



## **Tata Consultancy Services Limited**

**Q2 FY17 Earnings Conference Call.  
October 13, 2016, 19:00 hrs IST (9:30 hrs US ET)**

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

**Kedar Shirali:** Thank you, Malika. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Second Quarter of Fiscal Year 2017 ending September 30, 2016. 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, Quarterly Fact Sheet and Press Release are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr. N. Chandrasekaran – Chief Executive Officer and Managing Director; Mr. Rajesh Gopinathan -- Chief Financial Officer; Mr. Ajoy Mukherjee – Head of Global Human Resources.

Chandra and Rajesh will give a brief overview of the company's performance followed by a Q&A Session. As you are aware, we do not provide specific revenue or earnings guidance, 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. We have outlined these risks in the second slide of the Quarterly Fact Sheet available on

our website and e-mailed out to those who have subscribed to our mailing list.

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

**N. Chandrasekaran:** Thank you, Kedar. Good Morning, Good Afternoon and Good Evening to all of you.

This has been a very unusual second quarter for TCS, marked by much uncertainty in the environment and cautious spending by customers. It is unusual because typically Q2 is our strongest quarter, both for the company and also for the BFSI and other key segments.

In this quarter, our constant currency growth was 1% QoQ, one of the lowest we have ever had, and 7% on year-on-year basis. This is significantly slower growth compared to what we normally experience in the September quarter. We will talk about that in a minute.

On the margin front, I believe we have done exceptionally well with our delivery, yielding an Operating Margin of 26% and Net Margin of 22.5%.

Now, coming to the revenue, let me get into some details: Firstly, in our last earnings call, I had spoken about some possible softness in BFSI spending. We again confirmed during the quarter about the abundant caution amongst customers on account of multiple events in the macro environment, resulting in holding back of discretionary spending. The holdbacks were noticeable at customer levels in the BFSI sector and we had called it out explicitly. The relatively modest growth of 1.2% in BFSI this quarter has been along expected lines from that point onwards.

The second thing I want to talk about is the Retail sector, which was somewhat unexpected. The quarter started quite well but along the way, we picked up some soft spots in multiple places -- more pronounced in the UK than in the US, but in both markets. That has contributed to delays in the ramp-ups in the Retail and the CPG vertical and caused a sequential decline of 3.1%.

The only positive comment I can make is that we have done a detailed review of those impacted accounts and none of them is going to result in cancellation of any engagements. They are all committed projects and I hope to see them coming in the subsequent quarters.

The third factor was negative surprise - a decline in our India revenue which happened later in the quarter. In India, we have experienced such volatility in the past - in the last 14 quarters, we have had five declines. We had a postponement of orders worth Rs.180 crores from this quarter which we could not realize in revenues in Q2.

So these were the three primary factors. But if you look beyond these factors, we had a very healthy growth in Life Sciences and Healthcare at 4.7%; Energy and Utilities at 3.6%; Manufacturing at 3.1%; Travel and Hospitality at 2.3% and Communications and Media at 2%. All of these four verticals are growing in mid-to-high teens on a year-on-year basis in constant currency.

From a geography perspective, Continental Europe did exceptionally well at 3.7%, Asia Pacific at 3.5% and US at 1.4% and we have flattish revenues in UK and Latin America and then in India we had a decline of 8%.

In terms of Services, all services except Asset leverage solutions delivered a good positive growth, whether it is Assurance, whether it is Infrastructure or even Consulting and System Integration all delivered good growth.

Now, I would like to talk a little bit about the questions in the mind of people. The downward growth trajectory of the last few quarters has prompted a speculation on whether we are on a secular downtrend. I want to use this opportunity to provide some clarification.

On a secular basis, we see the demand for our services only rising and I have no doubt in my mind that we will be back on the upward growth trajectory once we overcome the current cyclical headwinds.

Why do I say that? There are three or four fundamental factors. I believe that higher technology spending is here to stay and the Digital transformation is real, and it is happening in multiple facets. Every company in every industry is investing in becoming a real-time company, which is based on ensuring that systems are integrated and data is real-time. That is driving significant opportunities around Cloud, around API-fication, and around design and around things like Agile and DevOps, etc.

Companies are investing heavily in Big Data Analytics platforms so that they can become smart and intelligent companies and then they are investing in Artificial Intelligence, Robotics, Bots and what have you, in order to be able to respond based on the insights to deliver a superior customer experience. This kind of transformation is real and it is happening across industries. In some industries, IoT plays a big part, some other industries, channels become very important.

The second is that the efficiency drag is still a major issue in many companies. Customers are looking for consolidation and scale players like us have a significant advantage when participating in those opportunities, and we are participating in those opportunities.

In the immediate term, the growth in adoption of Digital technology and the steady inroads it is making within the enterprise IT landscape is driving up project ticket sizes and making our early investments in Digital, our scale, our talent and our end-to-end capability a significant competitive advantage.

Our various Digital products and platforms continue to do well in the market. Ignio™ had 6 more new customers this quarter, bringing its total to 27. Other platforms such as TAP, Chroma, Cloud Plus and HOBS also had wins in this quarter. Even as our customers embrace our existing offerings, we continue to launch new industry offerings and solutions in the Digital space. These are around Robo-advisory, Digital Wealth Management Capabilities; a Banking Blockchain Centre of Excellence for bringing solutions using the Blockchain technology in

many areas including cross border payments, trade finance, settlement, securities, trading, KYC, etc.

Our Retail business continues to innovate. On top of the OmniStore, Optumera Solutions, we have launched an OmniStock solution which brings a Digital transformation of inventory management. There are many such investments I would like to talk about.

Our Digital wins continue to be solid across industries and across technologies. Overall, our revenues from Digital engagements grew 30% year-on-year in constant currency and represented 16.1% of our revenues during this quarter.

In terms of deal wins, we have nine large deals that we have won this quarter and they are fairly well distributed – two in BFSI, two in Retail, one each in Manufacturing, Life Sciences, Hi-Tech, Energy and Communications. Geography wise, North America represented six of these wins; two in Asia Pacific and one in Europe.

Our client metrics continue to improve. We added one additional client in the \$50 million+ revenue band, six clients in the \$20 million+ band and many many more in the \$5 million+ and \$1 million+ bands. We had one client less in the \$100 million+ band this quarter, primarily due to a divestiture they did of one of their businesses. So that divested entity has become a new client for us at a much smaller revenue band.

On the people front, we continue to invest in hiring and training talent; over 180,000 TCSers have now been trained in Digital technologies using our Digital learning platform and the feedback has been consistently good and the experience is continuing to get better as we make further investments.

Attrition held quite well. On an LTM basis, it came down another 60 bps to 11.9% for IT Services. During the quarter, we added 22,665 employees on a gross basis and 9,440 people on a net basis taking the total count to 371,519 employees. I am also happy to say that the

proportion of women in the workforce continues to increase and now stands at 34.3%.

My commentary will be incomplete if I do not talk about the commendable performance on our margins. Expanding our margin substantially in a quarter of subdued growth and adverse currency headwinds and getting back to our preferred margin range is an achievement and I have to recognize all our teams and the efforts they have put in. It has been a structural improvement and it has come in significantly in the gross margin line.

I also want to take a couple of minutes to share our philosophy on margin. I have always been a growth guy... I have focused on growth, I get the message across to all our teams that growth is fundamental because with growth you can achieve many things. But at the same time, I never believed in sacrificing growth for the sake of margin or sacrificing margin for the sake of growth. So I believe in disciplined selling and disciplined execution.

To my mind, strong margins are very important for the sustainability of revenue growth because they give us the ability to invest in building newer capabilities both in terms of technologies like Digital, solutions like Blockchain and also expand our geographic footprint where you are going into a new market like Japan where it is a multi-year cycle before you can get the margins up.

So that is the philosophy which we have been operating and our stated goal is to continue to remain in the 26 to 28% of operating margin.

Further, I would like to say that if you look at the big ticket investments -- organic and inorganic -- over the last decade, whether it is entering new markets or acquiring IP or acquiring capabilities or building talent in-house, TCS has always made the early moves and we expect to continue to do so in the future.

Those are the initial comments I want to make. I will now pass it on to Rajesh to give color of the numbers, and then I will take questions.

**Rajesh Gopinathan:** Thank you, Chandra. Let me walk you through the headline numbers: In the second quarter of FY2017, our revenues grew 1% QoQ on constant currency basis. In INR terms, we had a cross-currency impact of (-1.1%) resulting in reported revenues of ₹292.84 billion which is a flattish sequential growth and YoY growth of 7.8%; in USD terms, cross-currency impact was (-0.7%) resulting in reported revenue of \$4.374 billion, which is a QoQ growth of 0.3% and YoY growth of 5.2%. The constant currency growth of 1% is made up of volume growth of 1.3% and constant currency realization decline of 0.3%.

On the operating margin side, the INR strengthened against all three major currencies – USD, GBP and Euro – by varying degrees but GBP-INR movement was the sharpest. This had an adverse margin impact of 0.4%. Operational optimization allowed us to bring about efficiencies to the tune of 1.3% points expanding the operating margin by 0.9% QoQ to 26%. While we expanded the operating margin, we continue to fund all our existing investments and launched several new offerings as Chandra spoke about in his opening remarks.

On the net income side, net income margin in the second quarter expanded 0.9% points QoQ to 22.5%. Our effective tax rate for this quarter was 23.9%. Our account receivable position was at 80-days which is up 1 day on QoQ basis. Net cash flow from operations was ₹57.1 billion which is 19.5% of revenues. Free cash flow was at ₹52.8 billion. Invested funds as of September 30<sup>th</sup> stood at ₹364.8 billion. The Board has recommended an interim dividend of ₹6.50/share.

With that, we can open the line for Questions.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

**Anantha Narayan:** Chandra, my first question was in terms of these project deferrals that you alluded to. So in your view, what could be the trigger for customers to continue with these projects? And have you seen any signs of it yet?

**N. Chandrasekaran:** This is a difficult question to answer, Anantha. The way I could explain is that none of these projects are cancellations. India, we know for sure, because it was just a slight delay. So it will happen in this quarter. But from the retail point of view, these are soft spots in multiple places, all engagements that we have signed up and these engagements are to ramp up and they will ramp up. We have reviewed these engagements during the last fifteen days or so. We know that these things will ramp up, but I cannot tell you whether they will show up in this month, next month or next quarter.

Primarily because the Retail sector, I have always said every year, goes through tightening in Q3 because their primary focus is to execute very well operationally, to be able to deliver goods during the holiday season. The focus of large retailers is on operations in Q3. So whether some of these will immediately happen or spill over to Q4 is something that we will have to wait and see.

**Anantha Narayan:** Rajesh, just to clarify one thing. If not for the \$26 million lawsuit settlement would margins have been 50, 60 basis points higher than what was reported?

**Rajesh Gopinathan:** Yes. \$26 million is part of the operating expenses.

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

**Yogesh Aggarwal:** Chandra, outside the Digital business, any comments you have for the traditional re-bid market? Is that slowing as well or is the opportunity the same? Secondly, Digital grew only 1.5% this quarter. Is it related to the Retail weakness?

**N. Chandrasekaran:** I think the answer to the Digital question is that yes, it is primarily due to the Retail weakness because most of those [impacted projects] are Digital projects that would have flown through.

To your other question, we still participate in many of those large scale outsourcing -- or you can call it transformation contracts, where



customers are outsourcing their infrastructure upkeep or changing the infrastructure to Cloud or Application Management. We are still seeing many of those and we are actively participating in those. We are not seeing a slowdown in those.

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

**Ankur Rudra:** Chandra, you said you are expecting 3Q, 4Q to be better than usual years and I think you highlighted that you expect Retail to come back. But do you have enough confidence it will come back in the second half? I understand there will be potentially a production freeze in retail in December.

**N. Chandrasekaran:** Ankur, at this point where we are, I know that these spends will come back. I have gone through each of those opportunities with the respective teams. None of them are cancellations, so they will come back. But again, I want to reiterate that Retail is not about discretionary spending in Q3 -- it is all about tightening, all about execution. So I would add a lot of caution myself to account that. If it comes, I am happy. But if it does not come, I do not want to get disappointed.

**Ankur Rudra:** Was there any change to the delivery model in terms of perhaps the amount of labor used offshore versus onsite maybe to preemptively deal with the impact of adverse US regulations at all this year?

**N. Chandrasekaran:** We have done that, frankly speaking and I did mention it. But I didn't want to get into details. Basically, we substantially reduced the visa filings this year. We have been changing our business model. I will leave it at that.

**Ankur Rudra:** Just on the margin side, is there any sort of underlying greater use of adoption in terms of automation solutions, etc., that can explain very strong margin performance in both of the first two quarters of this year despite relatively weak growth? Is that an underlying trend that we are missing out on?

**N. Chandrasekaran:** I will say three or four points. Rajesh, if you want to add, something you can add. I think fundamentally, we have been on this model transformation to some extent for some time now.

For margin improvement it is lot of discipline that has gone in the execution and we have leveraged multiple factors. Yes, tools are important, automation is important, the way we execute our fixed price engagements and the way we staff projects, everything -- we have looked at many-many factors and that is a journey that will continue.

Allow us to just state that we will be in the 26% to 28% margin band. I do not want to say whether it will be a continuing improvement in a quarter or not.

**Ankur Rudra:** Just maybe quick a follow-up, in the Digital business, there was one of the areas where you are seeing some headwinds because of investments in FY16. Do you think we are at a size and scale where it will not be a margin headwind because of investments anymore or you think that is still somewhat away from where we are right now?

**Rajesh Gopinathan:** It is not a margin headwind. Digital is an area that we are continuing to invest in. As we have spoken about, it is a fairly heterogeneous field even now, with huge diversity in terms of technologies, in terms of different services, different business models and we continue to be in an investment phase there. We have supported it during the course of this year and plan to continue supporting it on an ongoing basis also.

**N. Chandrasekaran:** If you see our investment track record, basically there are three angles to it:

One is Digital – in terms of hiring, training, IP, workplaces, Design Studios etc which we have not shied away from;

Second is geography expansion; we have done that because it takes a very serious commitment when you enter into a market with a long term view and take over a business that has a very low margin. We know that it is going to be a multi-quarter cycle and multi-year cycle to get the

margins up, but that is a commitment because that market needs that kind of investment. That is what is good for the business in medium and longer term and we have done that;

The third one is any business model change that we have done and that we will actively do. We have been doing that, for that also we have made the necessary investment. We have not shied away from making these investments.

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

**Diviya Nagarajan:** I think this question has been answered slightly differently before, but what really gives you the confidence that the second half of this fiscal is going to be better than previous year. I understand last December we did have a situation in Chennai which impacted working days.

**N. Chandrasekaran:** I just want to make sure that nobody takes that one line separately. That it is important. Since all of you are here, I will say what I meant and what I said.

I really am not accounting for any macro situations, because I cannot link a situation like US elections or Brexit directly to revenue impact or margin impact. I cannot quantify that. I do not know that and I am not seeing it now, and I cannot link it.

I am conjecturing the softness that I am seeing is due to these factors and we have to leave that as a grey zone and any development in that we need to take into account after the fact.

Apart from that, the only thing I talked about is that in the India business the push-out of about Rs.180 crores will come in Q3. That is a tailwind you can say that we have and that will likely to play in the Q3 of this year. If I recall, our growth last year Q3 was about half a percent. So that is the context against which I mentioned this.

I am not going to say whether Retail will help us grow better in Q3, some of the BFSI softness will get removed. The intent for my team and me

is to continue to improve our growth rate in Q3 and Q4 because we want to make sure that we exit FY17 at a good level.

That is our focus. We are going to stay focused on that so that we set ourselves up very well for FY18. I do not think we have any structural problem. Last two years, we had some multi-quarter structural problems, whether it is Diligenta or Japan. We are out of those things.. So we do not have a structural problem. It is important for us to focus on growth and get a good exit rate. This is the sum and substance of what I said.

**Diviya Nagarajan:** In the last quarter and this quarter, what has been the variable payout for your offshore employees... have you paid out 100%, can you give us some color on that please?

**N. Chandrasekaran:** Variable pay is linked to the performance of each of the individual units and every quarter, the units that perform well have gotten a slightly better QVA and the units which are not performing will get slightly less. But by and large, the variable pay, the sales incentives and bonus, etc., have over the years been consistent. This quarter some units will get impacted because the growth is slow or some units have really not performed well, some units have performed well but for an average employee at the junior level, they get paid. We will leave it at that.

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

**Sandeep Agarwal:** Chandra, while I do not know exactly what is the reason of lower growth in ADM, will it be fair to say that this is more driven by development side or is it maintenance, so some light on that? What is your sense for the outlook? I am not asking for Q4 numbers or growth trajectory, I am just asking what is your sense on the outlook, what is the reason it is getting impacted, is it Cloud alone or is there something else?

**N. Chandrasekaran:** To talk about ADM or any service line in a quarter where we have delivered 1% is pretty hard. Actually if you look at this quarter on a sequential basis, ADM has delivered 0.9% which is pretty much tracking

the company's growth on CC basis. So it is not a decline or anything like that.

I think I would tend to think that development is more impacted than maintenance, because all the slowness that we have seen is all in discretionary spend.

To your second question, Cloud does not affect the ADM revenues. So maintenance wise, I don't think there is an impact. Only in AD, there was some impact. But as I said, on a quarter where we deliver CC growth of only 1%, ADM grew 0.9%, you should take it as growing with the company.

**Moderator:** Thank you. The next question is from the line of Viju George from J.P. Morgan. Please go ahead.

**Viju George:** Chandra, I just wanted to get the sense of your confidence about why you think some of the growth headwinds are cyclical or time bound and why they may not persist for a longer time if that is a way to put it better than structural?

**N. Chandrasekaran:** Viju, in these things, there is no definitive answer. I can go by the data point, there are two ways to look at this – one is to look at the macro and then link to the macro. You all know me for a very long time. I have always said that macro is macro, I focus on the micro, I focus on what my customer tells me and what I see in the pipeline, what I see on the ground is what I can go by.

The only reason I can say is that, there are no cancellation of accounts or cancellation of projects. So I believe that these things will trickle back in a quarter or two is what my assessment is based on the review that I have done on all these engagements.

But what will be the macro impact? I again would like to say, if there is any big impact that presents itself due to Brexit or the US elections, etc., that is something that we will have to deal with.

For me the only thing so far I have been able to link to the macro is the Sterling Pound currency going from ₹ 95 to ₹ 81-82 and that hit we have taken and that is showing up in our numbers, both on the revenue line and the margin line. But apart from that, what it will do is something that I cannot make out. I do not know whether you are satisfied, but this is the best I can give.

**Viju George:** I think you made an interesting point about how the business model is changing and therefore able to accommodate substantial reduction in visa filings, probably also that is leading to margins strength. Could you just elaborate a bit more on this please?

**N. Chandrasekaran:** No, the business model strength that is reducing the visa filings is actually a headwind that we face because it involves huge localization.

It has been something that we have been on for some time. We have reduced the visa filings, which means that we are going to compensate it with local hiring. So it is not a margin tailwind.

Some of those investments we have made in the past and we will continue to make in different markets, we have done it in multiple countries. I do not know about that whether I can give data.

**Viju George:** So what you are saying is that the margin strength is coming despite phenomena of visa filings getting substantially reduced, not because of that?

**N. Chandrasekaran:** Yes.

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

**Sandeep Shah:** Chandra, just want to understand the sluggish growth in BFSI. Do you believe is it more to do with the macro environment or is it more to do with the low interest rate scenario or it could be more in terms of severe competition which has been increasing in the vertical?

**N. Chandrasekaran:** The first two things you mentioned, both I will put it down as some kind of macro – that is, things which are beyond my control.

As for the third one, I do not think that is true. If you take the last seven years, if you analyze the market share, we have consistently and steadily gained market share in BFSI every single year. So there is absolutely no reason for us to believe that we are losing any market share in BFSI. Our relationships are strong, our execution is strong, and we are making all the necessary investments very proactively.

Whereas on the first two, I cannot pin it down to either one of those. I can only say that these are the kinds of factors probably causing the slowness. In Q2, I would normally expect a BFSI growth of 4% plus considering that we delivered 3.1% sequential growth in Q1 at the company level. So Q2 should go up. BFSI being the largest segment has always played big for us. So the fact that it is short by 3% is something that we have to attribute it to some of the softness due to these factors. This is more as a process of elimination, not as a process of deduction.

**Sandeep Shah:** Just extension to that, any of your client interaction within the BFSI clientele, where looking at a scenario of talks of interest rate hikes may lead to some change scenarios immediately or do you believe that, that may not be an upward trigger going forward?

**N. Chandrasekaran:** No specific comment on that, Sandeep.

**Sandeep Shah:** In Retail, Chandra, I think it looks like it is a negative surprise versus what we have foreseen at the start of the quarter, because at the mid-quarter also the profit warning did not lead to any indication of a slowdown in the Retail. What exactly has happened here?

**N. Chandrasekaran:** As I said, there was a surprise for us as well, Sandeep. Normally we pick these trends up, but we had multiple cases in which it happened. So it all bunched up together in multiple places with regard to what we were hoping to get. That is why we could not pick it up. It is pretty unusual for us.

**Sandeep Shah:** Chandra, I think you believe this is more a temporary and cyclical and not a structural, but how you reconcile the same if we just look at the non-digital revenue growth. In the first nine months it has been just 1.7%, so we do agree that Digital has been growing, but it is not enough to compensate the lower growth in the non-digital?

**N. Chandrasekaran:** You have to think about it like this. Everything will become Digital over a period of time and the faster the Digital transformation accelerates, the better it is.

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

**Manik Taneja:** This question was with regards to our main market, North America. If you could help us understand what are you seeing in your major customers across verticals. While you have alluded to the weakness in Financial Services customers, if you could talk about what you are seeing on the ground in some of your customers in Manufacturing and Retail?

**N. Chandrasekaran:** In BFSI, we have said that it is with global banks that we are seeing softness. I said it a couple of times before and I say it again - If the situation changes we will definitely let you know.

With respect to Retail, we have seen softness this quarter and pretty late actually. The review shows that these things will ramp up again, but I will wait. Q3 being a holiday season for retailers, I will wait before I give too much commentary on that. But otherwise, I think we have done well in North America across sectors. We have done well in Insurance, we have done well in Manufacturing, we have done well in Pharma, Utilities, and Travel.

**Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

**Ravi Menon:** I just wanted to understand a little bit about the decline in employee costs and the cost of revenue decline. I think this is the first time we



have actually seen such a sharp decline in absolute terms. So should we read this as a bit of you dialing back some of the investments that you made during the time when the rupee was depreciating, maybe shifting more work offshore, could you give us some color of what led to an actual decline in employee costs?

**Rajesh Gopinathan:** Ravi, the decline, as you have pointed out, is at the gross margin level and at the project level, and not linked to dialing back of any investments which would get factored somewhere else.

It is a combination of operational efficiency and greater focus on realization, partially coming out of mix changes that we are seeing. So what I would like to characterize this quarter's performance is a reiteration of TCS's operating model and empowerment that we had done at the independent operating unit level.

What it does is, it allows units to calibrate their own performance based on the opportunities that they see. So units that continue to see strong revenue growth continue to invest and expand, whereas units that were facing demand pressures were able to act on that and deliver the kind of improvements that we are looking at.

This really is not a top-down led mandate, saying everybody cut or everybody invest. It is a much more nuanced, much more granular kind of a decision making that comes out of the unique operating structure that we have.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal from PhilipCapital. Please go ahead.

**Vibhor Singhal:** Sir I wanted to get some color on the Blockchain platform and how do you see that technology, the distributed ledger technology, that we are talking of being adopted by different clients? I mean where in the maturity stage are we seeing them? Secondly, what kind of opportunity, what kind of a new domain, could come up for companies likes us in the next may be 7 or 8 quarters, when it is still in the early adoption phase, if at all.

**N. Chandrasekaran:** We see Blockchain as a big opportunity not only in Financial Services but in other sectors in areas like supply chain, item management, supply chain, inventory - many other areas where we are seeing opportunities and our investments are multifold.

We have got a Blockchain center of excellence which has Blockchain based solutions for different processes, whether it is in remittances, whether it is in trade finance, whether it is in clearing & settlement to trading, those kind of areas in Financial Services. We are working on supply chain areas.

Distributed ledger is a feature that has already been announced by our BaNCS platform. We demoed our BaNCS Distributed Ledger to all our customers at SIBOS and it got rave reviews.

We have the capability of leveraging this technology across sectors in different processes and we now have to see how to operationalize, where to operationalize, where our core banking customers are going to leverage this, where our capital market customers are going to leverage this... and we are also going to look at Manufacturing, Retail and another sectors where there is a big opportunity to bring it in.

It is all about helping enterprises become real-time and how do we do that? And that is the problem that we are trying to solve. I think it is a big opportunity but I won't count it in the next few quarters.

**Vibhor Singhal:** Okay, so have you seen any interest on the client side, may be not just in terms of may be some pilot projects that they might have asked us to do for them or may be their interest in some POCs that we could do for them, anything that we have seen as a pull from the client side?

**N. Chandrasekaran:** Yes, we are doing many pilot projects for the clients. Each one of these engagements -- when I say that we have developed a solution for trade finance or KYC or for settlement, each one of those engagements is done with a specific client.

**Vibhor Singhal:** Okay but I think some meaningful adoption of it?

**N. Chandrasekaran:** They are happy with the outcome of the pilots, and they are now discussing what does it mean to kick off a project and what is the business case.... If I get this feature and functionality, where will I be able to make things happen real-time and have the visibility? What is it that I can do with either on the cost side or on the revenue side? That business case building process is going on now and that is not done yet. And when that happens, then you will have large-scale projects coming in.

**Vibhor Singhal:** Okay, so just one last question, maybe a follow-up on that itself. So let us say, we see these clients taking up those process and finally eventually deciding upon that they want to adopt this platform and technology. Do you still see may be a hurdle in terms of the regulatory approvals because we are talking off it as a cross-border kind of a platform in which there will be multiple entities which will be involved. So is there anything that has been done by some independent consultants or by companies itself to approach that thing or that is something also which is WIP?

**N. Chandrasekaran :** But there are many cases that are not cross-border. I mean there are many things that you can do within borders, within the existing regulatory framework. So there will be some easy, low-hanging areas where we can implement readily and there will be some tough nuts to crack.

There are markets in which we are speaking to customers where the top 5 banks are telling us: why don't you come up with a solution? We can create a common platform, all of us are spending money and we are wasting money... and we need to get the regulatory approval but can we build a prototype, can we go to the regulator, can we work with the regulator to see how we can make that program secure, the data private? So these discussions are going on. But that doesn't mean that there is a regulatory approval. Same thing in Digital cash. We are working with one of the start-ups which has come up with a brilliant digital cash startup. It is beautiful but then there is no regulatory approval to launch, because the regulators are not sure what it means.

So these are Horizon 3 projects and we are involved in these projects. We are talking with these start-ups, engaged with these customers but there is no real top line or bottom line yet.

**Moderator:** Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:** Chandra, this question is on digital growth during the quarter, are you now seeing more moderation of growth in the Digital area similar to the rest of IT services business lines? As we can see the quarter was only up 1.5% Q-o-Q. So is that because of lengthening of deal cycles in Digital or smaller deal size and any view which you can provide us?

**N Chandrasekaran:** No. As I said before, please see it in the context of an overall low growth in this quarter. Otherwise, Digital has grown 30% year-on-year and as a percentage of revenue, it has gone up to 16.1%. I do not see any let down in Digital growth. So Digital growth, as we look into the future, is a significant opportunity and we do not have concerns on that.

**Mukul Garg:** Okay and second question on Digital only was can you help us understand what sort of investments you are making and in which areas investments are required, going forward within TCS? When should we start seeing any positive impact coming on the Digital side? And ancillary question to that, I was just curious what is the philosophy behind the lack of M&A in new technology for the company?

**N Chandrasekaran:** On the investment side, our investments have been in multiple dimensions. One is talent -- both in terms of reskilling people and also in terms of hiring talent. That is one area.

The second area is in workspaces, with the whole company transforming to Agile and DevOps. Investments in design studios, design thinking and innovation and collaboration platforms -- those are the other investment.

Then the third investment is in terms of IP that we develop, whether it is platforms like CHROMA, TAP, or technology platforms like ignio™ or

solution platforms like OmniStore, Optumera in Retail... now we have another solution, OmniStock on the inventory side. We have invested in Telecom, in the HOBS platform. We are making continued investments in Life Sciences. So in each one of these segments, wherever we see a platform opportunity, we are making those investments.

On M&A, let me be absolutely clear that I am *not* against M&A. Unfortunately, people keep looking at some data point and then say that we are against M&A in new technologies. We are not against M&A at all. In fact we have done some of the most successful M&As in the industry and we have done it for IP, for capability and for geography expansion. We keep looking for start-ups as well - we have done one or two small ones. In fact, our Digital practice was started six years ago by doing a small acquisition of a collection of people who were running two start-ups. We brought them in and that is how we launched our digital practice six years ago. So it is something that we keep looking.

From the start-ups point of view, we believe in our co-innovation network through which we have access to start-up technology. There, we do not feel a need to make any investments. We feel that the partnership model that we have works very well.

But for small size companies and medium size companies which can be potentially acquired, we keep looking at it but if it does not happen, it does not happen. But we are not going to wait saying that in this area we will only do acquisition. We do both things - we continue to invest and build the capability organically and we continue to look for suitable M&A candidates. Whenever we find those, we will do those. So it is not that we are against acquisition. Why would we be? We will do the right thing. We have a very strong cash position. We have got five and half billion dollars in cash.

**Mukul Garg:** Got it and that was very helpful. Just one final clarification when do you think ignio™ will be large enough for you to break up revenues from it?

**N Chandrasekaran:** Not yet.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.

**N Chandrasekaran:** Thank you all for listening. As I said, it has been an unusual quarter, a tough quarter from a topline point of view and with superior performance from a margin and profit point of view.

We have experienced delays in project ramp-ups. We anticipated it only in Financial Services, but we also experienced it much more sharply in the Retail segment and we had a one-off impact in India which we think will come back in Dec quarter.

There have been no cancellations and these are all critical transformational programs, so we expect to see them coming back in the subsequent quarters. We are not seeing any structural headwinds - - these are more cyclical and I hope that it is temporary and they will be behind us.

Lastly, our confidence and ability to sustain margins in our preferred range comes from our disciplined selling and from the fact that the investments needed to stay relevant are continuing to be made and we are executing by leveraging those investments very well and we hope to continue to do that.

Those are the final comments I wanted to make. Once again, thank you all and wish you all a great festive season!

**Moderator:** Thank you very much members 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.

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*Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.*