



Tata Consultancy Services Limited

**Q2 FY15 Earnings Conference Call.
October 16, 2014, 18:00 hrs IST (8:30 hrs US ET)**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you. And over to you, sir.

Kedar Shirali: Thank you, Inba. Good evening and Welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the Second Quarter of Fiscal Year 2015 ending September 30th 2014.

This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter. The Financial Statements, Results Presentation and Press Releases are also available on our website and have been e-mailed to those on our mailing list.

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. Ajoy Mukherjee – Head of Global Human Resources.

Chandra and Rajesh will give an 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 and anything said on this call which reflects our outlook for the future, or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. These risks have been outlined in the second slide of

the 'Fact Sheet' available on our website. With that I would like to turn the call over to Chandra.

N. Chandrasekaran: Thank you, Kedar. It is great to be speaking with all of you once again. I want to start by saying that we are happy to report another quarter of strong performance.

We had a very robust organic volume growth of 6.1% that translated into 4.6% constant currency revenue growth in organic terms, which is more or less similar to what we experienced in the June quarter.

On a consolidated basis, the sequential revenue growth came in at 7.7% in INR terms, 6.4% in US dollar terms and 7.4% in constant currency terms. Out of this 2.8% of the growth in constant currency terms came from the consolidation of IT Frontier, our joint venture in Japan.

Despite a 48 basis point margin dilution from the consolidation, our operating margin expanded by 55 basis points on account of good execution. Our utilization, excluding trainees as well as including trainees, reached an all-time high of 81.5% and 86.3% respectively. Our operating cash flow for the quarter improved sequentially and on a y-o-y basis.

Coming to the growth itself, it has been pretty broad-based by Geography, Industry, as well as Service offering. From a Geography perspective, North America, India, Asia Pacific, all of them showed above average growth on an organic basis. And if you really take the absolute revenue growth in these geographies except in North America and Latin America, the absolute dollar terms growth is higher in Q2 compared to Q1. So it has been a good quarter from a geography perspective.

If you look at India in particular, I am very happy to state that it has performed well this quarter on the base of a positive growth last quarter. The deal pipeline in India is also looking good, we are seeing spending, and we are seeing a lot of strategic programs being initiated

by private sector clients. I turn positive now on India and then expect growth in the coming quarters.

Industry wise, all industries with the exception of BFSI and Telecom, delivered above company average growth. If you look at BFSI, the BFS segment continued to grow very well but we have continued to see the softness in Insurance. Likewise, all major service lines also did exceedingly well.

From an operating perspective, the client metrics are strong; we added 4 more clients in the \$50 million+ revenue bucket and 9 more clients added to the \$20 million+ bucket.

And in terms of employee headcount, we had a gross addition of 20,350 people and net addition of 8,623 professionals.

Now that leads us to a question whether we could have done better than the organic constant currency revenue growth of 4.6% we delivered. I think I would like to answer that question.

If you look at it holistically, our volume growth has been very very good and even if you look at the incremental US dollar revenues, if you adjust for the currencies, the actual US dollar growth this quarter will be very similar to the last quarter; last quarter we had a positive swing from cross-currency of about \$30-odd-million, this quarter we had a negative swing of about \$30-odd-million. So it is pretty much in line with last quarter.

But, having said that I feel we could have grown by another \$20 million to \$25 million this quarter incrementally. The surprises came from especially three areas – the softness continued in the Insurance, especially in the Diligenta business, and although Retail did exceedingly well from an overall growth perspective, the growth this quarter has been smaller compared to last quarter and some of the ramp ups we expected to happen did not happen in time. And then, Latin America which should have grown slightly, declined instead. So

these are the three things that contributed to this shortfall from my own estimate. Otherwise I think this has been a very good quarter.

Q3, as you know, will be a seasonally a weak quarter due to the furloughs and also due to the number of working days, etc.

The other point I want to touch upon is, you have been time and again asking about the possible consolidation of CMC into TCS. I am happy to announce that the boards of both CMC as well as TCS have approved the amalgamation of these two companies.

TCS will issue 11.7 million new shares and minority shareholders in CMC will receive 79 shares from TCS for every 100 shares of CMC that they hold. We believe this amalgamation will help both companies achieve a clearer market positioning in areas of overlap while leveraging our combined scale financial strength capabilities and assets for competitive advantage. It will also make us much stronger in India.

Subject to the regulatory approvals from the shareholders and creditors of both companies from SEBI and other regulatory agencies we expect the amalgamation to go through in the next 6 to 9-months.

That is all I wanted to say as commentary. Now I will pass it on to Rajesh for his comments.

Rajesh Gopinathan: Thank you, Chandra. I'll just go over the numbers once again for any of you might not have got it.

Our second quarter revenue was Rs.238.16 billion, which represents a growth of 7.7% Q-on-Q and 13.5% y-on-y. Revenue in US dollar terms was 3.929 billion which is a sequential growth of 6.4% and a y-on-y growth of 17.7%.

In constant currency, our revenue growth was 7.4% Q-on-Q on an organic basis excluding the revenues from the consolidation of IT Frontier Corporation in Japan. Our constant currency revenue growth is 4.6% q-o-q.

Moving to the revenue breakup, the organic INR revenue growth of 4.9% Q-on-Q was made up of a volume growth of 6.1% constant currency realization impacted revenue by (-1.5%) and exchange movement impacted it positively by 0.3%. The ITF consolidation contributed 2.8% positive resulting in a total INR revenue growth of 7.7%.

Moving on to the operating margin, our operating margin this quarter is 26.85% a Q-on-Q expansion of 55 basis points. This is despite a (-48) basis point impact from consolidation of ITF this quarter. The absence of the one-time depreciation charge that we took in Q1 gave us a 70 basis point tailwind this quarter. Other operating efficiencies gave us 21 basis points and exchange rate movement contributed another 12 basis points.

At the Net Income level, despite expansion into operating margin, our Net Income Margin declined by 67 basis points Q-on-Q to 22.2%. This is on account of lower Other Income, resulting from significant cash that we returned to shareholders in the form of an interim dividend, a special dividend and the final Q4 dividend.

Effective tax rate remained unchanged at 23.1%. Our account receivables stood at 81 DSOs in dollar terms. Operating cash flows improved further; we are at 22.3% of net cash flow to revenues, compared to 21.5% in the prior quarter.

Invested funds as of September 30th was Rs 153.84 billion. Lastly, the board has recommended an interim dividend of Rs. 5.

With that I open the line for questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen we will now begin the question-and-answer session. Our first question is from Mitali Ghosh of Bank of America. Please go ahead.

Mitali Ghosh: Mr. Chandra, how would you characterize the demand environment compared to the start of the quarter in terms of deal flow, sales cycle

and ramp-ups? And any trends by geography, vertical or services worth calling out?

N. Chandrasekaran: Mitili, I think I would say that the demand environment continues to be strong and I would not change any commentary or the intensity from what I stated in the beginning of the last quarter or all through the quarter. We continue to see the same areas of opportunities in terms of simplification, Digital as well as regulatory compliance, these are the themes that are primarily driving growth.

Demand in the US is pretty strong; of the 8 deals we announced this quarter, 5 have come from the US; 2 from Europe; and 1 from UK. So all these three markets – which are very important markets for us – continue to be strong.

From an Industry perspective, our deals have been 2 from Banking, 2 from Manufacturing and 1 each from Energy, Utilities, Healthcare and Transportation. So these are the key segments that are continuing to perform. Retail had a very strong growth; (+7%) in Q1 and from there it has dropped this quarter, even though growth in this quarter is pretty credible. As I explained in my opening remarks I think I am short a little bit in Retail from what we originally planned because some ramp ups that we expected did not happen in time. But this is not an indication of any sectoral issue or anything. The pipeline looks pretty strong.

Mitili Ghosh: Post the CMC merger, is there any change in terms of your target margin guidance?

N. Chandrasekaran: No Mitili, CMC is already consolidated fully in our accounts, so there will not be any margin impact.

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

Diviya Nagarajan: Chandra, looks like UK and Europe have been a little softer than expected this quarter, especially Continental Europe, where you have had strong growth in the last several quarters. Could you give us a

sense of what is happening in these two key markets for you? And how do you expect this go on forward?

N. Chandrasekaran: UK has been affected for the second quarter in a row due to Diligenta. We had a degrowth in Diligenta in Q1 and we continue to have a degrowth this quarter and that is reflected in UK as well as in Insurance to some extent.

However, if you really look at the growth of UK and Europe in constant currency terms they have been pretty strong. In constant currency terms, Europe has grown 6.4%, so it is not bad at all. The 6.4% growth has been significantly impacted by cross currency impact movements and has translated into 2.5% growth in reported dollar terms.

UK also has grown in spite of the Diligenta, 4.3% in constant currency terms, brought down by cross currency impact to 2.5% growth in dollar terms.

So the impact on cross currency from Euro and Pound has been pretty significant this quarter; 4% has vanished from our revenue growth in Continental Europe, and 2% has vanished in UK due to the translation into dollar terms. Otherwise, these had pretty strong growth, our pipeline is strong and no cause of concern.

Diviya Nagarajan: You did mention that Insurance was going to be weak, but how has BFS performed this quarter?

N. Chandrasekaran: BFS has done very well this quarter, in fact, factoring the weakness of Insurance, BFSI grew 3.9% in a constant currency terms, but if you take BFS by itself, growth will be much higher. So I would say that the BFS grew at or above the company average this quarter.

Diviya Nagarajan: We continue to maintain our full year outlook that constant currency momentum will be better than what we reported last year?

N. Chandrasekaran: This is the question I was expecting. You are putting me on the spot, thank you for that, Diviya.

Diviya Nagarajan: No, I said constant currency. That is why I understand currencies are moving very violently against the dollar, but...

N. Chandrasekaran: I think the key challenge that I have got myself into is the following: If you really look at it from a Q-on-Q perspective whether it is Q1 or Q2 we have done very-very well compared to last year, and if you see Q3 and Q4 also, though I am not giving guidance, I expect that we will do well compared to last year growth rate.

But, the basic point is that the exit-rate from last year definitely has an impact on the overall year-on-year growth that we are able to achieve. This quarter I would have liked an additional \$20-\$25 million and that would have comfortably put me little more than 5% organic growth, another probably 20 basis points, and we would have been in a much better situation.

Now, we will have to see from here, because this shortfall multiplied by three is what we have to make up in the second half. And Q3 is a soft quarter. Typically, for Retail what will happen is that the focus will be on holiday season support, so the discretionary projects that I expect to ramp up...will it all happen in this quarter? Or will the client take it up to next calendar year? I have to see. And then furloughs...what is the impact, I have to see. The usual things that affect Q3 can play a role.

So, at this point in time, that is the situation that we are at. But overall environment looks good, we remain positive. We will see where we go from here.

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

Sagar Rastogi: I was just curious to know why you decided to merge CMC now versus, say, at an earlier point in time? And a second question that I had was in Retail. Is the sort of the miss concentrated in a particular geography or is it across geographies?

N. Chandrasekaran: I think there are two answers. The first question I think you can ask at any time due to the announcement, right. So I do not think there is any big timing reason I can give. This has been in the works. Every now and then this question has come up from people like yourself, it has come up in the AGM and we have also thought about it, etc., then we thought that it may be appropriate to do it and then get our India business all consolidated and have one strong force and probably we can do better in India. And if we take the overseas business there are some sense that CMC brings and then we can integrate them with respective industries, and then some more it will go down.

So there are very positive reasons to do that, otherwise there is no specific timing reason. We could have done it now, we could have done it 6 months ago, we can do it 6 months hence. Let me put it this way: I cannot say whether this is the perfect time, but this is generally not a bad time, that I can tell you.

And with regard to Retail, it is not one single client or something like that. There are some ramp ups, predominantly in the US I would say, because we have a very strong retail presence in the US, which did not take place.

As I said, we should look at it as three different areas – one is Latin America, it has de-grown; Diligenta has certain Insurance softness; and then Retail. So it is not a big number if you individually look at each of these areas, but when you put them together even 15-20 million can make a big difference.

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

Ankur Rudra: Chandra, could you explain to us what is happening on the Insurance side? Going forward, is there a platform or product-specific issue in Diligenta or is there a change in market and what we are doing about it?

N. Chandrasekaran: In Diligenta, the weakness is primarily due to the policy run-offs. Typically we have done one large deal and that will give a huge ramp up that absorbs the run-offs. Many deals are being pursued and we need to close some of those deals. So that is what is causing the ramp downs or the policy run-offs. But it is not something to be alarmed about. A deal win can give a big kicker and we expect to do it.

Otherwise, from a broader Insurance perspective, I think we are continuing to pick up momentum both in the US and in Continental Europe. In UK, I think we will be stronger when we enter next year. I do not expect a huge dip or anything like that, but it is going to be soft for the next couple of quarters. But it will be strong next year.

Ankur Rudra: Broadly from a more platform perspective, we have seen one of your peers recently spend a lot of money acquiring a vertical specific platform. Is that an area that TCS looks to potentially invest in further? We know that Insurance is one of your bigger platforms either organically or inorganically?

N. Chandrasekaran: Ankur, we look at platforms from both horizontal perspective and a vertical perspective. From a horizontal perspective, we have a large number of platforms that we have created and they are all beginning to deliver, but the numbers are not large enough for me to talk to you about. Be it our HRO platform, our F&A platform, our Procurement platform, Analytics platform or iON assessment platforms, all of these are growing quarter-on-quarter and we expect that some of them will gain momentum and scale over a period of time.

From a vertical point of view we have platforms in Banking. We have created a digital platform for want of a digital banking client. We have invested in platforms for the customer experience functions. Then we are looking at the Travel vertical. In every vertical we are looking at what is the white space in which we can create a platform. Insurance is not the only one. Some will be organic, some will be inorganic, but it is definitely an integral part of the strategy.

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

Sandeep Shah: Just the first question is in terms of CMC. Just was keen to know that what was the need in terms of, is it like owning a 51% stake versus owning a 100% stake or through amalgamation in CMC would lead to any difference in terms of growth prospects within India? Why not utilize that \$500 million worth of currency through equity dilution for acquiring a company or making an acquisition to fill the gaps, A), in terms of markets; B), in terms of verticals; C), in terms of services. So, what is the rationale? How does it change the growth prospects in India by merging CMC?

N. Chandrasekaran: First of all, your question is whether this money can be used to acquire something else. If we find something else, we have the cash and the plan and place to acquire that. So that is a separate answer.

But, if you look at CMC per se, it is not only about consolidating our position in India. It is about resolving some conflicts as well, whether it is in Insurance area or in some domestic deals, the way we do the system integration contracts not only in India, in some of the other markets in which we want to do the same contracts. I think there are multiple areas in which we can bring synergy. There will also be management time that will be put to more holistic use to grow, and then the cost rationalization. So there are a number of factors due to which we believe that it is the right thing to do.

Sandeep Shah: And just a broader picture, within CMC, any color in terms of annuity-based revenue versus a project-based revenue?

N. Chandrasekaran: I do not know the answer.

Sandeep Shah: Chandra, if we are not wrong, what you are trying to say is the growth rates in Q3 and Q4 you aspire to be better than what we have reported in Q3FY14 and Q4FY14 on a reported dollar currency, which was closer to around 2% to 3% Q-o-Q?

N. Chandrasekaran: We do not give guidance but I am saying that there are two factors; on the one hand, the momentum is there; on the other hand, these are seasonally soft quarters. There will always be the furloughs especially in Manufacturing, Hi-Tech industry and Telecom in this quarter. You always see that the retailers typically are much focused on the holiday season and holiday support becomes the single most priority for retailers, so there would not be any discretionary focus in this quarter. So those two factors will have an important role to play. Our aspiration is to continue the momentum.

Moderator: Thank you. The next question is from Viju George of JP Morgan. Please go ahead.

Viju George: Chandra, just coming to this Retail business, you did mention that there was a little bit of a miss in terms of ramp-up of contracts. Does it mean that you should be able to sort of compensate for that miss over the next couple of quarters, because presumably those TCVs are already in the bag, it is a question of getting them out in the form of revenues or do you think it could be pushed out to next year?

N. Chandrasekaran: I very much expected this question, Viju, thank you. The first point I want to make is that Retail in this quarter has done very well. On a constant currency basis, it has grown 5.5%. Even though it includes Japan, that is very little, so it is above 5% definitely on a constant currency basis.

So I do not want to give you the impression first of all that Retail has not grown, it is just that the Retail had such a momentum – last quarter we grew above 7%, so there was an opportunity here and so that delay has happened.

The thing that I worry about is because if I am sitting in the Q1 call and if you had asked this question I would have said, yes, we will capture it in Q2. But we are sitting in a Q2 call and we are getting into a Q3, which is a soft quarter for Retail because of the holiday season as I explained. So I am not sure whether we will capture it. Probably, we

will not capture it in Q3 and I am not sure whether we will capture it in Q4, but that will be our intent.

Viju George: With regard to CY15. I do not know whether it is too early for this, but do you get any initial indications from your client as to how they see CY15 for IT Services spending, do you see it holding up further from here, any tentative indication at this stage?

N. Chandrasekaran: Viju, overall, nothing has changed. The client commentary is very positive at this point in time, but to give a very specific guideline about FY16, as you rightly said it, is a little early.

Moderator: Thank you. The next question is from Surendra Goyal of Citigroup. Please go ahead.

Surendra Goyal: Chandra, looking at the data over the past six quarters, constant currency realizations have declined Q-o-Q in five out of those six quarters. So just curious, if it is purely a mix issue or is there anything more to read into that?

N. Chandrasekaran: It is predominantly a mix issue.

Surendra Goyal: So there is no pressure on pricing in the market?

N. Chandrasekaran: No.

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

Ravi Menon: I have two questions here. One is on the T&M revenue proportion, that has actually grown to a multi-quarter high. Is this due to a pickup in spending around Digital projects or it is mostly due to the ITF integration?

N. Chandrasekaran: It is only due to the ITF integration.

Ravi Menon: A very good growth in the ADM and Infrastructure Services. How would you say that the split is from ITF revenue? Is that mostly ADM or Infra?

N. Chandrasekaran: It is only these two services.

Ravi Menon: So there is no BPO or Enterprise Services from that?

N. Chandrasekaran: No-no, predominantly, 95%+ is due to these two, there may be some Consulting.

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

Sandip Agarwal: My question is primarily on two fronts. One, on the demand side. Although, Chandra has answered it in so many words, but just wanted to know a bit more, whether we are seeing the same traction which we were witnessing earlier in case of Digital, we are witnessing the same kind of traction right now as well. And will that traction not be able to take care of any seasonal decline, which generally happens in the next two quarters. So, is that momentum not enough, or is it because the size is too small to take care of?

N. Chandrasekaran: The traction in Digital is continuously strong and as I said that it will only get better and better as we go into the future. TCS has made a significant investment, whether it is in terms of training people, hiring people or creating intellectual property in terms of foundation software, vertical products. Across the board, we have made a lot of investments. So I think we are very well positioned to capture Digital demand.

Having said that, my worry is that softness is in the Manufacturing and Hi-Tech side, whereas most of the Digital initiatives will be Retail and consumer-focused businesses like Banking and other areas. Retail also in Q3 will have softness due to the holiday season.

So I just do not feel confident that we will be able to substitute the softness with discretionary spends. Also ramp up may not happen especially in Retail.

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

Rahul Jain: Based on the inorganic growth number, I think it fell a little short of what we said for the deal, which we said at the time of the deal call, and also from the margin perspective, it looks like somewhere between 12% based on the reverse calculation. So, can you give me more insight in terms of what could be the run rate going forward both for the revenue as well as margin?

Rajesh Gopinathan: So the incremental revenue from the deal is US\$103 million and this is in line with what we had indicated to you in our mid-quarter update. From a margin perspective this quarter's margin is slightly higher than expected and it is closer to 9%, but from a modeling perspective, you should consider margins in the range of 5% going forward, which is the long term average that the entity had. So it will go through a bit of volatility in the first few quarters as we go through the integration process, but you should build in an assumption of about 5%. The revenue of US\$103 million we expect to grow from here, but that is also subject to a bit of volatility in the early quarters of the ...

N. Chandrasekaran: Next 3-4 quarters you should give us some integration time, that is my request.

Rahul Jain: Till that time, there would be further impact from this, but it does not change our otherwise margin outlook of the band, which we have indicated earlier?

Rajesh Gopinathan: So including this margin we are positioned fairly comfortably in the mid-range of our target band of 26% to 28% and any further impact of this or dilution of this we should be able to handle it within the overall indicated band.

Rahul Jain: Also, with possible amalgamation, have you shared the ratio which you were talking of?

Rajesh Gopinathan: Yes, it is 79 TCS shares for every 100 shares of CMC is the recommended ratio by the two boards.

Rahul Jain: Will it make a difference to the EPS growth versus the profit growth on an annualized basis?

Rajesh Gopinathan: That is always a question of historically you have to look at it and you got to take a call going forward. If you were to consider the LTM EPS and the minority share out of that, this proposed ratio the TCS EPS is almost flat or marginally positive.

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

Moshe Katri: Chandra, your utilization rates are at peak levels. How should we think about that in the context of future hirings or your bench?

N. Chandrasekaran: Moshe, the hiring this year so far has been pretty strong; we started the year by saying that we will hire 55,000 people this year, but so far we have hired 36,000 people, so hiring is going quite strong. And the utilization as I said, the percentage beyond a point becomes meaningless because the scale is pretty large. So I am not concerned at this point in time, but we are all set to cross the 55,000 target we had set this year.

Moshe Katri: Just as a follow-up, one of your competitors is kind of disclosing which part of the revenue base are generated from what they call SMAC. Is there any way to get kind of a feel on the mix on your side?

N. Chandrasekaran: We call it Digital, but we are not splitting out Digital revenues yet.

Moderator: Thank you. The next question is from Pankaj Kapoor of Standard Chartered Securities. Please go ahead.

Pankaj Kapoor: Chandra, just a question on CMC. How are we looking at the operating structure going forward? Is there any plan, for example, to consolidate our domestic business under a single entity or something? Or do you think CMC will continue to be a separate entity for at least a few more years?

N. Chandrasekaran: It is too early. First of all, we have just announced the transaction and we hope to go through the approval process and get it consolidated in the next 6-months. If we can get it through, then our strategy would be to fully and tightly integrate, where we will put it all together – we will have a single domestic unit and all the respective industries, Insurance will take in the insurance business, etc.

The strategy will be to very tightly integrate, but we just need to wait for all the approvals and formally go through the deal first.

Pankaj Kapoor: On the campus hiring for the next fiscal, any early idea in terms of what kind of a salary level are we looking at, because campus salaries have not increased for a while. So any thinking on those lines?

Ajoy Mukherjee: Salary levels remain the same. As far the hiring that we are doing at this point in time, the number that we are going to do is 35,000 offers. We are already in that process as far as campus hiring is concerned.

Pankaj Kapoor: Chandra, one last clarification, in terms of the realization dip that we saw in the quarter, is that largely the impact of India doing much better, which put the whole thing down?

N. Chandrasekaran: It is not only India, one is India, all this is the mix, again I say that there are too many moving parts there; India, service mix change... There are many moving parts and it is very hard to quantify that, but definitely geography mix has a role to play.

Moderator: Thank you. The next question is from Ankit Pande of Quant Capital. Please go ahead.

Ankit Pande: My question would be around BFS. Some of the strength that we have seen there, I think, it has been positive for some time. Any idea about how discretionary spends are doing there? Second question would be the gap between excluding and including trainee utilization, which would be broadly indicating of the number of trainees that we have. That has been consistently trending down. So is that a trend that would

continue in the future and that gives us an insight into how you plan your hiring of course?

Ajoy Mukherjee: As far as the utilization of trainees are concerned, when the base increases, then the gap what you perceive between excluding and including trainee utilization numbers you get that perception. But the number of people who are constantly undergoing training in each quarter, that has remained fairly consistent. That number depends upon the kind of the training infrastructure that we have and based on our business requirements, how many do we get, but it has been consistent over the last few quarters - the number of people that we are training at a given point in time.

Ankit Pande: Chandra, could you just highlight trends that you see in the BFS space as far as discretionary expenditures are doing?

N. Chandrasekaran: BFS has three major areas of opportunities. We continue to see a lot of simplification opportunities in the infrastructure space, operations space and in the applications rationalization space. There is a lot of focus on risk and transparency and regulatory compliance. And in terms of Digital, it is all about customer experience, one, and second area is the Analytics at the point of the end-consumer interaction with the financial institution. So how do we bring all the data that you have in different databases plus the social presence of the consumer and then how you gain your insights into the customer base. So these are the areas in which we are seeing opportunities.

Ankit Pande: The Digital projects, would there be a sort of large, more than \$100 million TCV kind of deals or would they be starting up in small packets, a more recent phenomena?

N. Chandrasekaran: These are actually programs that are set up to be very large: \$50 million to \$100 million programs, but the TCV for us will not be that full \$50 million or \$100 million, then you will have to shape that project, because there will be an upfront consulting assignment, then there will be assignments that are in the back-end, there are assignments that are in the front end, there will be several project spin-offs...there are

various approaches that are evolving. In some situations what happens is that customers have a budget and then they slowly and steadily develop it. In some situations customers have the budget and they appoint you as the strategic partner for this whole initiative - it is a soft commitment, not a dollar commitment, and over the next 2-3-years you eventually end up earning revenues of that size, but it is not given to you up-front as a \$100 million or a \$50 million contract. So there are multiple modes of engagement and it is evolving.

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

Manik Taneja: I had a couple of questions. First of all on Europe. While your commentary on demand is reassuring, just wanted to understand there have been weak macro data points coming in from that geography now for a while. One of your smaller peers has also indicated longer decision cycles in terms of deal closures out of Europe. Are you seeing anything similar out of Europe?

N. Chandrasekaran: I think it is a great question, but I can never reconcile the macro and what we see on the client base. So most of my commentary is totally based on the deals I have closed, deals in the pipeline and what the customer is saying. Macro is something that we watch out for, but it is very difficult to do reconciliation between this. When we see negative news coming in we just have to become a little bit more cautious.

Manik Taneja: With regards to the change in hiring mix that one has seen in the last few quarters, one has seen both you as well as some of your competitors push or hire more laterals. Just trying to understand is that largely driven by the nature of demand wherein you require more domain-centric talent and does it also create a situation where over the next few quarters, you perceive there could be some supply side pressure that could be emerging for the sector as a whole?

N. Chandrasekaran: Ajay can answer this, but our mix has been pretty much steady – close to 60% trainees and 40% lateral hires in India. That is the range that we have been broadly moving in, but obviously, we are recruiting

laterals in different markets. Sometimes it is due to skill requirements; sometimes it is due to the nature of the deal where we may insource certain employees as part of the deal. So, it is a combination of factors, but I do not think that it is due to demand fulfillment pressure.

Moderator: Thank you. The next question is from Nitin Padmanabhan of Espirito Santo. Please go ahead.

Nitin Padmanabhan: Chandra, you had spoken about the Digital opportunity sort of yielding maybe \$3 billion to \$5 billion over the next four to five years. Now, generally the way we understand the deals are typically small. So, should we look at this as cumulative or absolute revenue run rates or how should one understand this?

N. Chandrasekaran: The way to look at it is that, when I originally said it, I said that over the next three to four years we will do \$5 billion cumulative. But now, I think we will do much more than that on a cumulative basis. The run rate will not touch \$5 billion mark, but it will definitely touch a few billion dollars.

Definitely, the opportunity is huge. Most of the ADM work that is getting replaced, rationalized etc., is moving into Digital. Most of the Infrastructure contracts come up with outsourcing of Infrastructure to maintain the service levels in a Managed Services model, but with a transformation component to move to Cloud Infrastructure. And commoditized applications, when they are transitioned, customers are willing to look at application platforms which are cloud-based. So, all these three facts will definitely move things to Digital.

So we need to actually, over a period of time, try to separate out what is the total fresh business that will be coming in Digital versus some of the business that we are doing in the current model, which will get retired to the cloud. That split we have to do. I think it is very hard to do it today.

Nitin Padmanabhan: If you look at the previous years, generally Europe has been pretty strong and now actually US has sort of picked up and the kind of

noises we are hearing around Europe, does it look like going forward, it looks like Europe will sort of weaken incrementally and US will sort of compensate, how do you look at it?

N. Chandrasekaran: From our point of view, I would not say that because our base, especially in Continental Europe, is much smaller compared to US and even UK. So I think we have a lot of room for growth in Europe. Also, European corporations are adopting ever more outsourcing than ever before due to the current economic conditions. That should play positive to our business. So I would tend to feel that Europe will do well.

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

Joseph Foresi: I think it looks like at least this year, your performance has been above your peers with some of your larger competitors having to adjust guidance. I was wondering in the new deals that you look at, how much of those are market share takeaways versus new engagements, and how does that compare historically?

N. Chandrasekaran: Any deal that you do, especially in Applications Outsourcing and Infrastructure Outsourcing it will be some form of market share gain; either you gain it from competition or you gain it sometimes from in-house. Especially in Europe, some of the firms which were not outsourcing earlier are now outsourcing.

But things that you do in Digital probably are new deals. That has been the pattern. I would say that previously, all the Application Outsourcing and Infrastructure Outsourcing made up a lot more of our pie, so we had a lot more marketshare-gain type of deals.

Today, especially in the Digital space or Regulatory Compliance space, etc., they are all new business and our share is increasing in that space. So to that extent, I think, we are winning more first time engagements now. But the outsourcing, especially, Application

Maintenance, Managed Services, these are all market share gaining deals, in one form or the other.

Joseph Foresi: What are win rates like in the digital world and how do those compare to your normal win rates in your core business?

N. Chandrasekaran: There are two parts to it here. There are deals in which we compete but there are many deals we are proactively winning because we are already present in that account and are engaged in shaping the whole digital thinking. As a result of that, those are deals we are able to win pretty much without competition. We do not go through an RFP process, especially when deal sizes are small. On the first category also, our win rate is very good but I cannot give a number.

Joseph Foresi: We have seen some lumpiness in the Banking sector due to all the penalties that some of the larger banks are paying and even some lumpiness in Healthcare. I was wondering, are you seeing any impact at all from the banks paying these fees on the IT budgets and how would you think about the changes going in those two verticals next year?

N. Chandrasekaran: I think that is translating into a huge amount of cost pressure. The situation in which the banks are on the liquidity requirements, etc., is definitely driving tremendous amount of operational excellence in these banks. For us, it translates into more Managed Services contracts and whatever else that can be done to rationalize the cost structure. Can we consolidate things that we are doing with the other things that they can offer? So those kind of discussions are happening. But, definitely, they will result in more Managed Services, more Offshore-driven businesses from our point of view.

Moderator: Thank you. The next question is from Keith Bachman of Bank of Montreal. Please go ahead.

Keith Bachman: Could you give an update of what you think the state of the BPO market is, both from a demand perspective and as well as a pricing perspective?

N. Chandrasekaran: I think from a BPO perspective we are doing well. We have had a continuous few quarters of good growth. We look at BPO business in multiple dimensions – one is the BFS BPO which has expanded, not only with Citi, but a number of other clients after the acquisition.

Our BPO business is growing in sectors like Utilities, Travel, Retail, Manufacturing and processes like Procurement Supply Chain. So on many such dimensions, growth is coming.

And then we are also growing in some of our platform initiatives. I hope that over a period of time, we can increase volumes on our own platforms, whether it is horizontal platforms like HRO and Procurement, etc., or our vertical platforms. That is the direction which we are looking at. The other thing that we do is the IT-BPO synergy. So these are the areas in which we are seeing growth.

I think the pricing is okay. I think our BPO margins are pretty strong.

Keith Bachman: So has pricing changed at all, it has been fairly consistent or has that come under more pressure?

N. Chandrasekaran: It has been fairly consistent.

Keith Bachman: Latin America is pretty small for you. It was down sequentially. Is that just noise based on small numbers and the deals getting pushed out or something along those lines or is there something more structural that you see in the Latin American market?

N. Chandrasekaran: It is small, but then when you look at wanting to do incremental revenues of another \$20-\$25 million, if there is a \$5-6-7 million shock that kind of plays into that. That is what we see there. We are down by \$5 million since last quarter to this quarter I think, if you take the currency also into account whereas we should have grown positively. So, that is the impact of that market. But I think I would just say it is the process of growing up in that market. We are about...

Keith Bachman: So, there is nothing structurally changed about the willingness of Latin America to use more Outsourcing services over time?

N. Chandrasekaran: No, I think we need to grow a little more and become more predictable.

Keith Bachman: I want to sneak one more in, because I am not sure I understood the answer. On the Insurance market, I know you indicated it, it is a challenge now; it sounds like it is going to be a challenge for the next couple of quarters. What causes it to get better over time though? I am not sure I understand what would change to cause the Insurance market to return to a more normalized growth relative to the company average?

N. Chandrasekaran: There are two components – one is that our platform on the Life and Pensions had a de-growth because the number of policies that we are servicing is running off and that had an impact last quarter and this quarter. It is going to be soft for next one or two quarters, and that is one component.

The second component is that the rest of the business has been more or less flattish or has been growing at a little below the company average. But our pipeline in US, UK and Europe for the Insurance business is pretty good currently. So I think we just need a little bit time for the ramp ups to start.

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

Sandeep Muthangi: I had a question on the margins. If I look at the past four quarters, there has been a significant improvement in the utilization, which is a big margin lever, currency has not moved anywhere, but the margins have kind of come down by about 300 basis points. So, Chandra, what do you see the reason behind this – is this primarily because of the cost pressures, which is the wage increases, etc., or do you see this as necessary for investment in growth?

Rajesh Gopinathan: As we had commented on multiple occasions, if you go back about four quarters back, margins were in the range of (+30%). And we had spoken about the intent of the company to reinvest margins above the target band into growing businesses, whether it be in terms of new

service lines, or new markets. We have been systematically investing along the strategy; we have invested during this period of time in consolidating our clients operations, we have invested them into consolidating the Japan operations, we have aggressively grown our new service lines like Infrastructure Services and also invested aggressively into Digital. So the company remains committed to defending its target margin band and calibrate its investments accordingly. This is true on both sides of the margin band and there will be a certain lag effect on any calibration that you do, whether it be in terms of ratcheting up investments or ratcheting down investments. So, that is the broad direction and we have been consistent with that and our strategy will continue.

Moderator: Thank you. I now hand the floor back to the management for closing comments.

N. Chandrasekaran: Overall, as I said, we have had a very good quarter, especially the volumes have been pretty strong that clearly indicate the demand that is out there. In terms of the constant currency growth, I explained to you the rationale behind the 4.6% which we have achieved vis-à-vis the market estimates which were closer to 5%. I remain extremely positive about the opportunities that lie ahead for us and especially in the Digital and the simplification areas. We continue to make investments in building out these practices. And Q3, we will have to wait and see because it has been traditionally a soft quarter. And our headcount addition is pretty strong. CMC merger – we are very delighted with the approval that we have got from both the boards. We hope to execute it with all the necessary approvals over the next six months. Those are the comments I want to give you as closing comments. Thank you for listening to us today. Bye.

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

Note: This transcript has been edited for readability and does not purport to be a verbatim record of what was said during the call.