



## **Tata Consultancy Services Limited**

### **Q3 FY10 Earnings Conference Call. January 15th, 2010 20:00 hrs IST (09:30 hrs US ET)**

- Moderator** Ladies and gentlemen, good morning, good afternoon, good evening. This is Rochelle, the moderator for your conference call. Welcome to the TCS Earnings Conference. Please note that for the duration of this presentation, all participants' lines will be in the listen-only mode. And this conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal an operator by pressing '\*' and then '0' on their touchtone phone. At this time, I would like to turn the conference over to Mr. Kedar Shirali, Director of Investor Relations, TCS. Thank you and over to you, Mr. Shirali.
- Kedar Shirali** Thanks Rochelle. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' financial results for the Third Quarter of Fiscal Year 2010, that ended December 31<sup>st</sup> 2009. This call is being webcast through our website and an archive, including the transcript, will be available on the site for the duration of this quarter. The financial statements, results, presentation and press releases are also available on our web site. 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.
- N. Chandrasekaran** Hello, everyone.
- Kedar Shirali** Mr. S. Mahalingam, Chief Financial Officer and Executive Director.
- S. Mahalingam** Good morning, good afternoon, and good evening.
- Kedar Shirali** Mr. Ajoy Mukherjee, Head of Global Human Resources.
- Ajoy Mukherjee** Hello.

**Kedar Shirali**

Chandra and Maha will give a brief overview of the company's performance followed by our Q&A session. As you are aware, we do not provide specific revenue and earnings guidance. Anything said on this call which reflects our outlook for the future, or which can be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the results presentation that was e-mailed to you earlier this evening, and which is also available on our website.

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

**N. Chandrasekaran** Thank you, Kedar. And thank you all for joining the call. To summarize, we have had what I consider is another very fine quarter from a TCS point of view.

If you really look at the key parameters, we have had very credible and excellent volume growth of 6.57%. The revenue growth in Rupee terms was about 2.9% and in dollar terms 6.34%. And we have done very well on the margins. At the Gross Margin level, we have improved by 68 basis points, at the Operating Margin level by 103 basis points and at the Net Margin level by over 164 basis points. So it has been a good quarter, both from a revenue point of view and also from the margin point of view.

A highlight is that the growth has come across the board. While the BFSI sector has led the growth in terms of the momentum, for the first quarter in the last several quarters, we have seen an absolute revenue increase in every single vertical. In some verticals it is small, but nevertheless, it is growth. Secondly, we have also grown and delivered absolute growth in every single market in which we operate, be it the US, UK, Continental Europe or Asia-Pacific, India or Latin America. And we have had to manage a significant headwind in terms of the currency exchange which I am pretty sure Maha will explain shortly.

In terms of deals, we have won 10 large deals. And again the deals come from across sectors - two of them from Retail, two of them from Media, two of them from Government, and one each from BFSI, Travel, Manufacturing and Life sciences and Healthcare. And the number of deals that we are pursuing is also very healthy. We see the deal cycles coming to normalcy.

New clients have been added – we have added 7 new clients in the 5 million+ revenue bracket.

So overall, it is a holistic performance and delivering excellent results on the business parameters. Our teams have been able to operationally ramp up to the volume demand by leveraging the utilization to a significantly high number. So we are pretty happy and we look quite positive towards the future.

And with those words I will turn it over to Maha and then later we can take questions.

**S. Mahalingam**

Thanks, Chandra. As he said, it has been a most satisfying quarter with a strong broad-based growth recovery and the largest sequential volume growth in the last eight quarters. We posted revenue growth of 2.9% in INR terms and 6.3% in US dollar terms.

Currency, of course, played spoilsport. The Rupee appreciated against every major currency, posing a strong headwind on the top-line and on our margin.

Now let me give you details of how each of the revenue drivers played out this quarter. Volume was 6.6% plus, pricing flat, exchange movement negative 2.5%, effort mix negative 1.2% and therefore, the total is positive 2.9% on revenue in Rupee terms.

In US dollar terms, all the drivers remain the same except currency. Instead of a negative impact, we had a positive cross currency benefit of 0.9%.

The stronger rupee impacted our margins as well. In the past, I have often said that a 1% movement in the INR against USD results in 35 to 40 basis point impact on operating margins, other currencies remaining static. But unlike earlier, when cross currency movement softened the blow, it worked against us this time. So while INR moved 3.2% against USD, overall impact on our EBIT margin this quarter was negative 167 basis points.

Despite this headwind, we expanded both our Gross Margin and Operating Margin by better leveraging our existing cost-base to deliver higher revenues and of course, through continued rigor in cost management.

Operating margin expanded by 103 basis points this quarter on a quarter-on-quarter basis to 27.30%.

I already spoke of the currency impact. Let me now share with you the impact of other margin drivers at the EBIT level. Offshore shift gave us a positive 17 basis points, Rate / productivity change gave us 217 basis points positive, SG&A efficiencies gave us 36 basis points positive and overall after considering the negative 167 basis points from exchange, the overall increase was 103 basis points.

In Other Income, the Rupee appreciation and the ever-dwindling amount of old hedges, meant a much smaller forex loss of Rs 355 million compared to Rs 1.1 billion in the previous quarter. Our net margin was 23.5%, an increase of 164 basis points on a sequential basis.

Lastly, our DSO stood at 75 and we hold Rs. 75 billion in cash and liquid funds. With that we can open the lines for questions.

**Moderator**

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may please press '\*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may please press '\*' followed by '2'. Participants are requested to use their

handsets while asking a question. Our first question is from the line of Mr. Moshe Katri of Cowen & Company. Please go ahead.

**Moshe Katri**

Yeah, thanks and congratulations for a strong quarter. Maybe Chandra can talk a bit about client IT budgets for calendar year 2010. Are we getting to a point where predominantly the majority of them are all set? What sort of spending are we talking about? Directionally up or down or flat? And then what sort of projects are they willing to fund? Are we still kind of in the costs take-out mode or we are also talking about transformational projects?

**N. Chandrasekaran**

We still do not have all information. We will need a little more time, probably another month, when we should have information about all the clients. But having said that, based on the clients for whom we know the data, it is a mixed bag. Many of them have flat budgets. There are some situations in which they are definitely increasing the budget but in most cases, they are looking to save money in running the business so that they can create some funds for investing in new or developmental work. That is the trend we are seeing. But we do not have all the information yet, to give you very clear picture.

**Moshe Katri**

Can you also talk a bit about your headcount addition plan for the next 6 to 12 months? And then again, you had a very strong quarter with strong margins. Can you talk a bit about the various levers that will let you sustain those margins down the road? Thanks.

**N. Chandrasekaran**

I think in terms of the headcount, there are two comments I want to make. First is that for the next fiscal year, we are still going through the planning cycle, so we are not going to give you a firm number in terms of how many people we are going to hire yet.

But having said that, the hiring this quarter has been pretty strong. It is more than what we projected at the end of the last quarter in the call. We have seen the demand recovery, so we have not only taken on board the trainees for whom we have made the offers, we have also recruited laterally about 3,000-odd people this quarter and we are continuing to recruit in the current environment. In fact, we have

started going to the campuses and started making offers. Probably, Ajoy at some point in the call can give you more color.

Then with regard to the margin levers, we continue to execute very well. If you really look at the numbers, the Gross Margin improvement has purely come because of a better execution of engagements. We will continue to look at that as an important lever – on how better to execute our fixed price projects and how can we get better productivity and so on and so forth.

The pricing I think will remain stable in near-term. Pricing power will return, but it is a few quarters away, in my opinion.

Then in terms of the utilization, we have always said that if required, we will be willing to ramp up utilization because we are no longer company with a small base. With 150,000 people, even at 80%, we see opportunities. That is what we have done this quarter. And currently we are actively recruiting to create a bench so that we are able to take advantage of the demand in the next fiscal. But having said that, we will continue to exercise utilization as a lever and we are pretty good at it and we will continue to do better.

Then in terms of the SG&A, we have not been shying away in terms of making investments even in this quarter. If you really see, when there is marketing-related costs whether in terms of travel or communication expenses, etc., we have gone ahead and made the investments. Those numbers have gone up. So we will look at those numbers and continue to focus. And the offshore leverage is a drive that we have put on course and even in this quarter, as Maha explained a few minutes ago, almost 121 basis points was the negative impact on the revenues because of the movement of work offshore. So we are not stopping that drive - that will continue.

**S. Mahalingam**

Moshe, let me add that we have already done a significant margin improvement in this year in the nine months, 350 basis points and we have exercised all the levers. So going forward, definitely our cost base should be capable of generating more revenue on a SG&A

basis, but the other levers and so on; we will be cautiously exercising those.

**Moshe Katri** Thanks for the color.

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

**Joseph Foresi** Hi, guys. My first question is just on growth. I wonder if you can talk about what drove growth this quarter, I know we can see that BFSI was very strong, but maybe you could talk about in reference to clients and was there a bit of a flush here in the quarter? Was there any particular change in their mood or confidence that took place and do you think that is going to be continued?

**N. Chandrasekaran** See, the thing we like about this quarter is that there is no one-off. There is no one single client which has delivered a huge volume or impacted the growth in any material way. The growth has come from across clients and across verticals. We have, on a constant currency basis, delivered very good growth, not only in BFSI but also in Telecom, Retail, Manufacturing, Life sciences and Hi-tech – Manufacturing a little less, compared to others, but it still delivered growth. And Energy and Utilities has particularly done very, very well this quarter. So we have seen a broad based growth in every vertical. From a market point of view also, as I said we have grown in every market. So there is no one-off from any client.

As I said earlier, the troubled verticals from our point of view were always Manufacturing, Telecom, and Hi-tech. And the last three or four quarters, we have been extremely cautious about these. I am not saying that those verticals are delivering significant ramp-ups, but they have definitely turned the corner. And in our opinion, they will deliver incremental growth albeit the volume will be low.

**Joseph Foresi** So would you say that there's confidence on the part of most of your client base is to start spending again? Do you expect that to be the trend?

**N. Chandrasekaran** The only way I can answer this question is that between our October 16<sup>th</sup> call and today, it is more positive today.

**Joseph Foresi** Just kind of looking at margins, have you guys talked about wage increases for next year and any possible impact from that and then just maybe you can talk a little bit about if you're prepared for the rupee to appreciate and any changes to your hedging policy in that regard?

**N. Chandrasekaran** Probably there one statement then I will leave it for Maha to elaborate. There are definitely going to be a wage increase and we are discussing at this point in time. That will definitely have an impact on margins because that will come, but we do not know yet. But I will leave Maha to elaborate.

**S. Mahalingam** Just on that wage, let me add that as far as increase is concerned as Chandra talked about, it is for the next year. As far as this year is concerned, we are consistently following the policy of adding to the variable allowance. Even this quarter, we have given an increase at the same level as the last quarter at the end of this quarter based on a good performance and so on. So, that is the lever that we will continue to use as far as this year is concerned.

In terms of the exchange rate, all indications are that Rupee will appreciate. Most of the modeling that is going on at this moment in time takes the Rupee rate to somewhere around 44.5 as far as next year is concerned, not in this quarter, but where next year is concerned. We have to keep a watch on that. As we finalize our budget for FY11, keeping with the policy that we have, we will take a position as far as the rate is concerned and protect that rate.

**Joseph Foresi** Just one last question: is there any way we can put any kind of numerical basis-point impacts on what wages will do – 100 basis point impact or any number you can give us from that?

**N. Chandrasekaran** See, we have not still run the wage calculations yet. So it is too early for us to give you a feel for it. And in any case we would not give

guidance. But in another six weeks or eight weeks, we will have very clear picture in terms of the impact it is going to have. At the same time I think we are going to be continuing to focus on the margin levers, so that we can minimize any impact.

**Joseph Foresi** Okay. Thank you, guys.

**Moderator** Thank you Mr. Foresi. The next question is from the line of Rishi Maheshwari of Enam Asset Management. Please go ahead.

**Rishi Maheshwari** Hi, thanks for taking my question. I wanted to understand when you said that there has not been one particular client who has contributed – but my calculation suggests the top client has actually grown by about 27%. Now is there something over there? Has that been a one-off? Can you throw some color on that?

**N. Chandrasekaran** See, that metric is calculated on an LTM basis. And the Citigroup acquisition that we did is now counted for all the four quarters for the client, whereas in the previous quarter we had counted only for three quarters. So it is not an incremental growth. It is just that on LTM basis the client looks higher.

**Rishi Maheshwari** Okay. I also wanted to understand your headway in Bancs as a product – what is happening over there? Temenos just released about 6% license sales growth, how are we placed over there?

**N. Chandrasekaran** Bancs is doing well. In fact, we have had a few wins even in this quarter, very credible wins. So, Bancs has started growing and delivering growth. In fact, it delivered growth for the first time last quarter. And again on the back of that, it has delivered growth this quarter. So, Bancs is on a growth path both in terms of license revenue as well as overall system regulation revenues.

**Rishi Maheshwari** Could you quantify what was the growth in this quarter?

**N. Chandrasekaran** On a constant currency basis, it was somewhere around 4%. 3.5% or so.

- Rishi Maheshwari** Thank you so much and all the best.
- N. Chandrasekaran** It increased 3.3%.
- Rishi Maheshwari** Got it.
- Moderator** Thank you, Mr. Maheshwari. Our next question is from the line of Sandeep Muthangi of IIFL Capital. Please go ahead.
- Sandeep Muthangi** Hi. Good evening. Terrific quarter, congratulations. I had a question on the quality of revenue growth. Obviously as you also highlighted it has been very good and broad-based. Just wanted to get some clarification on how sustainable it is and it will be very helpful if you can take us through some of the demand generators in the non-BFSI clients or the non-BFSI segments?
- N. Chandrasekaran** I think the way to look at it is that we did a very good Q1 this year. And then when we did the Q1 commentary, we said we feel more positive at the end of Q1 than Q4. And we had a better Q2 and we said the same thing at the end of Q2. And now again, after Q3, we feel the recovery process has improved further.
- But having said that, I would really caution you and ask you to take a 4 to 6 quarter perspective rather than immediate quarter perspective. The volumes are beginning to show in many verticals. So we generally feel that it is going to be a growth quarter going forward and we see most of the verticals delivering growth, but some of them will grow in small measures. That is what I can tell you.
- Sandeep Muthangi** Okay. Thank you.
- Moderator** Thank you Mr. Muthangi. Our next question is from the line of Nitin Padmanaban of Centrum Broking. Please go ahead.
- Nitin Padmanaban** Yes, thank you for taking my question. This is with regard to offshore leverage. How much more leverage do we have there?

**N. Chandrasekaran** This is a program that we put in place several quarters ago, but in the last three or four quarters, we have done a significant movement and jump, as you can see. We will continue to do that. That has still more leverage but you should not expect miracles in terms of a huge movement in any given quarter. I think directionally, going forward for the future quarters, you will see improvement in offshore leverage.

**Nitin Padmanaban** Right. And the second one was if you could just throw some light or some update in terms of Diligenta and also in terms of how CGSL is progressing?

**N. Chandrasekaran** Diligenta I think we have always said that the transformation program is going to be completed in April 2010. So that will give them a lot of leverage in the marketplace. So our belief is that beyond that date they will be in a much better position to win deals and add new clients, not only bring additional volume, but also do transformation for those new volumes. That is where it is. In terms of CGSL, it is ahead of the business case.

**Nitin Padmanaban** Right. And just to clarify the growth in BFSI from the top client the contribution will not be as high as it seems to because of the 12-month....?

**N. Chandrasekaran** Correct. In fact, the top client's growth is not that significant on a quarterly basis. Okay?

**Nitin Padmanaban** Sure. Thank you.

**Moderator** Thank you Mr. Padmanabhan. Our next question is from the line of Kaushik Pal of Kotak Mutual Funds. Please go ahead.

**Kaushik Pal** Hi, congratulations for the management team on a great quarter. Couple of questions. We have seen huge growth in Global Consulting service line. So if you can throw some color on that. Is it new ramp-up or what is it exactly?

**N. Chandrasekaran** See, I think I mentioned in the last analyst call saying that since the end of September we are seeing consulting projects coming back.

When we had downturn, consulting was worst affected. In fact, we went down very badly in terms of share of revenue. All we are seeing is that those engagements are coming back. Consulting will always be a niche play; it will never be a volume play. So it is coming back towards a 3% share. It used to be about 3-3.5% share and it went down to 2.5% share and it is now coming back. So we are happy and I think it is going to grow from here, but you should not expect huge volumes.

**Kaushik Pal** Okay. And on India in particular we have seen superb growth. We have added almost like \$27 million of top line. Now it is also not from CMC as we can see from the numbers. So just wondering is this growth sustainable because India mostly traditionally has been project based, so some color on that?

**N. Chandrasekaran** India we have grown. When you say 27 million it is not a \$27 million of incremental growth. Here it is an 8% sequential growth. It is a very good quarter for India and it has done well. But in terms of incremental revenue it is not..... Overall we had close to \$98 million incremental revenue. Out of that, India's share is not that kind of number you are talking about. But it has been a very good quarter for the Indian geography. The team has done well. And we are seeing positive signs. The problem with our Indian revenues has always been the volatility. We have been saying in the call that we are working towards getting the business mix right, so that we don't have huge ups and downs. We are still working on it. I would not say that we have got it in the perfect place. So we are very positive on India and we expect to see incremental revenues to come.

**Kaushik Pal** Okay. And just a one data point if you can share on the top client on a like-to-like basis what will be the growth on a quarter-on-quarter basis because you follow that LTM percentage?

**N. Chandrasekaran** As I said it is very minimal. It is less than the company average growth rate.

**Kaushik Pal** Okay. Thank you, sir.

- Moderator** Thank you Mr. Pal. Our next question is from the line of Kunal Sangoi of Edelweiss Securities. Please go ahead.
- Kunal Sangoi** Yeah, thanks for taking my question. Congratulations to the management on a strong quarter. Chandra, my question is with regard to the trend of Enterprise Solutions 8% quarter-on-quarter growth and even from some of the other peer who has already reported, it seems that discretionary spend seems to be reviving. Would you agree to that reading or it is more of pent-up or whether it can sustain going forward?
- N. Chandrasekaran** See, good question. I am at the very same place as you are. I am quite happy to note that we have been able to grow the Consulting revenues as well as the Enterprise Solutions revenues this quarter, a good share. This is a positive indication for us to think that the discretionary spend will come back but I do not have any other proof points to say that they are going to have a good discretionary spending in Q4 or in Q1. We are watching.
- Kunal Sangoi** Okay. Second question is it regarding the pricing on the larger deals. I think we have once again signed 10 large deals. Could you comment on what are the engagement models and how is the pricing for those deals?
- N. Chandrasekaran** The engagement models are pretty much standard engagement models, time and material or fixed price. There are no fancy structures. And as I said, the pricing is pretty much of the company average flat. So there is no significant increase. And we are maintaining the pricing, we are not dropping.
- Kunal Sangoi** Okay, thank you.
- Moderator** Thank you Mr. Sangoi. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.
- Sandeep Shah** Just in terms of utilization if you look at the percentage increase in the employee base as well as the volume growth, it is not much of a

difference. But the spike in the utilization seems very high. Can you elaborate more on this?

**Ajoy Mukherjee** If you look at the utilization excluding trainees that we have pushed up to 81.1%. And utilization including trainees has gone up to about 77.2%. From a headcount addition point of view, at a consolidated level, we have done 12,600 plus, which included a significant portion of trainees as well as laterals as Chandra mentioned in the beginning. So the focus has been to meet business demand, meet the demand through the existing people that we have and that is the reason for utilization to go up to that level.

**Sandeep Shah** Even including trainees, utilization was high, so much of the addition has happened in the later part of the quarter?

**Ajoy Mukherjee** Yes.

**Sandeep Shah** Okay, sir. And how do you believe this trend, like even in fourth quarter we are adding a significant amount of employees. So even that addition would be staggered at the later part of the Q4?

**Ajoy Mukherjee** Q4 will be slightly more uniform as far as the addition is concerned. But overall, the portion towards the end of the quarter, yes, that will be slightly higher.

**Sandeep Shah** Okay. And Maha, in one of the media channels you mentioned that for the next quarter we have covered at 45.7. So is there any incremental hedging which we have taken, which will expire in the fourth quarter itself?

**S. Mahalingam** We had original hedges of only \$39 million and we have taken another \$380 million during this quarter. And these were taken at various levels and so on. As a practice, we are essentially covering the dollar exposure, because we find that both Pound and Euro are going to be remaining steady at a certain place and therefore against dollar exposure of a little over \$500 million, I am talking about the net

exposure because we also have payments in dollars, we are substantially covered.

**Sandeep Shah** Okay. And there is a reclassification in terms of North American revenue to India revenue, any reason for the Q2 of FY10?

**S. Mahalingam** In one of the specific elimination rounds last quarter, there was a slight issue and therefore that is corrected as far as this quarter is concerned. It was from a subsidiary to the parent company.

**Sandeep Shah** Okay. Thanks. Congrats on the good numbers and all the best.

**Moderator** Thank you Mr. Shah. Our next question is from the line of Ed Caso of Wells Fargo. Please go ahead.

**Ed Caso** Good evening. Thank you for taking my question. Maybe some thoughts on the tax rate going forward. Do you think there is an opportunity for the STPI to be extended again, particularly since it has been more difficult for you to capture SEZ benefits?

**S. Mahalingam** The tax rate as far as this quarter is concerned was 15.5% and next year in view of some of the STPI is going out and so we have been essentially talking in terms of 18% to 19% and STPI is going after 10 years.

The question of STPI extension overall is still a debatable question. I don't think we can take any firm view at this moment in time, given that we are not getting very strong indications from the government people on that. We would hope for that, but that is not taken as a given in all our planning.

As regards to SEZ, we have said that all the expansions in the last three or four years will come through SEZ. So as a percentage, SEZ revenue continues to go up within the organization and therefore we will take some benefits, which is the reason why we are talking about 18% to 19% as the figure for next year.

**Ed Caso** Thank you. And can you discuss a little bit about what is you are hearing on the protectionism front coming out of the United States and United Kingdom, given that unemployment remains high in both geographies?

**Ajoy Mukherjee** On the protectionism front, as far as the U.S. is concerned, it is basically that Immigration Reform bill that will be picked up and at this stage, it is not very clear which is the way it is going to take. So we will have to wait and watch. But as far as our operations are concerned, at this point in time, we have not seen any impact whatsoever.

As far as UK is concerned the MAC has submitted its recommendation and these have been accepted. I think there has been a slight increase as far as the minimum wages are concerned but we are above that. It has no impact on TCS.

**Ed Caso** And last question. You talked about when you adjust the top account, there is no change, but if you adjust the BFSI number to look at just the quarter, what kind of increase that have on a sort of organic basis?

**N. Chandrasekaran** On an organic basis the BFSI volume growth is about 7.3%. But the revenue growth is small because offshore movement in BFSI was higher.

**Ed Caso** And that is year-over-year or sequentially?

**N. Chandrasekaran** Sequential.

**Ed Caso** 7% sequential? Thank you.

**N. Chandrasekaran** Volume.

**Moderator** Thank you Mr. Caso. Our next question is from the line of Diviya Nagarajan of UBS Securities. Please go ahead.

**Diviya Nagarajan** Hi. Congrats on a good quarter. I think some form of it has been already asked, but I am wondering on the levers, especially in terms of utilization. What is it that you think that will give you the major uptick,

given that we are already at close to historical highs for the utilization metric.

**N. Chandrasekaran** I think we are very happy with where we are. I think we are not saying that we would not increase it from here. The intent is to create a bench from here. We are doing that. But if there is a demand pick-up and we have to ramp-up we will ramp-up definitely. We cannot give you a target saying that it is going to 85. I think the current level that we have is quite healthy. So we are adding people at this point in time and we are expecting a new batch of trainees to become productive this quarter.

**Diviya Nagarajan** Right. And we have heard companies start talking about aggressive hiring, including you. I heard Ajoy talk about aggressive hiring starting now. Are you comfortable with the levels of supply that you are seeing in the market today or do you think maybe a quarter or two down the line, you could go back to those days when good quality supply would be tighter than what you had in the last three or four quarters?

**Ajoy Mukherjee** We are comfortable as far as the supply side is concerned. We are not finding any problem whatsoever. And our hiring is also inclusive of trainees who will come in. So we are not finding any concern as far as the availability or the supply of talent pool is concerned.

**Diviya Nagarajan** Right. Thanks and all the best. Terrific quarter.

**N. Chandrasekaran** Thank you.

**Moderator** Thank you Ms. Nagarajan. Our next question is from the line of Harpreet Batra from Kim Eng Securities. Please go ahead.

**Harpreet Batra** Yeah. In the BPO segment we have seen the percentage share declining fast. Any concerns on that front?

**N. Chandrasekaran** No, not really. I think BPO has absolute growth rate, every service has also grown. So it is not a concern from the BPO point of view.

**Harpreet Batra** Okay.

- Moderator** Our next question is from the line of Pinku Pappan of Nomura Securities. Please go ahead.
- Pinku Pappan** Hello, good evening and congrats on a great quarter. Just a couple of questions. You said you've won 10 large new deals. Can you tell us what deal sizes are you seeing and what kind of services are these, mostly? Is there a pattern across the deals that you have won?
- N. Chandrasekaran** There are different types of deals. There are deals in the Assurance space, deals in Application Management and Outsourcing, there are deals in the Infrastructure space. There are lots of opportunities that we are winning in the e-Commerce and the Retail sector. There are a number of e-Commerce deals we have won during the quarter. And then, remote infrastructure management is another area where we are seeing a lot of traction. So there are deals of different kinds, we are getting a mixed type of deals. And the deals vary from 15 million to 100 million on a multi-year basis.
- Pinku Pappan** So do you think the number of large deals win is going to improve from now on? Are you going to see a marked improvement from here on?
- N. Chandrasekaran** All I can tell you is that the number of deals we won this quarter is very healthy compared to the last few quarters, even though we announced the deals in last few quarters, here we have announced more deals and across multiple sectors and the pipeline is healthier. I feel that the deal decision cycles are also becoming normal. So I would just say that it is more positive than last quarter.
- Pinku Pappan** Okay. My next question is on your revenue from new clients. I have seen that has increased over the last two quarters. Do you see a case of most of your incremental growth coming from new clients?
- N. Chandrasekaran** No, I think every year we initialize it at the beginning of the year so you will also find the revenue from the new clients going up successively in every quarter and it will peak at Q4 – that is the way the metric is reported. So I think there is nothing unusual about it. So

the revenues will come from both existing clients as well as new clients.

**Pinku Pappan** Okay. Yeah, thanks.

**Moderator** Thank you. Our next question is from the line of Harit Shah of Karvy Stock Broking. Please go ahead.

**Harit Shah** Yeah, thank you very much. My question has been answered. Thank you.

**Moderator** Thank you Mr. Shah. Our next question is from the line of Srivathsan Ramachandran of Spark Capital. Please go ahead.

**Srivathsan Ramachandran** I just wanted to get your comments on how is the demand especially for services like BPO and IMS from BFSI clients because a lot of them are doing integration deals now. Do you see them going out and start doling out BPO and IMS contracts to ensure cut in Opex costs?

**N. Chandrasekaran** There is definitely opportunities in the BFSI space for the BPO contracts. In fact, we have won few deals in the BFSI sector in the BPO space. And the Infrastructure Management contracts are coming across verticals. As I said, customers are definitely looking to get more bang for their buck. In terms of running the business, driving efficiency is the number one priority for all corporations across industry, definitely in the financial services sector. It may translate into core or ADM work, it may translate into BPO work or integrated Infrastructure and ADM or Infrastructure and BPO work. So all these trends you will see.

**Srivathsan Ramachandran** Okay. My next question is Engineering & Industrial services. Because that service line has been more or less flat except for this quarter we have been seeing it. How are the deal flow or deal closures in that particular service line?

**N. Chandrasekaran** See, the engineering demand that was poor, the comment you are making, is primarily because it is totally linked to the manufacturing

industry. And the manufacturing revenues were having difficult times for the last several quarters and definitely when such a situation occurs, the engineering spend will be cut. And it was very hugely impacted. We are happy that the recovery is coming into that sector. So it will be a slow recovery as I said in the manufacturing space, but definitely the recovery is happening. And we are seeing incremental revenues.

**Srivathsan Ramachandran** Okay, thanks a lot, sir.

**Moderator** Thank you Mr. Ramachandran. Our next question is from the line of Subhashini Gurumurthy of Ambit Capital. Please go ahead.

**Subhashini Gurumurthy** Hi, congrats to the management on the great set of numbers. I just had a couple of questions. Firstly, in the discretionary spend part, we have seen most of the discretionary services have gone up. Just wanted to understand which are the verticals where you are seeing this uptick. Secondly, on the enterprise solutions side, just wanted to get your perspective on SAP's recent move where they have offered a choice to their customers between a full range enterprise support and a low price standard package. So this might have an impact on SAP support and maintenance revenues. How would this affect your maintenance revenue?

**N. Chandrasekaran** In terms of verticals, definitely BFSI, Retail, Utilities and Pharma, these are sectors we are seeing higher level of traction compared to the other verticals. And in terms of the SAP's announcement, I do not think that will have a direct impact on our support and maintenance revenues.

**Subhashini Gurumurthy** Sure. Thanks. That was helpful.

**Moderator** Thank you Ms. Gurumurthy. Our next question is from the line of Dipesh Mehta of Khandwala Securities. Please go ahead

**Dipesh Mehta** My question has been answered. Thank you.

- Moderator** Thank you, Mr. Mehta. Our next question is from the line of Ranjit Shinde of Economic Times. Please go ahead.
- Ranjit Shinde** Yeah, thanks for taking my question. I want to know this EBIT margin, has it gone up mainly because Telecom has seen better margins this quarter on sequential basis?
- S. Mahalingam** No. It is all over, Ranjit. We have shown improvement in Gross Margins because we have delivered and one of the things that we did talk about is utilization. There was also the efficient execution and so on. So there is no question of one single sector influencing the margins.
- Ranjit Shinde** I am looking at the EBIT numbers which you have given in the Indian GAAP. And as per that you EBIT margin for Telecom is 8.5% sequentially up. And while most of the others are maybe either negative or maybe flat or marginally up?
- S. Mahalingam** Don't read too much into that.
- Ranjit Shinde** Okay. Thank you.
- Moderator** Thank you Mr. Shinde. Our next question is from the line of Joseph Foresi of Janney Montgomery Scott. Please go ahead.
- Joseph Foresi** Hi, guys. I just had a follow-up question on the utilization. I think it was up to 77% this quarter. Is that correct?
- N. Chandrasekaran** Yes, including trainees, yes.
- Joseph Foresi** So I was wondering as we kind of move up a little bit further how hard do you think you can raise utilization rates if for example you have to take a wage increase.....
- N. Chandrasekaran** See, we have always said that excluding trainees 78% to 79% is good. Including trainees 73 to 75% is good. So in a sense that the current utilization levels are little higher than normally what we put as our ideal utilization. Having said that, as the scale increases we feel

that we should be able to increase utilization. The only way I can answer your question is that we are not going to put a higher target at this point in time, but should there be a need then we will be able to do it.

**Joseph Foresi** And so just run through the margin levers you have, now do you think there is maybe a little bit more room on utilization? What are some of the other ones that you think are left in the model?

**N. Chandrasekaran** Offshore leverage and also more productivity in execution. And then SG&A efficiencies we look at it. Then finally I think when the pricing power returns, pricing.

**Joseph Foresi** Okay. And just one last question on the offshore leverage. How much more you think you can move offshore? Is there just no stop to it?

**N. Chandrasekaran** There is scope of moving more for next several quarters but it will be incremental.

**Joseph Foresi** So it will be like maybe 1% or 2%?

**N. Chandrasekaran** I am not going to commit a number for a particular thing.

**Joseph Foresi** Okay. Fair enough. All right. Thank you.

**N. Chandrasekaran** I can give you direction.

**Moderator** Thank you Mr. Foresi. Our next question is from the line of Nitin Padmanaban of Centrum Broking. Please go ahead.

**Nitin Padmanaban** Hi. Just had a follow-up question. I think we have been surprised with the pullback the way volume growth has really returned and I just wanted your comments on what is your reading into how you would probably see that going forward? Is it that it could be stronger? Could it be at the same pace? How do you read into it? Second was with regard to, I think we have won government deals, I think when there is a whole talk of protectionism and things like that there seems to be, I think Cardiff, the UK Councils. So just wanted your thoughts on how

are those deals different? Is it more onsite? How have we really been able to break there?

**N. Chandrasekaran** I think in terms of volumes see, some of this is pent-up demand also. So you have to be cautious in terms of putting a graph to extrapolate a huge volume growth every quarter. So I would really request you to exercise some caution in terms of projections. But we are quite positive about the future. It has been incrementally improving every quarter. And today we are in a better position than we were a quarter before or two quarters before.

Then with respect to the government contracts, success in many of these contracts depends on the value proposition. So there are deals where you use your intellectual properties, there are deals in which you cannot meet all the criteria. It is not necessary that all of it is to be executed onsite. So there is no straightforward answer to you saying that this is how all the government deals have to be done. The government deals are different and each deal is different. So you've got to work at it. So, it is very difficult to give a standard formula.

**Nitin Padmanaban** Is it fair to say that the overall traction in the government space with regard to Indian vendors is significantly increased as compared to what it was probably a couple of quarters earlier or a year back in terms of.....

**N. Chandrasekaran** I mean we are still doing very little in the government sector outside India. So I think that will be a very broad-brush statement, which I will not make.

**Nitin Padmanaban** Sure. And lastly with regard to Telecom is it that we are seeing a comeback is that likely to be sustainable thing going forward?

**N. Chandrasekaran** Telecom will grow but it will be at a very low rate at this point in time.

**Nitin Padmanaban** Sure. Fair enough. And finally on Manufacturing per se, I think Manufacturing, Hi-tech, I think we were little cautious earlier on these sectors. Is it that these have come back?

**N. Chandrasekaran** My comment for all the three sectors is that we have turned the corner, but the growth rate is going to be pretty slow. Low volumes, but it is going to be positive growth. That is the way I look at it.

**Nitin Padmanaban** Sure. Thank you.

**Moderator** Thank you Mr. Padmanaban. Our next question is from the line of Ashwin Mehta of Motilal Oswal Securities Limited. Please go ahead.

**Ashwin Mehta** Hi, sir. In terms of our metrics, we have almost 58% of our people with greater than three years of experience which is a historical high. So are we envisaging that to be a margin lever wherein skew could possibly be towards more freshers in the next year as well? What is the mix that you are envisaging for the next year?

**Ajoy Mukherjee** The next year, just like last year, the trainee to experienced professional mix – we are going to maintain what we had when we have our employee pyramid properly balanced.

**Ashwin Mehta** Okay. But in terms of things like changing span of control or any such measures you are not looking at that?

**Ajoy Mukherjee** Not immediately, at this point in time.

**Ashwin Mehta** Okay. Thanks a lot and congratulations on a good set of numbers.

**Moderator** Thank you Mr. Mehta. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.

**Sandeep Shah** Sir, in terms of the growth rate for the last three quarters BFSI has clearly outperformed the rest of the verticals and now looking at the current deal pipeline in the coming quarters you believe this trend will continue?

**N. Chandrasekaran** You are talking about the immediate quarter.

**Sandeep Shah** What I am trying to say is the BFSI growth visibility will continue to remain strong for the coming quarters?

**N. Chandrasekaran** I think it is doing well. It is definitely doing well. But if you see the deals we have won, out of the 10 deals, only one we have announced in BFSI. So it is not skewed towards BFSI, but BFSI deal pipeline is healthy, quite good and also ramp-ups are happening. I think we should look for much more broad-based growth.

**Sandeep Shah** Okay. In terms of the quality of the deals within the BFSI which are more to do with the M&A. Can you share the tenure of these contracts?

**N. Chandrasekaran** Multi-year deals.

**Sandeep Shah** Okay. So in that sense even M&A related deals may continue in the coming quarters also?

**N. Chandrasekaran** Yes.

**Sandeep Shah** Okay. And just lastly on the Telecom vertical, the growth is driven through service provider or OEM and which geography has the growth come from?

**N. Chandrasekaran** I think it is better to leave that to me.

**Sandeep Shah** Okay. Thanks.

**Moderator** Thank you Mr. Shah. Our next question is from the line of Nirav Dalal from Almondz Global. Please go ahead.

**Nirav Dalal** Yeah. Thanks. Can you tell me what is the sales strength currently? And going forward like what is your plan for hiring on the sales side?

**N. Chandrasekaran** I think we have a very sufficient sales strength and we are well-invested in every market. I think Maha has clearly articulated during the last 7-8-10 quarters how we are going to take the SG&A from 21% and bring it down to 19% with primary cuts in G&A and not on the sales and marketing. And that journey has been completed and there will be some improvements, but by and large that was the path that we

took. So we will remain invested with the sales and marketing efforts that we are putting, but I think we are sufficiently invested.

**Nirav Dalal** So you do not plan to increase your sales strength going forward significantly?

**N. Chandrasekaran** We expect to deliver more revenues with the current sales and marketing strength.

**Nirav Dalal** Okay, fine. And one more question: what was the impact of utilization improvement on EBITDA margin this quarter?

**S. Mahalingam** The points that we were making was that if we remove the exchange impact, if we remove the onsite/offshore mix, all the others have really come out of these factors.

**Nirav Dalal** Okay, thanks a lot and congrats for a great quarter.

**Moderator** Thank you, Mr. Dalal. Our next question is from the line of Pranav Bhardwaj of Mata Securities. Please go ahead.

**Pranav Bhardwaj** Good evening, sir. Congrats on a very good quarter. I just wanted some color on the kind of deals we have seen in the Indian context. Where are we actually seeing ramp-up in the revenue? Are you having some large deals?

**N. Chandrasekaran** The deals that we have been having for the past several quarters are in the government sector and the private sector, energy sector, banking sector. So across sectors we have been doing projects and we have been winning engagements and those are playing out now.

**Pranav Bhardwaj** Okay, sir. And just wanted one more comment on the kind of onshore and nearshore hiring you are planning. Are you planning to add some more over there?

**Ajoy Mukherjee** In the next quarter, yes. Even in this quarter we have done gross addition both at onshore as well as nearshore. And it will be very similar to that in the next quarter as well.

- Pranav Bhardwaj** All right, sir. Thank you and congrats again on a great quarter.
- Moderator** Thank you, Mr. Bhardwaj. Our last question is from the line of Abhijeet Bora of Sharekhan. Please go ahead.
- Abhijeet Bora** Sir, my question is if you can just throw light on the breakup of the EBITDA margin as I missed on that point. That will be a great help to me?
- S. Mahalingam** As far as the margin lever is concerned exchange rate impact we said was negative 1.67%. Offshore leverage was 17 basis points positive. And bad debt provision gave us a 62 basis point positive. And all the others put together gave us positive 1.91%.
- Abhijeet Bora** Okay, thank you, sir.
- Moderator** Thank you Mr. Bora. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Kedar Shirali and the management for their closing comments.
- Kedar Shirali** Thanks, Rochelle. I now request Chandra to deliver the closing comments for tonight.
- N. Chandrasekaran** I think in summary I would like to leave a few messages. It has been a fine quarter from our point of view. And we have seen the different markets and the different industries showing recovery and showing incremental revenues across the board. We remain positive about the future and outlook. However, on the volume front, I would just ask all of you not to extrapolate because some of the demand that is coming is pent-up demand as well. Those will be my summary comments and thank you all very much and wish you very great 2010.
- Moderator** Thank you gentlemen of the management, thank you Mr. Shirali. Ladies and gentlemen, thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines. Thank you.

**Note: The transcript has been edited for better readability.**