannot be situations where you are building multiple extract systems. There are a variety of opportunities.

Similarly if you take Retail, consumer insights, and multi-channel Omni-channel is a big, big investment. Whether it is in SAP or supply chain transformation, it is a huge area. Some of these areas start with consulting. So many of our consulting engagements are spread across supply chain, digital, data, refresh of enterprise architecture in light of the current technologies, compliance issues. All of them lead to follow on engagements.

If you take healthcare, it is different types. So I think each of these industries has got its own type of projects that are coming up.

When you say ADM, it is not always like you go, bid and take over a thousand applications. Yes, there are few of those but it is a lot more specific. Every market is different. In the US, it is more advanced, more discretionary, with customers wanting to move fast. In Europe, it's still a lot of simplification type of opportunities and so our markets are different.

So I think we are trying to be as relevant as we can be. There is no one single line strategy that I can say, "Yes, this is what we do and we do it better than anyone else so we win". I think we are very agile enough to listen to the market and change to the market. I gave you all this commentary, but next month there maybe new opportunities and we'd have to move fast. How do you keep the company prepared to be able to do that? That is what we are focused on.

Ankur Rudra

Just quickly on the revenue productivity decline this time, I know you have been mentioning for the last several quarters pricing is stable and given your mix has not changed adversely either from an onsite/offshore perspective or even from a service line mix perspective, can you help us understand this a bit better?

Rajesh Gopinathan

It's realization, not revenue productivity. A couple of quarters back if you look at, we had a swing on the upside and at that time also we had called it out saying that these are period-to-period volatilities that comes in depending on various factors. It is not a trend, so it is up one

quarter, flat another quarter, down another quarter. If it is a trend we will call it out.

N. Chandrasekaran I think you should not extrapolate saying that so these guys have lost 160 basis points, so the entire pricing level has come down to 160 points that would be a wrong estimate to me.

Ankur Rudra Just one last question on the employee additions. Clearly, the net additions seem a bit weak this time and somewhat surprising given your attrition levels has remained very, very low. Part one of the question is, has there been a decline in net employees at the offshore level because there were very high additions in onsite compared to offshore? And the second part is, is there any change in your hiring philosophy? Are you moving more towards the just-in-time hiring or moving more towards onsite hiring?

Ajoy Mukherjee No, from hiring perspective I think the numbers that we announced at the start of the year the total hiring that we will do, we are on track. As far as that Q1 is concerned I think there is a seasonality that we should understand that this is the time when the trainees do not join, the trainees start joining from Q2 onwards, so this is the time when the majority of the hiring that will happen is of laterals in India as well as overseas. So as a result you will see the overseas component a bit higher as compared to others, but there is no specific change, there is a same pattern that happens each year in Q1.

As far as the net is concerned, yes, it is about 1390 and the gross was 10,600 plus and the reason is, first quarter if you look at the quarterly attrition that Chandra mentioned over all last 12-month attrition wise we are doing the best in last 27 quarters, but if you look at the current quarter the number has gone up. That is again the seasonality aspect because this is the time when a lot of trainees leave for higher studies, this is the time when we complete our annual appraisals and there are a few who decide to leave at this point in time and this is what happens each year so there is nothing unusual about it.

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

Mitali Ghosh Would be great if you could discuss the trends in the banking vertical and how that compares with your expectations as you went into the quarter in terms of discretionary spend as well as maybe spending by some of your large banking customers versus maybe mid-size customers and so on?

N. Chandrasekaran Mitali, I think the Financial Services, Banking sector has pretty much panned out and it is panning out to be on the lines we have expected. We have not had any negative surprise, except in India; In India our revenue has gone down especially in the Financial Services sector.

So if you look at Banking, the international business in CC terms has grown slightly above the company; while the company has grown 4.8% in cc terms, Financial Services in the international business has grown close to 5%. So you should read Financial Services as an outperformer when you look at the international sector – that is a very important trend to catch.

I just gave that clarification because I was not sure whether you are coming with this question based on that, but in terms of the trend itself, the themes remain the same. It is simplification, it is driving efficiency, it is compliance and it is a lot to do with digital as well.

And when I say digital I mean the concept of Omni-channel, concept of having this responsive web, which is across devices and tying it up with analytics and looking at data holistically because data is a big thing. If you look at banks they will have multiple lending systems for example. So while looking at the mortgage business, it is very important to put it all together. Can you go for a single lending system else, how are you going to manage the data?

Similarly if you take digital store, there will be multiple divisions and each division may have digital store because everybody has been on

to digital for the last 2 to 3-years. At the pace at which the digital is evolving there are more things that can be done today than even 18-months-ago. So much more holistic view. I think there are a plenty of opportunities in all these areas and we are engaging with our clients in capturing those.

There is no surprise as far as what we imagined would happen versus what we are seeing on the ground. It is just that in areas like compliance, we need to invest a lot more. What we have is just not enough. We have a lot of solutions but we need more scale and in different markets. So those are the things we have to do.

Mitali Ghosh

And secondly, just wondering if you can help us reconcile the fact that I think your commentary does indicate discretionary projects are picking up. How to reconcile that with the fact that both Oracle as well as SAP had poor license sales? So it could be to do with I guess structural issues in their core business, but any commentary on that would be helpful.

N. Chandrasekaran

I think it is far too complex to try to have a simplistic answer. Not that I know it and I am not telling you, even for me to figure out this reconciliation is not going to be pretty easy because it is fairly complex.

Also, all the discretionary spend need not necessarily translate into license revenues for SAP or Oracle. Sometimes it will, sometimes it may be in database centers, sometimes it is in digital technologies which are very different. So there are varying types of discretionary spend that is happening.

For example if you take retailers, if they have invested in building a state-of-the-art ERP system and a supply chain system using an SAP or Oracle or for that matter some other products, their investments in all the discretionary spend will be built in something on top of it. It is not backend. Most of the investments, when I say discretionary spend, almost all investment is in the frontend. So it's not that large scale backend transformation projects are the ones which are driving

discretionary. There are some, but significant portion is in the front-end.

Mitali Ghosh And just lastly in terms of margins, given the pricing trend, the INR depreciation and investments that you plan, what should one expect broadly for the year? And any seasonal factors to bear in mind for the next quarter particularly? Just wanted to check, is the wage hikes for the entire population done this quarter?

N. Chandrasekaran I would say that we are pretty comfortable at where we are. I think 27% we have always been saying that, that is the area around which Maha used to give that commentary to you before. We will capture some of the upside (from Rupee depreciation) and we will re-invest in growing our business in new markets, new types of offerings, and scaling up existing offerings. Wherever there is an opportunity, we will be investing. We are pretty comfortable because the most significant headwind in terms of wage hike is behind us. There is a headwind in terms of the promotions this quarter but it is not as significant as the wage-hike headwind. We do not give specific numbers Mitali, but I think I have given you enough qualitative commentary for you to feel comfortable.

Mitali Ghosh And just a quick question. Any update on the hedging position, any tactical positions you may have taken in the quarter?

Rajesh Gopinathan We continue to execute on our long-term strategy on hedging just to cover a couple of quarters forward and that strategy continues. It is a rolling strategy.

Mitali Ghosh And what would be the outstanding position?

Rajesh Gopinathan So our total hedge book is about \$4.5 Bn, about \$2.8 Bn on the revenue side and about \$1.7 Bn on the receivable side.

Moderator Thank you. The next question is from Diviya Nagarajan of UBS Finance. Please go ahead.

Diviya Nagarajan Chandra, you mentioned that your deal wins have been spectacular this quarter. Could you give us some color on the main geographies and the sectors that you have gotten in and some specific details on the service types that you have won as well?

N. Chandrasekaran The sector side it has been broad based, almost in all the major sectors we have got at least one deal, and we reported 10 large deals, a couple of them are in BFS, remaining come across all the sectors.

And US has led. More than half of them are US deals and remaining has come from Europe and Asia Pacific.

And the type of deals – some are large scale transformation which involves both, optimizing the current investments in IT as well as creating a future footprint. There are deals which completely replace the existing investment in IT and take them towards a total Cloud-based, outcome-based IT infrastructure. It is a fairly significant transformation because we are not looking at one particular application, we are looking at the entire portfolio, and rationalizing the entire portfolio, transforming into a completely different model, SaaS-based, Cloud-based model for a multi-year period and significant insight. So I think there are all kinds of opportunities and infrastructure deals are there, BPO deals are there, and also deals in ADM. So it has come across the board.

Diviya Nagarajan And on Diligenta, could you run us through what your plans for Diligenta are outside the UK market? You have not had major deal flow in that space since...

N. Chandrasekaran I will ask Phiroz to answer that question.

Phiroz Vandrevala We had committed a couple of quarters ago that we will start looking at the US and Europe. We have made some significant progress, we have a couple of proposals out in the US at the moment and we are hopeful that in the near future we should be able to announce the market entry into another market.

Moderator Thank you. The next question is from Sandeep Agarwal of Edelweiss. Please go ahead.

Sandeep Agarwal I have just two, three quick questions. One, I would like to know little more how much we can squeeze more? I know that you have been saying that there is still further upside which will depend on scale and the utilization front. So how much more we can expect with the scale going up, an approximate idea? Secondly, attrition is almost now below 10%. So are we comfortable at this level or we will pull the trigger at some 9% or something because I think there should be some natural attrition in the business? And thirdly, although in DSO terms, in dollar terms, the numbers have remained stable as Rajesh mentioned. So this question is more for Rajesh. But if you see, in terms of accounts receivable as a percentage of quarterly revenue, it has gone up by 2% and unbilled revenue also has gone up by around 2% in dollar terms. So what is happening there? Because the cash generation is not that robust if you compare that part? And lastly, if you can throw some light because if you see our manpower slide, only 8% of the work force is non-Indians. So will we not have to ramp up that part significantly to comply with the immigration bill?

N. Chandrasekaran You have asked too many questions, I have lost track almost, but I will try to remember and answer as many as I remember. On the first question in terms of the utilization, it is not a percentage thing because our scale is very large, we are about 277,000 people today, and on that scale every percentage matters. I have said in the past that we will move towards 85. It is not that from 82.7 it will go to 85 tomorrow but we will move towards 85 and who knows, maybe beyond that. And still it leaves us a lot of room because the scale is very large. So that is the first thing.

In terms of attrition I think we are pretty happy with where we are. It is not that we are going to set a target of 9 or 8 or anything. We try and retain our employees, especially tenured employees because that definitely gives a lot of stability in business and lot of knowledge, organizational knowledge is built in. So we are comfortable where we

are at this point in time, this is a very good position to be in. And whether it will go to 9 or whether it will go back to 11, I think either way it is fine. That is not going to significantly worry us, I think we will continue to focus on doing the best in retaining employees that is what I would say. Then in terms of the cashflow and accounts receivables, Rajesh you want to take it?

Rajesh Gopinathan Yes, you are right that working capital increase is there and there are three broad parameters that are driving it there. On one hand, the (UBR) unbilled revenue there is a slight uptick in that, and on the account receivables side there is a net increase. The dollar AR, to some extent, understates the AR because you convert it to the dollar; the INR AR overstates it because you see the impact of the closing rate on to the AR side. There is also a slight addition due to the consolidation of Alti in the closing balance sheet on June 30th.

We also have had some one-off outflows this quarter. The one-time expense that we spoke about last quarter, while the expensing happened last quarter, the payout happened this quarter. Similarly, we had some payouts in terms of funding of gratuity accounts etc., for which the provisioning happens through the year, but the funding happens at the end of the year.

And finally the working capital needs to be seen in the light of the impact of the currency restatement. Our closing rate was about Rs.55 last quarter and it is about Rs.60 this quarter. So net-net those are the elements that are impacting the working capital.

One point that I want to call out, which I do not think I mentioned in the beginning, is that we concluded the Alti transaction on June 28th which was a Friday, the last working day, and our balance sheet as of June 30th consolidates the Alti balance sheet, including the goodwill. There is no impact on the P&L in Q1 and in Q2 we will take the full consolidation on the P&L side of it.

Sandeep Agarwal And the last question was for Ajoy actually. If we do the mathematics of 8% international workforce and then further take 15% American and even Mexican together, still the number comes at 5,800 odd or 6,000 number. And if we do a rough calculation of effort I think it will be between 9% to 16% of onsite effort with local. So I think that is something I may be wrong, if you can throw some light on that because I think we will have to ramp up significantly to comply with some components of the bill.

Ajoy Mukherjee I think Chandra addressed that bill part in the beginning that we will have to wait and see. We are looking at where we are going. And secondly I think the figures that you are looking at these are nationalities, your actual numbers onsite would be different, so do not go by that. That will not give you the right number per se.

As far as we are concerned, from our business model point of view, I think we are pretty comfortable the way things stand today and that international component of the head counts that has been continuously increasing.

Moderator Thank you. The next question is from the line of Yogesh Aggarwal of HSBC Securities. Please go ahead.

Yogesh Aggarwal I just have one question if I may. Chandra, if I hear all these software companies like SAP, Oracle, everyone is talking about higher cloud component in their license sale. So just wanted to get a brief sense on are you already seeing some impact on your ERP or the ADM business or it is still too small or early stages for that to impact the ADM market?

N. Chandrasekaran As of now, the impact is not significant. The main thing is that even with the cloud-based solutions we will be gainers because we will be a partner with this company, and we will have our implementation practice working on deploying the solutions.

- Moderator** Thank you. The next question is from the line of Sandeep Shah of CIMB. Please go ahead.
- Sandeep Shah** Just one question, in the international business, is it possible to throw some light in terms of volume growth?
- N. Chandrasekaran** It was 6.4% or so...One minute, we'll get you the exact number.
- Sandeep Shah** And just in case because my sense was also that it has to be higher than the consolidated growth of 6.1%. So is it fair to say that the realization decline would be even higher in the international business and do you believe it is more a quarterly phenomena and one should not look into detail of this?
- N. Chandrasekaran** Yes, I think as Rajesh explained that is not the way to look at it. You should not see it as a pricing decline. Pricing is actually operating in a narrow band and it's flat. The realization has been suddenly improving in a quarter, flat the next, and then this quarter its down. And you should not read too much into that.
- Rajesh Gopinathan** So the volume growth for international business is 6.53% and the realization impact is almost the same at 1.68%.
- Sandeep Shah** Just a follow-up, are the clients starting any negotiation in terms of passing off some of the currency benefits into the renewals?
- N. Chandrasekaran** We do not have such discussions because the currency moves in either direction and the way we work with clients is that we handle both sides.
- Moderator** Thank you. The next question is from Nitin Mohta of Macquarie. Please go ahead.
- Nitin Mohta** Chandra, my question was on volume growth front as you yourself highlighted, it is pretty strong even by your high standards. Just wanted to understand that during the quarter if we were to rewind,

were there any accelerations in terms of client activity which has led to this, just thoughts over there.

N. Chandrasekaran No, there is no one-off or there is no particular point in time because of the single deal it has gone up. It is very broad-based, because if you really see all our sectors have done well, all our markets have done well. So it is just the momentum in each of the business units.

Nitin Mohta If I can clarify my question, what I was alluding to was not one-off. What I wanted to understand was is it significantly better economic activity that your North American clients are seeing, was there a trigger during the quarter which kind of prompted acceleration in client activity?

N. Chandrasekaran There is no special trigger that happened during the quarter. There was a steady growth all through the quarter.

Nitin Mohta And if I can squeeze a second one, earlier on the call you obviously talked about making investments given the currency benefit. If I can understand the priority in terms of new market expansion versus developing solutions for the clients, how exactly do you think about it?

N. Chandrasekaran New technology areas, new markets, scaling up of certain offerings that we develop – it will be a combination of all of these. There are big deals coming in, then decision on whether to participate, not participate because sometimes complex deals if you want to participate definitely need for us to invest.

For example, if we go back and see how we originally won the Diligenta, how we originally won the NEST, these are deals which we won because we early on took the call that we are going to make the investments in building the solution, in assembling great sales teams and go through the whole cycle. So these are decisions that we take, there are different options, and different opportunities and we will do what makes sense for us.

- Moderator** Thank you. The next question is from Ashwin Mehta of Nomura. Please go ahead.
- Ashwin Mehta** Just one clarification. Can you help us reconcile your volume growth of 6.1% which seems to have come with just about 70 bps increase in utilization and head count addition is just about 0.5%. So can you help us understand how that has come about?
- N. Chandrasekaran** You have to understand that the headcount addition in a particular quarter has nothing to do with the performance in that quarter. Any headcount addition that we do in the quarter is very much for the future. So that pipeline that we build. But in terms of a particular revenue growth or volume growth, pricing, etc., there are a lot of things are in play; some are due to headcount addition, some are due to extra hours, some are due to fixed price, some licensing fees, so many things are involved, it is very difficult to give you a simple answer for the question.
- Ashwin Mehta** Because essentially our fixed bid seems to have actually gone down in this quarter so just wanted to understand that.
- N. Chandrasekaran** It has not gone down.
- Ashwin Mehta** As a proportion of revenue?
- N. Chandrasekaran** Fixed bid has gone up from 51.3% to 52.2%, gone up by about 90 basis points.
- Rajesh Gopinathan** These operational parameters earlier they used to exclude revenues from certain sectors like India, Latin America and some of our subsidiaries like Diligenta partially, now we have restated both quarters for the total revenue base. So you would see a difference between the Q4 number as reported in Q4 versus the restated Q4 number that you see here. So, on the restated basis there is a sequential improvement.
- Moderator** Thank you. The next question is from Pinku Pappan of Nomura. Please go ahead.

- Pinku Pappan** Chandra, just wanted to understand, do you see any trend in the deal sizes as many of your clients are going for these large scale transformation programs, do you think deal sizes are moving north, anything specific to a particular geography...?
- N. Chandrasekaran** I feel that deals are happening, decisions are getting made, especially in the US and large scale deals in Europe probably take a little longer time but even there the decisions are getting made and deals are getting concluded. So to be very direct I am not seeing delays in....
- Pinku Pappan** No, I was talking about the average deal sizes?
- N. Chandrasekaran** Yes, transformation deal sizes are now getting larger, especially where you are simplifying the infrastructure or doing cost optimization, those kind of deals are increasing slowly.
- Pinku Pappan** How about traditional outsourcing deal sizes?
- N. Chandrasekaran** Traditional outsourcing deals, we would include in the bucket.
- Pinku Pappan** Just on healthcare, could you just talk about the opportunities there and what is driving demand? You had a pretty strong quarter in 1Q.
- N. Chandrasekaran** But I think if you really look at healthcare we have been consistently doing well for the past several quarters. I think we give Life Sciences and Healthcare. So size of the business itself is just getting to a critical mass and that gives us a lot of opportunities to bid lot more now than ever before.
- The type of deals we win is varied, some of them are transformation deals, SAP implementations or blueprinting and those kind of opportunities. In the KPO side, we win deals on drug discovery, statistical analysis and those kind of deals. We are also getting traction in terms of infrastructure optimization deals. So, we used to do a lot of full services in Retail and now our scale has become credible in Life Sciences and Healthcare, we are able to do a lot of full-services deals here as well.

- Pinku Pappan** Rajesh, your other current financial liabilities has gone up significantly from 4Q to 1Q. Could you just explain that?
- Rajesh Gopinathan** Our last year's final dividend announcement that we did in the AGM of Rs.13 per share which is including dividend tax a liability of about Rs 3,000 crores. That got paid out only in July. So that is the one that you will see.
- Moderator** Thank you. The next question is from Ritesh Rathod of UTI Mutual Fund. Please go ahead.
- Ritesh Rathod** Just want to know in terms of this cash flow if you see the EBITDA on a year-on-year basis up 20% whereas the operating cash flow is down. You mentioned about many things. Maybe you can help me out. Was there any particular specific thing which impacted this thing?
- Rajesh Gopinathan** Called out those various items that were there. So probably Kedar can take you through and get the details, but there were multiple items I called out each of them.
- Moderator** Thank you. The next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.
- Srivatsan R** Just wanted to get an update on the nonlinear initiatives you are taking because sometime back you had a target of 10% of incremental revenue. So where are, any update on the front?
- N. Chandrasekaran** Our nonlinear initiative on that metric we are doing well, but we would like to scale it faster. So, we are waiting to see some more scaling up before we start giving a lot of commentary on that. But on the 10% of our incremental revenues, that metric we are meeting. Last few quarters we have been meeting that, but still the overall size is not the kind of scale that we want to be at. So that is an area where we are focused on. Once it picks up scale then probably we will have a lot more discussion on that.

- Srivatsan R** And in terms of broader initiatives, are there any more larger opportunities or what we are targeting similar to Diligenta which can be pretty large nonlinear opportunity?
- N. Chandrasekaran** We are looking at many things. We are looking at more Financial Services platforms and Diligenta. We have made investments in the Retail space, a couple of large scale solutions we have built, and then we have also invested in terms of building solutions around customer insights and customer centricity. There are many platform initiatives that are ongoing and those are the areas that we are trying to invest more as we capture more upside due to the rupee.
- Moderator** Thank you. The next question is from Dipesh Mehta of SBICAP Securities. Please go ahead.
- Dipesh Mehta** Just to understand trend in Telecom. Whether we see Telecom as bottomed out and likely to grow better in FY14? And second, just want to understand status of TCS EServe merger?
- N. Chandrasekaran** Telecom has done exceedingly well this quarter, it has gone about 13.1% on actual basis and 9% on a CC basis. So it has been a good quarter, but I would like to still wait for some more time before making comments like it has bottomed out or, etc. I do not see a huge drop, but at the same time, I would not say that we are in a comfortable situation that we can see significant growth. We are doing well, we have got good deal wins, we have got project wins, so we have been pretty happy with the performance this quarter. Currently also we are seeing traction, but I need to wait before I can make any solid statement.
- EServe, I think the process is going on, we are going to the core process and maybe it will take another couple of months. We hope that it should be done in this quarter. That is our view.

Moderator Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference back to the management team for closing comments.

N. Chandrasekaran I would like to thank all of you for being in the call and interacting with us. All I would say is that we have had a good quarter, we have seen a very holistic performance from a market point of view and from industry point of view.

The deal wins and the pipelines are strong and the employee side the attrition is where we would like it to be. Given the margin profile that we have and the fact that the major headwind in terms of the wages is behind us, I think we are well positioned.

So we are very positive about this fiscal year and we will be continuing to make investments that are relevant to the market place and I hope that we will do well.

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

(Note: The transcript has been edited for improved readability)