



Tata Consultancy Services Limited

**Q1 FY16 Earnings Conference Call.
July 9, 2015, 19:00 hrs IST (09:30 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 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 sir.

Kedar Shirali: Thank you, Inba. Good Evening and Welcome Everyone. Thank you for joining us today to discuss TCS' Financial Results for the First Quarter of Fiscal Year 2016 ending June 30th 2015. 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 call. The Financial Statements, Quarterly 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; 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 Quarterly Fact Sheet available on our website and also e-mailed out to those who have subscribed to our mailing list.

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

N. Chandrasekaran: Thank you, Kedar. Good Morning, Good Afternoon and Good Evening to all of you. We are kicking off our new fiscal year on a very strong note: a robust volume growth of 4.8% QoQ and a constant currency revenue growth of 3.5% on a sequential quarter basis and 15.8% on a YoY basis, led by strong demand in our core markets.

The operating margin came in at 26.3% and a net margin came in at 22.2%.

I am particularly happy with our performance across most of the verticals and key markets – BFS vertical grew by 6% on a constant currency basis; Retail grew by 5.1% QoQ; Telecom grew by 9.6% QoQ - all on a constant currency basis; Life Science and Healthcare grew 7%; Travel and Hospitality grew 6.1%; and Energy and Utilities grew 5.5%.

The rebound in Telecom is in line with the volatility that I have called out in our April call. Likewise, the Energy sector continues to be stressed; however, there has been a very strong growth in the Utilities sub-vertical.

Revenue growth in Manufacturing was skewed by the volatility in emerging markets. Demand in that vertical in our core markets continues to be good and this vertical has grown 36% YoY in constant currency terms.

From a geography perspective, North America grew 4.4% QoQ; UK also grew well at 2.8% despite the drag we have from Diligenta.

From a services perspective, growth was led by Application Development and Maintenance, Assurance, Infrastructure and Asset Leverage Services, all of which grew higher than the company average.

The headwinds in the quarter came from continued decline in Diligenta and volatility in Latin America and Japan. These three areas have a combined degrowth on a sequential basis of about \$20 million.

Client metrics were very strong; we added one client to our \$100 million+ bucket, bringing the total to 30 versus 24 last year; we add one more client in the \$50 million+ bucket and added ten clients in the 20 million bucket, bringing the respective total to 69 and 172. In the 1 million bucket, we added 13 new clients, taking the tally to 804.

From a deal wins perspective also, the year has begun very strongly with a broad distribution across verticals and geographies. We have 3 wins each in BFSI and Retail and 1 win each in Telecom, Manufacturing, and Media. From a geography perspective, we have 5 wins in North America, 2 in Europe, 1 each in UK and Asia Pacific.

On the margin front, as I said before, we have maintained our operating margin comfortably in our preferred range of 26-28% despite the industry leading 8% wage hike we rolled out in Q1.

On the employee front, we have added 20,000+ professionals, ending the quarter at 324,935 employees. Attrition in the IT Services stood at 15% on LTM basis while the overall figure including BPO was 15.9%. Utilization inched up to 86.3% ex-trainees and 82.9% including trainees.

Those are the main things I wanted to share with you from a business perspective on the current quarter.

In addition to that, I wanted to share with you three particular updates: In our last call, I have briefly spoken about launching a new AI-based automation product in a category called Service-as-a-Software.

We have formally launched it in the US last month on June 4th and we call it ignio™ to ensure proper focus, we have created a new business unit called "Digitate" within TCS to build, manage, and market the line of products under ignio™.

ignio™ possesses a contextual awareness of the IT landscape it operates in and automates most of the tasks that currently make up the IT maintenance function. Where it scores over human counterpart significantly is its ability to preemptively fix problems before they arise,

eliminating the business and productivity losses, resulting from preventable system failures, saving IT organizations all that time and efforts spent today on investigating those failures and fixing them.

Feedback from our pilot clients has been very positive and the interest level among prospects and customers is high. In the very first month, we have agreed on three deals which will be signed shortly.

The second one I wanted to talk about is we have had many discussions in the past about quantifying and reporting our Digital revenues, which are becoming larger part of our business. I have been saying that Digital is the default and any new work typically has the Digital component. This has been the primary challenge - on how to delineate the Digital revenues from the other service lines and no matter what approach we take, it is bound to be a subjective exercise.

We have finally a number to share with you... we have taken a conservative view, Digital revenues spread across multiple service lines, add up to 12.5% of our revenue this quarter and this grew double-digits on a sequential basis.

Looking at how our Digital business has scaled up and how the Digital Technology cycle is progressing, I am convinced that in the next 3 to 5 years, every one of our service offerings will be predominantly Digital. To be able to fulfill the demand for our services at this point in time, we have undertaken a large scale programs to educate, train and reskill our workforce.

Towards this, we have created a very comprehensive digital learning platform with a huge amount of content which is very high quality across the Digital Technologies, customized for the different industry verticals of the customers segments we service and it is our intent to train 100,000 employees, the platform is already operational and the training as we speak is being adopted by our associates across different verticals.

Those are the main comments I wanted to share with you. I would like to now ask Rajesh to share details regarding the financials before we take questions. Thank you so much.

Rajesh Gopinathan: Thank you, Chandra. Good evening once again to all of you.

Let me go over the headline numbers once again: Our first quarter revenue of ₹ 256.68 billion represents a growth of 6% QoQ and 16.1% YoY. Revenue in dollar terms is \$4.036 billion, which is a sequential growth of 3.5% and a YoY growth of 9.3%.

In constant currency terms, our revenue growth is 15.8% YoY and 3.5% QoQ. This is made up of a volume growth of 4.8% and constant currency realization decline of 1.3%.

In terms of operating margin, our EBIT margin is 26.3% for the quarter and this represents a 0.9% decline QoQ. The 8% wage hike we had announced w.e.f. April 1st had a margin impact of (-190) basis points QoQ. This was mitigated by a currency benefit of 70 basis points and an operating efficiency improvement of 30 basis points.

Net income margin in Q1 was 22.2%, a 6.3% expansion QoQ over last quarter's reported figure and 2.1% decline QoQ over the adjusted figure that excluded the one-time employee reward.

Our effective tax rate for this period is 23.2%, our accounts receivables stood at 79-days of sale outstanding in dollar terms.

Moving on to cash flows: Operating cash flow was 22% of revenue, excluding the employee reward payout. Invested funds as of June 30th was at ₹ 259.2 billion.

Lastly, the Board has recommended an interim dividend of ₹ 5.50

With that we can open the line 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 Anantha Narayan of Credit Suisse. Please go ahead.

Anantha Narayan: Chandra, there were some pretty impressive numbers that you mentioned about Digital. I had a couple of questions there. Just going forward, given the nature of the projects, do you think that the traditional predictability that the sector had vis-à-vis the old service lines could sort of somewhat cease going forward?

N. Chandrasekaran: I would not go that far, except to say that Digital has a huge play across all the service lines that we operate in today. So, you will see an increasing adoption of Digital into permeating all the service lines, but I would not go far to say that the predictability is going to be put to so much test.

Anantha Narayan: Just asking the same question a different way, two or three years from now, would the average tenure of a Digital project be somewhat similar to the tenure of an ADM project today?

N. Chandrasekaran: It will happen because you see customers taking on large scale transformational projects. We are already talking those kind of deals - how many of those projects will get to fruition very quickly is something that I cannot say, but especially in the Infrastructure space, transformational deals are definitely adopting Cloud, also involve Enterprise Cloud Software. I think those kind of deals will come. So the sizes of Digital deals will also increase.

Anantha Narayan: My second question on Digital was, is the offshore proportion similar to what you have otherwise?

N. Chandrasekaran: We have been able to do Digital projects at similar levels of offshore leverage. The way I look at it is that we have to realize that we are global and we have got a global footprint – sometimes we will need to do upfront work or design work or Digital marketing related work based in studios. I think it is the ability to bring together the different talents in

different parts of the world for the right engagements. I will not raise any concerns in terms of doing work out of India or anything like that.

Moderator: Thank you. Our next question is from Sagar Rastogi of Ambit Capital. Please go ahead.

Sagar Rastogi: Chandra, you have said in the past that you calibrate your investments in the business based on the gains or losses from the currency in order to operate at the same tight band of 26% to 28%. Now, given that your growth rate is decelerating in organic constant currency terms, would you consider operating at lower bands that you can make more investments maybe in terms of more sales people, greater spend on marketing, customer event, things like that to drive growth faster, just wanted your thoughts on that?

N. Chandrasekaran: Sagar, I have always maintained and let me reiterate: I don't think our growth is restricted because we are focused on margins. We are pretty comfortable in this margin range. And let me assure you totally that we are not shying away from any investments that we want to make. Some of the investments that we have made, we need to make them count. In some places it is taking time, but apart from that I do not think that we are shying away from making the right investments.

Sagar Rastogi: Just a sort of follow up to that, so the fact that growth has come off a bit and at the same time, we do see large international competitors sort of accelerating in terms of growth. Do you think some of your top accounts you are losing market share?

N. Chandrasekaran: Absolutely not. Two or three points I want to make: Our customers metrics remain solid not only in terms of migration to higher revenue band, individually, the growth in the client base is pretty strong and we are not losing any market share. We are in fact gaining market share. That is one.

To your next question, I explained to you this quarter where the growth has come from. If you see the key verticals, the number of key verticals I mentioned where the growth is above 5% on a constant currency

basis: Banking, Retail, Telecom, Life Sciences and Healthcare, Travel and Hospitality, Energy and Utilities, all of them above 5%. So clearly, it indicates that the growth is not coming off.

Yes, in reported dollar terms, you see a disappointment from your point of view. But as I said earlier, that is a function of, may I say the smaller units, where we have made the investments have to kick in at a growth rate at which we can be comfortable. And it just so happens that we have had de-growth in Diligenta, Japan and Latin America all at the same time. That is what you see.

Otherwise, I would say given the volumes of 4.8% and all the verticals the way I have said, it is probably one of the strongest quarters if you want to sense the growth momentum. Yes, the numbers are what they are, but if you want to sense the growth momentum, I think this was one of the strongest quarters.

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

Ashwin Mehta: One question in terms of Continental Europe: due to the recent Greek issues, have you seen any impact in terms of demand there and especially in terms of BFSI in Europe, if you can throw some color in terms of how the demand has been in that segment?

N. Chandrasekaran: Let me put it this way: one is that we do not have a direct exposure in Greece, but if you look at the continental perspective, we have not seen any impact. In fact, BFS growth in Europe has been pretty good.

Ashwin Mehta: Secondly, for Rajesh, we have seen rent and other costs come off by almost 120 bps QoQ. What has contributed to this reduction and how sustainable are these levels?

Rajesh Gopinathan: No, rent, you would have seen in Q4 there was a swing and this is just a correction back to the normal. The Q4 swing was caused due to normalization and a catch up in our Japan consolidation process at the end of the year. This is just a reset back to the normal level. The current

levels are sustainable and will continue. Other Costs are more volatile and that line tends to be volatile and will continue to remain volatile.

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

Ankur Rudra: Your competitors here have made several acquisitions particularly in terms of getting front end capability. Do you think at a scale you are to really explore this opportunity, you may also have to drive up the proportion of acquisitions of perhaps consultancies to make customers completely aware of TCS Digital progress?

N. Chandrasekaran: Ankur, we have made a significant number of investments systematically over the last five years in Digital, right from setting up our Digital collaboration lab to hiring people with diverse skill sets to setting digital studios – all these investments we have made at varying points in time and we have got a lot of design talent, a lot front end talent. So, I do not think we have a talent shortage.

This is not to say that we will not do acquisitions. At any point in time, if we feel that there is an asset which we need to buy or a capability that we need to bridge, and for that we need to buy a particular company, we would look at it seriously. We have an open mind, but at this point in time, I think we are extremely well-placed. As I said, 12.5% of our Services revenue is Digital. On top of that we have got all the platform revenues, whether it is Diligenta, whether it is other platforms which are not included as part of this. So, I think we are very strongly placed in Digital and we are looking to accelerate.

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

Diviya Nagarajan: How would you read the quarter against your own initial expectations, where have you seen positive surprise, where have you seen some misses against your expectations?

N. Chandrasekaran: I think you are putting me on the spot, Diviya, but I will give you the answer. As I said, I am extremely happy with all the verticals in which we have grown. Banking is fantastic, Retail, Life Sciences, Healthcare, Travel, Utilities.

I expected an issue with Energy and Energy has an issue – it is not doing well. And then the positive surprise is Telecom; Telecom is volatile and then it bounced back to 9.6% on a sequential basis. While we knew that it will be volatile but it will be positive, we got a push there to higher levels of 9.6%.

The negative surprise, if you ask me, was the extent of dip in Japan and Latin America. Japan is still stabilizing with acquisition, integration, etc., so the volatility is affecting us. I did not expect a drop there and there is a drop. Latin America also showed some negative surprise which is substantial.

Diviya Nagarajan: Ajoy, on the attrition side in the last four quarters we have seen attrition spike from about 12%, now up to almost 16%, what would you attribute this spike to? Are you seeing more aggressive hiring in the rest of the market or what is causing this if I may ask?

Ajoy Mukherjee: Diviya, a couple of things. The attrition in this quarter as I have been saying is Q1 is primarily seasonal, that contributes to it and the overall job market itself is pretty buoyant. So that is the second reason for attrition to be continuously going up as you noticed over the last few quarters.

Diviya Nagarajan: Where are you losing people, are you losing them to Indian competitors, are you losing them to global competition or is people moving out of the sector into other areas?

N. Chandrasekaran: Diviya, the way to look at it is that BPS has a higher attrition. That is actually the nature of the business that is happening and some of the attrition is happening in other global markets also, like Latin America and all that. That is to do with project ending and the churn is little high in those markets. In India, broadly, it is okay. But it is higher than what

it used to be. So, we just need to get that under control and to some extent we have got to worry about the lag effect. So we need to get that under control.

Divya Nagarajan: Of the \$2 billion exposure that you have given is on Digital, what proportion would be on new business models like Software-as-a-Service or Managed Services versus the old Time & Materials and Fixed price?

N. Chandrasekaran: It is very complex, because if you take the traditional ADM, you have got a lot of channel-related work. All that channel-related work predominantly is transformational engagements, where the customer is trying to revamp their front end completely. That requires a lot of Digital design, sometimes not only technology but also omni-channel. So that portion of it is coming from the ADM side. And also apps development.

From the data side, Big Data and Analytics is a very big area and we are seeing a lot of traction in that area where customers are building huge platforms to gain knowledge of the customer, knowledge about the inventories, knowledge about pricing across industries. So that is a huge area.

On the Cloud side, a lot of transformational moves to Hybrid Cloud. So, I think it is very varied. So actually as I said, I will just submit to you that we have been extremely conservative in classifying. So we have not really gone for run-of-the-mill type of engagements, we are slightly can be classified as Digital, we have not classified as Digital, we have been pretty conservative in our classification.

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

Ravi Menon: Just wanted to check about, what is the offer-to-joining conversion rate seen so far based on the campus recruits who joined this quarter?

Ajoy Mukherjee: The offer to joining ratio is somewhere around 70-72%.

Ravi Menon: So do we expect about in this year again, you would be able to move up the utilization quite a bit because I am looking at the headcount and it is only up 6.4% year-on-year and if you look at quarterly it is only up 1.7% and to add the capacity or should we expect all non-linear kind of growth to kick in?

N. Chandrasekaran: We will hire as needed. We are comfortable with the utilization. We are not at this stage planning that so much is non-linear so we have got to arrest the head count hiring or anything like that. No such things. We will calibrate the hiring. Ajoy has said 60,000 at the beginning of the quarter, so this quarter we already had 20,000+ gross addition. So we will calibrate it as we go. Demand is good. So we will see.

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

Mukul Garg: Chandra, can you give us an idea of which verticals are seeing the growth specifically in Digital part? And then second, are you seeing any impact of initial of the initial traction in Digital on overall revenues like is it a fair way to say that initially because of the lower implementation cost, the revenues are getting impacted, and as it moves into the maintenance portion these revenues might come back?

N. Chandrasekaran: It is fair to say that the Consumer facing verticals see a lot of traction, Retail, Consumer Products, Travel industry, Banking and Financial Services in general, some parts of Insurance definitely. So these industries see a lot of traction. We are also beginning to see traction in the B2B kind of industries - definitely on the Cloud side, but also on some of the enterprise software implementation. Those kinds of deals are coming in and the Internet of Things is also at an early stage. To your second question, I do not know how to read your question, is your question about cannibalization?

Mukul Garg: My question is more on is this something in the initial phase of Big Digital pie which is coming in where revenues might be lower than the revenues they are replacing on the existing on-premise business and as it progresses, as it stabilizes, these incremental revenues will more

than recoup the revenue which have been lost in the business which is shifting towards Digital?

N. Chandrasekaran: I do not think the businesses are shifting like that because most of the engagements we are doing on Big Data, Analytics are all new, a lot of channel-related businesses that we are doing are new. And on the Infrastructure side, any transformational deal requires you to maintain a current infrastructure while you are developing a strategy for Hybrid Cloud which is not purely an infrastructure play. Most often than not, it includes what do we do with the respective application portfolio: what goes to the private cloud, what goes to an enterprise cloud software, what goes to public cloud infrastructure... It is a lot more complex than that. To summarize, I do not think there is any concern that something is going away and later we will have to make it up with additional revenues.

Moderator: Thank you. Our next question is from Rishi Jhunjunwala of Goldman Sachs. Please go ahead.

Rishi Jhunjunwala: A couple of questions; first, on the Digital side. You mentioned about 12.5% of revenues and growing at almost double-digit. So effectively that means almost one-third of your growth is coming from Digital space. Just trying to understand, how does it impact your head count or hiring intensity both in terms of the nature of employees you are hiring as well as cost structures. And I realize you stopped giving your mix on the onsite and offshore revenue front as well. So, just trying to understand, how does that change with the growth incrementally coming from Digital?

N. Chandrasekaran: Rishi, the way to look at it is that we have a global talent pool. We are having to form teams using, I would call it - instead of offshore leverage - global leverage. It's a different terminology. We use talent from different parts of the teams, depending on the type of engagements, the skills required. We work pretty seamlessly and we have been hiring people around the globe, not only in India, I think our hiring is in all markets. But, you see the margins are where they are. So, I think we

have not unduly concerned about the different skill sets requiring, and different types of cost structure, etc., we are not worried about that.

Rishi Jhunjunwala: Second is on volatility in some of your verticals like Energy and Telecom, we have seen like a sharp decline in revenues in the previous quarter and then a sharp pullback in this quarter, even though you mentioned Energy will continue to face some pressure, while Telecom will be volatile. Just trying to understand the nature of this in the sense that for \$1.5 billion revenue practice when you have a 10% decline in one quarter and suddenly have 10% jump in the other, what is leading to that in the sense that the tenure of the contracts are short and so those are being replaced every quarter or what leads to that kind of volatility?

N. Chandrasekaran: So far from the Energy vertical, it is a very small portion of our revenue. So that should be kept in mind. Second, from a Telecom point of view, it is primarily because of the distributed footprint we have between major markets and emerging markets in different parts of the world. Many of the engagements that we may pick up in the emerging markets sometimes are transformational and system integrated related. When those engagements complete or when some engagements start suddenly, you can see the volatility. That has been the primary cause of the volatility in the Telecom vertical because our Telecom footprint both in terms of the geographical presence and the type of engagements is pretty varied compared to say Retail or Banking or any of the other verticals. I thought I tried to explain this in the last quarter to some degree. That is the primary reason we are seeing this volatility.

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

Sandeep Shah: Just a first question is in terms of North America. It looks like a good bounce back after some quarters of soft growth. So, Chandra, is it fair to say that there is a faster decision-making in terms of the release of some of the projects, especially on the Digital and do you believe that this will continue as a trend going forward?

N. Chandrasekaran: I would say that we see a good momentum. North America, we are particularly happy. We do not see any specific alarm bells or cautionary note in terms of clients or a particular spend stopping or anything like that. But, should I say whether decision-making will lead to significant increase in Digital revenue growth? I am not going to make the statement now.

Sandeep Shah: Secondly, in terms of the ignio™ platform where you are supposed to sign three deals, so how different is the revenue productivity, which I meant is the revenue per employee? What percentage is it higher than your normal...?

N. Chandrasekaran: Please give us some more time, let us stabilize ignio™. It's very early days.

Sandeep Shah: When we look at the growth which is 3.5% and we exclude the hardware and the software license, the growth is 3.2% which looks like a slow growth in the first quarter because historically, your first quarter growth even on the Service side is being higher. So is it fair to say that with the nature of change in the demand trends the seasonality to some extent may not be exactly similar which we used to have it in the earlier years?

N. Chandrasekaran: Sandeep, the very reason I gave so many details is to ensure that you do not draw such a straight line conclusion. The fact that you have to take into account the 4.8% volume growth, you have to take into account in all the markets, in all the key verticals the growth as I said before it is one of the strongest ever in terms of so many verticals coming at 5, 6, 7% on a constant currency basis. I also explained where there has been a negative growth and that is something that we have to look at and hopefully it will stabilize.

Sandeep Shah: But we still believe the seasonality of H1 versus H2 may continue going forward?

N. Chandrasekaran: We always believe that H1 is strong typically.

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

Sandeep Agarwal: Sir, I have one gross addition and net addition-related question and the impact on the revenue. If we see the year-over-year increase in net addition is around 4-5% which is 19,000-odd employees Q1 Vs Q1. So when we take this year's guidance also let us say 60,000 people and we assume normalized attrition of 13% for the full year, it would imply a 6% kind of net additions to the numbers, so basically which means that the revenue productivity will go up significantly. Are my thoughts correct on that parameter, first? Secondly, will this also mean that the profit growth will be slightly more than the revenue growth in the industry. I am not asking for specific guidance, but this is broadly what I am trying to understand, because obviously, the guidance which you are giving for a number of additions also implies that the people addition will be much lower than the revenue growth?

N. Chandrasekaran: I would just say that the comment you made on the revenue per person productivity for this year is not new. If you go back for the last 5-years if you see, revenue per person productivity on an incremental revenue has been consistently and materially going up.

Sandeep Agarwal: Yes, it is going up materially and I agree consistently but now the gap is looking much severe like it is...?

N. Chandrasekaran: If you do the last 5-years on an incremental revenue per person productivity, if you analyze that, I think it will explain that. I do not think you will see any different trajectory.

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

Ashish Chopra: My first question was actually around the couple of segments, Chandra you mentioned that you were surprised negatively, particularly Japan. So, would you just like to characterize the demand environment over there, now that you would incrementally have some better learnings post the merger with ITF?

N. Chandrasekaran: As I said, Japan is going through the integration. We have run rate which is significantly higher in Japan now compared to what we had prior to the acquisition. But in overall scheme of things it is still small as a percentage of the TCS revenue in a quarter. So, I think we just need to wait for some more clarity on the integration and we have got to start mining those clients. We have a large number of clients that have come with the acquisition. So, now we are integrating the teams. It is not a normal integration. We have integrated both the Japanese workforce and the Indian workforce, and all the capabilities of TCS on a global footprint basis, industry basis, all the service line basis is also getting transferred to all the local Japanese sales people. Then we need to be able to mine the clients. So it is taking a little bit time. That is the way I would read it. I would not get into saying there is a demand weakness, or that it is not a standard operating model.

Ashish Chopra: So that said, then should we expect in Japan as well as in Latin America given whatever the nature of the problems during the quarter was that the rebound could be gradual in terms of growth or do you think it could come back quicker or whether the visibility would be very little on a quarterly basis?

N. Chandrasekaran: I would just say that that will be slightly volatile, and Latin America is more traditional business model in terms of key clients and going with the key clients. There we just need a little bit more scale to avoid the volatility. So both are not the same. In Japan, we have a lot of key clients, I think we just need to be able to get the best of TCS in front of every client by integrating the local teams and TCS, and that process is on, so that we are able to increase our revenue per client, and that is the strategy.

Ashish Chopra: Secondly, I just wanted to understand, so given this program of training 100,000 employees on Digital, should we try to bring in any incremental cost as a result of the exercise or whether including trainees utilization could be impacted maybe for a brief period because of this program or should it be pretty much seamlessly integrated with the current operating metrics?

N. Chandrasekaran: Two things: on the utilization, do not link the utilization to this. In terms of training costs, definitely there is an investment that we are doing, but also it is anytime-anywhere kind of environment, all Digital. Ajoy, do you want to add anything?

Ajoy Mukherjee: The training the way we are doing it, it is, we have created the platform and we have created digital content for all verticals and this is something that people are consuming based on anytime-anywhere learning platforms. So you consume the content based on what you need, and this is not a very large kind of a training program that you have to do for 10 days, 15 days at a stretch. As and when you need, these programs are consumed. So it is not going to have the kind of impact that you are thinking from a cost point of view or from a utilization point of view.

Ashish Chopra: Chandra, would it be possible for you to share an instance as to how probably the impact of Digital the hiring that you are leveraging is more on a global scale as compared to the India-specific offshore, if I may put the comparison that way, whether it could be more in terms of hiring from specific regions for a particular domain expertise or technical or anything in that front?

N. Chandrasekaran: May I just decline politely? I would rather say that we are making all the investments necessary, we are hiring people as necessary, and we have invested continuously for the last five years. We have invested in multiple forms, whether it is in terms of innovation labs, whether it is in terms of digital studios, in terms of hiring talent from the market with different skill sets or training our people or building IP, and we are leveraging all of that.

So I do not want to get into a situation saying that I need one engagement for this, this engagement I have to have one person. That is not the model which we operate. And the demand you see and our growth in the Digital revenue bears out our strategy.

Moderator: Thank you. Our next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: My question is primarily on the slight moderation in growth rates that we are seeing compared to last year's comps. Chandra, you highlighted that, of course there have been a few issues with LATAM or Japan, but I am looking at say a few verticals where the acceleration due to Digital should be very evident like Retail, for instance. There is a slight moderation over the growth patterns over last year. So my question is how fair is it to say the issues in Japan or LATAM or Energy vertical are the only headwinds that the Indian IT is facing this year or TCS is facing this year. Versus saying that it could be some other issues like slowdown in client spends or increasing competitiveness or other headwinds like that?

N. Chandrasekaran: I am just only trying to articulate what went well and where are the issues. I am not trying to make any equation, because we do not give any guidance, so I am not making any equation, first point. The second point I would say is that the traction in Retail, traction in Banking and all are pretty solid, and from our position point of view we are only gaining market share where we operate. So I do not see any issue of that kind.

Sandeep Muthangi: My second question is on the non-linear initiatives. For quite a while we have seen the link between volume growth and revenue growth sustaining and looking at the past 2 years and there has really been not much of non-linearity, but of course you have launched a brilliant platform – ignio™. Do you see that most of the initiatives will happen and we will really see non-linearity and the non-linear revenues increasing for the Indian IT over the not so very long-term the next 3-years?

N. Chandrasekaran: Sandeep, I disagree with you. I think I have said it once before, but I will give you multiple data points. Our total headcount was 160,000 when we were \$6.1 billion in 2009, and last year when we closed it, we were 320,000 people, at \$15.5 billion. So we added for almost the same amount or tad less headcount instead of \$6 billion, we added \$9.5 billion. So there is no question of saying that there is no nonlinearity impact. That is a pretty significant nonlinearity impact. It is very striking if you compute the revenue per person on an incremental revenue

basis. Multiple things going into revenue per person. So nonlinearity cannot be just software license revenues.

Sandeep Muthangi: I agree with you. My question was more on the pure platform non-linear-based revenues like ignio™?

N. Chandrasekaran: There will be multiple efforts, I think it is not only a question of you having a platform, it is also a question of market adoption, so it will take time. We have made multiple investments. ignio™ is one of the platforms, it is a technological platform, but if you really look at our other cloud platforms, they are all either function-oriented or domain-oriented and they will take their time. So I would hate to get into a dialogue where your nonlinearity equals to what your platform revenue growth is. I do not see our business model being like that, not now, not 5-years from now.

Moderator: Thank you. Our next question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: My question was with regards to our largest vertical. In the past, you talked about BFSI growth in FY16 being better than what we saw in FY15. If you could give us some qualitative comments in terms of what are you seeing on the ground both in US and Europe, especially in the context of we have seen some newsflow on captive expansions? And secondly, with regards to the M&A activity in the Insurance vertical in US, how do you see that impacting growth for offshore IT in the near to medium-term?

N. Chandrasekaran: I think from the banking side of things, I will not be able to separate US from Europe, but generally both markets we are doing well, across our client portfolio. On to your second question, these are early days on the health insurance announcements that we have got, we have to wait and see. But, in general, I believe that this will lead to more opportunities because of where we are. I am sure you will agree that it is a function of where you are present, and we believe that it will lead to more opportunities.

Manik Taneja: Any near-term threat that you see from captive in this vertical?

N. Chandrasekaran: Not really.

Moderator: Thank you. Our next question is from Nitin Padmanabhan of Investec. Please go ahead.

Nitin Padmanabhan: Chandra, broadly, do you see enterprises with large digital program sort of consolidating vendors on the legacy spend side?

N. Chandrasekaran: In some cases it is happening, that is true.

Nitin Padmanabhan: But, do you foresee that as a trend across the board wherein they try to save up in legacy and then reinvest in Digital and that becomes vendor consol?

N. Chandrasekaran: They are trying to save up, definitely, simplification initiatives. That does not mean that consolidation of vendors happens always, sometimes it happens.

Moderator: Thank you. Our next question is from Karan Utpal of Equirus Capital. Please go ahead.

Karan Utpal: Can you quantify the revenue you will project from Japan for FY16?

N. Chandrasekaran: No we cannot. We do not give guidance.

Moderator: Our next question is from Deepesh Mehta of SBI CAP Securities, please go ahead.

Deepesh Mehta: Can you share what kind of revenue we might be getting from all our platforms combined? Second is about attrition. Is it possible to share in which pocket or in which area we are seeing higher attrition compared to our historical standard?

N. Chandrasekaran: I think we have today announced quarterly numbers for the services revenue on Digital, and as this space evolves we will try to share more metrics with you.

Ajoy Mukherjee: On attrition I think we have already said so during this particular call itself that our attrition is global. It is India, it is overseas, and it is all service lines including BPS. Generally, the job market is pretty buoyant, but out of that, it is BPS and Latin America which are some places where the attrition level is high.

Deepesh Mehta : Experience wise, 0 to 3 or something any unusual or it is broadly...?

Ajoy Mukherjee: It is broadly the same kind of thing, it is between three to six years is the range, that is where the attrition is high. Usually the same kind of thing..in those kinds of areas mostly.

Deepesh Mehta: Whether anything to read in consulting weakness for last couple of quarters or nothing much to read in that?

N. Chandrasekaran: We do not think there is anything specifically to read into it.

Moderator: Thank you. Our next question is from Moshe Katri of Cowen & Company, please go ahead.

Moshe Katri: This was a question for Rajesh. I am not sure did you go through the puts and takes for margins during the quarter?

Rajesh Gopinathan: The margins we had a negative impact of about 190 basis points through the wage increases and we had a gain of 70 basis points due to currency and another 30 due to productivity improvements. Net reduction is about 90 basis points.

Moshe Katri: And then going back to some of the discussion over some of the verticals. Can you give some color on what happened in Manufacturing looked a bit weak during the quarter, Hi-Tech looked a bit weak? And then going back to the question about Continental Europe, Chandra, this region seems to have had the least in terms of sequential growth in constant currency. Is there anything specific that happened here?

N. Chandrasekaran: I think Manufacturing growth in the major markets has been pretty good actually. The Japan degrowth, I told you, and some degrowth in Latin America -- Japan degrowth in entirety, and some degrowth in Latin

America -- can be attributed to the softness you see in Manufacturing. Nothing really wrong with all the key accounts we have in US or Europe or anything like that.

I think the only thing I would say is that Europe has had a very strong growth sequentially for a number of quarters, and this quarter I think we had a little below 3% on a constant currency basis, but there is nothing particular to call out.

Moshe Katri: Are you feeling comfortable about future growth in Continental Europe given the pipeline and given the visibility that...?

N. Chandrasekaran: I am comfortable about the growth. In fact, one of the large deals that we announced is a pretty significant deal in Europe.

Moshe Katri: I think that is really helpful you provided more transparency about the Digital kind of related to revenues here. So if 12.5% of your revenues is growing double-digit sequentially, it means that the rest of the business is obviously growing significantly less than. Is there any specific area where you are seeing the most significant slowdown in your legacy business?

N. Chandrasekaran: No, I have always been reluctant to give you the Digital numbers, because Digital services cut across all the service lines. So when you take ADM, when you take Infrastructure, when you take Enterprise Solutions across the board, Digital will slowly permeate and it will take over all these service lines. That is the way you should see it. Five years from now, everything we report will be Digital. So, you should not see it as if digital is growing, something as degrowing.

So if I am doing a lot of Enterprise Software, Cloud-based Solutions or Multichannel Solutions for Retail, if that is going to affect Enterprise Solutions or ADM, you should not see that as a degrowth in ADM and a growth in Digital. So that is the nature of Digital. Digital will be all over the place across all the service lines. So my request to you would be not to see that as a degrowth of other verticals.

Moderator: Thank you. Our next question is from Aishwariya K of Spark Capital. Please go ahead.

Aishwariya K: My question is more on RIM. It has been a driver for growth for the sector for quite some time. Today, with intense competition, Cloud vendors at play, and maybe the initial deals of 2008 coming for rebid, are you seeing any pricing pressures in this service line and how do you think RIM will be going ahead?

N. Chandrasekaran: The way I look at it is that overall, we feel the pricing will be stable for the year. There will always be situations where there will be pricing pressures and there will always be deals in which we will be getting a pricing uptake. But we are not seeing a big pendulum swing in either direction.

Aishwariya K: Today, with the Automation and BPaaS more at play and let us say like four or five years down the line, do you think your employee pyramid would be much more different than what is it today?

N. Chandrasekaran: I do not have a specific answer for you. I am not sure, I do not think so. In fact I feel that a lot of new talent is coming with a lot of digital skills.

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

N. Chandrasekaran: Thank you all for your questions and active engagement. I think, in summary, I would say it is a strong quarter from our perspective with volumes at 4.8%, and all the verticals that I called out, which is most of them, growing at a significantly higher rate than the company average in constant currency.

I also specifically mentioned about our operating margins, net margins are at a very healthy level. Our deal wins are pretty strong both across geographies and across industries. Our client additions, the client metrics are very, very good, and healthy. And from a cash point of view it is an excellent quarter again. We have ended the quarter with ₹25,917 crores which is actually more or less the same as the beginning

of last year after paying dividend of about ₹17,000 crores, and additional ₹2,600 crores of employee bonus and additional ₹2,500 crores of capex.

So overall, we feel pretty good and our Digital revenues are strong. The pipeline for digital is strong, and we have rolled out a number of initiatives like the “Digital Learning Platform” to stay ahead. And ignio™ is also a very important launch that we did. So overall I think we are well placed and looking forward to capturing growth. Thank you.

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

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.