



Tata Consultancy Services Limited

**Q2 FY12 Earnings Conference Call.
October 17th, 2011, 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 '*' and then '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 day and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the second quarter of fiscal year 2012 that ended September 30, 2011. 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 web site, www.tcs.com.

Our leadership team is present on this call to discuss our results. We have with us today Mr. N. Chandrasekaran – CEO and MD, Mr. S. Mahalingam – CFO & Executive Director, Mr. Phiroz A. Vandrevalla – Director, Mr. Ajoy Mukherjee – Head of Global Human Resources.

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

As you are aware, we do not provide specific revenue or earnings guidance. Anything said on this call which reflects our outlook for the future or which can be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We

have outlined these risks in the second slide of the results presentation available on our website. With that I would like to turn the call over to Chandra.

N. Chandrasekaran Thanks, Kedar. I am very happy to talk to all of you to report our Q2 results this quarter. Once again, we have had a quarter of exceptional performance across the board and this is the sixth straight quarter where our incremental revenues are in excess of \$100 million.

To start with, we have a very good volume growth 6.25% on a sequential basis. Our international revenues grew by 9% on a sequential basis and the overall revenues grew by 7.7% on a sequential basis.

Barring India, all our markets delivered very good sequential growth. Importantly, North America grew by 8.8%, UK grew by 10.3% and Continental Europe grew by 9.3%, Asia-Pacific grew by 9.8% and Middle East and Africa grew by 9.3%. So, all our key markets delivered very good results. India had a decline and our Latin America growth was pretty muted.

From industry point of view, except Telecom, all our industries delivered excellent growth, particularly, Financial Services grew 8.6% sequentially which was very good. Compared to Telecom which is negative 1.7%, all the other verticals Retail grew by 12.2%, Manufacturing 10.3%, Travel 10.3%, Energy 20% and Hi-Tech, Life Sciences also grew upwards of 9%.

So it has been a well rounded growth with volumes coming across sectors and only from market point of view India and from a sector point of view, Telecom, had negative growth.

From a deal signing point of view, it has been a very, very good quarter. We signed at least ten deals which are in the range of \$100 million or more. These deals came from major markets: North America contributing five, Europe and UK contributing four and Latin America contributing one deal.

And with respect to the sectors, two each came from Banking and Financial Services, Insurance and Telecom, one each from Hi-Tech, Retail, Energy and Utilities and Pharma. Importantly, the two deals signed in the Telecom are with strategic customers, new customers who have a long-term potential. So I am quite happy with the signings that we had in the Telecom sector.

Our customer metrics looks very good. We had an excellent migration of customers across all revenue bands. We added two new customers to the \$100 million+ category. The \$50 million+ category improved by three customers, the \$20 million+ category by three customers, the \$10 million+ category by 7 customers and there has also been significant addition in the \$1 million+ and the \$5 million+ categories.

In terms of pipeline, the pipeline looks very healthy. I have been traveling extensively and met with a large numbers of customers over the last two months across sectors and across the markets. So far we have not heard any negative news from customers. Our pipeline is very robust. The deal signings are on track. We are not seeing any delays and though the macro-environment continues to be concerning, nervous, on the ground, all we are hearing from customers are indicating to us that the outlook is quite positive at this point in time.

In terms of investments, there is a significant amount of effort going on across customers to drive efficiency through transformation of their application infrastructure and technology infrastructure as well as enterprise solutions infrastructure.

From a discretionary stand point of view, there is a significant focus in preparing their organization for digital consumers, for real-time analytics and decision-making using big data technologies and in terms of innovation for new products in the marketplace both in terms of time-to-market and the price of the products so that they can attract new customer segments.

Also, cloud is an area where customers are very keen in order to expand their businesses to emerging markets as they do not want to

invest and build their own IT systems or transport systems from the major markets. These are all some of the areas where there are significant amount of spending as well as discussions happening. From a Financial Services sector, the outlook is positive and also there is a lot of effort going on in compliance-related initiatives as well.

Those will be my opening comments and I will pass it on to Maha.

S. Mahalingam: Thanks, Chandra. As mentioned already, our revenue of Rs. 116.335 billion translates into a sequential growth of 7.7% and YoY growth of 25.3%.

Cross-currency movement clouded the sequential revenue growth in dollar terms. Our revenue of \$2.525 billion translates into a QoQ growth of 4.7% and YoY growth of 26%. However, in constant currency, revenue growth was similar to last quarter's; constant currency revenue was \$2.539 billion, that is a sequential growth of 5.2%.

The breakup of our quarterly revenue growth in the Indian rupee terms is as follows: Volume growth: +6.25%, Exchange: +2.49%, Constant currency realization -95 basis points, Effort mix: -5 basis points, making up the total of 7.7%.

Operational leverage from the strong topline growth including the currency benefit helped us absorb the incremental cost of promotion and all the hiring in this quarter and expand our EBIT margin by over 0.9% to 27.1%.

Impact of the different levers on the operating margins are as follows: Currency: +166 basis points, offshore shift: +4 basis points, rate productivity impact: -73 basis points, provisioning for bad and doubtful debts: +10 basis points, others: -13 basis points, totaling to an expansion of 94 basis points.

We had unprecedented currency volatility in this quarter against last quarter's average rate of Rs. 44.70 against the dollar; the rupee

appreciates in July to under Rs. 44 and then swung the other way by approximately 14% to nearly Rs. 50 in September. The resultant forex loss as well as reduced income or a smaller cash base ex-dividend impacted our other income this quarter.

Effective tax rate for the quarter was 24.3% and net margin stood at 21%. Days outstanding for this quarter was 82, invested funds stood at Rs. 94.5 billion.

In summary, we have seen good growth in those very segments as articulated by Chandra, which we had considered most at risk in this highly uncertain environment. Nevertheless, we continue to closely monitor them for any early signs of stress.

The extreme volatility in currency is a different matter that continues to remain a source of concern. In the meantime, we continue to expand capacity to fulfill the demand that we see in the marketplace.

With that we can now open up the lines for questions.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Ankur Rudra from Ambit Capital. Please go ahead.

Ankur Rudra: Just one question on the remarkably slow momentum in ADM, is this a reflection of possibly actively choosing to look some more transformation work or a reflection of the nature of deals in the pipeline?

N. Chandrasekaran: Ankur, that is a good question. But it is better to take a view over a few quarters rather than to look at only one quarter. These variations will occur. This quarter if you really see, we have done extremely well on Infrastructure, Assurance Services and Enterprise Solutions. We are not consciously looking away from ADM. It is a very important area and we still feel there is a significant opportunity there.

It is just that this quarter, we have had three or four other sectors; Infrastructure, Asset Leverage Solutions, Global Consulting as well as

BPO, everybody kicking in, so it looks a little lower. But I would not read too much into that.

Ankur Rudra: Just on the hiring side, maybe clearly, it is very impressive levels and maybe you could comment on the training capacities given incrementally larger proportion of trainees will use those facilities and then where do we stand in terms of future?

N. Chandrasekaran: First of all, Ankur, we are operating at a very high utilization, 83.1%, and we will continue to operate at high levels. We will increase it a little bit more, so we will give ourselves room for building capacity. We are continuing to hire and we will hire more.

Now, from a training capacity point of view, we have the infrastructure in place to be able to handle the kind of volume of associates we are taking. We have designated five locations in India as the key locations for doing the ILP (Initial Learning Program) training and we have created associated infrastructure, both in terms of training classrooms and also the employee facilities etc.

As you know, we are building a new campus in Trivandrum, but that will take a couple of years or more. Also, we are investing significantly in terms of digital training. That is something that we are working on. It will take some time but I think we will change the paradigm in due course, not immediately – I am talking about a couple of years.

Ankur Rudra: Just my last question on cash conversion, if I can. Clearly, cash conversion has improved quite a bit sequentially. However, if I notice the DSO and the unbilled days it continues to creep up a bit. Is there any internal benchmark that you keep track of that at which level you are comfortable with and beyond which you would not be. Also maybe you can add color to what led to this rise?

S Mahalingam: As far as the DSO is concerned, we have reported in dollar terms now and that has actually come down from 84 days to 82 days. The other question that I will answer is about unbilled revenue. Unbilled is a matter that happens towards the end of the quarter and so on. We are

not unduly concerned with that for the simple reason that all of them have been scrutinized thoroughly and there is no issue as far as that is concerned. But if I were to take Days Outstanding in terms of receivable as well as UBR it was 97 in this quarter as against 100 in the last quarter, so we have done quite well.

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

Edward Caso: Hi, good evening, thank you for taking my call. Could you talk a little bit about your BFSI space which continues to do well – what are you seeing, what areas in particular those clients focused on and I am particularly curious as to the regulatory aspect if you are starting to see some of that work? Thank you.

N. Chandrasekaran: From a BFSI point of view, we see a lot of effort going on in efficiency still – they are called as “transformation,” sometimes called as “Re-engineering Initiatives” by the financial institutions whereby we are looking at systems which are globally efficient, for example, payment is a big area, securities processing is a big area, so there are specific areas in which significant amount of investment is going on in helping the financial institutions to have efficient systems both in terms of a single footprint and also in terms of some of the latest technologies coming in to make them realtime.

We are seeing a very good growth for our products for Custody, for Corporate Actions, for Payments, for Securities Processing and also for Core Banking. All these areas we are getting a lot of traction across the board.

We are beginning to see infrastructure optimization deals in the financial institutions. Even though our infrastructure business has been growing significantly, most of the transformation deals in the infrastructure space had so far been outside of the financial services area but we are now seeing traction for such deals here as well.

And in terms of compliance, there is a lot of discussion going forward on the spend towards compliance and we are working with few banks on compliance initiatives but I think there's more to come.

Edward Caso: In the United Kingdom, the government cut back and put a lot of price pressure on all the providers a year or so ago. Could you give us an update on what their market is like, the UK government market? Thank you.

N. Chandrasekaran: With the UK government, we are doing two or three very major engagements. I am happy to report that the most prestigious engagement, which is the PADA (Personal Accounts Development Authority) initiative, that is the pensions initiative, is on target and went operational last quarter. The policies are already on the system and getting serviced and we are on track both in terms of revenues and margins. We have not had an impact. The contracts have gone through the government scrutiny and I am happy to say that we are on track, there are no issues.

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

Moshe Katri: This is a question for Chandra. Any feedback on any discussions you are having with clients regarding your CY2012 IT budgets and also maybe your views on when budgets will be finalized for next year? Thanks.

N. Chandrasekaran: I have just recently met with a large number of our customers and while I can comment about what I have heard, I would like to wait till the December quarter to confirm this.

At this point in time, based on what I have heard, the budget cycle is going to be on target and there won't be any delays. Most of the clients I have spoken to said they are going through their budget cycles as per plan. There will be increased budgets in some situations, there will be a flat budget in some other situations, but I have not heard of any significant reduction in budgets.

And so at this point in time, it looks positive. We are expecting the budgets to get finalized by the end of the calendar year. But we have to be watchful. We are looking for any specific negative news that may come, we are scrutinizing any delays, any project cancellations or any drop in budgets or any shrinkage of revenue targets from our teams – we are looking at all of those very carefully to see if there is any pattern and we will continue to be watchful.

Moshe Katri: One last question. On recruiting, looks like your recruiting time is 6-12 months basis, is the recruiting of proceeding as planned or is the pace of recruiting slowing a bit given the macro uncertainty?

N. Chandrasekaran: I could not hear your question. Are you asking if our pace of recruitments slowing down?

Moshe Katri: I am asking looking at your recruiting plans from a 6-12 months perspective going forward, is the ramp up on the recruiting side proceeding as originally planned or is the pace of recruiting slowing a bit given macro uncertainties?

Ajoy Mukherjee: As far as recruitment is concerned, we are on target. We are now at 60,000 gross hires for this year and we are sticking to that as far as this financial year is concerned. For the next financial year, we will do the planning when the time comes and then let you know.

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

Joseph Foresi: Hi, I wonder if I could just follow-up on the 2012 question. I wonder your discussions with your clients, is it too early to tell what 2012 is going to bring in, maybe you could just put it in context with how you are discussing this year as much others years. I was wondering just if you could kind of give a little color on that side?

N. Chandrasekaran: It is too early to be giving you a firm picture on 2012. But having said that, from my recent meetings with the customers and their outlook on IT spending, outlook on projects, on discretionary spend, etc, I do not

see any change in direction from customers. I think that we are all working towards doing a normal cycle for their budgets. That is what I am hearing. But we need to see as we go into November. End-November, early-December will be the time to take a firm view.

Joseph Foresi: And then just following up on that is the tone the same across all your client base and maybe you could just talk about how entering 2012 feels compared to what you might have experienced in past years, maybe 2009, just from a total spend perspective?

N. Chandrasekaran: Surprisingly, the mood across sectors – Manufacturing, Retail, Financial Services, Utility sectors - all match up and they seem to be positive. Going into the year at this point in time, definitely it is a lot better than in the 2008-2009 timeframe. But having said that, every single day, if you read a newspaper or if you watch TV you get very worried.

Joseph Foresi: Just one last one, you said it is better than 2008-2009 timeframe, is that because the type of spend is different, is it more maintenance work versus discretionary? I am just trying to get a sense of why beside the fact that things were much worse back and why you are feeling a little bit more comfortable outside of what the clients are telling you?

N. Chandrasekaran: One is the body language. Our customers' attitude is that we are not expecting a sudden recovery in the US or Europe. We know that the recovery or the employment situation is going to take a considerably long time. They also are aware of the sovereign debt crisis, all the things that they worry about, we hear multiple different opinions about... according to them, there is no new data point; all these data points are already known. So they are going about spending their money in two ways: getting more and more efficient from their IT platform and then they all want to grow.

They are very careful in where they are spending, but they are spending. They are extremely careful; it's not that the CapEx is going to be just made available easily, there is a lot of scrutiny, but there is a method by which they are going about it. That is why I feel better.

Moderator: Thank you. The next question is from the line of Mitali Ghosh from Bank of America-Merrill Lynch. Please go ahead.

Mitali Ghosh: Just wanted to understand that one often hears of customers wanting to squeeze their maintenance spend in order to fund the discretionary part of the spend. What does that imply in terms of realization for you and how are you really approaching that?

N. Chandrasekaran: Mitali, that will always be there. In some companies, there is an additional budget, in some other companies, the budget may stay the same, so they may try to change the mix of run versus change so that they can get more of the programs in. Those discussions will have to be had.

In those situations, you've got to specifically work on all the levers that you have: are you offering a fixed price, or are you offering more offshore leverage, or are you cutting down functionality or are you consolidating applications for rationalizing them or can we do a maintenance contract with that transformation contract bundled...there are so many different scenarios of so many different options exercised by customers, so I cannot paint a broad brush picture on that.

But we are very focused on our gross margins. I would say and it is very difficult to get price increase at this point at least in near-term, so we are extremely focused on margins, especially gross margins and we will continue to drive that.

Mitali Ghosh: Overall, what should one expect from a realization trend point of view? Linked to that, Maha, in terms of the margin guidance for the year, any update in that in terms of where you think you can hold the margin given the rupee depreciation?

N. Chandrasekaran: On the first point, I think you should expect that pricing will be stable or continue our normal course. There should not be any big jumps or big drops - may be marginal increase in a quarter or a few tens of basis points drop in another quarter, but more or less stable. And Maha, can you --?

- S. Mahalingam:** Mitali, we do not give any guidance. I have not given any guidance as far as the margin is concerned but certainly, we have talked about an aspirational goal of 27%. We believe the cost structure certainly enables us to give that and we should be able to reach that. It is a factor of growth and of course, reining in the expenditure through cost controls and so on. I have always maintained that with the Dollar at around Rs 46 or thereabout, we should be in a position to deliver this kind of margin; we do not see any roadblock coming in the way.
- Mitali Ghosh:** And given that the Rupee is today trading at above Rs 46, so should one expect that you could do better than that level or would you be really looking to invest it back into the business?
- S. Mahalingam:** I think Rupee is trading at Rs 49. You said Rs 46, but it is not, it is trading at Rs 49.
- Mitali Ghosh:** I said above Rs 46.
- S. Mahalingam:** Above Rs 46. The basic thing is our investment strategies are driven regardless of, as we have always said, we continue to recruit, we believe there is a demand and we can see the demand, there has not been any slackening of demand we have given commentary so far. So that would continue to go on. So I do not think we are going to invest just because we have an uptick from a currency perspective.
- Mitali Ghosh:** Right. Lastly if I can check with Ajoy in terms of the campus hiring, what are the kind of offers that you have made and are salary levels being offered flat versus last year?
- Ajoy Mukherjee:** Salary level is the same as what we offered last year. Our campus recruitment process is in full swing at this point in time. It will continue next quarter as well and so far, we have given 35,000 offers already for them to join us next fiscal.
- Moderator:** Thank you. The next question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Divya Nagarajan: A couple of questions; I notice for the last few quarters our top 10 clients seem to have slowed down in relation to the company average. This quarter in particular your top two to five clients have grown sub 2%. Is there anything that we should read into this? Is it because these clients are maturing and do you expect that they will continue to grow slower than the rest of the company in the future as well?

N. Chandrasekaran: I think there is nothing wrong with the top five clients. They are excellent clients with repeat business and the absolute amount they contribute is growing. They are continuing to grow, continuing to present opportunities. But, beyond a size, they may not grow at the same average as before. In one quarter they may come in below company average or in some other quarter, they may be at the same level - but in absolute terms, they are growing.

Diviya Nagarajan: And I noticed that in your early commentary you said that price realizations were down about one per cent this quarter. Even last quarter I think price realizations were a bit down but I am trying to reconcile this with the commentary that pricing is stable but we have actually seen two quarters of pricing realization dip. Do you expect this to stabilize in the current levels or do you think that as your mix changes you could see this realization dip even though the absolute like-to-like pricing might continue to remain flat?

N. Chandrasekaran: Pricing per se has not dipped actually. Most of the things that you see is a combination of service-mix and market-mix. Last quarter we had significant impact due to the market-mix. This quarter, to some extent it's the service-mix: applications doing less and some other services doing more. So that is the primary reason, we are not losing any price on any of the deals and I would not say that this is any cause for concern.

Divya Nagarajan: Just one last question and maybe a couple follow-up after that, your peer Infosys which reported last week talked about an evenly spread revenue momentum through the year, they typically see a seasonality with December being a little weak because of holiday season, do you

subscribe to the view this is likely to be an evenly paced out year or do you expect normal seasonality to fuel for your company?

N. Chandrasekaran: From TCS point of view, we had an excellent growth in Q1. On the back of a solid volume performance in Q1, once again, we have delivered a 6.3% volume growth this quarter and the momentum is good. And in the third quarter, you always have the issues of Thanksgiving holiday, Christmas holiday, Diwali holidays in India so the number of working days we have is less.

Also, going into December, decision-making will probably slow down. You may not have ramp-ups suddenly happening in the month of December. So those things will always present themselves.

The other thing that happens in December is that Manufacturing and Hi-tech Electronics companies always have what we call furloughs i.e. shutdowns for one or two weeks. Especially with Hi-tech companies and Manufacturing companies, this has become a norm over the last three, four years.

So from a Q3 point of view, I would say holidays plus this will be an issue. But apart from that, I think business momentum is going to be steady. So, you should factor that from TCS point of view when you make your estimates.

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

Sandeep Shah: Is it possible to give some color on the volume growth within the international business?

N. Chandrasekaran: Sandeep, all the growth has come from our international business. We have had a 5% revenue decline in domestic business this quarter and then are LATAM business has been pretty muted. So, our international revenues grew by 9% QoQ and international volume growth grew by about 7.3%.

Sandeep Shah: And sir, what is the reason in terms of a significant decline in a fixed price revenue contribution in this quarter?

N. Chandrasekaran: In fixed price, there are always some projects that ended and some projects that started. In the last year, year-and-a-half, we have had issues in large scale fixed-price contract signings – we have not had large scale fixed-price signings for some quarters, so some of those projects are getting over. We will be signing new contracts. The pipeline is good. So, it should go up.

We have always said hold us to 48 or 49 or 50. The fixed price portion will always oscillate between 40-50 that's the range we have given and we have for a period of time, always been operating 47-49 and this quarter it has come down a little.

Sandeep Shah: Sir, the closure of these fixed price projects may have some impact in the Q3 or already we have the new deals which would be sufficient to compensate?

N. Chandrasekaran: It depends on how much you are projecting.

Sandeep Shah: And sir, some bookkeeping questions, it seems this quarter the short-term borrowings has gone up significantly. What is the reason for the same? And if I am not wrong, the invested cash seems down on a QoQ basis from Rs. 105 billion to almost like Rs. 95 billion.

S. Mahalingam: As far as the short-term borrowing is concerned, this is more a question of management of funds. We wanted to make sure that we do not break deposits in the treasury management area. And as far as the investments are concerned, we have not seen any decline as far as this quarter is concerned.

Sandeep Shah: Sir, if I am not wrong, last quarter was Rs 105 billion, so in the opening remarks you said Rs 95 billion despite we have a borrowing which has increased in this quarter.

S. Mahalingam: No, the main thing that you have to take into account, the dividend that we have paid as well as. We have paid something like Rs 25 Bn in

terms of dividend, because there were two dividend payouts; the final dividend for last year paid out after the AGM and then the first quarter interim dividend. On top of that, we also paid for the acquisition of Diligenta balance shares and so on and so forth. So all this put together resulted in money outflow.

Sandeep Shah: And just last question in terms of the OCI balances related to the ForEx hedging outstanding in the balance sheet.

S. Mahalingam: On the OCI, we have got Rs. 5.28 Bn and as you know it really depends on how the rupee moves for it to translate into the right kind of loss of profit or whatever it is.

S. Mahalingam: So, this is a positive or negative as of now?

N. Chandrasekaran: This is a negative one at this time.

Sandeep Shah: And what is the QoQ movement here?

S. Mahalingam: There has been a significant jump as far as OCI is concerned mainly because of a huge swing in volatility in currency.

Moderator: Thank you. The next question is from the line of Pinku Pappan from Nomura. Please go ahead.

Pinku Pappan: Chandra, could you just talk about Telecom – is it something to a particular client or is it something secular you are seeing why was a dip in this quarter?

N. Chandrasekaran: Telecom has been not performing well for a long time except the last quarter. For about eight quarters we have had issues and last quarter we did well, and then this quarter again we have not done well because there has not been a consistent performance from varying accounts in Telecom for some time. But as I said I am quite happy that the signed actually three deals. One, we announced towards the end of the last quarter and two we announced this quarter – all three are really large strategy customers for us, with a huge potential to grow.

And we are also pursuing some two deals in the Telecom sector. I am so glad that the deal pipeline in telecom has picked up. So I think we should do better from here but hey, this has been a trouble sector for sometime.

Pinku Pappan: And you talked about chasing 10 large deals, can you just give a profile of where these deals are in which industry segment?

N. Chandrasekaran: Industry segment wise we are pretty well-rounded. We are chasing across all the industries: Banking, Insurance, Retail, Energy, Pharma sector, it's pretty distributed.

And in terms of markets, they are predominantly in North America and Europe, at least four on four and then the two deals are outside. Well-qualified good deals are being pursued.

Pinku Pappan: Finally, you talked about not finding any signs of cutback or cancellation of projects, specific to Continental Europe what are you hearing, is there any cause for concern there, any red flags you can potentially hear from that region?

N. Chandrasekaran: We have delivered almost 10% growth this quarter on the back of double-digit growth in Continental Europe last quarter. So I think our pipeline in Continental Europe is good. Our incremental revenues are coming in. But again, as you know, from a macro point of view it's one of the most troubled regions. So, we just have to see what happens to Greece, what happens to the Eurozone, what kind of decisions are being taken, what are the institutions that get affected, we just have to watch. So we are looking for any possible signs of negative news so that we can be prepared on the ground to tackle it.

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

Sandeep Agarwal: I have just a couple of questions; one was on the tax, where do we see the full year tax for FY12 to go and what kind of CapEx you are expecting for FY12 and FY13, if you can throw some light and thirdly,

on the utilization side now your attrition has come down significantly and you have added lot of capacity, freshers. Probably one quarter or maybe two quarters, there could be some hit in the realization but otherwise how you expect it to go, so am I right in my expectation or what?

S. Mahalingam: The first question on this tax rate, we are at 24% and that is more or less what we are going to have for this year. It becomes a little difficult to say exactly. I have been talking about 23, 24% it depends on the extent of non-SEZ revenues that we have and all that kind of thing. So I think it will be good to factor in about 24% and next year we will make the announcement later as to what the tax rate is going to be, but I have always maintained that around 25% we will reach and then after come down, but whether it is going to be a little over 25% or so, I will make that announcement a little later.

As far as the CapEx for 2012-13 is concerned, we have not arrived at and we are not making any announcement as yet. As far as utilization is concerned, Ajoy...

Ajoy Mukherjee: Utilization is concerned if you look at last 4-6 quarters, we have been operating at 82-84 in between and we are quite confident of operating at this higher end of utilization, sustaining that.

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

Nitin Mohta: My question essentially relates to if you look at the current demand structure given your feedback that you will obviously have multiple margin tailwinds in terms of currency depreciation as well as the attrition coming down and there does not seem to be supply side pressure. So if you can please outline areas where you would like to reap the benefits that you get from these?

N. Chandrasekaran: You know we also have to look at the kind of investments we are making, even in this quarter if you see on the back of huge intake last quarter, yet again a huge intake this quarter. Last quarter also we had

significant intake of trainees and all their salaries come from the full quarter this quarter. On top of that we have taken 20,000 plus this quarter. It is a huge employee expense. So that is the kind of investment that is needed in order to be ready for capturing the growth.

Also we will continue to invest more in intellectual property, in our products, platforms and frameworks. We have a product business where we are continuing the investments, it is doing well. iON, our small and medium business platform, we continue to invest. And we are looking at a couple of more platform plays, so, we look at that. So, there will be investments for which we will need to be building margin cushion.

Nitin Mohta: And then if I can have a follow-up, in terms of utilization it has been obviously a couple of quarters, you guys have been operating at industry high utilization level. In your client conversations does that come up as compared to your preparedness to service them vis-à-vis your peers who are operating at a lower utilization level?

N. Chandrasekaran: I think the way to look at it is that with 83.1% utilization we have been delivering incredible volume growth. That is not possible if we cannot service and execute. So we have demonstrated that at this utilization level, because of our size, we can bring this size and scale to play and deliver to the requirements of our clients.

Nitin Mohta: Thank you and all the best for remaining quarter.

Moderator: Thank you. The next question is from the line of Ritesh Rathod from UTI Mutual Fund. Please go ahead.

Ritesh Rathod: On your variable pay, how much you have paid in this quarter, can you just highlight?

N. Chandrasekaran: 100% payout.

Ritesh Rathod: And what was the last quarter, the same number?

N. Chandrasekaran: More or less the same. The only variation is that at the senior levels we will link into performance, some will get more, some will get less, basically we are paying out the 100%.

Ritesh Rathod: And in terms of the loans and advances the other assets which has increased, has there any high up, what is the outstanding amount to the Tata Group companies which you have advanced? Has it increased from the last balance sheet numbers which we disclose?

S. Mahalingam: There have been no increase from the last balance sheet numbers that we disclosed in terms of what we have given to Tata Group. It is not a very significant amount.

Ritesh Rathod: Okay. Thank you. That's from my side.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from IDBI Mutual Fund. Please go ahead.

Pranav Tendulkar: Do you see European demand coming down on, what is the characteristic of Europe demand because we had an excellent quarter in terms of Europe volume growth or revenue growth. And second this is what kind of traction you are having on the SMB platform that we launched?

N. Chandrasekaran: On the Europe side, we have delivered two continuous quarters of good growth and we have not seen any specific let up at this point in time. On the SMB side, the platform is doing very well, over 250 customers have gone live and deal signings have crossed 400 but it is taking time to make the customers operational because of the diverse nature of the current setups they have. But I think live customers are increasing every day and the rollouts are happening every day. I think we should pick up scale in the coming quarters.

Pranav Tendulkar: Thank you.

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

Yogesh Agarwal: I just have a couple of clarifications. Maha, the cross currency impact of the top-line is 50 basis points, right, for the quarter?

S. Mahalingam: Yeah, it's 50 bps – reported is 4.7% and constant currency is 5.2%.

Yogesh Agarwal: And Chandra just a small thing on the realization. You said it is because of the service mix. Is ADM billings usually more than enterprise solutions or the products etc because if I see only BPO has grown or IMS might explain a little bit but still, you have some services which are higher billing servicing?

N. Chandrasekaran: Yogesh, I am sorry I am not able to give you a very straightforward answer, it is little complex. Also, the time and material billing has gone up and fixed price has come down. Some fixed price contracts typically have higher realization than time and material. So many factors are playing, it is not that Assurance is lower pricing than ADM, that is a wrong conclusion to make. So there are three or four factors being the fixed price, time and material, service mix next, and then the geographies all of them are there so that is why you are seeing this volatility.

Yogesh Agarwal: Is it safe to assume flat from here realizations?

N. Chandrasekaran: It is very safe to assume.

Yogesh Agarwal: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Priya Sundar from Avendus Securities. Please go ahead.

Priya Sundar: My question is specific to the BFSI segment. As I gather from the industry commentary that a lot of contracts are coming up for renewal in this particular vertical compared to what it was the three years back. What I have been hearing is that you are heading in a year you get 5, 6% of contracts coming up for renewal over the next one or two years you will have at least 25, 30%. So given that BFSI is your largest vertical, how do you think you are placed to tackle this and will you be seeing a significant erosion in pricing in such a case?

N. Chandrasekaran: As yourself pointed out it is a sector in which we are very strong, so we think that we are well-positioned if there are such contracts that are coming up and I do not see a drop in pricing.

Priya Sundar: You also mentioned that discretionary spending is turning towards emerging areas like Cloud, Big Data technology and all. Can you elaborate on what kind of services you currently offer in these areas and what is your strategy going forward, what kind of revenue contribution do you have currently and probably over the next five years from these new areas?

N. Chandrasekaran: I am sorry, I have to make a big presentation to you on this. It can't be answered in one line but having said that, we have significant investments in these areas like social media, mobility, listening platforms, big data. There are centers of excellence, there were large teams both in the US, the Valley as well as in India and in our local delivery centers in the US markets, and we work with a number of customers. We have done more than 100 engagements in these technologies and we are winning more engagements. We are in a phase that we are working with customers to redefine what is possible using these technologies. It takes time, it will build scale, but I cannot give you a revenue projection at this point.

Priya Sundar: Thank you. That's it from me.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Just an extension of earlier question about Europe. It is one of the most uncertain in terms and the kind of negative news we have from the region but this is one of the most performing geographies for us, what do we see the key factor driving this performance?

N. Chandrasekaran: Very difficult to say. You can look at it in multiple ways. One way to look at it is that our current revenue base is small. The second way you can look at it is that companies are now more open to the kind of services that we are able to offer to make them more efficient, you can

read it like that. And the third is that our presence in these markets on the sales side has increased. There are multiple dimensions in which you can interpret. But the point is that between the macro and corporate world, there is a disconnect.

Rahul Jain: And can we even consider a point where the incumbent or European players do not have a much well-shaped outsourcing model as compared to a certain extent US players have done but European players have not been able to create outsourcing model?

N. Chandrasekaran: I would like to avoid making comments on competition; I would like to stick with our results please.

Rahul Jain: And another question LATAM specifically has been seeing a sort of flat revenue over last several quarters. So, do we have some specific way to propel this or is it going to be flat for some more quarters?

N. Chandrasekaran: I think LATAM has been volatile, there has been a problem, some markets have been growing and some markets have been falling. But they have grown this quarter and I expect to see growth in the coming quarters.

Rahul Jain: Okay that's it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Radhika Merwin from PUG Securities. Please go ahead.

Radhika Merwin: A couple of things; one, when you had mentioned earlier on the realization part it was a mix of a change in service mix and also your time and material and specific to that, there has been a significant change in your time and material versus your fixed price contracts this particular quarter. So is there anything particular that has happened this particular quarter because almost 300 basis points is a difference that is showing on a sequential basis.

N. Chandrasekaran: I think nothing to read except that some of the large fixed price contracts we signed earlier have come to an end and that has affected the portion of fixed price versus time and material and this also reflects

that a few quarters back, there was a slack in the deal signings and fixed price contracts which are predominantly discretionary fund related. So I think that is getting corrected. So it should go back. But we have always said that you should be comfortable to see this number between 40-50%.

Radhika Merwin: So in terms of the deal wins that you signed this particular quarter we are back on track in terms of deal wins on the fixed price contract, have we seen that come back this particular quarter with the robust deal signings?

N. Chandrasekaran: Some we have signed, but I can't really tell you next quarter whether we will be back at the same percentage. I can't tell you, but it will surely inch forward.

Radhika Merwin: And then just one last, just a color on FY13, I know people have asked this before, but based on general understanding and since you are interacting with your clients, is there something that you differently right now for the next year vis-à-vis how you would be probably six months back, because you are still going strong on hiring but are you viewing FY13 with a little bit more skepticism, particularly to Europe, do you see some particular concern that might relook at FY13 numbers?

N. Chandrasekaran: At this point in time, based on what we have heard, we are creating the capacity for growth. Even this quarter we have signed four important deals in Europe. So I think we have to go by data, we cannot go by hunch and market sentiment. If we go by data we have to prepare for growth.

Radhika Merwin: And the ForEx loss this particular quarter was how much exactly sir out of the other income?

N. Chandrasekaran: Rs 9.1 Bn.

Radhika Merwin: And we will continue maintaining our hedge position for the duration that we have maintained. Are we changing, are we going more short in terms of hedge positions or are we going to maintain at a same level?

S. Mahalingam: At the current time we have got a set of hedges, we have it planned in the board meeting which happens regularly through keep reviewing it. But I can't comment on whether we will continue to maintain it and so on. So certainly, our outlook at this moment of time is to look at the short-term - six months. and we are continuing with that. Beyond that I can't say anything.

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

Kedar Shirali: Chandra, may I request you to give some closing remarks?

N. Chandrasekaran: Thank you all for joining us for the Q2 earnings announcement. As I said we are happy with the results that we have declared, particularly happy that we have been able to deliver volume growth and the international revenue growth and from a sector point of view, happy to see BFSI and a number of verticals doing well, happy with the deal signing in Telecom and happy that the major markets including Europe have delivered. I'm rather disappointed that the volatility of the Indian markets continues which we are paying attention to it.

Our hiring is on track and even though there is a lot of macro nervousness and about unemployment in the US and about the debt crisis in Europe, going by the data points that we have based on all the ground meetings with customers we think there is a very good growth opportunity and we will continue to prepare ourselves while at the same time be very careful in listening to any signs that we can pick up. If we pick up any negative signs we will be the first who will come back to you and tell you there is something going on. Otherwise we are prepared for growth and thank you all for your support.

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

[Edited for improved readability]