



## TCS Analyst Day 2016

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### Transcript of the session titled: **Leadership in a Digital World**

Presented by: N Chandrasekaran, CEO and Managing Director

**Kedar Shirali:** Hello everyone. Welcome to TCS' Analyst Day 2016. A warm welcome to everyone who is joining online for a live webcast of this event.

We have put together a very rich content for you this afternoon starring eleven speakers representing TCS' senior most leadership. They will be sharing with you their strategy, the investments we have made and business outlook as well.

Before I get to the agenda, a quick look at the disclaimers. As you know we don't provide any revenue or earnings guidance. Anything said during these presentations which is forward-looking or which may be considered forward-looking statements should be seen in conjunction with the risk that the business faces. We have outlined these risks in the slide that you are looking at right now. So please take a minute to go through the text of this statement and then we can move on to the agenda of today's program.

This is the schedule of presentations for this afternoon. As you can make out, it's a very packed schedule that we have.

We are starting the day with a presentation by our CEO and Managing Director Mr. N. Chandrasekaran. Without any further ado, I'll hand the floor over to Chandra.

**N Chandrasekaran:** Thank you Kedar. And good afternoon to everyone. Welcome to all of you. Let me try and take the next 30 minutes to walk you through a little bit about Digital and our thoughts on what it takes to win in this

Digital world, what kind of investments we have made and what kind of outcomes we have seen and where we are going from here.

Before I get into the presentation about TCS, couple of words on

Digital.

Digital is all about 3 or 4 things. It is about *data*, it is about *real time*, it is about *connectedness* and it is about *dematerialisation*. In the Digital world, everything is dematerialized, whether it is infrastructure, whether it is manufacturing design, and what have you.

The last two decades we used to talk a lot about CRM systems, industrial automation, industrial robots, payroll systems and so on and so forth. Now in the Digital world we are talking about self driven cars, we are talking about cloud infrastructure, we are talking about sensor-driven smart systems and so on and so forth.

What all this means is that once you have all this dematerialised, everything is software-driven. When we say everything is software driven, we mean software has to be fully embedded in the business.

And in the Digital world we want agility. If you want agility we need a method by which we can get the software out there at the speed with which the business wants to launch products, wants to respond to customers. So that's why Agile becomes important and that Agile is enabled by DevOps. That is why DevOps becomes important. My colleagues will talk about shift left, shift right, and all those things later on but fundamentally, it is a software-driven world and in that software-driven world, agility -- business agility in particular -- is very important and that is enabled by the methodologies of Agile and DevOps.

The Digital world is all about data. This data is coming from everywhere, and if you want to get hold of this data real-time, you need to be hyper-connected. And things are hyper-connected and it kind of feeds on each other. On the one hand data is coming from everywhere on the other hand everything is hyper-connected. And you need a

mechanism to be able to accurately capture and respond to this data real-time.

And finally it is a world of experience. If you go back in time, all of us grew up in a feature-rich world. Whenever we wanted to buy a product we would always go to the shop, look for the same product from two different brands and then read the carton to see which one had more features. And then we would look at the price tag and say, hey, this one has more features than the other. Seldom did we actually open the box. But now from there, we've moved on to experience.

The reason we've moved on to experience is that in a software-driven world, features are only one software release away. You take my Apple Watch. From the time I bought it, I didn't have to change my watch. But every time I upgrade to a new software, I am getting more features. If you are a runner, you're an athlete; you get more features with every software release. And it is true in cars. It is true in every walk of life, and that's the world we are moving to. So dematerialisation is key. Data is key. Real-time responsiveness is key. And hyper-connectedness is the nature of the world we live in.

Now, if you look at the fundamental technologies behind this Digital world, you can never be definitive because it's evolving every day. But at its core, all these technologies came up during the last few years in different points in time, close to each other. But each one of them had a profound impact, and is having a profound impact, but the actual impact is when they all join together.

Mobile without cloud had huge limitations. Cloud *per se* is of no use to consumers without a mobile device. And social media cannot make the impact without cloud. Social media will be just noise without Big Data. And Big Data will be just voluminous without analytics. And the scale of Big Data is so huge, without machine learning you are not going to get anywhere. It would be just too much data.

So the collective power of these technologies when they feed on each other, when they work with each other, presents new possibilities. And

not only that, they are giving rise to new technologies – what we call the composite forces. You can talk about Internet of Things. You can talk about 3D printing. You can talk about pervasive computing. You can talk about many, many new things. Anticipatory computing. There is so much new jargon that you will hear. But the point is that at the core, all these devices are getting connected. We are getting very comfortable working with robots. When I say robots I don't mean the physical robots, I mean the software robots. In your world algorithmic trading is all software-driven. We are very comfortable asking directions from Google. But it's all software driven. And we are going to get more and more used to working with machines, software, algorithms and robots, as we are comfortable working with humans. We will hardly know the difference. And that's the world in which we're going.

And we developed a methodology -- you saw some of these things in the case studies you saw this morning. We work with our customers in building the future. If you want to live in the digital world you have got to rethink all of this. You need to worry about your business model because your business model was built when this real time connectivity was not there and the data was not there. And there was a lag.

You need to worry about products and services because you can create new types of products, new types of services. You need to worry about customer segments because you could serve only a certain type of customer segments before, now you can serve a lot more, because the channels you have today are very, very different.

This might require relooking at the business process some times and many times, getting rid of the business process altogether. Fundamental questions have to be asked. Do you need reconciliation in banks? Can we get rid of it completely, as opposed to driving more efficiency through it?

Lastly, work places. And if all of this is required and this is what is happening around us, what do we have to do?

We have seen many technological transformations in our time. If you look at it as pure technology, it is much easier because one has gone through from mainframe era to client-server era, client-server era to ERP era, from there to internet era and so on. But in each one of these cases, it was a technological change. One came up with a capex requirement in order to change the extant technology base. But this is a different kind of change. It's a business change. It is not about changing the hardware and software. It is about getting a grip on the data, inside and outside. Your data and your stakeholders' data. What do you do with the data? How do you build the capability to be real-time? And if these two things are going to be very important, what does it do to your business and all the six things that I talked about? That's hugely transformational.

From a TCS perspective, TCS is in a much better position today because we are the partner of choice for many customers, many companies around the globe.

So how do we work with them in taking advantage of these technologies? And how do we help them reinvent, re-imagine, transform and go to the future? And for that, a set of investments are necessary. I am going to highlight a few.

The first thing is talent. I have always maintained there are legacy technologies there are no legacy people. We recognize this and we created a Digital Learning Platform which is an integrated ecosystem of content, of experience, of collaborative spaces, different kind of classrooms when you need it, and the ability to learn anywhere and any place, any time, on any device.

We had said that we will train about 100,000 employees before the end of this fiscal year. We have already crossed the 111K mark. And you can learn the way you want. You can learn the business or you can learn the technology. You can choose to go deep, or you don't go deep and just do some nano-courses depending upon what you need, depending upon what role you perform.

And we are on this journey. I think we've had an incredible success. We give a fantastic experience. We are marching on. I am pretty sure that we will complete this whole exercise -- it will be ongoing -- but most significant transformation will happen in 2016.

And we have 400+ different digital tools and platforms and skill-sets that we train our people on. This is required. That's another way by which this Digital is very different. It is not about having *one* particular skill. You need certain soft skills, certain design skills but you need a lot of technological skills. And what do we bring? We have inherently very strong domain skills because we work with the leading companies in the leading industries. We understand our customers' business. When you saw today about some of the world's foremost Retailers, we understand their businesses. When we spoke about healthcare companies, we spoke about banks, we understand their business processes and we understand their domain. What do we do to those processes? What do we do to those systems with these technologies? And those are the skill sets that we are educating on.

Second is the next generation delivery model. The next generation delivery model that we have has a lot of different things. Fundamentally, it has a different style of work space. A very, very collaborative work space because of Agile, because of Dev Ops. How can we be responsive? How can we ideate? How can we fall forward? How can we put the release out?

But there are 4-5 things that we identified which underpin our next generation delivery. Later on my colleagues will talk about it but fundamentally we are driving agile across the company. We are driving automation across the company. We are driving RiO. RiO is very important because SLAs of 99.99 are no longer sufficient. Because the one time it fails for your customer and the system is down, a Tweet will go on which can go viral. So it's important. Rigor in operation is important. Then digital, digital, digital everywhere.

And finally Security. This is a very, very, very important aspect. So how do you embed in your people, in your systems, in your development

methodologies? All of these aspects. We have been driving it for the last 18 months. And you will see some of the statistics later on.

The third one is intellectual property. We look at intellectual property in three ways. The first one is true technology products. I mean what we have given here is a sample, it is not a complete list. But if you look at technology products, these are products that help our teams and our customers for different functions. Then we launched ignio which is our flagship automation product, which is seeing tremendous recognition from customers. Later on, Harrick will talk to you on this.

The second type of intellectual property is properties that are common across industries. And these are cloud platforms -- digital cloud platforms which we take to market, each one of them. And more.

The third type of products are our vertical products which are solutions in different spaces, whether it's in Banking, whether it's Education, whether it's in Advanced Drug Discovery, whether it's in Retail -- Omni store -- or Telecom. And many of these platforms are launched. Some of these platforms are already gaining scale - one platform is nearing \$100 million in revenue a year. Others are \$10 million, \$20 million, \$50 million. They all have customers and all of them will scale.

Then the fourth is the access to the start-up ecosystem. We have been running our Co-Innovation Network for a long time. Our start-up ecosystem at any point in time scans companies, start-ups. We have 1400 of them in our list at this point in time. And then we have a funnel. Once we have an idea about which ones will make a big impact, we engage with them, we embed them in our solutions or sometimes, we work with the customer to build a solution. But we have got a very strong connection to the start-up world.

Then we have our own Research and Innovation. It has got two types of research. One is a foundational research, which is a core R&D team and they are focused on genomics. They are focused on materials. They are focused on design thinking. They are focused on machine learning. They are focused on cognitive computing.

Second, we have industry-specific innovation going on -- frictionless access which you saw earlier today, block chain...Retail, Manufacturing, Life sciences, Energy – in each one of those verticals. So we are focused on both of these. I think these are the types of investments which bring everything that happens in the world together in order to make the world better, make our customers re-imagine and go to the future.

Then we have our co-innovation work spaces. You saw one of them today. The place you saw is a place where we not only share our experiences, not only we share our innovations; this has separate spaces which we couldn't obviously cover -- which are our work spaces with our customers.

And we have design studios in Santa Clara where we have garages. We have people of different kinds. If you go to the studio you find people with completely disparate backgrounds. If you see a team in a studio, with let's say 15 people, no two persons will be the same. They are diverse in every aspect. Some are with design skills, some are with technology skills, some have an engineering background, some have a liberal arts background, some have artistic background, somebody is from Colombia, somebody is from New York, somebody is from China. It doesn't matter. We have built those so that along with our core client teams and domain teams, and with customers, the space has been created so that they can create solutions for solving customer problems or industry problems.

Moving on to outcomes, I want to share a few data points. If you look at our Digital revenue, our Digital revenue has scaled to \$2 billion which is about 13% in CY 15. If you look at the consumer facing verticals, there is a faster adoption. Media, the most disruptive digital technology is accelerating fast. Retail, Hi-tech, Travel, including Financial Services -- they are all growing very fast.

And somebody asked me today how fast it will take. I said you will stop asking these questions after you write 3 or 4 more reports -- assuming that some of you write only 4 or 5 reports a year.

Already 52% of our customers are partnering with TCS and have TCS as the prime digital partner. And not that the remaining 48% will take time. It will all happen very, very fast rapid because somebody asked me again this afternoon how do you see this adoption. This has to happen. This is happening very fast. But every company will not move at the same pace. Because the ecosystem is different, the financial situation is different, their conditions are different. All the banks are not the same. All the insurance companies are not the same. So the adoption time will vary.

Then you look at, I just gave this chart, look at just these three areas. Take analytics and insights. It's growing 10% CQGR, you take Cloud, it's growing at 12% CQGR. Mobility and Channels, digital marketing -- that's growing very rapidly too at 8% CQGR. So this is to just to give you the pace at which things are moving.

Then you look at Industry Analysts' reports, I think we've come a long way. This is a snapshot of how many reports in which we figured in 2009. And this is a snapshot on the number of reports in which we figure today. In a significant number of reports that came out -- especially if you look at the digital reports that came out last year, we were Leaders in 75% of them, and in the remaining 25% we were strong players. So I think what we are doing, market is validating that.

Then you look at the customer traction. This is very important, very important. I think for me this is very important chart because we work with customers and we bring our full capabilities. So that we can make an impact in the process where we can grow. Our relationships are continuously getting tighter and richer and stronger with these customers. And we added 9 customers into the \$100 million category last year, which is actually the number of customers we totally had in CY10. And we have a lot of head room with all these customers.

Then you look at the -- this is a very good chart. If you look at our employee productivity, on the left hand side what you are seeing is our revenue per employee which was \$43,074 in CY11. It is about \$47,110 in CY15. The right hand side what you see is our revenue productivity

on an incremental revenue basis ie incremental revenue divided by incremental head count on a CC basis and that is growing very significantly. For the last 5 years, it was \$61,000. Whereas for CY 15, we are at \$78,000 plus. And that's a very, very rapid movement.

Then you look at our per capita value creation, it used to be about \$9,524 four years ago. And last calendar year, it is \$10,737. So whether you look at the Revenue metric, Revenue per employee metric, or productivity metric or you look at the Net Income metric, I think every investment we are putting in whether it is in digital, whether it is in automation, whether it is in Agile, whether it is in Rigor in operations, you see that playing out in terms of financial performance.

Then you look at the year that went by. Actually I don't know whether you got a chance to look at this before: it is a constant currency growth number for the last 12 months. Every vertical other than insurance and telecom which were soft for us has seen a fantastic growth on a year on year basis.

People keep asking me what is happening to BFS. My response is that the same question has been asked to us since 2008. There is not a single year since that I have not had that question. But the fact of the matter is that banks and financial services have had one headwind or the other. But I believe the technology adoption is strong and the demand is quite strong.

BFS grew 14.5%, Retail grew 14.5%, and Manufacturing and Life sciences and Healthcare are above 20%. And all those industries are doing extremely well. All of this translates into an incremental revenue in CC terms of over \$2 billion for CY 15. This has been one of the worst years for cross currency in dollar terms but otherwise, except Insurance which had a headwind in the sector as well as Diligenta additionally, and Telecom and Media – Media because of the huge digital transformation is happening -- everyone else has delivered a fantastic growth.

Let me move on to the next slide which gives the quality of revenue and quality of execution. I thought I will highlight the last 5 years and the last one year as distinct numbers. If you look at the last 5 years, we had an incremental revenue on reported terms of \$8.6 billion and we had an incremental net income of \$1.9 billion. The Net Margin on the incremental revenue is 22% which is pretty much consistent with the Net Margin at which we operate. Our net margin has remained the same, operating margin has also been on the same ballpark. And if you look at CY15, again we added about \$1.2 billion after the cross currency in reported dollar terms. And incremental net income of \$249 million and incremental margin is again at the same place.

I always have said that you can continue to grow profitably and we are focused on that and you see all the actions taken playing out in the strong financial performance.

Really not forward looking. So in summary, I think I would like to leave you with some thoughts. I think I've got about 3 or 4 minutes. So let me leave you with some thoughts.

Digital is default and it is accelerating. Every industry and every company in every industry will adopt digital. If you take Banking and Financial Services, or if you look at markets whether it is North America or Europe, companies are adopting digital and it will continue. Transformation is not an option. And you will see that playing out.

From TCS' point of view, we have made very comprehensive investments. We have looked at talent, we have given them the tools, the technologies, the platforms that are required which are cloud based. If you look at everything that we are doing, we are adopting digital. We are following those same principles. If you look at the stories at the Executive Briefing Center that we visited, everything is dematerialised. Everything is software, everything is cloud. We can play the whole hog wherever it is. And we have made those investments. We have made the investments in thought leadership because we are partnering with clients, not in delivering the digital

solution, conceptualizing in the digital solution in each one of those cases.

And then we have made the investments in terms of building IP. Our position is always, we look at what's the outcome we need. The means could be organic, could be inorganic. But we will continue to pursue and put the full might of the organisation to be able to bring to bear every single IP that we can bring and we need to bring. So we look at technology based IP, we look at horizontal platforms, and we look at products or platforms which are industry-led. And we are investing in all these three areas.

And if you look at our clients, we are partnering with key clients as their Digital partner. And the partnerships may vary. Sometimes we may start in Big Data, sometimes we may start in Mobile, it doesn't matter. At the end of the day it is about what those 6 things look like, what does the business process look like? What do the channels look like? What other channels are required? Is there a new product, is there a better delivery of that product? Those are the questions that we work with customers.

And our core portfolio is doing incredibly well. As I showed you in the previous slide, except Insurance and Telecom, for almost 85% of the business, the least growth rate it saw was 14.5% CC. Our Diligenta headwind will be behind us after this quarter and these two sectors will do lot better this year than they did last year. I think we are extremely well positioned to lead in this digital world.

Thank you so much.

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