



Tata Consultancy Services Limited

Q4 FY13 Earnings Conference Call.

April 17th, 2013, 19:00 hrs IST (09:30 hrs US ET)

Moderator

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

Kedar Shirali

Thank you, Inba. Good evening and welcome everyone. Thank you for joining us today to discuss TCS's Financial Results for the Fourth Quarter and Full-Year FY-2013 that ended March 31, 2013. This call is being webcast through our website and an archive including the transcript will be available on the site through 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. Rajesh Gopinathan – Chief Financial Officer; Mr. Phiroz A. Vandrewala – Director; and Mr. Ajoy Mukherjee – Head of Global Human Resources. Chandra and Rajesh will give a brief overview of the company's performance followed by a Q&A session.

As you are aware, we do not provide specific revenue or earnings guidance. Anything said on this call which reflects our outlook for the future or which would 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 available on our website and e-mailed out to everyone on our mailing list. With that I would like to turn the call over to Chandra.

N. Chandrasekaran Thank you, Kedar. First of all, it is a pleasure to meet all of you over audio for this call. I would like to start by saying that we have ended financial year FY13 with a very strong quarter once again.

In terms of annual performance, we have delivered volume growth of 16.8% which translates into constant currency revenue growth of 16.2%. In rupee terms it is close to 29% and in dollar terms it is 13.7%. As we had said [at the start of the year], we have come ahead of the NASSCOM estimate [for FY13]. The CC growth pretty much represents the volume. The pricing has been pretty stable all through the year.

On a quarterly basis, in Q4 we have delivered volume growth of 4.4%, constant currency revenue growth of 4%, dollar terms growth of 3.1% and rupee terms growth of 2.2%.

We had two important headwinds at the operating margin level. One is a one-time settlement costing Rs 1.61 Bn, almost 98 basis points, and the other was the currency headwind of 64 basis points, roughly Rs 1 Bn in absolute terms.

On the revenue side, we had a currency related impact of almost Rs 2.82 Bn. On the margin side we have been able to improve our operational performance to be able to manage those headwinds reasonably so the margin dropped only around 73 basis points to end the year at 26.5% in Q4. On an annual basis, we are exiting the year at an operating margin of 27% which is what we have been indicating through the year.

We have had a good net income growth, both on the quarterly level and also on the yearly level. Deal wins have been very good this quarter; 11 deal wins and 52 new customers.

For the first time, our quarterly revenues crossed the \$3 Bn mark and our growth has been pretty broad-based. We have done very well in all sectors.

In constant currency terms, Financial Services grew by more than 5% QoQ; Manufacturing and Retail grew about 4% QoQ; in dollar terms, they are about a percentage point down.

In terms of Services, it has been again a very good quarter where our Enterprise Solutions and Infrastructure have stood out while all the other services have done well too.

In terms of markets, Continental Europe has been standing out, but we have delivered growth in the US as well as India, Latin America and other markets as well. So it has been a pretty broad-based growth in terms of market, industries and services.

Digital is seeing an uptick. Most of the digital deals are very small and short-term deals, but we have signed about 100 deals in this area.

Headcount addition has been healthy. On a gross basis, we added 20,098 employees and the utilization is healthy – 82%. For the full year, we added about 69,768 professionals.

We have declared a final dividend of Rs. 13 taking the overall dividend to Rs. 22 for the year per share. We have also declared a wage increase of about 7% on an average for employees in India, 2-4% for employees in western markets or developed markets and close to 4-6% in other developing markets. This wage increase is effective April 1st.

Looking forward, our pipeline is very strong. We see a momentum. We see spend in the discretionary bucket as well as in run-the-business and it is pretty broad-based. We are perceiving opportunities across sectors in all markets, and I believe that Telecom will also show recovery based on what we see with our clients. So we would like to

maintain our stand that FY14 is going to be a better year than FY13, and we will come ahead of NASSCOM estimates.

With those words, I would like to pass it on to Rajesh for his comments.

Rajesh Gopinathan Thank you, Chandra. Chandra has broadly covered both the revenue and the margins breakup. So let me quickly run through some of the full year numbers and then we will take it on questions. For the full year at revenue level, we did 28.8% in INR terms, 16.2% on constant currency and 13.7% on reported dollar terms.

We have been able to defend our aspirational operating margin target of 27% and our net margin for the full year expanded by 35 basis points to 22.1%. As Chandra mentioned, we have declared a final dividend of Rs. 13 to a share, taking the total payout for the year to Rs. 22 per share and that represents a 40% dividend payout ratio on the parent company profits.

In terms of cash-flows, we had Rs 123.26 Bn of cash from operations for the full year and a capex spend of Rs 25.92 Bn, taking our free cash flow to Rs 97.34 Bn for the full year.

With that I would like to conclude that in a quarter with significant headwinds we are glad to report that we have been able to minimize the operating margins impact and in fact, claw back some of it through rate productivity improvements and a better overall cost management.

For the full year we are happy to be able to come in, in the kind of range that we had indicated both on the revenue side as well as on the margin side. As we look forward, we remain committed to operating at the kind of level that we set. We expect the year to be slightly better than the preceding year and we expect to be able to defend our margins in a narrow band. Thank you.

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

Moshe Katri The market seems to be specifically concerned on the pending legislation regarding H1B visas and immigration reform here. Chandra, I think it will be really helpful if you give us your view on how well -- I do not know if it is well or not but where are you in terms of your ability to address some of these potential changes and how significant could these be for your margins down the road?

N. Chandrasekaran I think in this area, first, we will wait for the full text of the bill. And as you know it is only the starting of the process, it has to go through the committee in both the houses and finally there has to be a consensus. So we need to watch this very carefully. But there are going to be positives and there are going to be some restrictions as we can see. We are looking at the increased visa cap probably and also at the same time there are going to be restrictions either in terms of fee or in terms of other structures. At this point in time we are just watching this space. As we get more clarity we will be able to react but also as you know, it is not something that it is going to happen on a given day. It is going to be announced, and after that there is going to be a transition over a period of time. So I think this is something that is very important and we are watching it very carefully and we will prepare for it as we get the details. I would not react off the cuff in any manner.

Moshe Katri Can you remind us what is your onsite headcount right now in the US and if this is purely US-based employees?

N. Chandrasekaran We do not split that out and give that information.

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

Joseph Foresi You talked about tracking ahead of last year and then being ahead of NASSCOM for this year. With budgets set, could you explain to us

what the difference is between this year and next year and what is providing you with that confidence and maybe any color you can give us on budgets and decision-making?

N. Chandrasekaran I think the fundamental thing is coming from two aspects. The first aspect is the clarity in decision-making in our client segments. Almost every single client I have met with has a very clear agenda and they are going about it in a systematic fashion. We are not finding that decisions are getting delayed.

The way to look at the client segments and their IT spend is there are three different buckets. One, clients who are clearly increasing their spend, either in terms of investing in digital or in a variety of other programs, where the overall spend is going up; second, clients whose spend is remaining the same, but they are giving us opportunities to address more of the pie; and third, clients whose spend is getting reduced but then they are really driving efficiency and simplification the back office and investing the savings in customer facing programs in the front office. So that is the way I would characterize the spend scenario.

From a TCS point of view, we see opportunities with regard to simplification which would mean rationalization of the infrastructure portfolio, rationalization of the application portfolio or transformation of the SAP footprint; any sort of initiative that is resulting in simplification of the IT infrastructure, cost structure getting to a different base and preparing them for the future.

The second is the whole digital area which is a combination of technologies, mobility, big data, cloud and social and each of those technologies is at a different level of maturity. We see more in the mobile, multi-channel, customer experience systems than in some of the other technologies. The whole data architecture is getting revisited in the context of big data. So there are a variety of things that are happening in that arena.

The third is customers who are trying to put global systems in place, a huge transformation of infrastructure, particularly those very large deals which have been coming up for renewal after 5 years, 10 years, 15 years contracts and there is a lot of transformation to be done.

And then, there is the whole regulatory aspect that is also driving spend.

So to me, there are two things. The customer decision-making, customer confidence, customer behavior, customer clarity etc. The second aspect is what we see in terms of our confidence, our pipeline, deal closures, signing up of discretionary spend, deals, etc. On both these, I would say that we feel pretty confident.

Joseph Foresi

And then my second question is really two parts. First, what are you seeing on the discretionary spending side and how do you look at that in relation to your Consulting practice at this point? And then second, if you could just give us an update on what you are seeing in Banking and Financial Services? So what you are seeing on the discretionary side and how you reconcile that with the Consulting in your commentary about demand being better and then the second one what are you seeing in BFSI?

N. Chandrasekaran

Discretionary spend relates to multiple areas. Just linking it to one service line is not a good thing. Discretionary spend is happening in the Enterprise Solutions space, it is happening in Digital, it is happening in Supply Chain, it is happening in Advisory, it is happening in a variety of ways.

Companies are going and declaring programs on customer experience transformation. It may be called out in different ways. A retail company may call it "Multi- Channel," some other sector will call it "Front End Customer Experience System" etc. So I think from a service line perspective, all of these things are coming together.

The power of a model like ours is our ability to be able to bring together, consulting from an advisory, facilitation, program management, change management perspective and deep domain knowledge from an industry perspective and the technology leadership from tools, digital perspective -- bring them all together in front of the customer and help the customer to think it through.

Some of these transformations are not about a large roll-out of SAP in a 100 locations with a couple of hundred million dollar budget. It could be, but that is not a given. Quite often, this may be about rethinking their business process, rethinking their business channel, etc.

So I think it is happening in different ways. We need to adapt to this and need to work with customers to be able to deliver.

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

Mitali Ghosh Just following up on the last question, Chandra, if you could mention a little bit on the trends you are seeing in Banking and Financial Services and how that compares with the previous year?

N. Chandrasekaran The mood in Banking and Financial Services is quite good from our point of view. There are a few things happening. There is a lot of regulatory reporting, which is not necessarily only about implementing systems for Basel III or something like that. It is also about having a data architecture, a front end architecture in such a way that data can be reported out on a real time basis. So there are plenty of opportunities on the data side, plenty of opportunities on the front end side.

End-customers for the banks are on different systems, so all of those have to be looked at because banks traditionally have had separate systems for wealth management and retail management system. All those things are being brought together. So there is a whole rethinking about the front office systems.

Domain wise, there are opportunities in rethinking payments, rethinking lending systems, origination systems. If you take trading applications, a platform-centric approach is emerging.

There are several opportunities with the fundamental goal of finding a cost structure which is lower than what it is today, because banks really feel their revenues shrinking. So they are very focused on that on the one side.

On the other side, they want to have systems which are state-of-the-art, so that they are able to create growth in the future. Both are happening at the same time and it is very important to be able to understand in the context of each bank and each market, how do you partner and that is what we are doing effectively.

Mitali Ghosh Do you expect that banking could grow in line with or higher than company growth rate this year?

N. Chandrasekaran My current take is that it will at least be in line with the company growth rate as of now.

Mitali Ghosh And in terms of the margin, you have done a great job on margins this far. But could you discuss the levers in the context of investments you need to make and wage hike, given that utilization is at an optimum and pricing is probably stable at best? So I know, Rajesh, you mentioned that you do hope to defend the margins, but if you could add some color on that please?

N. Chandrasekaran First, I want to say that we had given an indication that we will be around 27% [EBIT margin] and we have been able to deliver that in spite of some of the headwinds which were unforeseen.

We also said that when the rupee depreciated, some of the margin gains we are going to reinvest in some of the growth areas that we wanted to invest in, and that is what we did. And we have also maintained that we are pretty comfortable to be able to maintain margins at this level and as long as currency volatility is in a very

narrow band, we will be able to do that. In a quarter if it is extremely volatile, then obviously it will pose a different set of challenges.

In terms of the levers, we have quite a few that we will be able to exercise. Our utilization will definitely go up. We are operating at 81%-82%. We have clearly said that we would like to cross the 85% mark.

Given our size, there are opportunities to improve productivity in terms of automation tools and other things that we bring. As we go into the future, our revenues from the intellectual property and the platforms will continue to increase, though not sharply, but on a quarter-by-quarter basis we expect that those things will increase and there are other operational parameters and efficiencies which we have in mind which we will definitely continue to leverage.

Pricing per se, we think is going to be stable unless and otherwise it is a high value service and some of those will happen but we are intending that the pricing will be more or less flat. So under this context, I think we are comfortable.

Mitali Ghosh

And just lastly, in terms of the hiring target for next year, Ajoy, and the targeted mix of fresher versus lateral and if you could just remind us how the employee pyramid looks like in TCS?

Ajoy Mukherjee

The target that I have said is, we will be hiring some 45,000. And as far as trainees are concerned we have already completed that exercise and we have given offers to 25,000 trainees. They would start joining from June onwards. As far as the trainees that we had offered last year, all of them have joined in during this financial year itself. That is all that I have at this point in time.

The trainee number I have given you, the rest will be the laterals plus the trainees that we will be hiring in overseas markets and everywhere else, the rest would depend on the deal pipeline, how they mature and how we go about hiring. As far as India is concerned, we have said that we would like to make it at 60-40 kind of ratio, and if you look at

last year we have done slightly better than that. That is where we would be.

Mitali Ghosh And the employee pyramid, would you have a number?

Ajoy Mukherjee Employee pyramid in the sense, what kind of number?

Mitali Ghosh What is the proportion of employees less than three years experience perhaps?

Ajoy Mukherjee That number we give it in our analyst presentation and if you look at the number it is 60.8% with more than 3 years of work experience.

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

Ankur Rudra Chandra, could you comment on, you made a few comments on the budgets, but on the spending and allocation, is it a bit more normal this year compared to last year in terms of do you see less of month-to-month or quarter-to-quarter budgeting in any of your verticals?

N. Chandrasekaran I think so. My sense from meeting with the clients and also the feedback that I am getting from the team is that the spending pattern is fairly stable. There are no ad hoc decisions. Clients are going about doing things in a very systemic way. There is no panic situation. So our comfort on the client clarity is much higher this year than last year.

Ankur Rudra Could you also share what proportion of your overall growth or booking in this quarter maybe in the last six months or a year came from restructuring deals, because clearly that is an area which has seen a lot of growth in the market?

N. Chandrasekaran Ankur, it is very difficult to comment on that because I do not know which deal is a restructured deal, I do not have such a definition at all. So it is very difficult to say and any deal that you take as outsourcing, maybe outsourcing deals sometimes customers give you an outsourcing deal and want you to move to your target platform. So

honestly, I cannot put a number because that is not the way we track it.

Ankur Rudra

Maybe from a geographical perspective, clearly India saw a lot of strong growth this time and contributed substantially to your incremental growth. Could you comment on the nature of the deal contract here and how sustainable the momentum there is?

N. Chandrasekaran

India has been volatile for us. As you know, we have always said that there will always be a blip in India. Sometimes there is an increase and then sometimes there is a sharp decline, primarily because the discretionary versus run-the-business mix in India is very lop-sided towards discretionary.

So it always happens like that and there are quarters which we have gained, there are quarters in which we have suffered but overall, if you see on a constant currency basis, we would not find India to be significantly tilting the growth.

Even LATAM has grown exceedingly well on a constant currency basis. It has also grown double-digit and India is double-digit and the continental Europe on a constant currency basis is more than 7-7.5%.

So, if you look at the growth, it has come from different markets and the incremental revenue on a constant currency basis is more than \$100 million. So I think it has been a fairly distributed growth this quarter.

I do not think that we should worry too much about this volatility in India because this is something which used to be much sharper. Two things have happened. One is the sharpness of that volatility has reduced. The second thing is that the overall size of the company has increased so it does affect a little bit but not a great deal.

Moderator

Thank you. Our next question is from Keith Bachman of BMO. Please go ahead.

Keith Bachman I have a couple also. Could you talk about what you see as a geographic trend? Specifically, this quarter North America was below your average growth and UK was as well. Is that a trend that you think continues and did you see more specifically, incremental weakness in North America? By the tone of your comments, I gather you are actually feeling a bit better about the overall demand picture, but I wanted to see if you could parse that down a little bit to the geographic markets? And then I have a follow up.

N. Chandrasekaran Our pipeline in North America remains very robust. So we believe that North America is a very important market and it is a market where we see a lot of opportunities. Our deal pipeline is strong in North America, decisions get taken faster, and adoption of technology is superior. For these reasons, we find our North America market to be strong and we do not see a let up in that market.

UK market is also very strong and this quarter we have had a decline, primarily due to a drop in our revenues in Diligenta, one of our subsidiaries. The nature of that business is that it is very difficult to predict that every quarter there will be an equal amount of revenue. Otherwise, they have done well also on a yearly basis. So overall I think we are bullish about both markets.

Keith Bachman My follow up relates to that is, the Consulting business, if you look out over the next 12 months, would you expect Consulting to grow at, below or in line with whatever the corporate average growth rate ends up being?

N. Chandrasekaran I can answer the question, but I am more worried about how you will interpret that answer. Let me first address the interpretation and then I can answer the question directly.

I would just caution you from extrapolating discretionary spend from the Consulting number that we are going to report. The Consulting number, Enterprise Solutions, the whole Digital space, and some of the large transformation programs where our Consulting is embedded

in the industry units, all of it will play a part in discretionary spend. So I want you to keep that in mind whenever you extrapolate.

Consulting per se I think should grow at least to the company growth rate, maybe slightly higher.

Moderator Our next question is from Anantha Narayan of Credit Suisse. Please go ahead.

Anantha Narayan A quick question for Chandra. At this point of time we are seeing a fairly divergent performance from the various large companies in the sector. So do you see the risk of some of the lesser performing ones behaving in a manner that could hurt the others?

N. Chandrasekaran I think this question was asked earlier also, but I would like to say that we do not see that happening.

Anantha Narayan Any reason why you feel confident about that?

N. Chandrasekaran I do not know if there is any reason why you feel it the other way. I can only go by [history]. Situations like this have always existed. You have always had a variety of players at any point in time, even if you take the last 5 years, 6 years, 7 years. So I think that has not affected one company's performance, at least we have not felt it.

Moderator Our next question is from Diviya Nagarajan of UBS Finance. Please go ahead.

Diviya Nagarajan We have seen good numbers so just wanted to point out one thing that stuck me. I think last quarter we discussed your large clients, your top clients and we had said that these would grow pretty much in line with the budget growth for the client themselves. I noticed that your top clients had slipped to negative territory this quarter, should we be worried at all or is it just a quarterly aberration?

N. Chandrasekaran I did answer this question. First of all, let me be absolutely clear that there are no client-specific issues in any of our clients, and we are

seeing opportunities across the board, but you should also remember that the growth rate of clients who are very large, especially our top 2, 3, 4 customers cannot be uniformly high in every quarter, that is something that you need to remember.

The second one is that we report the LTM number. So as we go into the future, it is only getting better with our clients. So I would basically not signal any caution.

Divya Nagarajan On the acquisition front, you did speak about more acquisitions in Europe and we recently acquired a French company as well. Typically these acquisitions tend to be margin dilutive and I heard your commentary on margins and you have done a great job maintaining them so far, but do you think that your current model gives you the buffer to absorb these kind of dilutions, if the ticket sizes get bigger than what we have been used to in the past?

N. Chandrasekaran At least I can talk about the acquisitions we have done. We are confident of the margin including acquisition that we have done. And future if we do something, at that time we can talk about it.

Moderator Our next question is from Nimish Joshi of CLSA. Please go ahead.

Nimish Joshi I just wanted to check much of this, around a third of the incremental growth which was from equipment, software license, is that from the India business almost or anything else? And secondly, so much of last year of course everyone was saying India business or the government business is a bit slow. Is that kind of thawing up in the last few months, are you seeing any signs of those?

N. Chandrasekaran I think most of it is India business, but on the second question I think these are deals we have been pursuing for a long time.

Nimish Joshi So finally they came through.

Moderator Our next question is from Srivatsan Ramachandran of Spark Capital, please go ahead.

- Srivatsan R** I just wanted to get an update on the nonlinearity. Sometime back we said we are targeting about 10% of incremental revenues would be from nonlinear initiative. So just wanted to know where we are and what are the overall plans?
- N. Chandrasekaran** So far as you know we are not publishing, but we have an internal target for nonlinear, we have been tracking it for the last couple of years and so far we are on target in terms of our internal milestones, and we are seeing a healthy growth, but it is on a very small base. So we would like to wait for some more time before we give the commentary, but I think it is going in the right direction, we are seeing quarter-on-quarter incremental revenues. They are not declining, every quarter it is increasing. Some quarter we are getting a pop, some quarter we are getting a marginal increase in growth. But it is very healthy and sometime we will come out with more data points.
- Srivatsan R** Any update on the JV with Mitsubishi, we started off, how is it shaping up from Japan?
- N. Chandrasekaran** That is an onsite development center under the JV and the relationship with Mitsubishi is going well. Japan is a market that we are definitely focused on, and it is a market which is tough as all of you know. I would say that the JV is going well, but I think we need to get more clients in Japan. More importantly, we should be able to scale in Japan, but on a small base, we have very healthy growth rates at this point.
- Moderator** Our next question is from Pinku Pappan of Nomura, please go ahead.
- Pinku Pappan** I just wanted to drill a bit further into the growth in Americas, it was around 2% sequential this quarter. Was it the same as you expected prior to the quarter or do you see some kind of push out of revenues into the next quarter?
- N. Chandrasekaran** It is in line with our plan.

- Pinku Pappan** And for the next year, do you see the growth coming to be front-ended like last year or is there some change in seasonality that you expect?
- N. Chandrasekaran** I think it will be a normal pattern, we expect Q1, Q2 to be better than Q3, Q4.
- Pinku Pappan** And could you give us a breakup of revenue, like you always give the volume and pricing granularity?
- N. Chandrasekaran** So for this quarter the volume is 4.4%, then we have a currency impact of 177 basis points and then offshore shift of 41 basis points, I think that should account for it.
- Moderator** Our next question is from Nitin Padmanabhan of Espirito Santo, please go ahead.
- Nitin Padmanabhan** A competitor had basically mentioned that looking at the visa situation which is a big unknown considering that you had the window close in a very few days. What is your view on that and how do you plan to manage the supply of visas for growth this year.
- N. Chandrasekaran** The visa situation has been difficult for almost couple of years now and it is always a combination of planning as early as you can in terms of the H1, second is in terms of rotation of people, third is in terms of hiring local talent, and fourth is in terms of business associates in the US. So it is a combination of all these, but the most important thing is the execution plan. There is no magic formula. The more difficult it gets the more rigorously we plan.
- Nitin Padmanabhan** But do you see this impacting margins in any way this year or do you see this is leading to higher subcontracting cost in any way or has been planned for and you do not expect any adverse impact?
- N. Chandrasekaran** At this time, we are giving our commentary in the current environment. So we feel that we will be able to manage, but as things pan out, if there is anything that is very, very material, then we will definitely come back to you.

Moderator Our next question is from Edward Caso of Wells Cargo, please go ahead.

Edward Caso You seem to be continuing to be able to gain market share grow faster than the industry have indicated that expectation as well for the year that is coming. Can you talk a little bit about what is your magic sauce, what is getting to have this superior growth and also are you seeing any change in the competitive posture of some of the larger multinational providers, particularly in this increasingly visa constrained environment?

N. Chandrasekaran I don't know of any magic sauce. There is no magic sauce, there is only good wholesome food.

Whatever we do, we do well. I think we have a pretty good mechanism of listening to the market, working closely with the customers, identifying opportunities, collaborating across units, bringing the power of TCS in front of client in every engagement. We also invest early, identify opportunities and make some bets. We continue to focus on our employees, keep their morale high and keep the attrition low. I do not know what else to say.

Edward Caso Any sense on your relative pricing to your competitors?

N. Chandrasekaran We have maintained a flat pricing for the whole year. We said at the beginning of the year we think the pricing is going to be flattish and that is how we have ended up. We have pretty much translated all the volume into CC growth, except for a small shift in offshore; the pricing is pretty much stable.

The deals are not so straightforward that everything is around the rate card. The deals are complex. So it is very difficult to say what your pricing is vis-à-vis somebody else's. It is no longer that easy to be able to just say so-and-so is this price, you are this price. It is very hard, because deal structures are pretty complex.

Moderator Our next question is Ravi Menon of Equirus Securities. Please go ahead.

Ravi Menon A few questions; there is a minor decline in Asset Leveraged Solutions. Everything else we have been doing wonderfully well. We see very strong performance in ADM and Enterprise Solutions. If you can help me understand the decline in Asset Leveraged Solutions. Within Enterprise Solutions, if you are starting to see any traction from PeopleSoft 9.2 that will be great?

N. Chandrasekaran On the first one, I said that when we talk about non-linear growth, some quarters we are going to see a pop – so we got a pop last quarter compared to this quarter.

The size of the business is still small, so the volatility continues to exist. It will take a little bit of time for us to get to a stage that it is very smooth and then we continue to see incremental growth. So that is the reason. There is nothing fundamentally wrong, there is no concern, there are no issues, and I am pretty confident that Asset leverage solutions will do very well.

With regard to Enterprise Solutions, it is very difficult for me to split out opportunities in PeopleSoft 9.2.

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

Ashwin Mehta One question: in terms of the wage hikes next quarter, what is the impact that you see in terms of margin?

Rajesh Gopinathan Our wage hikes are pretty much similar to what we had announced last year and the margin impact would also be pretty much in line with that.

Ashwin Mehta And secondly, we did a very good job except that one-off in terms of margins in this quarter. What has driven our largely flattish employee cost in this quarter, despite 12,000 plus people addition in this quarter?

Rajesh Gopinathan If you look at it on the SG&A side you would see a slight increase on the employee cost relative to revenue and the COR side you will see a decline on employee cost to revenue which is where the productivity impact is coming through. So the initial addition on the trainee level will pop up in the SG&A side and productivity will appear on the COR side.

Ashwin Mehta Because there is only a 3% move which is seen in terms of employee cost on the SG&A side while cost of revenue line appears to be more flattish in terms of numbers.

Rajesh Gopinathan And that is what productivity improvement is leading up to it.

Moderator Our next question is from Sandeep Shah of CIMB. Please go ahead.

Sandeep Shah My question is even if you look at the LTM and the revenue growth within the top 10 accounts, it has lagged with a big margin in 2013. So do you believe that lag may continue entering into FY 2014 when you expect the spend is unlikely to be that volatile both on the run-the-business and change-the-business?

N. Chandrasekaran I can only repeat what I said, there are no client-specific concerns in any one of our top clients. Also, I get a comfort that clients are making decisions, and then systematically going about executing. So I would expect that there is not going to be ad hoc stoppage or ad hoc starting up of spending, so we should do well. Exactly how much they will grow, whether they will grow in line with the company growth or they will grow less or more, I think it is very difficult to say.

Sandeep Shah Just a follow up on that, for you too on a high base growing at a higher rate may require to invest higher to grow the non-top ten accounts. So do you believe that investment would be a headwind on the margins or we will be able to maintain?

Rajesh Gopinathan Some of this metrics have legacy tinges to them. We have been reporting it from the time we listed, but top 10 when you are a billion dollar or a couple of billion dollars in size and top 10 when you are \$12

billion in size is a different game. So what you should be paying attention to is our overall customer metrics that we report, about 500 plus customers in that space, and if you look at that pyramid, there is a very healthy migration, and really the margin will play out on that. So I think it needs to be taken in context of its impact for the total company.

Sandeep Shah And Chandra, just last thing is two of your big competitors from India have been specifically saying that there is a significant pressure on run-the-business or the non-discretionary business. So do you also believe so, and how we are able to mitigate the same?

N. Chandrasekaran I have already answered this question. Primarily, from my point of view, some of these deals are structurally very different, and so it is very difficult to say whether or what is the pricing pressure in these deals.

We have not only said but we have also demonstrated that the pricing is stable in a very tough environment last year. How a deal is delivered to meet the customer metrics varies from deal to deal. The size of these deals is so large, there are different opportunities to optimize. So I would not go down that path.

Sandeep Shah But you still believe the headroom for productivity gain is higher for us?

N. Chandrasekaran The more deals we do, the larger is the opportunity.

Moderator Our next question is from Rishi Maheshwari of ING Life. Please go ahead.

Rishi Maheshwari Just a couple of bookkeeping numbers. One, I notice that Loans and Advances have grown quite sharply this year versus last year. If you can give us some sense on what is that on account of? Second, what is your expected tax rate for the next year?

Rajesh Gopinathan Let me take the second one first. Next year, we will have an effective tax rate an increase in the range of about 2%, primarily coming from

two areas; one is increase in the surcharge, which if it goes through will have an impact and the second is that some of our facilities which were early on the SEZ site will now shift from the 100% bracket to the 50% bracket, so that is the one that you need to look at.

On the first question that you had on loans and advances, these are really short term borrowings more in terms of treasury management, cash flow optimization. So we have been able to deliver a fairly decent yield on the overall cash position, and short term I think it is about 100 crores or so if I remember correctly and that is fairly small in the context of short term borrowings.

Rishi Maheshwari No. I was talking about the short-term loans and advances, where the numbers have risen from Rs 2,229 crores to about Rs 5,821 crores.

Rajesh Gopinathan Where are you seeing this?

Rishi Maheshwari This is in your reported balance sheet item, the one which you have sent to on the exchanges.

Rajesh Gopinathan We will take this question offline, but our short term borrowings are Rs 100 crores not in the 1000s of crores.

Rishi Maheshwari No, I am sorry but this is about the loans and advances and not the borrowings, the current asset line item.

Rajesh Gopinathan We will clarify that¹, but for the record since you asked, we do not have borrowings of the nature that you said. Our short term borrowings are Rs 100 crores.

Moderator Our next question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mehta My question was more towards the pricing side. What I wanted to understand was given the execution from TCS has been so good if at

¹ Note: The YoY increase in "Other Loans and Advances" referred to in the question was on account of a jump in Inter-Corporate Deposits with non-related parties, as mentioned in Schedule 21 of the Consolidated I-GAAP statement.

all there is a possibility for a potential pricing increase as we go towards fiscal 2014?

N. Chandrasekaran Currently we are assuming a flat pricing. If there is an opportunity we will look at it.

Nitin Mehta Sure, but any discussions or if any commentary that you can give, given the superior execution is that the possibility that comes up in conversations?

N. Chandrasekaran Currently, we are not factoring it in.

Moderator Our next question is from Sandeep Agarwal of Edelweiss Securities, please go ahead.

Sandeep Agarwal Just one question. Although Chandra has partly answered it, but if you see this quarter's growth it seems like it is largely India-driven if you see it in INR terms. Even in constant currency, it is looking heavily tilted toward that. So if you can throw some light on that. And secondly, again, Chandra has already answered it that Continental Europe one-off quarter issue is there, but again America is also not looking very strong at least in this quarter. So what can we actually take away from this?

N. Chandrasekaran Please do not look at India's percentage terms, but if you take the total incremental revenue this quarter and then India also, it is not heavily tilted. On a constant currency basis if you look at it, it will be probably 25%, not more. So it is not correct to say to that it is heavily tilted towards India, because India's nature is like that, there are times where we have had to take 30%, 40% dip in India. So it does happen quarter-to-quarter. So India nature of the business is like that.

But if you take the rest of the world, I think US has done well, Latin America has done well, Continental Europe has done well, Asia-Pacific has done well and in constant currency UK has also grown. In reported terms, UK had a dip primarily because of the strengthening of

the sterling. In a constant currency basis, even UK has grown 3 - 3.5%. So there is broadbased growth.

The company's growth in constant currency is about 4% and everybody is around 2% to 4.5%. India and Latin America have grown a little higher. Do not look at the percentage point of view, look at it from the absolute number point of view.

Sandeep Agarwal Although Ajoy has already communicated that part, but just wanted to clarify. We are talking about 45,000 offers for next year, of which 25,000 have been given for freshers or what it is actually if you can clarify?

Ajoy Mukherjee Yes, total gross hire will be 45000, and towards that we have already given offers to 25,000 students in campuses who will start joining us starting June in each quarter.

Sandeep Agarwal So another 20,000 will be non-campus, right?

Ajoy Mukherjee Yes, that is right, only thing that we have to understand is all 25,000 may not join up, there is a joining ratio.

Moderator Our next question is from Ashish Chopra of Motilal Oswal Securities, please go ahead.

Ashish Chopra I just wanted to understand the revenue growth during the quarter in slightly more detail. So if I exclude the revenues from sales and equipment, then the growth in US dollar terms turns out to be 2% against the volume growth of 4.4%. So if you could just help break that out for me it will be very helpful?

N. Chandrasekaran As I had said before, there are quarters in which the India business does go up or go down, and India business is largely SI business, and it does involve software and equipment. So this quarter we have an uptick, there are quarters in which we take a hit, so that happens.

The important thing is that it is not a pass-through. It is not revenue that comes without margins. These sales are all part of larger engagements, system integration engagements and an integral part of the overall solution. That is why we have been able to give a credible performance on margins.

I wanted to tell you that there is no one-off that has come and helped us in the margins. We have had hit in the margin due to two important headwinds. One, the settlement; and the other one is the currency, but on the other side we do not have anything one-off that has come, it is all operational performance, and so we have not benefitted from any margin-less revenue. That is the way to look at it in the overall scheme of things.

Ashish Chopra

What I was actually looking for was excluding the India revenue or excluding the sales of equipment figure our volume growth would stand to be 4.4% that is the right understanding, right, and US dollar revenue growth of 2%, which is I just wanted to know how would the breakup over there?

N. Chandrasekaran

I do not have that figure, I have to calculate, but what you say is true that is the constant currency growth 4% that is true and if you exclude this, I do not know what the number is, I need to compute.

Ashish Chopra

So you said that you expect some turnaround within the telecom vertical. So if you could just help me understand, is it more related to the portfolio of TCS clients that you are seeing or is there something that could really be boarding better times for the vertical for the industry at large?

N. Chandrasekaran

Two or three things that are playing out from my point of view. One is we have had degrowth in a couple of accounts over last year, not a major degrowth to be concerned about, but small revenue losses here and there and we have not been able to compensate that with higher growth. So telecom was pretty muted all through the last several quarters.

Now we think that situation has bottomed out. Also, we have had some client wins all through the last year, and we also feel that the telecom clients are open for digital technologies and those kind of deals are coming in as well.

So a combination of these two or three things is giving me confidence that Telecom is going to grow from here. I cannot really comment on whether it is going to be so for the whole industry.

Moderator

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

N. Chandrasekaran

Thank all of you for attending this conference call. I would like to conclude saying that we have had a credible year. We have been pretty satisfied with the 16.8% volume and 16.2% constant currency growth that we have been able to deliver, and the fact that we have been able to maintain margins at 27% as we exit the year, and for Q4 at 26.5% is good for us.

We go into next year with more confidence, primarily due to the fact that there is a lot of clarity in the way that clients are looking at IT spending and the way they are executing both their transformation projects as well as the discretionary projects.

From our point of view, I think we have made investments in the right places, and we have got an engine that is executing well. So we remain confident for the coming 12 months.

Thank you very much, gentlemen and ladies, and look forward to seeing you again next quarter.

Moderator

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