



Tata Consultancy Services Limited

Q4 FY12 Earnings Conference Call. April 23rd, 2012, 20:00 hrs IST (10:30 hrs US ET)

Moderator

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

Kedar Shirali

Thank you, Melissa. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the fourth quarter of Fiscal Year 2012 that ended March 31st, 2012. 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, Mr. S. Mahalingam – Chief Financial Officer and Executive Director, Mr. Phiroz A. Vandrevalla – Director, Mr. Ajay Mukherjee – Head of Global Human Resources.

Chandra and Maha will give us a brief overview of the company's performance and that will be followed by the Q&A session.

As you are aware, we do not provide specific revenue or earnings guidance and 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 analyst presentation e-mailed to you and also available on the website.

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

N. Chandrasekaran Thank you, Kedar. First, let me give you a bit of color on Q4 then talk a bit about the year and then the way forward.

In terms of Q4, we are quite happy with what we have been able to achieve. We have delivered a growth of 2.3% in constant currency and 2.4% in dollar terms. The volumes have been at a little over 3.2%. I am particularly happy that both US and UK have done well. Both of them have grown over 3% in constant currency terms. Continental Europe has had a sequential decline, but that is not a concern because they are coming off a very strong Q3 and a strong Q2. So, we think Europe will do well from here.

From an industry point of view, BFSI has been flat, which is good under the current circumstances. The pipeline has been good in BFSI; we signed three deals in BFSI this quarter, so I think we will see growth in BFSI from here.

In terms of other verticals, Retail, Manufacturing, Hi-Tech, Life Sciences have all shown good growth in this quarter. So, overall, the deal signings have been good.

Our employee addition in this quarter has also been very good. In terms of utilization, we are a little bit lower than the last quarter and also in terms of the trainees we have been taking in trainees, I will come to that in a minute.

Yearly, we have grown 31% on revenue terms which is again very good because from a volume point of view it is 23% plus and from a pricing point of view, it has been 1.13% pricing growth as well.

On a yearly basis, we have done well and we are quite happy with where we are in terms of the margin. We are exiting the year with the operating margin at the right level for us to perform going forward.

We have added 70,400 employees gross through the year, which again is a record from employee addition point of view. On a net basis we have added close to 40,000 people, which is our highest ever.

We have given 8% average hike to all our employees for the year going ahead and we have paid 100% of the variable pay for the quarter. High performers will get a double-digit hike.

In terms of customer metrics, it has been an excellent quarter and excellent year. When you see the migration of customers across every revenue band, whether it is 1 million, 5 million, 10 million or 100 million, movement across revenue bands has been extremely positive and you can see the momentum in the customer metrics.

The order book we have had this quarter has been very good. The order book we have had in the past so many quarters has been consistently improving and doing well. New deals have come from across the board from a market point of view as well as from an industry point of view. Even in this quarter we had two deals in the US and then a couple of deals in Europe and then deals in Latin America and UK as well. We had deals in Financial Services as well as in Retail and Telecom. So, overall, I think we are happy with where we are. From a deal pipeline perspective, the number of deals that we are chasing is also quite healthy.

In terms of the demand outlook, I have already mentioned the US is doing better. On the discretionary spend, I would say that it has eased and we are seeing projects coming in as well. So, we expect to see ramp-ups happening in this quarter on all dimensions from a discretionary as well as annuity projects from industry dimension also from a market dimension.

Specifically, one word about Telecom, Telecom has been soft last year and they produced the least growth. But we expect the year ahead will be good for Telecom as well for us. Overall, I would just say that we are confident of delivering of good growth in the next fiscal year.

With those words, I will turn it over to Maha. Then we can take questions later.

S. Mahalingam

Thank you, Chandra. Fourth quarter revenue of Rs. 132.593 billion represents growth of 0.4% QoQ and 30.5% YoY. Revenue in dollar terms is \$2.648 billion, which is a sequential growth of 2.4% and YoY growth of 18%. In constant currency, the revenue is \$2.641 billion.

The breakup of our sequential INR growth of 0.42% is as follows: Volume growth was (+3.26%), constant currency realization was (-97) basis points and currency impact was (-1.87%).

Full year revenue for FY11 was Rs. 488.9 billion, which is a YoY growth of 31%. In US dollar terms, our revenue of \$10.171 billion translates into an annual growth of 24.2%.

The individual elements of our full year INR revenue growth are as follows: Volume growth 23.05%; constant currency realization (+1.13%); currency impact (+7.99%); effort mix, that is impact of offshore shift (- 1.17%) and therefore the total is 31%.

Moving on, our EBIT margin declined 155 basis points QoQ to 27.7% largely due to currency impact and lower utilization this quarter. The impact of various margin levers is as follows: Currency impact was (-71) basis points; productivity improvement was (+36) basis points; SG&A increases was (-120) basis points, total (-155) basis points.

For the full year we had an EBIT margin of 27.6%, down 44 basis points year-on-year. Benign currency which contributed (+218) basis points and improved productivity which gave us (+133) basis points

benefit largely mitigated the (-289) basis points impact of higher wages and the (-106) basis points impact from higher SG&A.

Our Net Income margin in Q4 expanded 26 basis points QoQ to 22.1% on the back of higher Other Income and a slightly lower effective tax rate. For the full year, the EBIT margin decline, higher tax provisions and a lower Other Income led to a 163 basis points YoY decline in our Net Income margin to 21.8%.

Let me spend a few minutes on cash flows. We ended the year with free cash flow of Rs. 55.6 billion which is 6.5% growth YoY.

On a YoY, percentage revenue basis, higher tax payout this year took away 2.3% from the Free Cash Flow. This is, as you know, because projects executed in SEZ are also included for MAT payment. Higher YoY losses from our revenue hedges took away another 1.3%. If one adjusts for these two one-time events, our Free Cash Flow would have shown 39.6% growth YoY.

Our accounts receivable at the end of the year translate into 81 days outstanding in dollar terms, which is an improvement of one day YoY. Invested funds as of March 31st was Rs. 107.7 billion.

The Board has recommended a final dividend of Rs. 8 and a special dividend of Rs. 8 bringing the total for the year to Rs. 25 which is a payout ratio of 46%.

It has been a satisfying close to a year that saw tremendous global economic uncertainty. We went through worries about the US economy, imminent sovereign defaults in Europe and a rollercoaster ride on currency but still delivered a full year revenue growth much higher than the industry and a steady operating margin.

Lingering uncertainties aside, the picture today is better than what it was some months back and as the global economy works its way through the various challenges we have two very powerful reasons for optimism.

One, the market for our services is growing faster than before, thanks to technological developments as well as changes in the business and regulatory landscape; two, our service delivery model has not only found broader acceptance with clients but has eventually emerged the *de facto* model for the industry.

Winning share in a growing but highly competitive market requires continued investments and close management attention. Caught up in the grind of quarterly numbers there is always a risk of succumbing to short-term pressures at the cost of bigger picture.

At TCS, our focus is firmly fixed on that big opportunity out there. So, while maintaining our cost discipline at an operational level, we continue to invest in our SG&A, in adding people across the world and equally important, keeping them happy and motivated. The weaker currency was particularly helpful this year because we got to do all that and still keeps the operating margin where we wanted it to be.

With that we can open the lines for questions.

Moderator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and then '1' on your touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets while asking a question. The first question is from the line of Moshe Katri from Cowen & Co. Please go ahead.

Moshe Katri

Can you give an update on project plans in the discretionary areas considering last quarter's challenges? Do you expect the clients to start making spending decisions in March? And also, in this context, have you seen any instances of scope reductions or delays in funding for discretionary work?

N. Chandrasekaran

From what we said last quarter, discretionary spend is beginning to happen. As I said, we have seen easing and we are seeing those decisions getting made and ramp-ups happening.

- Moshe Katri** So at this point just to repeat what you are saying, we have not seen any continued decision delays or any sort of instances where scopes and projects are getting reduced or is getting reduced?
- N. Chandrasekaran** What I had said is that last quarter, the first couple of months there are likely to be delays and it was so. Later on, we slowly started to see decisions being made. As we speak, the decisions are getting made and projects are beginning to ramp up.
- Moshe Katri** Just a final question on BFSI. You are down sequentially. Can you kind of talk a bit about some of these sub-segments within BFSI what you are seeing there, whether it is banking, etc., and now we should expect sequential growth to pick up over the next few quarters?
- N. Chandrasekaran** BFSI, we are not down sequentially, we are flat sequentially. Given the environment, discretionary projects did not kick in and that is the reason for that flatness. But from here, we will grow.
- Moderator** Thank you. The next question is from the line of Sandeep Shah from RBS Equities. Please go ahead.
- Sandeep Shah** Just on the BFSI, do you believe it is the new normal where outsourcing growth is likely to remain volatile QoQ or do you believe that what happened in this quarter and last quarter was an aberration and things will normalize soon?
- N. Chandrasekaran** As I said, the primary reason for BFSI growth being flat this quarter is the discretionary spend delays in the beginning of the calendar year. We feel that it has eased and we are pretty confident that from here, it should grow. Apart from that, I cannot really comment on anything.
- Sandeep Shah** Besides even the discretionary spend the growth coming through the outsourcing within the BFSI, are you seeing any kind of a change in the normal demand trend behaviors or do you believe that has only a room to go up?

N. Chandrasekaran At least we are not seeing that because as I said we have signed three BFSI deals this quarter and they are all beginning to ramp-up; they are all annuity type of deals.

Sandeep Shah Overall, as you believe that most of these discretionary projects have been started. Do you believe that from the first quarter of FY13, it would be back to normal or still you believe that the normal trend in terms of spend to budget ratio may take another two to three months?

N. Chandrasekaran I think it is beginning to ramp up now and as we speak, it is ramping up, as I told you before. So, I think we should see the pick up from here. But I do not want to say whether it is going to be another two, three months delay because we are seeing the ramp-up beginning to happen now.

Sandeep Shah Just a last question, the demand pattern different in Europe versus US and do you believe Europe has a scope to grow especially UK and Continental Europe again higher than company average entering FY13?

N. Chandrasekaran I think we will do well in both North America and Europe – which is UK and Continental Europe put together -- based on the deals we have signed and what we see in the marketplace, I think we are expecting to do well in those markets.

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

Diviya Nagarajan Just following up on Sandeep's question on the banking sector, we have seen growth slowdown in December and March and now you are talking about projects ramping up from here. So would you believe that the Banking revenue for you at least has bottomed out?

N. Chandrasekaran I would think so.

Diviya Nagarajan And could you shed some light on what is driving growth in the Telecom segment? It seems to have picked up reasonably well this quarter as well.

N. Chandrasekaran Telecom sector, we are seeing opportunities both in terms of optimization and in terms of transformation. In transformation, we are looking at opportunities like multi-channel opportunities to revamp some of their customer facing systems. And in optimization, we are looking at more offshoring type of deals. So, we are seeing a combination of these kinds of deals and that is what is pushing up the growth. In fact, we should do better from here.

Diviya Nagarajan Could you also give some color on which segments within Telecom are driving this growth and some geographic color as well?

N. Chandrasekaran I think the growth is coming from US, Europe and Asia – it is well distributed, I would say. And what is the other question you had?

Diviya Nagarajan In terms of the segments within Telecom that are --?

N. Chandrasekaran We are getting it from both Telcos and a bit from equipment companies as well.

Diviya Nagarajan And just a couple of questions; your top clients this quarter does not seem to have grown very well. Is there any seasonal pattern that we should read into it or do you expect this to reverse from the next quarter onwards? And lastly, is there any impact that you can quantify the impact of Friends Life, the deal that came through this quarter?

N. Chandrasekaran I will talk about both. While I can specifically answer both questions, I think it is important to understand the philosophy on both fronts.

The company's size is large today and the customer profile that we have is so distributed. If you look at the customer metrics we have done exceedingly well across all revenue bands.

If you look at FY11 to FY12, you would notice pretty significant addition to the numbers of 1 million, 5 million, 10 million, 20 million, 50 million customers. We have done well both in terms of migrating and also adding new customers. Specifically, if you want to look at the 5 million customers we have added almost 37 customers. If you look at 10 million bucket, from 143 it has jumped to 170 customers. Clients in

the 50 million bucket jumped from 27 to 43, in the 100 million bucket from 8 to 14. It is a very, very holistic growth.

And as you grow, you cannot be measuring one client at any point in time because there will be volatility. Clients, when they get larger, they are always not going to give you as much incremental revenue in percentage terms as an average client might. That is the way to view it. But since you asked the question let me tell you there is nothing wrong with the top client. It is chugging along nicely.

Then in terms of the deals again, in a year, we do several large deals. Some deals get announced in the press with a lot of fanfare, some deals we do not announce with fanfare either because of the timing or because of client confidentiality. Trying to take one deal and then seeing whether that deal is influencing the revenue is not the right way to look at it. But again, since you asked the question let me tell you Friends Life is a non-material contributor to the overall growth this quarter. We only got revenue for one month. I do not want to start disclosing numbers at a deal level, then this will just go on.

My take on that is there is no material influence of one client that has affected the numbers. As you can see, and as I highlighted, I am pretty happy that US grew over 3%. I am pretty happy we delivered a 3.3% volume growth. I am pretty happy that we delivered 3.2% UK growth and BFSI is flat and four of the next verticals; Retail, Telecom, Hi-Tech and Manufacturing have done exceedingly well this quarter. Personally, honestly, when I look at the operating metrics, I could not be happier.

Moderator

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

Mitali Ghosh

Just following up a bit on the BFSI discussion that we have been having so far, Chandra, it will be helpful if you could give us a bit more color in terms of the deals that you have signed and what the mix is in terms of annuity services versus discretionary spend, including

whether you are seeing push-outs in regulatory kind of projects, any geographic color perhaps you can add as well?

N. Chandrasekaran Three deals have come from; one from US, one from Europe and one from Latin America. All three are multi-year annuity deals.

Mitali Ghosh And are these more result of like vendor consolidation or increased outsourcing? And again, whether you are seeing push-outs in the regulatory side of projects?

N. Chandrasekaran There is a bit of consolidation, a bit of optimization and a bit of transformation of the whole IT infrastructure in these three organizations. These are the three factors. And we hope that we will get incremental revenues in all the three places on regulatory spend.

Mitali Ghosh Secondly, on the margins, as you enter next year, clearly the Rupee as well as utilization are tailwinds and you articulated earlier that you are expecting stable pricing. So, what should one expect going forward really?

N. Chandrasekaran I will add a couple of comments and I think Maha should elaborate and give you more details. Maha very clearly articulated the kind of investments we have made and we consciously took advantage of the fact that the currency went down. And those things are going to help us whether it is investment in Mobility, investment in listening platforms, Big Data tools or Cloud and a number of new platforms we have initiated. If you look at all of those areas there is a significant amount of investment going in. Our utilization levels are a little bit below this quarter and that should again help us.

If you look at all of that we have taken advantage of whatever the benefits that we could get. And in the near-term in Q1, you will see headwinds primarily because of the good wage hike we have given. We have not only given a good wage hike in India, 8% as a company average but goes to double-digit for high performers, but we also have given good wage hike in established markets as well as other emerging markets. So, there will be headwind on margins on account

of that in Q1 in addition to whatever currency may do which I cannot really comment on. But I think we are pretty confident on the margin overall on a yearly basis. Maha, do you want to add some --?

S. Mahalingam Mitali, there is no change to our stated position so far as our aspirational margin. Basically, from the driver point of view, pricing we have said we are not really factoring in anything higher as far as margin is concerned. We do expect to have a good utilization this year, mainly because we have picked up a reasonable amount of capacity into the system and then as Ajoy has already talked about, the expected increase as far as next year is concerned, we are controlling attrition through these wage increments and so on. And SG&A costs will definitely be enough I think, to push higher growth.

So taking all these into account we are definitely there is no cause for concern with regard to the operating margin. As Chandra said, it will start slow mainly because there is a wage increase that is coming in right now as far as this quarter is concerned, but as the growth takes place over the year we should be able to keep up to our aspirational margin.

Mitali Ghosh Sure, just to confirm the aspirational margin that you are referring to was about 27% at the EBIT level if I am right. What sort of currency level are you factoring into that?

S. Mahalingam Currency is a moving game, but anyway 27% is at the kind of currency average that we have had, which is about Rs 48 or so.

Mitali Ghosh And lastly one quick question, when we entered the quarter this time the visibility was not great and we did see delays in ramp-ups. Entering the quarter now, do you feel more comfortable on the visibility?

N. Chandrasekaran Yes, Mitali, I think I feel much better entering this quarter than when I entered last quarter.

- Moderator** Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.
- Viju George** I just had a couple of questions. On wage hikes, it has been 8% in India and perhaps emerging markets but is there any wage hike given in the developed markets onshore?
- Ajoy Mukherjee** Yes, Viju, we have given, as Chandra mentioned, 8% in India on average. In developed markets, it is 2 to 4% on an average, in developing countries, it is 6 to 8% on an average.
- Viju George** The other question I had was on visas. Now, I know this is not a new issue and you have been combating this constraint for a while now. Do you think it is incrementally impacting your ability to fulfill demand, particularly over the last quarter or so? Is that becoming an obstacle however small in terms of demand fulfillment because it seems that your pipeline is looking quite good on the demand generation side.
- N. Chandrasekaran** It is a challenge and it is taking a lot of time, more time than ever before in terms of planning and execution. So, since it is important to us we are willing to put the time. It is important to us and to you. We are putting double the amount or triple the amount of effort.
- Viju George** Looking at your growth in FY13, you expect the growth to be pretty front-loaded, in a sense you do not expect too much to happen in H2 or the so-called back-ended growth. I would expect that your normal pattern would be to have first half growth. I expect that the same thing that you would also have in this year, right?
- N. Chandrasekaran** That is my view, Viju.
- Moderator** Thank you. The next question is from the line of Ankur Rudra from Ambit Capital. Please go ahead.
- Ankur Rudra** First question is on the linearity of the March quarter. Clearly, I think compared to what we were expecting early March based on January, February, the last month seem to be a lot stronger. Could you

elaborate on how the exit rate demand environment was better than the first two months?

N. Chandrasekaran The discretionary spend has started easing up a bit and also our India business has delivered. Sometimes the India business throws in a huge surprise but that also delivered. US and UK have done well. I would not put it down to one single factor; it is a combination of things coming together and also no major negative surprises. When things do not look good in multiple dimensions, even one negative surprise can give you big beating. So, no major negative surprise and many things coming together. Nothing in great proportion, but everything in the right way.

Ankur Rudra And just for FY13, hiring guidance sounds a bit light. I think your utilization was running low, exiting the quarter. So maybe you can highlight what are you expecting to drive growth, are you expecting the supply environment to be very benign so the hiring guidance is low right now, are you expecting a bit more on your utilization gains and also the realization gains for the year?

N. Chandrasekaran Ankur, you know this as well, and you know it is very difficult to give a number upfront, but basically, if you look at our situation, we have to take into account the following. We did a huge amount of hiring during the last 12 months; 70,400 people gross and our net addition is 40,000 people. Attrition, based on all the good work done by everybody, has come down and our IT service attrition is a tad above 11%, which is very healthy, so if you look at all of that we have got a lot of opportunities there from a bench point of view.

Second, our utilization is lower than where we were in the last couple of quarters. Overall, size is increasing and with our capacity and size increase, our utilization should only be going up, it should not be coming down. So, if I felt confident about 83% before, I would be comfortable with 83.5% now. We will constantly push that as well. So, that also gives another dimension.

The third dimension is that there will be a lot of project-based hiring that can happen given the visa situation. It is really difficult to predict now. There will be a plan that will be developed at the project level, at the execution team level to take calls on local hiring and contracting and so on and so forth. So, that will provide certain softness as well. If you take all of that into account, 50,000 is a good number to go with. We have already given offers for more than 45,000 trainees and so, we will see where we are and also it should help us to drive the non-linear business a bit.

Ankur Rudra

On the onsite hiring, in the earlier interview on television, you highlighted the onsite hiring last year was around 1600 in the US. I guess we should expect it to be a lot stronger this year?

N. Chandrasekaran

That number should not be taken like that, because it is pretty complex to explain. One is the onsite hiring where we hire people on a planned basis, but apart from that there is a lot of other hiring that happens in the US for project execution and those maybe very project specific.

So, I would not put a number at this stage but our intent is to keep building the US workforce. We are visiting more campuses than before. We will be adding more people at the trainee level and at the lateral levels, but there will be a lot of project-specific hiring that will go on. We want to keep that very flexible. We do not want to be very rigid about it because what is important is the customer and execution on the ground.

Moderator

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

Edward Caso

I was curious on the level of your wage increases given that the Indian economy seems to be a little bit slower and things are still sluggish and you have a little decline in utilization. All of those metrics sort of say maybe you could have come in a little bit lighter or lower on your wage increase. I was curious if you could offer some thoughts on that?

N. Chandrasekaran There are multiple ways to look at this and you can look at it from different lenses, but from our point of view we have had a great year and employees have contributed and I think they deserve a raise. Going forward, we see the momentum and we feel that the right thing to do is to go ahead with what we feel is right and reward at the same time, retain and do not lose momentum. And if it is going to put pressure on operating margin, we will deal with it.

Edward Caso Can you talk a little bit about market share, whether you feel like you are gaining market share sort of at the moment not necessarily in the last quarter but sort of going forward?

N. Chandrasekaran Our business model has always been about gaining market share in addition to creating new opportunities and creating demand. So you always have a market share gain and demand creation. And I always feel that our market share will continue to increase. I do not want to talk about a specific competition or anything like that, because we focus on customers and we try to be relevant and we try to capture opportunities. We will increasingly also focus on creating demand. It is very important from a thought leadership point of view to create demand as well. So the short answer is we will continue to gain market share and there will be enormous focus on the company's part to create demand as well.

Edward Caso We are starting to hear that clients are asking more and more about visa availability and your ability to execute on projects. Are you hearing that and how are you responding to it?

N. Chandrasekaran The only way we respond is we show them the 23% volume growth that we have been able to deliver.

Moderator Thank you. The next question is from the line of Joseph Foresi from Janney Montgomery Scott. Please go ahead.

Joseph Foresi I think you talked about this earlier, but I just wanted to get a full clarity on it, I know you talked about bunching a call. What has changed in the minds of the clients that you feel has caused a reacceleration, if

you will, in the business? And what could change going forward? And what is that one metric, is the new businesses has coming in or is it just the change in terms of the clients in last quarter?

N. Chandrasekaran If you remember last quarter, I probably should play the transcript...I do not remember the exact word but all I was wanting to communicate is that I gave you enough data points to show that a good percentage of our clients have decided on their budgets and then I also said a significant portion of the people who have decided on their budgets, I think two-thirds or some number I gave had decided on flat or an increase in budget. So, I did not cause any alarm on the budget side.

But what I did say though is that we expect the discretionary project ramp-ups to get delayed and we are not sure about that, we are seeing a lot of softness on that front and we said that it is likely to ease over a period of time and we feel that that is happening. And you can never predict it to the exact degree and I could plan on ten projects starting and I am happy if it is 8 or 12. I get very worried if it is 4 and I get extremely happy if it is 15. So, those things, even with our best efforts very difficult to predict, so I could have gone wrong in between but overall the message I gave and I believe that that has begun to happen.

If you take Telco for example, as we said, they are spending on multi-channels, they are spending on customer-facing systems, they are really spending on optimization of any kind, whether it is infrastructure or in the application maintenance portfolio, how can we optimize is the major theme in telcos. Then if you look at Retail, there is a huge spend on Digital. That means so many things. Channel is one thing, Social is another thing. Loyalty is the major area that has been addressed by the customers. Then if you take Utilities, we are seeing supply chain, we are seeing opportunities in asset management where we are building large systems for customers and we are seeing Manufacturing doing the same thing. We are also seeing traction in auto companies. We are seeing traction, but each one is different. As I said the customer is different, industry is different. And it is not the

same thing. I cannot just say I am doing AMS, I am doing ITO... that is not the way it works. We are going to desegregate and sometimes within the same customer grouping, two different customers behave differently. So all those things are stuff we have to deal with and we are dealing with and we learn everyday and then we try to apply it. So those are the type of deals that are happening. I will tell you what I will be happy with is some stability in my annuity renews in new markets. Whether it is LATAM, whether it is Asia, whether it is India, and sometimes we struggle because we suddenly get a good discretionary project and then if the discretionary project dies down, there is not enough annuity to keep it. Our effort is to ensure that those things come off the curve in terms of good annuity and discretionary mix. And I hope that happens this year.

Joseph Foresi You crossed a billion dollar mark in the BPO business. Maybe if you could just talk about how IT business has gone in this part of the cycle versus the BPO. Are you seeing strength in one over the other, maybe you could just give us some comparative?

N. Chandrasekaran Yeah, I think, we have done very well in multiple service lines; in BPO, in Infrastructure, in Enterprise Solutions, and Continental Europe as a region, all have crossed one billion dollars – that is all good stuff.

IT is always going to do well, and depends on what you call it as IT. If you only call IMS as IT, it will still grow, but if you want to take into account all the new technologies, whether it is Digital, whether it is Mobile, whether it is Multi-Channel, whether it is Social, all of those things are IT, because they are going to transform the system. So there is a plenty of opportunities. So, I do not believe the core IT services sector growth is going to be lower because it is reinventing itself.

Joseph Foresi Lastly from me, are you seeing any commoditization in the business at all in the BFSI sector, any other sectors and how do you look at, you are becoming a larger and larger organization, are you thinking about more and more about breaking even between headcount growth and how do you manage that going forward?

N. Chandrasekaran I think it is a good question, but always there is a portion of good business that is getting commoditized. That always happens, I mean, last year was something, this year is something else, next year will be something else. Whatever we invest today as a new technology, two years from today is getting commoditized and sometimes it is getting commoditized faster. The only way to address that is to ensure that we are operating at the best efficiency.

So sometimes, the customers like proposals on Managed Services. If we are able to go to Managed Services and able to take responsibilities for outcome and get away from headcount, then you will have flexibility and they have flexibility. They get what they want and you bring in all the know-how and program management expertise, tools expertise, everything else to be able to deliver what they want and at the same time get what you want in terms of your margins.

I think there are ways to handle that and platforms are key. I hate to just bucket everything into this way or that way, and this is pretty complex and it is evolving, too many things happening at the same time. We got to learn with every customer and then try to build on it.

Moderator The next question is from the line of Sagar Rastogi from Credit Suisse. Please go ahead.

Anantha Yeah, good evening, this is Anantha from Credit Suisse. Chandra, you mentioned the Financial Services looks very stable. Do you see any differing trends between Capital Markets versus Insurance versus the Commercial Banks within BFSI?

N. Chandrasekaran No, I want to correct you. I did not say the Financial Services sector is stable. I do not want to comment by using any qualifiers. I do not want to give any word. I have not used any word like caution, so I do not want also to use a word like stable. All I am saying is that Financial Services customers are spending, whether you take our top customer or second customer, or third customer, all of them are spending. The

spend patterns are different and as long as we can align with those, they are looking good. So, what is the actual question you asked?

Anantha Sir, my question was, whether the trends are uniform across Capital Markets versus Financial Services versus Banks?

N. Chandrasekaran Okay. Let me put it this way. I am not able to very clearly answer the question because if you look at our customer base, we have Retail Banks, we have Capital Markets, and we have Insurance customers. We are growing or we are seeing pipelines happening in all, and we are not seeing a particular shock against any one of them. So going by the deals we have done, we have done well in Insurance, better than the other two, but I do not have any negative on Retail Banks or Capital Markets from our business point of view today.

Anantha Just one final question to Maha. We have seen a fairly big increase in the dividend payout this year, but again, part of that is a Special Dividend. So, is there any change in the long-term dividend payout philosophy as a company?

S. Mahalingam I do not think we have altered anything at all, this is the second time we are giving a Special Dividend. Actually, there is a review that happens all the time with regards to what do we do with the cash. This is a very important one.

Of course, this year, it got accelerated with our crossing of a milestone that we had, but if the question is, are we likely continue, that is the reason why we gave it as a Special Dividend. But I would like reemphasize the point that we constantly reevaluate what do we do with cash.

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

Sandeep Agarwal One question to Maha on the FY13 taxes and then a couple of questions to Chandra. One is, is there any trend in the softness in Utilities? And also since BFSI is almost 45% of the total revenue and if

we are exiting at a flat growth, then will there be a lot of pressure on the overall growth for FY13 and a little light on nonlinear revenues, how are we getting this quarter?

S. Mahalingam On the first question, tax, as far as we are concerned, it is playing out the way that we had envisaged and certainly we would expect to see a slight increase as far as next year is concerned in the tax rate as we had said earlier, and thereafter it will come down.

N. Chandrasekaran On BFSI side, your question is we are exiting, we are flat this year, this quarter, what is again, is it the question?

Sandeep Agarwal It is flat in this quarter, so it is almost 45% of the total revenue. Will it not impact the overall revenue growth for the FY13?

N. Chandrasekaran BFSI, we expect it to grow from here and also Telecom is picking up, it is going to do better this year than last fiscal year. And a number of other verticals like Retail, Manufacturing, Hi-Tech are all driving growth and BFSI also is going to do better from Q4 levels as I have said. So, I think, it is quite positive.

Sandeep Agarwal Softness in utilities and some light on nonlinear revenues?

N. Chandrasekaran Utilities, first of all, is a pretty small vertical and had a huge growth over the last two quarters, I think, double-digit sequential growth rates. So even if one discretionary project ends and another one does not start immediately, you will see a dip, that is what is happening because of the small base and the high growth in the last two quarters. But there is nothing wrong with the clients or with the sector per se.

From a nonlinear point of view, that is our biggest focus. We really want to drive that very aggressively from this quarter, not that we have not been trying aggressively, but it needs a certain amount of time for us to establish proof-points and work with customers and so on and so forth.

Our investment is only going up and I had said that we will do a minimum of 10% of incremental revenue in this quarter and I did specifically report the number primarily because the overall growth itself is a small base, but if you really calculate, yes, we would meet that metric. More than 10% of our incremental revenues definitely will be from nonlinear. So, we are looking to shape the nonlinear journey.

Sandeep Agarwal Last question was on the utilization front. I agree that utilization is at low level, but the kind of new joining which will come, 44,000 approximately next year, will it not give the overall year utilization at 80-81%?

Ajoy Mukherjee From utilization point of view, yes, it is, we are exiting at 80.6% and including trainees it is 71.4%. We have given offers to about 43,600 and given the joining ratio the trainees will come in. But we have been able to absorb the trainees, we provide the training and then absorb them in projects, and since the utilization including trainees is at 71.4, that is one of the reasons why we have said that our hiring plan for the next year also, we have given the numbers and kept it at 50,000. So, all said and done, we are quite confident of maintaining the utilization at the desired level.

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

Nitin Mohta My question was regarding the SG&A spend. Obviously, this year, we have done a lot of investment on that front. If you can just help us understand where exactly these dollars have been spent? Is it on new platforms in the areas of Cloud Computing, Big Data, or is it just client mining on the traditional services? Thoughts over there?

N. Chandrasekaran It is a combination. We have definitely invested in clients and continue to invest in clients and our client base is also increasing. Definitely, we are putting in more resources. From a technology point of view, we are investing heavily in Mobility, Big Data, Multi-Channel, Social, Listening Platforms, and all those areas are the technology areas where we are investing.

The other aspect is we are doing more platforms, looking at platforms not only horizontally but the horizontal-vertical meeting points, so sometimes we are creating the platform, sometimes we are just trying out things before we commit to a platform. So, all kinds of such efforts.

We have a component engineering group which is building lot of IP. All the IP that we think are going to be building blocks, so there is a group focusing on that. I think these are multiple different initiatives. We have an overall budget that we try and distribute judiciously.

Nitin Mohta Just in terms of, is there any quantitative breakup in terms of what part is being spent towards building new platforms, if that can be shared?

N. Chandrasekaran For competitive reasons, it is better for me to keep it with us.

Moderator Thank you. The next question is from the line of Vishal Desai from Violet Arch Securities. Please go ahead.

Vishal Desai Just wanted to get a sense on the Infrastructure service revenue line, which this time saw probably a little soft quarter. How do you see the overall demand environment shaping up out there, going forward into FY13?

N. Chandrasekaran Infrastructure business, what was your comment?

Vishal Desai It saw a little bit of soft quarter this time around. Just wanted to get a sense as to how do you see it shaping forward going into FY13?

N. Chandrasekaran Why do you say it is soft?

Vishal Desai Infrastructure services accounted for close to around 10.4% of your revenue it was around....

N. Chandrasekaran In constant currency terms it is probably close to flat. But I think it is pretty strong, let me put it this way, going forward pretty strong.

Moderator Thank you. Ladies and gentlemen, due to time constraints, we will take the last question from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta Two questions, one is in terms of verticals what is the Others segment that seems to be growing at more than 20% sequentially for the last two quarters? And secondly for Maha, Maha is there any reclassification in cash or investments to other current assets because this item seems to have gone up from around \$11 billion to \$65 billion on Q-o-Q basis?

N. Chandrasekaran On the Others segment, it is something that we cannot clearly classify under a specific segment because the solution maybe across industries, and multiple industries get involved and that is why we have really not made a call on putting it in one particular sector. The other way to do it is to take that and apportion certain percentages and we have not taken the call. We feel that it is better to keep it separate and it also brings in certain nonlinear revenues as well. So, we have kept it as it is.

S. Mahalingam Regarding your other question, we have clubbed Other Current Assets and Other Current Financial Assets in March whereas these were separate numbers in December.

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

N. Chandrasekaran Thank you all for joining the fourth quarter and the annual FY12 analyst call. I really appreciate your joining in, especially those of you for whom the timing may be odd.

From our point of view, we are happy with our Q4 numbers and with the way the year panned out. In a tough year, we started the year by saying that the pricing will be more or less stable, very unlikely to see it increasing, and it has proved to be so and we are happy that we had a 1.13% pricing improvement and the volume has been pretty good, 23%. To be able to capture and deliver such volumes under a difficult visa regime was pretty creditable. All parts of the company have worked together, and we exhibited a lot of agility and a lot of flexibility with the way we serve our clients.

Industries wise, Telecom was rather muted this year, with lower growth than the rest, but all the other sectors have done well. The company for multiple quarters has been witnessing a very holistic growth, a balanced growth from all the industries. I think we are set up well to be able to continue that momentum from an industry point of view.

From the market point of view, we started the year and all through the year, there have been questions about US and Europe, but our growth in these markets have been very very good on a yearly basis. The growth in North America has been at the company average. Growth in UK was a little lower, but it is still pretty good. Continental Europe grew well ahead of the company average. All the emerging markets have also done well although LATAM had a muted year. However, LATAM did show very good improvement in margins. And we are set up very nicely for a good growth in that market as well, going forward

In terms of customers, I think this one single metric I am extremely proud of. Customer metrics across all the revenue bands has been excellent, and we hope to continue to stay close with customers and do all the right things in terms of investments and understanding the nuances of customers across markets and customers within an industry and develop our offerings and focus our investments to shape the future.

In terms of nonlinear, we have introduced new products, not only BFSI but also in a couple of other sectors. We are beginning to make the right moves in Retail and we see opportunities in Healthcare, and one or two of our Government solutions have got potential. We will be trying to take these to market as well.

In terms of platforms, both horizontal and vertical platforms, we have made investments in a number of them and now our focus will be to deliver results on those platforms by working closely with the customers.

On the employee side, the team has delivered a wonderful result for all through the year – a record addition at the gross level, record addition at the net level and attrition down, and we want to keep the attrition lower in India. International attrition is a little higher than what I would like. So, definitely, there is going to be focus in terms of bringing the attrition down internationally whether it is Latin America, whether it is China, whether it is other markets so that we can concentrate on growth and not have to deal with attrition issues.

The utilization is where it is and there is room for meeting growth and margin is at the right level where we are feeling comfortable and with the wage hike there will be near-term headwind, but we think we will deal with it as the year goes from a margin perspective.

So overall, I think, we are happy with where we are and we see good momentum and hopefully we will have a very good year next year. Thank you so much.

Moderator

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

[Note: This transcript does not purport to be a verbatim record of the call. It has been edited for readability]