



# “TATA Consultancy Services Limited Conference Call”

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**MODERATORS: MR. GABRIEL ROZMAN – EXECUTIVE VICE PRESIDENT,  
TATA CONSULTANCY SERVICES LIMITED.  
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**Moderator:** Ladies and gentlemen good morning, good afternoon and welcome to the TCS conference call with Mr. Gabriel Rozman. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing '\*' and then '0' on your touch-tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Pradipta Bagchi of TCS, thank you and over to sir.

**Pradipta Bagchi:** Good afternoon everyone. Thank you very much for joining us on this conference call. We are very pleased to have Gabriel Rozman, our Executive Vice President and Head of our Emerging Markets Business Unit, here with us to give you some perspective about our announcement today of opening a new global delivery center in Argentina, our 8<sup>th</sup> delivery location in Latin America. Over to you Gabriel.

**Gabriel Rozman:** Yes, well good afternoon everyone I am down in Argentina of course. And yes this has been a new milestone to be able to open a center in Argentina to be able to take advantage of the resources that we find in this country. I think that one of the reasons why we are doing this is we are the leaders of the IT industry probably from Indian point of view we have about 7500 people in Latin America. So I was saying that we opened Argentina as a delivery center because we want to keep our position as a #1 Indian IT Provider in Latin America, we have 7500 resources in Latin America from Mexico to Argentina. And our strategy is to continue to be the dominant Indian force in Latin America providing solutions and providing offshoring from multiple locations, using our global delivery network model that most of our clients would like to use. Well Latin America providing same time zone work it is one of the pillars of our strategy.

We have been in Latin America since 2002. We started organically. We made one acquisition in Latin America and otherwise we had grown organically. We have 8 delivery centers now in Latin America and we will continue our growth as the years go by. So we are very committed to this area. In Argentina provide some very good resources, some very good people. We have found Argentina to be a source for fantastic talent which our customers appreciate and use. So I think with that let us open to any questions.

**Moderator:** Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press '\*' and '1' on their touch-tone telephone. If you decide you wish to remove yourself from the question queue you may press '\*' and '2'. Participants are requested to use handsets while asking a question. The first question is from the line of Rohan Sharma from UTVi. Please go ahead.

**Rohan Sharma:** Hi Mr. Rozman this is Rohan from UTVi, couple of basis questions on the headcount, did not exactly get the number you said you have currently, that is one. What is it currently? What are the plans for future growth in terms of headcount? And number two, the center itself again is it going to be serving more of those transformational kind of opportunities

that are being thrown up now, that have been thrown up in the light of the recent recession. And also could you give us the comparative cost structure for the headcount in Latin America as compared to India, if you could throw some light on that, thank you?

**Gabriel Rozman:** Yes our headcount is just above, in Latin America just above 7000 people. In Argentina center we are going to have two avenues where we are going to work on. It is going help the Latin American business of TCS because we provide from Argentina especially SAP services. And it is also going to do about 50% of outsourcing toward the US and the Spanish market. So the center is going to be 50% export and 50% is going to be for whole lot of work. As of the cost structure in Latin America in general, it varies country by country. You have Brazil that from the top of being more expensive in Argentina, probably in Mexico right now it is the bottom of the cost pyramid. Our margins are going up every year in Latin America and our goal is to have the same margins as we have in India. It is improving by the year and it will take a little time but our strategy in LA is to have the same margin that we have in India.

**Rohan Sharma:** Okay. And the plans for future growth in terms of number?

**Gabriel Rozman:** Well it is difficult to say in these uncertain times but the local work in Latin America we have not seen any hits in that. We continue growing in that. We have seen that maybe the growth that comes from Europe especially Spain that is going into a big recession. It is diminishing but I think we will continue to grow about what we grow in TCS overall and perhaps a little better than that. I want to promise because my boss may be listening to this.

**Rohan Sharma:** Okay, thank you Mr. Rozman.

**Moderator:** Thank you Mr. Sharma. The next question is from the line Dhanya Toppal from Dow Jones. Please go ahead.

**Dhanya Toppal:** Yeah, hi, I just wanted to know what kind of investment is it. How much have you invested in this center, if you could just throw some number?

**Gabriel Rozman:** Sure, as you know the investments in the technology area are not really significant, as the percentage of our revenues or profits. We took a very old building and a very emblematic building in Argentina and also we are located in a New Technology District, that the city of Buenos Aires set out, we are the first occupants of that technology district. So we invested a bit over million dollars in redoing the building and now we are going to need all the technology so maybe \$2 million to start this building, but those investments when you grow organically are not really important in the overall picture.

**Dhanya Toppal:** Okay. So overall it would workout to around \$3 million?

**Gabriel Rozman:** Yeah, all the investments that we have done so far in Argentina at this point is around \$2 million in redoing the building and putting in a lot of technology in it and hiring those people and so forth.

**Dhanya Toppal:** Okay, thank you.

**Moderator:** Thank you Ms. Toppal. The next question is from the line Adith Charlie from The Hindu Business Line. Please go ahead.

**Adith Charlie:** Yeah Gabriel, I just have two queries, firstly I wanted to understand this is 10,000 square feet center right?

**Gabriel Rozman:** Right yes.

**Adith Charlie:** Yeah okay, I just wanted to understand in India, the average square feet per employee works out to around 100 but if here you are talking about 10,000 square feet for 250 people. So going by global standards is not that bit on the lesser side?

**Gabriel Rozman:** Well so the building really, it is a very large building, we took one part that we are conditioned to start working right away. We are moving all our people October 1<sup>st</sup> from multiple locations to Argentina and we were preparing for having future expansions. It really is a very large area even more than 10,000 meters. So we are not occupying everything right now. Right now we have 250 seats and all those are occupied with the first wave and we are going to be expanding that center as we....

**Adith Charlie:** So this 10,000 square feet area could go up in the future?

**Gabriel Rozman:** It will go up, yes, because center is of 250 seats, I mean that is really economically viable in the long run. If you look at our centers in Mexico with over 1000 people, even a small country like Uruguay has about 780 people. You are going to go over 500 quickly if you want to make money with this.

**Adith Charlie:** Right. So 250 people have already started working there is it, 250 people you already have there?

**Gabriel Rozman:** Yeah right we are moving 250 people from different locations we had plus some hires we had that 250 seats are taken alright.

**Adith Charlie:** Right. And my second question is last time you did mention about TCS plans of setting up centers in Russia and Turkey, just wanted to know what is the headwind that the company has made on that front?

**Pradipta Bagchi:** Adith, this is about Latin America so we will restrict the questions to Latin America please. And the other thing is it is 10,000 square meters in the press release not feet. So I think that is why you are getting your sums a bit wrong.

**Adith Charlie:** Okay, alright thanks.

- Moderator:** Thank you Mr. Charlie. The next question is from the line of Kritika Saxena from CNBC. Please go ahead.
- Kritika Saxena:** Hi this is Kritika from CNBC. Okay I wanted to just touch base on in terms of investment \$3 billion has been set out for this particular center any thoughts...
- Pradipta Bagchi:** No it is \$2 million not \$3 billion.
- Kritika Saxena:** Yeah so in terms of investments in other centers around Latin America are there any talks as of now, are we looking at larger investment in delivery centers around Latin America?
- Gabriel Rozman:** Yeah as I said, our preference is to keep on growing on the centers that we have. Mr. Ramadorai was in Argentina yesterday for the opening of this center in Argentina, but the day before he was in Uruguay, where we expanded the center in Uruguay by another 100 seats. And our preference is as much as we can do it is to grow on present centers to try to get the economy of scale. So I do not foresee that we will open any new centers. We are still would like to grow like the new one in Mexico in the city of Queretaro, Mexico, we still want to grow and we have room to grow in Mexico much more as well as Brazil and Chile.
- Kritika Saxena:** Okay, great. And in terms of acquisitions around Latin America area are there any thoughts are you open to looking at acquisitions in the Latin American region?
- Gabriel Rozman:** Yeah we are always looking and we always have our radar out for viable acquisitions. At this time we think that we are happy with our organic growth. And we are able to attract large number of people based on all the networks that we have in some of the countries, in Latin America. So we keep looking if something comes up you know our strategy does not call at this time to any acquisition.
- Kritika Saxena:** Okay, thank you so much.
- Moderator:** Thank you Ms. Saxena. The next question is from the line of Kenin Machado from CNBC. Please go ahead.
- Kenin Machado:** Hi Gabriel this is Kenin here from CNBC. Just couple of questions, if I am not mistaken Latin American contributes some 4.6% of your revenues. I would presume that because of these large investments you would foresee a larger contribution from the geography towards your revenues. So could you share numbers on that front? And again I am presuming that most of these investments or expansions are towards acquiring Latin and Spanish speaking abilities, so could you share with us what is the reason behind this?
- Gabriel Rozman:** Well I think I think we have come from practical 0 to 4.6, so if you look at the overall numbers for the market in Latin America they are about in line with or a little bit better than what our competitors have in Latin America even looking at the big multinationals based in the US. So I think that you know we continue expanding all over the world and I

do not see that Latin America is ever going to get to the 10% of the revenues that would not make sense in a market that represents 3.5% or 4% of the overall global market. So I do not see that varying a lot. We are going to go up but very slowly. And what was your second question?

**Kenin Machado:** My second question was that these kind of investments and expansions in largely Latin and Spanish speaking markets if you could share with us the kind of strategy behind doing it. Are you seeing a lot of demand from such markets or is it from developed markets...?

**Gabriel Rozman:** Yeah I see, we have two strategies, we see more and more that the Latin American market in South especially the two pillars Mexico and Brazil that is more and more outsourcing going on that the outsourcing wave that started 15 years ago in the US is now starting and peaking in Latin America. So we expect a lot of large projects that come from Latin America in the next two years. And then we see that especially as we open new areas of BPO, infrastructure that a lot of US customers and Spain and Portuguese customers, but mostly US customers have a preference for having a dual strategy of keeping most of the work in India and some work in Latin America which will complement their operations. So I would say most of our large customers that we operate from the US will either have something small in Latin America or looking for something in Latin America to complement their India strategy. India of course is going to continue to be our larger destination by far. Latin America is just a complement. We do not compete with India, we complement the India operations.

**Kenin Machado:** Would you be at liberty to throw some color on how much is the contribution from either America going to go up in terms of numbers? And could you quantify the opportunity in Mexico and Brazil for us please?

**Gabriel Rozman:** We do not give any guidance on numbers looking forward in general, but we see that the growth in Brazil and Mexico is going to be in double digit, way into the double digits this year. And I do not know Pradipta, what kind of guidance do we give ...?

**Pradipta Bagchi:** No guidance at all on numbers.

**Kenin Machado:** I do not want the guidance, but the addressable market size in Mexico and Brazil for domestic outsourcing? And how much do you plan to ...?

**Gabriel Rozman:** You mean the overall addressable market in ...

**Kenin Machado:** Yeah so X and how much of that X would you look to garner in the next two to three years kind of a ...?

**Gabriel Rozman:** The problem with the addressable market is the information in Latin America that our Gartner's and IDCs and so forth compile has a lot to be desired and it is not that they do not have a very good facilities, is the fact that the confidentiality of the companies, it is a different thing from the United States companies are going to share numbers very well.

You see that presently the market in a place like Brazil that the largest market is in few billions of dollars every year in what interests us. And there are some very powerful, very large and very powerful companies in Brazil which are local companies, which have an important share of the market there. And I do not have a number. We are not shooting for market share number in Brazil since the numbers are very sharp, but let me assure you that there are hundreds of millions of dollars of work that, that would be available in Brazil and Mexico. Just to give you a flavor for this, in Mexico we do the work for the Mexican Social Security Institute for the last three years and we have put out some press release three years ago saying that this is between \$40 and \$50 million a year in work in a single customer in Mexico. The same thing few years ago, we put a press release about the work for ABN AMRO in Brazil which now is Santander Bank and again you know it is about the same size we have hundreds of people working.

**Kenin Machado:** Alright, just one final clarification, Mexico and Brazil would both be included in the Ibero-America geography right?

**Gabriel Rozman:** That is right, yeah the two largest countries, they are two largest pillars yes.

**Kenin Machado:** Alright, thanks a lot, thank you.

**Moderator:** Thank you Mr. Machado. The next question is from the line of Rachana Khanzode from Financial Express. Please go ahead.

**Rachana Khanzode:** Rozman, can you give us some sense on what kind of work would be done out of this delivery center and also you said that probably later you would increase the capacity so how big is the capacity that could be developed in this particular center?

**Gabriel Rozman:** Well, I mean physically in the facility we could house over a thousand people in the future. We have not made plans at this point to go to any numbers. This center will house an important SAP contingent of people. We have found at Argentina. We are also one of the earliest implementers of SAP in Latin America. So we are creating a Center of Excellence for SAP for Latin America in Argentina. So it is state that besides our normal application managements we will be doing a lot of work for SAP. And the size as I said Argentina has been designated as the SAP Center of Excellence for Latin America soon. That is our main function.

**Rachana Khanzode:** Okay. These 250 people that you said have already started working as the center, are these locals out there, all of them are local?

**Gabriel Rozman:** Yes we have from the 250 we have four people from India and the rest are all local people.

**Rachana Khanzode:** So is there now a consistent effort from your end to look at hiring locals? You are expecting over thousand people in future at this particular center, so overall, in the Latin America space you have talked about Mexico and Brazil as well where a lot of work comes out so do we see more of locals hiring happening there?

- Gabriel Rozman:** Yes, right now our ratio is about 3% India and 97% local. And we have been shifting that, we started with a high percentage of Indians in 2002, but we have been able to train local people and we have found the quality of the resources very much at par of what we see in India. So the economics of this is that we need to use local people.
- Rachana Khanzode:** What was the ratio in 2002?
- Gabriel Rozman:** It is about 3% Indian and 97% local in Latin America.
- Rachana Khanzode:** Okay, yeah please go on.
- Gabriel Rozman:** Yeah and I was saying that normally when we start the new customer which is a global customer, we bring resources from India to get people trained and we keep some Indian resources, normally our heads of the delivery centers would be Indians. And they will be here for long term assignments, normally three years to start with. Our guy in Mexico from India has been there like for five an half years but normally three years' time and the delivery centers are normally headed by people in India who head similar functions in India before.
- Rachana Khanzode:** Okay. One last question, could you give us some sense on in terms of the pricing pressure in this particular area for the domestic work, how are things looking like at the moment?
- Gabriel Rozman:** You mean for local work?
- Rachana Khanzode:** Yeah.
- Gabriel Rozman:** The price pressure for local work?
- Rachana Khanzode:** Is there any pricing pressures or has the market started opening up now, what is it looking like?
- Gabriel Rozman:** Well okay for global work normally we work with our customers, so on global arrangements so the pricing arrangements are done on a global basis. We just intervene in having a blended rate normally, globally. In Latin America if you look again at a country like Brazil or Chile, Columbia there they pretty much have a not skip the recession, but they have had mild recessions, they are trying to cut cost. And the market does not offer as many players as other markets do. So the price pressures have not been clout the way that they may have been clouting in other more developed economy.
- Rachana Khanzode:** Okay thank you so much.
- Moderator:** Thank you. The next question is from the line of Prithvi Durai from NewsWire18. Please go ahead.
- Prithvi Durai:** Hi, our questions have been answered, thank you.

- Moderator:** Thank you Mr. Durai. The next question is from the line of Amit Tripathi from DNA Money. Please go ahead.
- Amit Tripathi:** I think most of my queries have been answered but a few more, one is that, can you give me a sense on the general deal size that comes out from Mexico or Brazil, I mean the large companies there?
- Gabriel Rozman:** I am imperative in two buckets, compared to our global customer they have a very particular need, they want to have some let us say investment banking that they do in New York and they want the same time facilities and then we need to serve some of those global customers with small groups of 10 or 20 and we have to do that in the name of a global delivery network. For local customers we are looking at an increasing size of the deals. We are presently working in our pipelines. I have signed six to seven deals over a \$100 million in Latin America. So although we started small we are increasing the deal size as we look forward. It took some brave people to start first with big deals to come in.
- Amit Tripathi:** Okay. And also, so now you have 250 people working and the capacities of over thousand people as you said, so by when would you, I mean would this capacity get full?
- Gabriel Rozman:** Well we are careful in these times not to commit resources unless we need them and that is why I said we have capacity of about 250 people by now and we do have the 250 people. So we are going to wait to see what the reception in the local market will be, so far it has been very good to Argentina. And we have the flexibility. We already have the work space. We have been accommodating. We have the work space that we can accommodate so it is unknown but I think that we will be progressing again in these some of which growth in Argentina.
- Amit Tripathi:** Okay. And also you had said that 50% of work would be for US and Spanish market, right, from this delivery center?
- Gabriel Rozman:** Right that is correct.
- Amit Tripathi:** Okay, fine yeah, so thank you.
- Moderator:** Thank you Mr. Tripathi. The next question is from the line of Shivani Shinde from Business Standards. Please go ahead.
- Shivani Shinde:** Hi, just a small simple question, what is the PE ratio of revenue from local clients from Latin America and clients from say US or Europe who are being served from Latin America?
- Gabriel Rozman:** It varies by country. If you look at Brazil or Chile those countries mostly serve their own local markets especially Brazil because as I indicated before the cost in Brazil are the highest in Latin America, while the center in Uruguay with almost 800 people is 100%

export and Mexico is about 50% export. So I would say that overall if I am looking overall about 33% of what we do 1/3<sup>rd</sup> what we do is for export and 2/3<sup>rd</sup> is for local market.

**Shivani Shinde:** Okay, thank you.

**Moderator:** Thank you Ms. Shinde. The next question is a follow-up from the line of Rohan Sharma from UTVi. Please go ahead.

**Rohan Sharma:** Hello, Mr. Rozman just one follow-up question, the margins you said the aim would be to bring it at par with India, what is the difference right now and over what period of time do you see that sort of a matching India's and yeah if you could answer that first?

**Gabriel Rozman:** I do not have a timeline because we keep on improving our margins in India too. I think there is an aspirational growth to which we are marching very heavily every year. And I do not know if we would exactly to the center match India but inspirationally we do not see any barriers by which we should not be matching India. As we grow and we scale up, we started very small, now we are really scaling up and I think that very soon we are going to get to very close to where India is, but I do not have a timeline. I think it is going to take let us say, I do not know maybe two to three years but it is not going to be months and it is not going to be 10 years.

**Rohan Sharma:** Sure, okay. Second just wanted to check the equivalent of the APEX body for the software industry in Brazil is BRASSCOM I believe like you have NASSCOM here it is BRASSCOM there, am I correct?

**Gabriel Rozman:** Right.

**Rohan Sharma:** Okay. And I believe TCS was trying to become a member of BRASSCOM but I think the organization did not allow TCS entry there because of some technical ground this is what I heard, I just wanted to confirm it, I thought maybe you are the right person to ask?

**Gabriel Rozman:** Yes, we did have some technical issues on membership. And I really I have not checked on that, I apologize, I can check back with you. I really do not know what **34.25** over the BRASSCOM, but I am sure through Pradipta, I can check and get back to you and everybody.

**Rohan Sharma:** Okay, alright thank you very much sir.

**Moderator:** Thank you Mr. Sharma. The next question is a follow-up from the line of Adith Charlie from The Hindu Business Line. Please go ahead.

**Adith Charlie:** Yeah Gabriel, just one small clarification, you said that in Latin America the company is pursuing about the deal pipeline and six to seven deals of over \$100 million is that what you said?

**Gabriel Rozman:**

Yeah I did.

**Adith Charlie:**

Okay. Can you give us some more color on the geographies and which are the areas and verticals where you are seeing this kind of a demand?

**Gabriel Rozman:**

Yes, I probably can, first just geographically I think that some of these deals are either Mexico or Brazil and some of them are regional that is companies that operate in the whole region, the whole Latin America and once they consolidate in one or two places so that is the type of deals. We are seeing a lot of in telco we are seeing some in banking and insurance and we are seeing some in the retail industry as well and also one of these seven deals is manufacturing.

**Adith Charlie:**

Okay, sounds good, thank you.

**Moderator:**

Thank you Mr. Charlie. The next follow-up question is from the line of Amit Tripathi from DNA Money. Please go ahead.

**Amit Tripathi:**

Hi there, since you are also the Head of the Emerging Markets so can you throw some color on I mean other emerging markets where you expect some more growth or where we can beat say the Latin American growth?

**Gabriel Rozman:**

Well it is not the subject of the conference call but we are growing. We have plans for again double digit growth in the Middle East, it is very active. I am on my way to Africa today. Africa is growing very well also. So I think emerging markets is strategy that they are really viable and paying off, but I really like to consider today Latin American market.

**Amit Tripathi:**

Okay. And also now since 50% of your clients you would be servicing from this GDCs based in US and Spanish markets. Is it that, one of the reasons is that, I mean see you are focusing on giving software as a service those kind of services and for that you need development centers, you need data centers which are located near-shore. So is it one of the reasons, I mean I wanted to understand why all of a sudden you are opening another GDC in Argentina, I mean the trigger behind this?

**Gabriel Rozman:**

No, I think that it is just we are responding to customer demand. We see customers to go into areas like BPO find Latin America attracted because of similar processes or because they have large operations in some of the countries here. Some companies would like to have some India de-risking by having some other locations in minds. So it is not that we are opening any new avenues. We are just responding to the client demand to have operations in more than one place in the world. And I am going to say operations that look like India, through like India, operate like India, and operate at the same standards as India does.

**Amit Tripathi:**

Okay, yeah thank you.

**Moderator:**

Thank you Mr. Tripathi. The next question is a follow-up from the line of Prithvi Durai from NewsWire18. Please go ahead.

**Prithvi Durai:**

Yeah hi, sir I have to two questions for you, one is in Argentina and Latin America per se, the local hiring aspect, could you give me a numbers or could you just throw some light on how many recruits are from campus placements and how many are Indian recruits. And secondly also I want to clarify on the question where somebody asked about the company trying to get into BRASSCOM, could you give me details as to, did company approach BRASSCOM and they were rejected or how they did kind of workout, could you give me details on that, thank you?

**Gabriel Rozman:**

Yeah I will try to address the second first as I said I am not up-to-date with what happened in BRASSCOM. The fact that it has not come to my attention tells me that there has not been a real issue, but since I am not that up-to-date I prefer to get back to you and give you an update on that, I really do not know, I should not be saying something so. I cannot help you with that. On the recruiting, we recruit about 2/3<sup>rd</sup> 70% directly from campus, from colleges. We find that there is an interesting pool of people with experience. Basically because a lot of the people in Latin America work while they study so you find people that have recent graduates that had been working part time at least in companies and they come out of college with lot of experience so we have to hire them as experienced people already.

**Prithvi Durai:**

Yeah, okay thank you.

**Gabriel Rozman:**

So I would say fresher is 2/3<sup>rd</sup> ratio.

**Prithvi Durai:**

Fresher is 2/3<sup>rd</sup>, okay thank you.

**Gabriel Rozman:**

Yeah.

**Moderator:**

Thank you. As there are no further questions I would like to hand the floor back to Mr. Rozman for closing comments. Please go ahead sir.

**Gabriel Rozman:**

Well I do appreciate, I just want to make a point that I think what has been interesting in our strategy is that we are trying to replicate what we do in India in Latin America. We are an Indian company. We use our Indian processes, we use Indian culture adapted to Latin American that seems to be very successful, because the world takes India as the destination for software. So if you find something in your same time zone and is friendly place that offers those cultural and geographical values but also with the values of India, I think that customers are very happy with that and we will continue with that approach.

**Moderator:**

Thank you Mr. Rozman. Ladies and gentleman on behalf of TCS that concludes this conference call. Thank you for joining us and you may now disconnect your lines.