



Tata Consultancy Services Limited

**Q1 FY15 Earnings Conference Call.
July 17, 2014, 19:00 hrs IST (9:30 hrs US ET)**

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

Kedar Shirali: Thank you, Inba. Good Evening and Welcome, everyone. Thank you for joining us today to discuss TCS' Financial Result for the First Quarter of Fiscal Year 2015 that ended June 30th 2014. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of the quarter. The financial statements, fact sheet, 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. Rajesh Gopinathan – Chief Financial Officer; Mr. Phiroz A Vandrevalla – Director; Mr. Ajoy Mukherjee – Head of Global Human Resources. Chandra and Rajesh will give a Brief Overview of the Company's Performance followed by a Q&A session.

As you are aware we do not provide revenue or earnings guidance, and anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the quarterly 'Fact

Sheet' that is available on our website and which has been e-mailed out to those on our mailing list.

With that I would like to hand the call over to Chandra.

N. Chandrasekaran: Thank you, Kedar. First of all, it is nice to speak with all of you on our Q1 Earnings Conference Call.

We have had a fantastic quarter. We have started the financial year on a very strong footing. Let me explain the overall performance:

We have delivered volume growth of 5.7% and the revenues have come in strongly at 4.8% QoQ on a constant currency basis, which is 5.5% QoQ on dollar basis, and 2.6% QoQ on rupee basis.

Our incremental revenue in the quarter was \$191 million which is the second highest incremental revenue we have ever had, and the highest in the last twelve quarters. So the revenue performance has been pretty satisfactory and it has come from across the board

If you look at the markets, North America has done exceedingly well. In dollar terms, it is pretty much on par with the company performance at 5.6%, and rupee terms at 2.6%. Other important markets like UK and Europe are pretty much close to company performance. And India has delivered a good growth at 5%. So revenue growth was pretty broad-based across markets, with only Middle East showing muted growth.

From an industry point of view, all industries have done very well. Non-BFSI segments have all grown upwards of 5.5% QoQ in dollar terms and in constant currency terms, pretty much at or above the company average. I would like to particularly mention that Retail and Distribution has done exceptionally well, Manufacturing has done very well, Hi-Tech has done very well, Life Sciences, Travel, Energy, Media and Entertainment have all done very well; Media and Entertainment grew almost 10% QoQ in rupee terms, so it has done very very well.

In the BFSI segment, BFS particularly has done exceedingly well, and I would say BFS is pretty much close to the company average whereas insurance had a tough quarter, and that has pulled down the overall growth in BFSI as a segment. But there is nothing that I have to highlight as a cautionary statement, which specific to a particular client or anything like that. I expect the pickup to happen right away in insurance, though it may not outperform or even perform at the company average, but definitely there will be growth. So that is the color on the industry segments.

On the margins, we have had a very good quarter again. We have been able to deliver the EBIT margin within our band of 26% to 28%, coming in at 26.3% in IFRS terms, despite three different headwinds:

- One, a significant headwind due to the wage hikes; as you all know, we gave a very significant wage increase across the board, an average being at 10%, so that has a huge impact.
- The second headwind is currency of course, because of the strengthening of the rupee.
- Third of course is the one-time depreciation charge that we had to take due to the alignment of the depreciation policies to the new company bill...

I am not giving you the breakup, which Rajesh will do in his comments.

In terms of the Customer Metrics it is really very satisfying. If you see the addition of customers across revenue bands, it's pretty good, whether it is the number of \$50 million+ customers, \$20 million+ customers, \$10 million+ customers, \$5 million+ customers or \$1 million+ customers – everywhere we have got a very healthy addition of customers, which again validates our strategy of being relevant to the customers and deploying our full services solutions including the digital opportunity.

Then, in terms of deals, they have come from across the board. We do not give out the order book number, but if you look at the seven deals we have won, they have come from six different verticals; by markets,

four of them are from the US geography and a couple of them are from UK-Europe and one from Asia Pacific. And in the industry segments also they have come on multiple industries – two from Retail and remaining are all from multiple different industries. The order book is pretty strong, our pipeline is pretty strong, and I continue to believe that Digital will play a significant role in the transformation and the re-imagination of companies and their business processes and business models, and TCS is extremely well positioned to participate in that opportunity and help clients transform their businesses.

On the people side again, it has been a strong quarter with the addition of 15,817 associates, taking the total number of associates to 305,431. Net addition has also been strong at almost 5000 people, and utilization is at an all-time high; excluding trainees, we have achieved 85.3% and including trainees its 79.8%.

I have said time and again that scale becomes an important element in the way we look at utilization, so I would not pay attention to the percentages and I would continue to look at the opportunity to leverage the scale that we have in terms of the overall size and the profile of people in the different areas and industries and practices that we have.

Employee retention continues to be a benchmark; overall attrition has gone up from 11.3% to 12% but that is very healthy in Q1 because we do expect a certain extra attrition due to the people joining higher studies and so on and so forth in Q1. So it is pretty much on the trend.

In summary, I feel very good about where we are and we see a good momentum and we hope to do well. With those comments, I will pass it on to Rajesh.

Rajesh Gopinathan: Thank you, Chandra. I will just go through the headline numbers again for the record. Our first quarter revenue was Rs. 221.11 billion, which represents a growth of 2.6% Q-on-Q and 22.9% year-on-year. Revenue in dollar terms was \$3.694 billion, a sequential growth of 5.5% and year-on-year growth of 16.7%. In constant currency terms, our revenue growth is 4.75% Q-on-Q; this is made up of volume

growth of 5.66% and onsite shift of 0.18% and constant currency realization impact of -1.09%.

In terms of Operating Margin, as Chandra said, we had three key headwinds – the 10% wage hike that we had announced with effect from April 1st had a margin impact of 219 basis points. The rupee appreciation resulted in a margin impact of -73 basis points and lastly, as mentioned in our business update last month, we have made changes to useful life of assets in our depreciation policy to rationalize it and to make it in line with the recommendations of the Companies Act. This has resulted in a one-time charge to the extent of 79 basis points under IFRS. The combined impact was -371 basis points and it has mitigated to the extent of 87 basis points through improved utilization and other operational efficiencies, giving us a total operating margin of 26.3%.

Net Income Margin declined by 171 basis points Q-o-Q to 22.9%. Our effective tax rate for this quarter is 23.1%. Our accounts receivable has increased by a day to 83 in terms of DSOs.

Moving on to cashflows, the first quarter of the fiscal year typically shows a slightly negative cash flow coming off from a lower growth into a high growth quarter; however, we are glad to report that this quarter our operating cash flow to revenue is at a healthy 21.5% of revenue, which is above our target range.

Invested funds as of June 30th is Rs.259.4 billion.

With that we open the line for questions.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from Mitali Ghosh of Bank of America. Please go ahead.

Mitali Ghosh: Did the quarter pan out as you expected going into it? Because your utilization of course like you mentioned is at an all-time high and I am

wondering whether that was the target or perhaps demand surprised positively during the quarter?

N. Chandrasekaran: Before I answer the question, I want to add one more comment, we also declare two dividends – an Interim Dividend of Rs.5 for this quarter per share, and also a Special Dividend to mark the 10th Anniversary of our IPO. Incidentally, it is 40 quarters since we went public and we declared a dividend of Rs.40 per share. So that is something I wanted to share with you.

To answer your question, Mitali, I think the quarter has been pretty much as per what we thought it would be, with no major surprises. There is always a little bit here, a little bit there but nothing to report.

The way to look at utilization is, and I keep mentioning this, that it is a different scale at which we are operating; we have over 300,000 professionals and we have footprint across 100 countries now. So it is a huge benefit that we see in leveraging this scale.

I do not pay particular attention to a specific target on utilization; we keep hiring the right talent on the one side, and we keep leveraging the scale that we have. So you should not read too much into it. If suddenly the utilization comes from 85.3% to 84 point something, even if we grow well; I do not want you to get surprised. That is a factor of where the growth is coming from, where we are able to deploy people, and sometimes the growth may be somewhere else, the people availability will be somewhere else. There are different equations that are at play, but net-net I think we have a scale which we think we should leverage very effectively, and that is what we are trying to do.

Mitali Ghosh: How would you characterize the demand environment compared to maybe the start of the quarter, in terms of the deal flow and the sales cycle ramp ups, any trends by geography or vertical worth calling out? Or services?

N. Chandrasekaran: Yeah, I will definitely give you a color on this. Fundamentally, I think that environment is good. We feel pretty positive and have no negative

surprises to report. As I said, client spends are going towards three major streams which I have repeatedly mentioned:

Simplification of the Application Portfolio or ERP footprint or an Infrastructure or Global Shared Services; it varies from industry-to-industry and client-to-client, but this is a huge play. We see lots of opportunities and we continue to win those and execute very well on those opportunity.

The second area is Digital. I really think Digital is a big opportunity across industries, and Retail is showing a lot of momentum in Digital; growth is extremely strong if you look at Retail this quarter. Similarly, in all consumer-facing industries, whether it is Healthcare, whether it is Banking or whether it is Travel, across the board there is lots of adoption of digital technologies, and Cloud infrastructure will play a role both in the B2C and B2B companies.

The third area of growth is Governance. Be it Risk Management or Compliance, etc., we see opportunities especially in the Financial Services and Life Sciences sectors. These continue to play and I do hope that it will continue to play in the coming quarters.

My own personal take based on what I see in the data points as well as the qualitative commentary, Digital will only continue to throw more opportunities. It is important for the company to continue to invest, have the capability, have the frameworks, processes, intellectual property... continue to invest in multiple dimensions in order to be relevant to customers, and sometimes lead, because it is new for everybody. So come up with solutions that will be relevant for the customers and that will give us great growth opportunities.

I am overall very positive about the environment.

Mitali Ghosh:

You did a very good job on margins as well. So, while I take your point on utilization, what would be the other key levers in terms of costs and also mix or realization?

N. Chandrasekaran: I can get into a lot of details, but fundamentally what you have to look at is that we have given you a range of 26% to 28%, and as long as all the headwinds do not hit us at the same time, this quarter was one of those quarters where we had multiple headwinds, if you just take the currency and the depreciation alone, we are talking almost 162 basis points just these two alone coming and hitting, apart from the wage hike which is I think Rajesh accounted 219 basis points, so it is a pretty significant headwind.

So as long as we do not have that kind of a scenario and the rupee does not act in a very haphazard way I think we are pretty comfortable. The levers definitely are multiple, the service mix is important, geography mix is pretty important, fixed price engagements are pretty important, pyramid is pretty important, and whether we will move work offshore is very important. There are many things and also the way we invest things also is a very calibrated way, there are things that we have a hard commit, where we definitely want to invest in a particular sequence, and there are times where we have soft investments we can kind of calibrate as we see the opportunity.

So I think one is the operational and execution focus and the capability we have, second one is the scale and size of the operation that we have. We think that if we are smart in the way we manage our portfolio, I think we can do a good job.

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

Ankur Rudra: Chandra, can you add a bit more color in terms of TCS present in Digital. Clearly you have led the industry here. Either in terms of people trained already or any sense of revenues, projects, and proportion of penetration in existing large customers?

N. Chandrasekaran: I think all the three dimensions – one is definitely the capability of people is very important, but we have also created a lot of framework and intellectual property. We have got our own framework, solutions and foundational software whether it is Big Data or omni-channel or

anything to do with the front-end applications. There are solutions which are agnostic to platforms, so we are able to build solutions for multiple platforms, whether it is IOS or Android or Windows platforms.

So I think there are multiple dimensions in which we are playing, both on the skills and capabilities side, but also on the solutions which are technical in nature - which they call foundation software - and also domain-based. For example, solutions for Retail, solutions for floor walkthrough in Retail, solutions for Insurance, there are some pretty intelligent software that we have developed for insurance in the front end which we have deployed at some of the top brands.

We just need to see how to successfully take those to multiple instances. Definitely, these two are very important dimensions.

Ankur Rudra: Just to take that a bit forward, clearly your commentary is becoming very important for you for continued differentiation and medium-term growth. But historically, any comments in terms of size of the business has been sub-10%, maybe 5%, 6%, or 7%. So any way we can track this on an ongoing basis how successful you are?

N. Chandrasekaran: I think it is a very fair question, but we need to think through what to present to you. This is coming up repeatedly; some of you have also spoken to me. You guys have to tell us how to track it.

I see the need but I don't want to just report one line saying Digital Revenues or something like that. There is some homework that we also need to do internally. I will take your comment and question on board and then let me see what we can do.

Moderator: Thank you. The next question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: The question was on deal wins and pipeline. The ISG data that came out earlier this week indicated a very solid first half, but cautions for tough 3Q. So just wanted to see how do you see this when you look at the deal wins so far in the year and the funnel ahead?

N. Chandrasekaran: I also take inputs from all industry research reports, but fundamentally, we place a lot of emphasis on what we see in our universe and what we hear; what is the commentary that I get from clients, my management team gets from the clients and what is our win rate and what the deal pipeline shows us. Strategy is far more important, because the overall spend may be good, spend may not be good, that is required in order for us to know if we are not focusing somewhere, but for us to perform, it is more important to know what is happening in our universe, that is what we focus on.

In general, I would say that I do not see a pattern change from a normal year, where the first half will be better than the second half. That is what I expect, unless something suddenly happens towards the end of Q2 and we get even worried for it, but I do not think so. I think it will be Q1-Q2 will be better than the Q3-Q4.

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

Diviya Nagarajan: A couple of questions; on your Insurance vertical which you said was a bit soft, how has it shaped during the quarter versus softness expected when you started the year as well or it is something that is developed as the quarter progressed?

N. Chandrasekaran: We had an idea at the beginning of the quarter but we could not quantify and I think it got crystallized as we went in the quarter.

Diviya Nagarajan: So overall BFSI therefore would be a little softer than the company average for the full year given that insurance will be soft?

N. Chandrasekaran: Yeah. Overall BFS should be okay with the company average, but if you take the BFSI I think it should be a little soft, because even if Insurance catches up, I think it has not performed in this quarter, so that does pull down the overall figure.

Diviya Nagarajan: On your margins, I think you kind of answered it a bit earlier, but given that they are now at about 26.5% kind of margins and utilization at an

all-time high, ex-currency, what are the margin levers do you expect to pull to kind of come back to your 27% range that we have seen in the last couple of years, what are the key drivers?

N. Chandrasekaran: As I said there are multiple drivers and I mentioned all of that to an earlier question. First of all, the depreciation charge is a one-off charge, that is something that you should note, which is not going to repeat -- that 79 basis points. Then the wage increase which happened this quarter is pretty significant and that is not the kind of wage increase you will see. There is no second wage increase that is planned, I can tell you that. There are business mix and associate mix, so many other things, and then the investments also what we do will calibrate, etc., so I am not overly concerned.

Diviya Nagarajan: On the pricing question, you did mention that pricing was stable, but realizations seem to have come down, almost 1.5% this quarter. Could you kind of throw color on what drove that and how do you expect pricing trends to pan out for the rest of the year?

N. Chandrasekaran: It may be a boring statement that I keep making quarter-after-quarter but I do not see a change in pricing per se. It is pretty much operating in a very narrow range. It is not moving either way; there is no huge increase, there is no huge decrease. In some places you get a marginal increase and in some places you do not get a marginal increase. So pricing, per se, is going to be like that for some time until the Digital revenues become a very substantial part of the incremental revenues. When they start becoming very substantial then you will probably see uptick in pricing.

But in terms of the realization that is dropping, its actually a factor of many things... and one of the things is that we go from a low growth to a high growth quarter, and the mix changes from a geography perspective or a service line changes and those things have an impact. It is a combination of those things and not anything else.

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

Sandeep Shah: Just in terms of Digital, have we moved from a project spending to a large transformational spending? What I meant to say is, are any multi-million dollar deals are coming?

N. Chandrasekaran: Yeah, I think Digital is multi-million dollars, but typically, it is done as a major transformation initiative with multiple projects and we are participating in those. Definitely, the deal sizes are increasing, but it is not going to be a *one* digital deal of \$100 plus million. It is always a few million dollars, but several million dollar, half a million, multi-million dollar projects make up that whole initiative because the whole initiative requires a channel-side work, data-side work, analytic side work. So we are participating in such opportunities.

Sandeep Shah: But, Chandra, here on the larger size deals upwards of \$30 million, \$50 million through maybe architectural change are possible may not be now, but going forward?

N. Chandrasekaran: Definitely. Many of these Big Data Analytics kind of projects require a huge amount of change in the data architecture. So those kinds of deals will come and those kinds of deals are happening. I think it will get better and better.

Sandeep Shah: But any verticals who have started taking those initiatives?

N. Chandrasekaran: I think B2C verticals we are seeing: Retail, Consumer Products, Health Care, Media...in some situations Communication Service Providers and Banking. These are the verticals leading the way.

Sandeep Shah: Just on the Japan JV, if I just look at the 'FY14 Annual Report', it looks like on the dollar terms we have done close to around \$135 million worth of revenue, and last time, you were saying that the overall venture will give us \$600 million worth of revenue on a line-to-line consolidation. So as in the media comment, you have said that the incremental revenue may be less than what we said last time. So, can you give us more update on this?

N. Chandrasekaran: The Japan JV is operational only from 1st of July, ok? We have concluded that transaction at the end of June. So whatever is the FY-'14 revenue you see for TCS is a TCS Japan revenue before the JV. So the JV is operational only from this quarter so you will see the revenues coming in Q2.

The comment I made was that there has been a substantial change in the currency between the yen and dollar. So we will have to quantify what impact is going to be. So the incremental revenues coming from the JV may not be what we said before, it may be smaller than that. But that is not a cause of concern -- it is just a currency thing, is one aspect.

The second comment I want to make is that deal has gone as planned. It has been closed. We are operational on 1st of July. The new management team is in place and we have integrated the management teams. Town halls have happened and the people are already working together. Our team is engaged with the TCS customers and the Mitsubishi customers that we got onboard. All those things are happening. We are off to a very good start. We definitely want to do very well in Japan and I think we have made the right deal, a very strategic deal that we needed to do. So I am pretty positive and I am going to be spending time in shaping this market.

Sandeep Shah: In terms of Enterprise Solutions has shown a good pick up and it has been doing well for us. So any particular trends or kind of demand, which has been coming there?

N. Chandrasekaran: I think there are a couple of types of engagements, we are getting a lot of transformation engagements whether it is in Procurement or Supply Chain or Financial transformation, those kind of initiatives are definitely happening. Also, on CRM, salesforce.com and those kinds of initiatives are also happening. So a lot of transformation engagements both on the front-end and on the back-end -- sometimes it is consolidation, sometimes it is transformation and changing the architecture... so those kind of engagements we are seeing.

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

Ashwin Mehta: Chandra, In terms of US, we have seen both TCS as well as Infosys an improvement in terms of demand. So would you say the decision making or the macro improvements in US are actually starting to reflect in terms of demand, and is there some pattern being seen in terms of discretionary projects startups beginning to accelerate there?

N. Chandrasekaran: No, I think we have said that US is doing well and we did say that in the last quarter also, both in terms of the Simplification opportunity and on the Digital opportunity. That is the biggest market and that is the market which moves fast in adoption of technologies. So we would have very positive commentary on US.

Ashwin Mehta: But would we still maintain our view that from a momentum perspective Europe will still grow faster than US?

N. Chandrasekaran: You can look at the percentages either way, but by market size, if you really see TCS, we are more than \$7-\$7.5 billion size in North America. So on that base, whatever we are doing is pretty credible, whereas Europe is a smaller base and we will continue to do extremely well in Europe.

I would not see much of a differentiation between these markets. I would say US, UK, and Europe – in all three we will do well, but just be kind to us if we do half a percent less in the US because the sheer size of the business.

Ashwin Mehta: We have indicated and maintained that 1H will be better than 2H, but historically, our second quarter has always been stronger than our first quarter. So are revenue trends likely to be similar to historical?

N. Chandrasekaran: I maintain that the first half will be better than the second half. That is what I meant.

Moderator: Thank you. The next question is from Ravi Menon of Centrum Broking. Please go ahead.

Ravi Menon: If you could provide the attrition excluding BPO that would be great?

Ajoy Mukherjee: Attrition overall is 12% and attrition of IT Services is 11%.

Ravi Menon: Do you see Cloud and Infrastructure deals getting bundled? Are you in a better position to do projects around cloud migrations and things like that where you already provide infrastructure?

N. Chandrasekaran: No, there are such deals in the market, but unless and otherwise if the leverages are IP or something of that nature we are not into the space.

Ravi Menon: Just following through on what Ashwin had asked about the Continental Europe, do you see at some point, Europe and Continental Europe becoming a bigger market than the UK for you?

N. Chandrasekaran: I think both markets are good. It can if we scale in all the five different geographies we are operating in Europe ie Nordics, Benelux, France, Germany, and rest of Europe – Switzerland and other countries together. All of them have a huge potential, but each of them has got its own nuances. So potentially it can, but it will take time.

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

Shashi Bhushan: Sir, what resulted in sharp turnaround in India business – is there any one-time project completed during the quarter?

N. Chandrasekaran: No there is no sharp turnaround. 5% looks pretty strong, but actually if you see in absolute numbers on this base, it is not a huge number first of all. Second is that it is not any affair like that if you see the equipment renews on quarter-on-quarter it is a decline. So it is purely services based. Whatever opportunities we got we took advantage of that, but still I would wait because there are no significant deal wins in India to talk about. So it will take some more time for me to get confident and comment to you that India is doing good.

Shashi Bhushan: Two things that we are hearing in the industry is – one, the deal sizes getting smaller, and other is vendor consolidation over the last many

quarters. Do you think that these trends can go hand-in-hand or are there specific services wherein we are seeing some vendor consolidation more than others and some services which are more prone to fragmented deals?

N. Chandrasekaran: I would not particularly agree with these statements because these are things that always there. There is always somebody is consolidating, somebody is not consolidating. So I think there is always some customers who are doing smaller deals, some customers who are doing larger deals. These are always mixed bag. So I would not say that there is a pattern and I can confidently say that these are the two trends. There is always situations, some situations this happens.

Moderator: Thank you. The next question is from Ashish Chopra of Motilal Oswal Securities. Please go ahead.

Ashish Chopra: My first question actually was around Digital. So we do keep reading a lot about this Digital opportunity opening up the new areas of the client budget, for example, the CMO's budget including a lot more components of technology. So my question to you was are you seeing deals within digital that you would have cracked already, which would substantiate the increase in the addressable opportunity for companies like TCS, because of these newer avenues of spends opening up to IT Services vendors?

N. Chandrasekaran: Digital opportunities are pretty significant, I keep saying that, and without that if you do not capture all those opportunities there is no way we can deliver \$191 million of incremental revenue. So we do see these opportunities, we are capturing these opportunities. I think it was Ankur Rudra asked sometimes earlier, "How do we track this and build a model around this?" Something that we got to wait and see, but fundamentally Digital plays a very important role and whether the budget comes from CIO, budget comes from COO, Head of Retail or Head of Stores or Chief Marketing Officer, I think all these things happen, and I am not going to say that all budgets are shifting to CMO or something like that. There are opportunities in CMO in a certain context. There are opportunities in a Retail business, the Head of

Stores, and Banking business with somebody else, and there are some companies who are also appointing Chief Digital Officers. So I think multiple stakeholders are there and it is very important for us to have the talent, the skill set, who can engage with these stakeholders in the context of what they are trying to do. So, we look at it like that and sometimes we have people on the ground, sometimes we realize that we need to supplement the skill sets. Those are my thoughts.

Ashish Chopra: Actually my question was exactly that, whether these set of stakeholders actually broadens or increases with the opportunity of Digital coming in but I think that is answered. Secondly, I want to know in the Retail vertical, the last time you spoke about there being some slowness in the ramp of digital projects, because of the clients also caring on with their own learning curve, whereas in this quarter, Retail grew very well and you also spoke about Digital contributing towards that. So, would you say that the ramps in these discretionary natured projects would have picked up versus the last quarter?

N. Chandrasekaran: Yes, the ramp up is happening, but every organization which wants to leverage the Digital has to prepare itself, and they are all on their journey. In some organizations they are ahead of the curve, some organizations are behind the curve, some organizations they are building their team. So that is happening as we speak. I said it last quarter, and I will continue to repeat it this quarter because it is not a one quarter phenomenon, but definitely the ramp ups on Digital is higher this quarter than last quarter, yes.

Ashish Chopra: A bookkeeping from my side. The depreciation of this quarter, so should we assume that as a normalized rate or would there be any one-off element also that we should take a note of?

Rajesh Gopinathan: IFRS depreciation in this quarter has a charge of Rs.173 crores which is the one-off charge, the rest of it is normalized one which will continue. Rs.173 crores will not repeat.

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

Ankit Pande: My question broadly centres around Retail vertical. I just like to put it differently that we probably saw a lot of correlation between say the impact of a declining volume of trades in the US and some impact on the revenue of tech companies in the past year. Christmas was soft and may be January-February was soft, and that translated into lower revenue growth here in tech companies. What do you see when you look for FY15 and when you look at the outlook, have you factor that in that there may be some softness in the Retail vertical at the lag end of the year? Because you still managed to grow about 20% in the last year. So do you still see it being a stronger despite maybe a little bit of weak finish towards the end of the year?

N. Chandrasekaran: Based on what we see today, I would say that the environment is good; we have a strong pipeline and projects are ramping; we see the normal pattern in terms of H1 being stronger than H2. So that will be the sequence that we expect to play out. Based on that, we have given this commentary of FY15 being a better year than FY14. If any change in trend happens at any point of time, sure enough we will come back.

Ankit Pande: Rajesh, improvement in operating cash flow seems to have emanated from some improvement in unbilled and accounts receivables. So do you see is there any one-off in that or do you see that quality improvement say about 5% year-over-year that is in the system now?

Rajesh Gopinathan: There is no one-off in that per se. In fact, our reported DSO has gone up by one day, and if you take our AR plus UBR less UER together also, it has actually gone up.

The important trend is that when you look at it on a year-on-year basis actually it has improved. So sequential quarter Q4 to Q1 it has deteriorated, but Q1 to Q1 there is an improvement. And that pretty much is something that we should be able to maintain, but this number is a fairly volatile number, it has got a lot of seasonality to it, both on the collection side as well as on the expenses side. So factor for that. So no one-off in this quarter. If at all, slight increase on the DSO side, but overall we think we should be able to maintain within our target range which is 17-19% of revenue.

Moderator: Thank you. The next question is from Moshe Katri of Cowen. Please go ahead.

Moshe Katri: Chandra, your utilization rates are operating at very high levels. Is this something that concerns you at this point given the fact that ultimately it could impact attrition and how should we think about utilization rates down the road?

N. Chandrasekaran: I think I already said that it does not concern me. I do not look at utilization as a mere percentage. I like to think of the scale we have, with 305,000 professionals and with very strong headcount addition. We are recruiting heavily. I think this quarter 15,000 gross and Ajoy's team has been pretty busy. And given that, we like to leverage the scale we have. I would not get concerned about utilization level at all.

Moshe Katri: What would be a good metric to look at in terms of how people are getting deployed if not utilization rates, is there a better metric for us to focus on because you are saying you are not worried about that?

N. Chandrasekaran: You have to see the combination of three or four things, right – you definitely look at our volumes, that gives an indication of the demand that we are able to capture in the market. You should definitely look at our attrition – that gives you an indication of how much we are able to retain the people. Third, you need to really look at our headcount addition. These three are very important, and then based on that you see the utilization. But things that you cannot really factor in or a bunch of complex parameters because whether the demand is getting fulfilled in which market, attrition is happening in which market, so you got to balance out all that. Then we will start discussing those things and we get into too many details. If the demand is in the US, there is no attrition in the US that is one story, if the demand is in the US, attrition is in Latin America that is a different story.

So, these are the things that we take into account when we look at the utilization number. So, I am only giving you the comfort that the scale has an important role to play and the markets in which the demand happens, the markets in which the attrition happens, that is another

factor that we take into account. Our recruitment takes into account these factors, the skills that are required and so on. I will not really give you an equation, but broadly if you look at these three parameters, if we are managing those very tightly then you should feel comfortable about high utilization. If we do not manage these parameters, we are not getting the volume and we are not managing the attrition, we are not hiring right – those three – then the utilization going up sometimes is good, sometimes utilization going up is not good. You know that, right. That is the only way I would recommend from what we publish.

Moshe Katri: Just a follow on. You provided some details on the Insurance vertical maybe I have missed it, was there a client-specific kind of issue or challenge that we have seen that muted growth this quarter. Is there anything that you can provide in addition to that because I do not think something that people are expected to see.

N. Chandrasekaran: There is no big one-off to report. I think the Insurance vertical will grow from here, but it will not be at the company average immediately. So it will be a little bit muted, but we expect it to deliver growth numbers. This quarter it degrew and that affected the overall BFSI portfolio number and that will not be the case going forward.

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

S Ramachandran: Just wanted to get an update on the non-linear efforts. Because we have seen revenue growth far exceed head count to growth if we have to take it on a multi-year basis, so just wanted to understand how the various initiatives are and would most of it be as things stand of fixed price or outcome-based pricing or would asset-based solution start to contribute material portion of non-linear revenues?

N. Chandrasekaran: Great question, but all I would say is that the contribution is still not material.

S Ramachandran: In terms of the BPO piece, there has been a lot of talk on vertical specific BPO platform. So, just wanted to understand our clients are

really accepting some of these or is it just more as things stand no more a 2-3 year perspective that this will play a major role from a revenue contribution point of view?

N. Chandrasekaran: The good thing is that all our platforms are getting accepted, whether it is HRO platform, or F&A Platform, or Procurement platform, or some of the industry-specific platforms. We are winning deals and we have clients who are active and we have reference points and so on. But I am still not happy with the scale. So that is why I am not able to commit. It is a multi-year cycle to scale these things. Once they start scaling and these three-four-five platforms together start contributing, 1-2-3% of the incremental growth of the company, and then we are starting.

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

Keith Bachman: Could you talk a little bit about the BPO market? Your results in BPO were a little slower than the rest of the company average, and more broadly we hosted a call this week in which some of the consultants were suggesting that the BPO market is slower than the IT side, and I want to get your perspective on how you are thinking about the BPO market currently and over the next couple of quarters?

N. Chandrasekaran: I think the BPO market last quarter did exceedingly well. I think it was one of the fastest growing services last quarter, and this quarter it is muted. Fundamentally, we see the BPO market in the areas we play in, is pretty strong, especially in the industry-focused transaction segment whether it is Retail or whether it is Life Sciences or some of those platforms or F&A and those kind of services, we are continuing to win a lot more opportunities. That is what I would say.

Keith Bachman: Sorry, just to clarify that, as you look out over the next couple of quarters, do you think BPO will grow in line with that better or worse than the company average for your organization?

N. Chandrasekaran: Must be close to the company average.

Keith Bachman: Then my follow-up question is there have been some comments about pricing and I want to try to ask it differently. As you look at your opportunities particularly in Europe, are you gaining share there in the European market has partially driven by your pricing is lower than some of the North American or European domestics? Are you going in there and winning share, and is price part of how you are winning share against some of the incumbents?

N. Chandrasekaran: I do not think the price is a reason that we are winning share. I think wherever we are winning share is because of the transformative capability, the solution that we are able to bring plays the most significant part. Otherwise, we would not be able to maintain margins. For us it is so important to be able to maintain margins and that gives us the investing power.

We are gaining market share definitely, a) because there are deals which we did not participate 5 years ago, 10 years ago, which today we are participating, and we are able to bring solutions which are transformative in nature. Also b), in multiple surveys in Europe across markets we are ranked #1 in Customer Satisfaction, whether it is UK or Continental Europe, there are multiple surveys. I think that also is helping us to win business.

Keith Bachman: But in the base areas, if you go on a more global basis, say, in some of your traditional Application, Development and Maintenance, your previous call you said that you are not seeing trends, but are you seeing any changes in pricing trends in the recent quarters what we consider to be more commodity areas? What I am trying to distinguish, are you waiting to uncover whether current pricing pressure is sustained, just really trying to understand recent pricing trends in some of the more commodity areas like Application, Development, and Maintenance, are you seeing any incremental changes there?

Rajesh Gopinathan: We give you commentary on realization and overall pricing. It is a fairly complex mix of service lines across geographies and across vertical industries. We would not comment about a service line or a market. I do not think that is the kind of commentary that we give.

- Moderator:** Thank you. The next question is from Joseph Foresi of Janney Montgomery Scott. Please go ahead.
- Jeff Rossetti:** This is Jeff Rossetti asking for Joe. Just wanted to get some more color on the large deals that you discussed. Can you describe whether or not they were with the existing customers or versus new customers and describe maybe how your pipeline sets up – is it more a representative of existing deals versus new potential clients?
- N. Chandrasekaran:** All these are new customers. All the major large deals we announce are from new customers. Any large deals which we do with the existing customers we do not announce.
- Jeff Rossetti:** Any change to your head count hiring target for the year?
- Ajoy Mukherjee:** No. We started with 55,000 as the total number that we would be doing in this year. We have done 15,000 in the first quarter and we are sticking to that target at this point in time.
- Moderator:** Thank you. Our next question is from Vibhor Singhal of PhillipCapital. Please go ahead.
- Vibhor Singhal:** My question is could you give us the number of the TCV of the deals that were announced in this quarter?
- N. Chandrasekaran:** We do not share that information.
- Vibhor Singhal:** My next question would be an industry trend that I would probably want your opinion on. I mean you mentioned that we have heard about the utilization is going up to 85% and much higher. Now my question is that as we see the industry is moving towards more of non-linear revenue model and more fixed price contracts coming in, do you see that overall the industry might move to utilizations which are much-much higher than the current levels, and the utilization itself might lose its relevance which is in the current context?
- N. Chandrasekaran:** Very difficult to say. I cannot comment on that.

Vibhor Singhal: Maybe in the sense that does the revenue mix moving towards non-linear might push the numbers upwards?

N. Chandrasekaran: Let us talk about it when we do multi-million dollars of non-linear revenue, not yet.

Moderator: Thank you. I would now like to hand the floor back to the management for closing comments.

N. Chandrasekaran: First of all, I want to thank all of you for taking the time and joining us on the Q1 Earnings Call. In summary, I would say that we have had a very good strong beginning to fiscal year '15. I am particularly happy that all our businesses across industries and markets are seeing momentum. We have done a pretty good job on execution, both in terms of capturing the demand, and also in terms of managing our margins to be in the target range. We remain confident that the opportunities that are in front of us will give us an opportunity to deliver in this excellent year. I repeat that we hope to do a FY15 which will be better than FY14. Thank you.

Moderator: Thank you. On behalf of TCS that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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