



Tata Consultancy Services Limited

Q4 FY10 Earnings Conference Call. April 19th, 2010, 20:00 hrs IST (10:30 hrs US ET)

- Moderator** Ladies and gentlemen, good morning, good afternoon and good evening. This is Rochelle, the moderator for your conference. Welcome to the TCS Earnings Conference Call. Please note that for the duration of this presentation, all participants' lines will be in the listen-only mode and this conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone.
- At this time I would like to turn the conference over to Mr. Kedar Shirali – Director, Investor Relations. Thank you, and over to you, Mr. Shirali.
- Kedar Shirali** Thank you, Rochelle. Good evening and welcome everyone. Thank you for joining us today to discuss TCS's Financial results for the fourth quarter and full year that ended March 31st, 2010. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter. The financial statements, results, presentation, and press releases are also available on our website. Our leadership team is present on this call to discuss our results. We have with us today Mr. N. Chandrasekaran, Chief Executive Officer and Managing Director.
- N. Chandrasekaran** Hello.
- Kedar Shirali** Mr. S. Mahalingam, Chief Financial Officer and Executive Director.
- S. Mahalingam** Good evening and good morning.
- Kedar Shirali** Mr. Phiroz Vandrevalla, Head of Global Corporate Affairs and Executive Director.

Phiroz Vandrevala Hi, everyone.

Kedar Shirali And Mr. Ajoy Mukherjee, Head of Global Human Resources.

Ajoy Mukherjee Hi everyone.

Kedar Shirali Chandra and Maha will give us a brief overview of the company's performance, followed by the Q&A session. As you are aware, we do not provide specific revenue and earnings guidance. Anything said on this call which reflects our outlook for the future, or which can be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the results presentation e-mailed to all of you and also available on our website. With that I would like to turn the call over to Chandra to begin the proceedings.

N. Chandrasekaran Hello, everyone. Thank you for joining the call. It has been another excellent quarter and satisfying quarter from our perspective, where we have delivered volume growth of about 4.0%, revenue growth of about 4.2% in constant currency terms and we have taken a huge hit on currency, so it is about 1.1% in terms in actual Rupee terms.

And the quarter saw excellent expansion in margins. At the operating level we delivered a 21 basis-point improvement. And more importantly at the gross margin level we delivered a 39 basis-point improvement taking into account all the hit due to currency.

At a net profit level the improvement is 149 basis points and the net profit touching 25%. So our margins are at an all-time historic high.

In terms of Year-on-Year basis, we delivered 277 basis points at OPM levels and 429 basis points at the net margin level. Actually if you take the numbers, Q4 to Q4, it is even better. So it is a very satisfying performance.

Also, we declared dividends – Rs 4 is the final dividend, taking it to Rs 10 and an additional Rs. 10 as the special dividend, which has been recommended to the shareholders.

Now coming to the verticals perspective, the overall environment is better. It has been improving every month as I have said before. And BFSI, including Insurance is leading the recovery. We used to see a lot of growth in BFS and Insurance lag behind. We see Insurance also picking up momentum now. Retail continues to do well both in terms of the deal wins and also in terms of the pipeline. Life Sciences and Healthcare is again doing well.

And in terms of the troubled verticals which we have said that are slow, Telecom is beginning to show upward trend with both deal signings and the opportunities we are pursuing, both in Europe and in Emerging Markets. Energy and Utilities is doing well. Manufacturing and Hi-tech also are showing recovery.

From our perspective, we are seeing our clients talking to us with more opportunities. Although the long-term contracts or sizable contracts are coming in the “running the business” type of engagements and the transformation engagements are coming, but they are coming in phases, in the sense that each engagement is split into multiple phases and then we are winning chunks of those.

India has done well in Q4, on top of what it did in Q3. So we are seeing momentum in India as well.

In terms of services, our relatively new services, Infrastructure, BPO, Assurance, and Products business now contribute 25% of our revenues. Our traction is extremely good in Infrastructure in all the verticals. We have signed a number of deals in the Bancs products this quarter. In the infrastructure space too, we have been winning sizable deals.

Then in terms of deals – we have signed 10 large deals this quarter. One over \$500 million, a couple of those in the \$125 to \$150 million range and the rest in the above \$50 million range. In addition to that, we are also having a good healthy pipeline of at least 10 deals that we are pursuing which are sizable in nature. These deals are distributed across markets and industries.

In terms of employees we have had highest net addition of employees with the 10,775 employees' net coming into the system this quarter alone.

We have also rewarded the employees with a 125% of QVA this quarter and we have announced our annual increment to be 10% on an average, but including the cost of promotions it is about 13% on an average for India-based employees, for employees in the Major Markets: 2% to 4% and for employees in Emerging Markets, 2% to 10%.

So overall it has been a very good year. We think we have delivered volume and increasingly every quarter we have gotten better and our margins have continued to improve all the four quarters in a row against the currency headwinds and we have got the right cost structure; we continued to invest where we have to invest. So the SG&A, even though it has come down as a percentage of overall revenue we have not cut down on our investments and capability building and sales at the right places.

We continue to be looking for efficiencies. We have improved the offshore leverage significantly during the year and we have shown excellent execution rigor in this quarter in terms of productivity and delivering projects as opposed to only offshore movement during this quarter.

With those comments I would like to pass it on to Maha and after that we will be happy to take questions.

S. Mahalingam

Thanks, Chandra. He has already covered the business aspects of it as well as the HR. I will talk about the margins. If you recall the approach that we had outlined at the start of the year we said we would continue investing in our business by maintaining pricing discipline and improving internal efficiency. And if you see the results now, this approach seems to have definitely paid off.

The cost management initiatives that we have rolled out at the height of the downturn delivered margin improvement at every level within the organization despite unprecedented currency volatility. And now as growth returns to the industry, the cost discipline is giving us an operating leverage.

We ended FY10 with an industry leading revenue growth of 8% year-on-year in Rupee terms and 5.4 % year-on-year in USD terms.

And the breakup of the annual revenue growth is: Volume growth 17.4%, Exchange gave us an increase of 2%, Pricing was down by 3.3%, Effort mix, i.e. the shift to offshore, depressed the revenues to the extent of 8.1%. And therefore, overall, it is 8% in terms of growth.

Our fourth quarter revenue grew by 4.2% quarter-on-quarter in constant currency terms, the volume-led growth aided by price discipline and some onsite shift. However, due to the Rupee's appreciation against all currencies and particular against the Euro and GBP, the reported Q-on-Q growth rate was 1.1% in INR terms and a slightly better 3.1% in USD terms.

The breakup of our quarterly revenue growth is as follows: Volume growth was 4% plus, Exchange brought us down by 3.1%. Pricing was a marginal improvement of 5 basis points. Effort mix was a marginal improvement of 16 basis points. And therefore, totally we came up with 1.1%.

Despite the adverse currency impact of Rs. 2.37 billion on the top line of this quarter, we still held our employee cost steady as a percentage of revenue at the last quarter's level. In addition, we are able to better leverage the various non-employee costs, improving our gross margin by 39 basis points to 46.85%. Similarly, we brought down the SG&A expenses by 42 basis points quarter-on-quarter, but some additional provisioning we have to make towards bad debts negated this. Nevertheless, Operating Margin expanded by 21 basis points quarter-on-quarter to 27.51%.

The impact of different levers on the operating margin is as follows: Currency 192 basis points negative, Offshore shift: 16 basis points negative, Rate / Productivity improvement: 247 basis points positive, with regard to SG&A efficiencies, Provisioning for bad debt: 60 basis points negative and Others: 42 basis points positive and that gives us a total of 21 basis points.

For the full year, as a consequence of this benign currency environment, the various operational levers we exercised and the efficiencies we built to our operation, our EBIT margin expanded by 277 basis points year-on-year to 26.5% of which 169 basis points came from reduced cost of revenues and 108 basis points came from reduction in SG&A expenses.

The breakup of this margin improvement is as follows: Currency 115 basis points positive, Offshore Shift 151 basis points positive, Rate / Productivity change 98 basis points negative, SG&A efficiencies Provisioning for bad and doubtful debt on a yearly basis: 29 basis points negative, Others: 137 basis points. And therefore, total increase in margins on an annual basis was 277 basis points.

Our operating margin expansion in a higher other income in Q4 resulted in the net income margin expansion of 149 basis points quarter-on-quarter to 24.97%.

For the whole year our net income margin was 22.88%, a 429 basis point expansion over the previous year. Earnings per share for this year was 35.12, which is a 32.9% year-on-year growth.

We brought down our DSO by an additional 4 days this quarter to 71. For the whole year, our rigorous follow-up and streamlining of processes improved our DSO by a total of 8 days.

Cash and liquid funds at the end of the financial year stood at Rs. 86.7 billion.

In keeping with our policy of rewarding shareholders we have announced a final dividend of Rs. 4 and a special dividend of Rs. 10, bringing the total dividend for the year to Rs 20. Last year, the total dividend for the year was Rs. 14 i.e. Rs. 7 post-bonus. Compared to that, this year's total dividend is Rs. 20.

And therefore it has been an interesting year, challenging and we have achieved what we set out to achieve. With this we can open lines for questions.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. At this time participants who would like to ask questions may please press '*' followed by '1' on their touchtone telephone. If your questions have been answered and you wish to withdraw a question from the queue please press '*' followed by '2'. You are requested to please use your handsets while asking a question. To ask a question please press '*' and '1' at this time. Our first question is from the line of Moshe Katri of Cowen Group. Please go ahead.

Moshe Katri

Yeah, thanks. Nice quarter and congratulations on your record margins. Just talking about margins, maybe Maha, you can talk a bit about your ability to maintain those margins, maybe talk about some of the traditional kind of metrics on where we can get some more levers. And then how should we think about margins down the road given some of the recent trends on the currency. And if the rupee appreciates meaningfully against some of the others, shall we assume that you are going to be willing to maintain your bottomline growth by cutting more expenses. What is your view on that? Thanks.

S. Mahalingam

Moshe, what we have done in terms of margin improvement was the first we attacked the normal levers with regard to onsite/offshore, then we also looked at the SG&A, did that and we are now on a journey where we are essentially looking at the efficiencies and so on at the project execution level. And we believe there are still some things that we can do in order to take care of it. But the problem was really in terms of additional cost in terms of employee costs, we have already

announced it. So, like I have been saying earlier our intent is that over a year, we should be in a position to hold on to somewhere around 27% but then this will not be obviously in the first quarter we have got some issues with regard to wage and over a period of time we will have to improve our efficiencies and so on. The currency factor is also a big one. I have been saying that around 46 or so, we should be able to maintain it we did that because this quarter it has been closer to about Rs 46 in terms of average. So we have done that.

But as the currency appreciates, then obviously there are headwinds. So what I would say is that the cost management or cost reduction program is not over. We will continue to drive efficiencies and so on, but we have got these headwinds and we will have to watch on that. Beyond that it is difficult to say anything at this time.

Moshe Katri

Okay. And then you mentioned also transformational deals that are coming back. Maybe we can get some details on that by vertical, maybe also talk about what you were saying in some of the different regions, i.e. North America versus Europe? Thanks.

N. Chandrasekaran

See, in terms of transformational deals, I think we have seen Financial Services definitely, ERP consolidation kind of deals, SAP, Oracle, and Business Analytics deals and also on the Infrastructure side, huge opportunities in terms of virtualization, etc. So those are the type of deals that are coming in.

But having said that while those deals are coming in verticals like Banking, Retail, Manufacturing also, we still have to wait for scale of such deals – still they are early days for those type of deals. Most of the deals today are in the running the business area. So that is what is happening on the deal side.

Moshe Katri

Thanks.

Moderator

Thank you, Mr. Katri. Our next question is from the line of Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Joseph Foresi Hi, guys. I was wondering if you could talk about the budgeting cycles. The budgets are pretty much closed at this point and maybe you could talk a little bit about how the decision process has changed coming out of the downturn. It sounds like contract cycles are a little bit shorter. Is that true?

N. Chandrasekaran Yeah, I think the contracts cycles are getting shorter. I think we are seeing deal closures definitely. As I said, for deals which are taking cost out or bringing efficiencies in, we are seeing growth of such deals, closure of such deals across verticals, though I would say that manufacturing lags behind still.

But if you take the transformation deals, the deal sizes are small, not because the funding is not being given for such projects, but they want to do it in phases. There is a lot more due diligence and I expect that is the way it will be for at least next two to three quarters. But having said that, most of our clients have finalized their budgets and we have a reasonably good visibility for the year ahead.

Joseph Foresi And so, what is the biggest concern over the next 12 months? Is it the currency movement and the sustainability of margins? Is it recruiting and the attrition side? Maybe you can talk about sort of where the focus shifts now that the demand has come back?

N. Chandrasekaran Excellent question. Europe is still an issue we have not seen full recovery in Europe, we have seen U.S. doing well and emerging markets definitely showing a lot of signs of opportunities. And UK is better, but Europe is still a problem. And UK and Europe especially, the currency is a major, major headwind.

Third, we do not know what is going to happen in terms of the double dip. We are hearing quite a bit in the last few days on Goldman. Where does it lead to, we do not know. So we just need to be cautious if something of this nature triggers something else. But otherwise, we feel that there is a good pick up in momentum. We are seeing opportunities across verticals and markets.

In terms of the Human Resources side, we have managed to hold on to a good retention rate. We have kicked off a number of employee engagement programs – not only are we taking care with the right payouts and increases, etc., there is also a good number of initiatives on the soft side. So we hope to retain the talent. That is a key challenge.

It is important and we have completed all the appraisals for the last fiscal year for all the eligible employees, which is more than 150,000 employees and finalized their payouts and it is going to be paid out this week or latest by next week.

So that is the kind of initiatives that we are taking, but again, that is something that we will have to watch out for.

Joseph Foresi You get the percentage of cost of labor consistent with past quarters. Are you recruiting more heavily at the fresher level or are you doing at the middle management, maybe you could just talk quickly about that?

N. Chandrasekaran Couple of things. Last two quarters saw significant number of trainee addition. Of all the offers that we had given, we took in a significant majority of them in Q3 and Q4. In fact, Q4 was a record quarter for us in terms of net addition. We added 10,700 people. And 70% of the recruitment came in the last two quarters as far as the FY10 fiscal year is concerned.

Going forward I think we will be somewhere around 60% plus for freshers and 30% plus for experienced professionals. I do not know whether it will be 69/31 or 65/35, depends on the type of engagements we make.

Joseph Foresi The last one, just a housekeeping one. Maha, that 27% is sustainable at a Rupee at about 46, but the implication that if it appreciates more than you have to revisit that, 27% operating margin?

S. Mahalingam Oh yeah. Even then it is going to be a challenge but certainly, we will have to revisit that if it appreciates above that.

- Joseph Foresi** Okay, thank you.
- Moderator** Thank you, Mr. Foresi. Our next question is from the line of Srivathsan Ramachandran of Spark Capital. Please go ahead.
- Srivathsan R** Yeah hi. Maha, just wanted to get an update on how the hedging looks at this point of time and what is the strategy going forward going to be?
- S. Mahalingam** We have not taken any additional hedges. Even last quarter we have not done any this one. We have an objective as far as this year is concerned. And we will get into the market in order to protect that. But at this moment in time, we do not have any revenue hedges other than the old hedges that we have which is to the tune of about \$200 million for the year as a whole.
- Srivathsan R** Whole meaning for FY11 as a whole?
- S. Mahalingam:** Yeah.
- Srivathsan R** My next question is about Europe, which you are saying is a concern. Is this concern specific to certain pockets or are you seeing some weakness across verticals in Europe as a whole?
- N. Chandrasekaran** I would say that the deal closures are slow across verticals. We are seeing growth coming back in Financial Services and Retail, and there are also some Telecom opportunities. But still, deal closures take a long time and ramp-ups are taking a long time. So Europe is slow as far as we are concerned.
- Srivathsan R** Okay. My last question is on the Bancs front. You said earlier that there has been a decent number of deal wins – is it something that you can quantify? And what is driving this growth? Is it more new core banking license sales in emerging markets? Which geographies are driving this growth?
- N. Chandrasekaran** See, our Bancs platform has a number of products – Core banking product, then we have a payment solution, we have brokerage

solution, we have got insurance solution. And we have seen broad-based deals; including a very large multi-country implementation of our core banking product worth more than \$100 million for a very leading bank.

And then we have won good deals for marquee customers in the Insurance sector. Then we have also seen some deals for our other Bancs solutions. So overall, Bancs deal closures have been satisfactory this quarter. It is picking up momentum. Our platform is fully modernized now and that is helping us close deals.

Srivathsan R Lastly, any update on the Diligenta platform at this point of time?

Phiroz Vandrevalla We will have the first million policies going live in the next week on the new platform.

Srivathsan R Okay, sir, thanks a lot.

Moderator Thank you, Mr. Ramachandran. Our next question is from the line of Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi Hi, good evening. Congrats on a good quarter. I wanted to get your thoughts on your pricing. Pricing has largely stabilized. I wanted to know how confident you are that the realizations could improve in FY11 itself based on the discussions you are having with the clients and your pipelines.

N. Chandrasekaran Yeah, you are right. Pricing has stabilized. From our point of view, we also been extremely careful and maintained a good discipline. I really hope that we are going to see some pricing return with the demand pick up. Though it may not happen in the immediate quarters, that is something that should happen if the demand continues to increase. That should see some pricing power coming back in the latter part of the year.

Sandeep Muthangi Okay. Also a bit of the salary hikes. Clearly, some of your competitors have given one round of salary hikes and they are also contemplating

another round of salary hikes. Do you see a scope or a need for another round of salary hikes in FY11?

N. Chandrasekaran I think different companies have different situations. From our point of view, if you look at our compensation, it has got two parts really. One part is what we give now, another part is linked to the company performance during the quarter, what we call as a Quarterly Variable. We did pay out last year also in Q2, Q3 and again, in Q4, a good Quarterly Variable.

Now, going forward for this year we have announced a good pay hike across the board, not only in India but also elsewhere. And if we do better than what we expect to do, then we will do payouts in Quarterly Variables during the quarters throughout the year.

Sandeep Muthangi Okay. Thanks, Chandra. That would be great.

Moderator Thank you, Mr. Muthangi. Our next question is from the line of Vihang Naik of MF Global. Please go ahead.

Vihang Naik Hi, good evening. It is a nice execution. Just have a question in terms of your drop in SG&A employee costs, what has really driven the drop even in absolute terms?

N. Chandrasekaran Primarily, the improvement of utilization of experienced professionals from the bench to COR.

S. Mahalingam There is also a small reclassification that has been done with the R&D expenses. But that is a small one.

Vihang Naik Okay. So actually my next question was the increase in the R&D expenses - is it mostly due to a reclassification or --?

S. Mahalingam Reclassification. It is to bring it in line in terms of various projects and so on, that the costs that are calculated. It is due to reclassification.

Vihang Naik Right. So the cost basically has been deducted from Employee Cost to the Research and Development cost?

- S. Mahalingam** Largely Employee, but there are some other costs also which have come in.
- Vihang Naik** Right. And another question was your Consultancy has shown robust growth for the second consecutive quarter of around 23%. Does this mean that we are seeing really good traction on the discretionary front as such?
- N. Chandrasekaran** As I said before, I would like to see some more deal signings happening in the discretionary space before I confirm that.
- Vihang Naik** And your ADM revenues have been largely flattish this quarter. Could we actually give the breakup between the Development part of revenue growth and Maintenance part for Q-o-Q?
- N. Chandrasekaran** I do not have it handy. But definitely Kedar can follow through. We normally do not give that out. So Kedar anyway will get in touch with you.
- Vihang Naik** Okay. I will take it offline. And lastly, what kind of tax rate expectations do we have for FY12 in a situation with Direct Tax Code and without Direct Tax Code?
- S. Mahalingam** Of course, even in Direct Tax Code, we need to understand all the provisions that are going to come – especially with regard to SEZ and to what extent they are going to be allowed and so on.
- But if you really look at the trend that we have followed, we have done a lot of expansion on SEZ. Mark the word ‘expansion’ it is really that the new projects, new contracts and so on, which have really come in, have all gone to the SEZ. And this policy we have been doing for the last four years, most of our campuses were taken up at that time either on lease or built have been SEZ. And with that kind of a good tax planning, we have been able to reduce this. So in case SEZ continues to be available, then I think we should be somewhere around the 21% mark or so. Otherwise it will go to 25%.

- N. Chandrasekaran** Just I wanted to add something. See, if you really wanted to look at the discretionary spend, I suggest that you look at the Enterprise Solutions, which has grown by about a percent in constant currency terms. We would like to see a higher growth there before we can say that the discretionary spend is normal.
- Vihang Naik** Great, that was helpful. Thanks a lot.
- Moderator** Thank you Mr. Naik. Our next question is from the line of Anthony Miller of TechMarketView. Please go ahead.
- Anthony Miller** Good afternoon, gentlemen. Chandra, you were saying that Europe is still very difficult; UK I think you said was getting better. Is the European problem across the whole of continental Europe or are there any bright spots?
- N. Chandrasekaran** Definitely, we are seeing deal closures in some verticals like Retail and also the Banking side coming back. In fact, the core banking deal and also some insurance deals we are seeing in Europe. It is not that there are no deals happening. I would like to say that deal closure is taking time; the ramp-up is taking time. It is still not at the same level as what we are seeing in the U.S. That is the point I am making.
- Anthony Miller** I'd like to understand which country markets might be behaving differently to others. I mean which are the major country markets do you see most hope of recovering first in continental Europe?
- N. Chandrasekaran** We sure hope all of them will recover in the next couple of quarters. Just that there is a lag.
- Anthony Miller** Okay. My final question just on Diligenta again. Just to make sure I understand what is happening there. Do I understand correctly that the transformation of the Diligenta platform is now complete?
- Phiroz Vandrevalla** The first tranche of million policies will move to the new Diligenta platform next week.

- N. Chandrasekaran** The software is ready, it is in production. The live policies or first 1 million policies will fully get operational next week.
- Anthony Miller** So when do you hope to go to market and win new business on the Diligenta platform?
- Phiroz Vandrevalla** Process has already started.
- N. Chandrasekaran** We already started. We are already in the market. We are pursuing some deals already.
- Anthony Miller** Sorry, what do you expect to see some deals what in the next quarter?
- N. Chandrasekaran** I cannot comment on when it will get close. I hope so. I would like them to.
- Anthony Miller** And this would be in the UK I assume?
- S. Mahalingam** Yeah.
- Anthony Miller** Okay. I am sorry, just one final question on the attrition. Your competitor talked about seeing poaching of top technical staff. Are you experiencing any of that?
- Ajoy Mukherjee** From an attrition point of view, our attrition has been pretty stable, which is at 11.8% with slight increase of 0.3% but yes, given the environment, attrition is happening and it is to a certain extent, true that there are cases where key resources and niche skills are the ones which are in demand and that is where this is happening.
- Anthony Miller** All right, guys, thanks very much indeed.
- Ajoy Mukherjee** Okay.
- Moderator** Thank you Mr. Miller. Our next question is from the line of Kunal Sangoi of Edelweiss Securities. Please go ahead.

- Kunal Sangoi** My question has been answered. Just one question on the gross hiring figure for the FY11 that you are planning?
- Ajoy Mukherjee** For the FY11 what we have said is 30,000 for TCS.
- Kunal Sangoi** All right, okay, thank you.
- Moderator** Thank you Mr. Sangoi. Our next question is from the line of Pinku Pappan of Nomura. Please go ahead
- Pinku Pappan** Hi, good evening and thanks for taking my question. Chandra, .what are you really hearing from clients in the Manufacturing side? Do you expect this deal momentum I mean the quarterly growth momentum to increase going forward?
- N. Chandrasekaran** No, it is going to be slow in Manufacturing. That is the most troubled vertical.
- Pinku Pappan** Okay. But how many quarters ahead?
- N. Chandrasekaran** We expect that it will grow from here but the growth is going to be a slow slope. It is not going to be steep. I think it will get better quarter-after-quarter, hopefully in all the four quarters. But it is not going to be steep.
- Pinku Pappan** Okay. That is it. Thank you.
- Moderator** Thank you. Our next question is from the line of Mitali Ghosh of Bank of America. Please go ahead.
- Mitali Ghosh** Hello. Congratulations on a strong quarter. I just wanted to get some comments on how much of the growth that you are getting is from a market rebound and how much do you think is from share gain? And also some trends in terms of maybe who you are gaining share from, is it more internal work being offshored or more from consolidation of Tier II vendors perhaps or traditional incumbents?
- N. Chandrasekaran** I think I would say that in the Infrastructure space it is share gain. And in the application space, it is market rebound.

- Mitali Ghosh** Okay. Right. And just a clarification on the gross hiring target you just mentioned. Is 30,000 just the campus offers or is that a total number you are looking at?
- Ajoy Mukherjee** That is the total gross hiring for FY11. For campus what we have done is we have already made 20,000 offers so far from 371 institutes.
- Mitali Ghosh** Okay. And just one housekeeping question for Maha, what is kind of capital expenditure you are looking at this year?
- S. Mahalingam** Capital expenditure next year will be much higher than what we did this year. It is going to be somewhere around Rs 2,200 Crores.
- Mitali Ghosh** Right. Okay. That is it. Thanks.
- Moderator** Thank you Ms. Ghosh. Our next question is from the line of Nitin Padmanabhan from India Bulls Securities. Please go ahead.
- Nitin Padmanabhan** Hi. Thanks for taking my question. I had two questions. One is this quarter with regard to the deal wins that you have had, would it be by far the largest in terms of TCV over the past four quarters? And if you could quantify that in some way – if not the total contract value, atleast how many above 100 or how many above 50?
- N. Chandrasekaran** Nitin, we don't share the TCV But in terms of the number of deals it is quite healthy, it is about 10 deals. And we have been announcing in the range of six to ten deals over the last few quarters. And the deals are spread out. One contract is more than \$500 million then couple of contracts above \$100 million; \$125 million to \$150 million range, then the remaining are all above \$50 million.
- Four from the U.S. four from the UK, one from Europe and one from Asia Pacific.
- And in terms of verticals, two from Insurance and two from Energy and Utilities, and one each from a number of verticals: Retail, Healthcare and Government, etc. So I think it has been good. But I would not say that it is the highest or anything like that.

Nitin Padmanabhan And with regard to discretionary spends, overall if you look at the pipeline that is out there today versus what you would have seen maybe a quarter back? In terms of discretionary spend is there some sense that you have in terms of how larger it has become compared to what it was earlier?

N. Chandrasekaran It has improved every quarter. Currently the current deal pipeline that we have if you see the mix between discretionary versus committed spend, discretionary has gotten better now compared to last quarter and so on. And some of the Product deals which we have signed now are coming from the discretionary spend. But still it is not at a stage that that I can say that market has completely come back on discretionary spending and everything is hunky-dory.

Nitin Padmanabhan Okay. And just a clarification on the Other Income. If you could just split that up for us?

S. Mahalingam Other income we made a Rs 42 Crores gain in foreign exchange and we had close to about Rs 130 Crores in the interest and dividend.

Nitin Padmanabhan Sure, thank you.

Moderator Thank you Mr. Padmanabhan. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah Yes. On CNBC you have said that the wage inflation impact would be close to around \$193 million. If my calculations are correct it will impact the margins in the coming year by around 250 to 300 basis points. And we have also indicated a 50 basis point margin outlook in terms of improvement on a Y-o-Y basis at an average rupee of roughly around Rs 46 versus the average rupee of Rs 47.4 in this year. So what would be the levers you are counting in terms of 50 basis point improvement in the coming year?

S. Mahalingam Essentially what we have said was we have gone through a journey, we have gone through a journey with regard to onsite/offshore which was at a reasonably high level, we have also talked about SG&A

reduction and we have now talked about improvement in execution and so on.

I think what we will see is increasingly going forward is on the executing capability as well as in terms of the SG&A costs delivering a higher growth. So we have certain plans for that. And therefore you will have to see a reduction both in Cost of Revenue percentage as well as the SG&A.

N. Chandrasekaran I think I have a very relevant to add here. I think Maha what he said is the intent only. He says the intent to keep the 27%, do not take it as a guidance. Second point is we definitely see a big headwind in the wage, as yourself correctly articulated, it is a 250 to 300 basis points. And then the currency is a big problem. We have a huge headwind. So we should expect margin to dip in the immediate quarter.

And after that apart for onsite/offshore, we will look at business mix, there are different markets in which we are operating and each of those markets are operating at different margin levels. So we are going to see what opportunities are there. So we will something that we have considered. But that is a worry.

Sandeep Shah Second question is the gross addition of 30,000 but if you look at the attrition as well as the joining ratio on a net basis the employee additions in the FY11 will be a single digit kind of a thing. So are we looking to improve the utilization here on or our growth scenario for FY11 right now is not optimistic versus the competitors?

Ajoy Mukherjee That is not true. I think one other thing that you have to factor in is the fact that we have about 12,000 to 13,000 trainees who are undergoing training at this point in time and they would be available for deployment from Q1 onwards. So that is the additional bandwidth that I have. So that is the reason why you see the utilization including trainees has dipped to 74%. That is the capacity that we will utilize. And going forward, you always have the option of going for additional recruitment both for trainees as well as laterals to meet our demand requirements.

- Sandeep Shah** Okay. And Maha, just on the tax rate for FY11, I think what you commented for FY12 which was 21% with the SEZ and 25% without the SEZ?
- S. Mahalingam** Yeah. As far as tax rate for FY11, we have been maintaining that. It will be somewhere around 18% to 19%.
- Sandeep Shah** Okay, thanks.
- Moderator** Thank you Mr. Shah. Our next question is from the line of Pankaj Kapoor of RBS. Please go ahead.
- Pankaj Kapoor** Yeah, hi, sir. Just wanted to get a sense on the BFSI vertical where the growth rate this quarter was a bit slower than what we have seen in the earlier few quarters? I was wondering if we have seen most of the M&A led spend been out and growth going forward will be more normal. Can you throw some light on this please?
- N. Chandrasekaran** No, that is not true, Pankaj. I think in BFSI still the ramp-ups are good, M&A-related spending is going on. The problem is that we also have a huge BFSI exposure than other verticals in UK and Europe where the currency hit has been just very severe.
- See, there are two points that always remind you to consider. One is that whenever you see the onsite/offshore mix, do not assume that it is the same for the company. Internally, some vertical or some units will do significant offshoring. And some other vertical will be doing onsite. That is the nature of the business because we will be doing transition somewhere and new contract will be picking up, etc. So BFSI per se showed offshore improvement this quarter whereas the overall we did not have an improvement in offshore. Second one is we have a higher exposure in the BFSI in continental Europe and UK. So those things we have to keep in mind always.
- Pankaj Kapoor** Is it possible to get a sense on the constant currency growth then in the BFSI?

- N. Chandrasekaran** I do not have it here. Normally we do not publish that. But anyway Kedar will get in touch with you.
- Pankaj Kapoor** And sir, second question was on the global subsidiaries. I was wondering what kind of a EBITDA margin level are they currently operating at? And how do you see margins on a consolidated basis moving on over the year?
- N. Chandrasekaran** Some of the subsidiaries and some of the newer markets who are young and small, operating at a little lower EBITDA margin compared to the company average. I do not want to give a specific number. And they are consistently improving. As they gain skills, they will improve to the company margin. That is the lever we have.
- Pankaj Kapoor** Okay. And Maha also mentioned that there are some cost efficiencies that are still available. Will it be possible for you to elaborate on them, I mean I understand one would be for subsidiaries, but any other levers and if you can elaborate on them, please?
- S. Mahalingam** You see, one of the things that we had said when we decided to move to 19%, this is what we had talked about in SG&A is that the base itself will support us for higher revenue. And certainly, that is one area that we would look at.
- The second one is in terms of the execution capability that we have shown. In spite of a 3.11% negative impact from currency we have still improved that gross margin by 39 basis points. So that is another one.
- So ultimately, what we have to get right is employee cost because that is the biggest element of cost about 56% or so. And therefore more effective utilization, the pyramid, many of those kinds of things.
- Pankaj Kapoor** Okay. And just one clarification. When we are looking at this constant margin outlook or margin being in a narrow band at a currency level of Rs 46, we are not factoring in any kind of a realization improvement in this?
- S. Mahalingam** That is right.

- Pankaj Kapoor** Okay, thank you so much.
- Moderator** Thank you Mr. Kapoor. Our next question is from the line of Diviya Nagarajan of UBS. Please go ahead.
- Diviya Nagarajan** Hi. I am sorry if this question has been answered earlier. But just I was looking at your segmental revenue and ADM and some of the higher-end segments, such as ERP, Consulting, seem to be continuously sluggish. ADM, in particular, seems to have flat lined after a couple of strong quarters. What happened here? Should we look at this as a one quarter aberration or is this a sign of continued softness in discretionary spending?
- N. Chandrasekaran** No, I think, discretionary spending you should look at Enterprise Solutions more. And we had two good quarters in ADM and overall, volumes grew by about 4% this quarter. And so there will be quarterly variation. You should look at the year as a whole and I do not see any specific point here.
- Diviya Nagarajan** Right. You also commented that you were looking at a slower slope not a steep recovery. Would that also be in context to the discretionary services pick up or was that something else that you were referring to?
- N. Chandrasekaran** I was referring to verticals like Manufacturing.
- Diviya Nagarajan** Right. And Maha, again, I think enough has been asked about the margins but I am just trying to reconcile when you say margin gains will come through maybe the pyramid or the fact that the BFSI and therefore SG&A expenditure might not have to go up, if you were to single out a two top levers that you could have against wage hikes and currency, in FY11, what would you say they were?
- S. Mahalingam** Diviya, I do not think I am making any statements which I have not made earlier because we did talk in terms of 8% to 10% in terms of wage increase and what we have to do with regard to protecting the impact. And currency again we have talked about. See, the approach

that you follow is you look at the quality of revenue in each quarter and you know what is going to happen and thereafter you essentially plan on all the other expenses and so on. I think we have got many of these things largely right during the last year and we have shown improvement. Beyond that, it becomes difficult to say. The normal lever of realization we are not taking into account, we are not taking into account the onsite/offshore shift.

Diviya Nagarajan Thanks, that was very helpful and all the best for the next year.

Moderator Thank you Ms. Nagarajan. Our next question is from the line of Madhu Babu of Systematix Shares. Please go ahead.

Madhu Babu Sir, could you talk about your initiatives in the government vertical in the US and UK?

N. Chandrasekaran We have been present in the UK government sector for a quite some time. Again, we announced a large deal of over \$500 million this quarter. And we continue to win deals in counties, in the government, across departments.

Whereas in the U.S., we have a few deals which we have won during the last four to six quarters but we have a separate team working and building solutions for specific niche areas in the U.S. market.

Madhu Babu Okay, sir, and could you talk about our domestic opportunities in the Latin American and Chinese market? And what is the competitive scenario in those markets?

N. Chandrasekaran See, we have done well in Latin America as you know. And we continue to see opportunities especially in Mexico, Colombia, Argentina, and also in Brazil. So these are markets in which we are focused. And we will continue to expect a good growth in these markets on a yearly basis probably ahead of the company average.

China has been slow for us, overall, from a revenue perspective, but we have done well in terms of ensuring that all our projects are going well. We have done four core banking solutions live. And then last

quarter we have won two more. And then we have got one insurance client, where we have gone live. And the largest trading system for the Chinese foreign exchange market, which is a subsidiary of the Peoples Bank of China, that has gone live as well. So overall, we have the execution engine, the delivery engine in place, but in terms of growth I think it is slow.

Madhu Babu

Okay, sir, thanks.

Moderator

Thank you. Our next question is from the line of Dipen Shah of Kotak. Please go ahead.

Dipen Shah

All the questions have been answered, thank you very much.

Moderator

Thank you, Mr. Shah. Our last question is from the line of Anurag Purohit of Alchemy. Please go ahead.

Anurag Purohit

Hi, thanks for taking my question. All my questions have been answered. Just one point on the provision that we make for bad debt it has the significant rise in FY10, almost like 65 basis point of revenues has been provisioned, any particular reason for that or is just in the macroeconomic play out?

S. Mahalingam

It is not macroeconomic, there were some impacts of it, but there were also credited back because some of these troubled accounts we managed to collect essential part of them. At the same time it is also a matter of the contract that we have, where in some of the cases we might have a long drawn-out payment term and so on and our policy is to start providing after nine months. And that is the reason why we have done that. Especially on these large contracts and so on, we have got to be watchful but other than that we do not find anything unusual happening now. And we hope to be back to the old days.

Anurag Purohit

So probably in FY11, it should come back then.

S. Mahalingam

We will keep the pressure on the sales team.

Anurag Purohit

Fine, thank you and all the best.

Moderator Thank you Mr. Purohit. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kedar Shirali and the management for their closing comments.

N. Chandrasekaran Okay. Thank you all for joining the conference call and listening in. I just would like to summarize by saying that we have had a very good year, we finished on the year with a good quarter, delivered a 17% volume growth, and our margins have gone up at the operating level and the net margin level significantly all through the year.

We think we have managed the costs very well and have got an optimal structure. In terms of the future, the growth opportunities are definitely there across markets and across industries albeit some verticals are showing better sense of growth than the others.

Definitely, the recent headwinds in terms of both currency and wage hikes and that will definitely affect our near-term margins, how much we are not able to say but wage has got a significant impact, almost 2.5 to 3% and then the currency is also posing a big challenge. But we are on our journey of improvement programs and we hope to do better during the course of the year. Thank you all once again. Bye.

Moderator Thank you very much sir. Thank you gentlemen of the management and Mr. Shirali. Ladies and gentlemen that concludes this conference call. Thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines. Thank you.