Tata Consultancy Services Limited

Q4 FY09 Earnings Conference Call.
April 20th, 2009 20:00 hrs IST (10:30 hrs US ET)

Moderator Ladies and gentlemen good morning and good evening, I am Rochelle, the moderator, for your conference call. Welcome to the TCS Earnings conference. Please note that for the duration of this presentation, all participant 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 the teleconference, 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. Thank you and over to you, Mr. Shirali.

Kedar Shirali Thank you Rochelle. Good evening and welcome everyone. I am Kedar Shirali from Investor Relations. Thank you for joining us today to discuss TCS's financial results for the fourth quarter and the full year ended March 31st, 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, result presentation and press releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us Mr. S. Ramadorai, Chief Executive Officer and Managing Director.

S. Ramadorai Hello everyone, good evening.

Kedar Shirali Mr. S. Mahalingam, Chief Financial Officer and Executive Director.

S. Mahalingam Hello, good morning, good afternoon, good evening.

Kedar Shirali Mr. N. Chandrasekaran, Chief Operating Officer and Executive Director.

N. Chandrasekaran Hello everyone.

Kedar Shirali Mr. Phiroz A. Vandrevala, Head of Global Corporate Affairs and Executive Director.

Phiroz Vandrevala Hi everyone.

Kedar Shirali And Mr. Ajoy Mukherjee, Head of Global Human Resources.

Ajoy Mukherjee Hello.

Kedar Shirali Ram, Chandra, and Maha will give a brief overview of the company's performance, followed by a Q&A session. As you are aware, we do not provide specific revenue and earnings guidance. Let me also remind you that 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 our results' presentation available on our website.

With that, I would like to turn the call over to Mr. Ramadorai to begin the proceedings.

S. Ramadorai Thank you, Kedar. As you all know, we are operating in an unpredictable operating environment. In this context, TCS has delivered a very healthy top-line growth of 23% in rupee terms for FY09, driven by primarily volume growth of 18%. Overall, it was an all-round satisfactory annual performance given the turmoil in the global economy. FY09 was capped by TCS crossing the $6 billion mark in terms of revenue, which is a milestone.

I am also pleased to share that the Board of Directors has recommended an issue of bonus shares in the ratio of 1:1, subject to shareholder approval. This is our second bonus share issue since our IPO in 2004.

We focused on our operational efficiencies, collecting cash more efficiently and driving an enterprise-wide cost-management program. We have improved our profit margins annually by 109 basis points and posted operating profits of Rs 6,602 Crores, up 28.9% over the last year.

Net profits this year were Rs 5,172 Crores impacted by non-operational factors like rupee and cross-currency volatility.

The company continues to generate significant cash flows. Even after the recent cash acquisition, we have cash of nearly Rs 4,300 Crores at the year end and have rewarded investors with the dividend payout of 27%, the total dividend of Rs.14 per share, including Rs.5 as the final dividend, subject, of course, to shareholder approval.

Our ongoing drive to increase operational efficiencies is yielding results. Making improvements in efficiency will continue to be a company focus going forward. We achieved our overall target of 45% offshore leverage, which is an improvement of 310 basis points on annual basis from Q4 of '08 to Q4 of '09.

We continued to drive our cost management program that held down costs significantly. The same rigor, applied to our collections, has reduced our overall debtor days' outstanding by 12 days in the last 6 months.

In today's operating environment, we continue to provide our clients with an experience of certainty. This value proposition is even more appreciated by clients in this current environment. We have succeeded in increasing the number of clients across all revenue bands. We have grown in all major markets as well as verticals including BFSI. Chandra will talk about these operational aspects. Rigor and discipline in the sales process have helped us add 163 clients during the financial year 2009 and we signed 28 large deals.

As you know, we acquired the Citigroup's captive BPO and this has started yielding revenues. The addition of 12,500 talented professionals came as part of this acquisition. I am confident you will see the strategic benefits of the deal in the quarters to come.

If you look at our gross addition in terms of people, we added 48,595 people during the year resulting in a net addition of 32,354. For next fiscal, we have made 24,885 offers on campus. The joining of these trainees will be aligned to the recovery in demand for our services. While the world economy will take a while to recover, the more astute organizations are already looking at ways and means to reinvent themselves to clearly participate in the recovery ahead. With a broad set of transformational capabilities, we believe TCS is well placed to partner these organizations in coming out of the slowdown with speed and effectiveness.

With the macro-environment remaining uncertain, the company remains focused on improving efficiencies in addition to focusing on the customers. In the course of streamlining our own operations, we have not compromised on our sales and marketing efforts or our ability to scale up to meet the new demand.

I am confident about robustness of our business model, which is built on significant recurring revenues, a broad set of clients across industries and various markets. We have made significant investments in new growth markets of Asia, including India and Latin America, and these are expected to begin yielding results. We are continuing to invest in the future by building people-competency as we look and explore new opportunities. These would be in the form of solutions for emerging areas like Utilities & Sustainable Energy, Healthcare, and Customer Analytics.

Thank you and I will hand over to Chandra.

N. Chandrasekaran Thanks Ram. Hello everyone. I just want to highlight some of the operational aspects to establish that in the current environment, they are quite sound.

We have had a volume growth of about 19.3% on annual basis. From an offshoring point of view, from our Q4 last year to Q4 this year, we have made an improvement of 310 basis points which is actually what we wanted to do. And from a client perspective, all the client metrics show excellent growth across the revenue bands.

In terms of the $1-million plus clients, we have added 45 more to the list this year. And in terms of the $15-million plus clients, we have moved from 19 last year to 24 this year. The same is the story if you look at the 10 million, 20 million and all the other bands.

From a deal perspective, I think it is healthy – we closed 28 large deals. Especially, in the last quarter, we closed about 7 deals, of which 6 came from the US and 1 in UK. We have added a good number of clients again this quarter, 36 of them, taking the year's tally to 163. So, client addition has been healthy.

From an industry point of view, you all know that we have had a problem across industry segments. But net-net, Financial Services registered a double-digit growth for the year and Manufacturing, Retail and Utility sectors showed much higher growth rate. Having said that, the impact on the Manufacturing and Hi-Tech sectors has been more pronounced from Q3 onwards. We did very well in Q1 and Q2, but Q3 onwards, the impact has been negative and we think that will continue.

The Telecom sector is definitely weakening for us with a specific exposure to the top client and that has been weakening and that is not only affecting the telecom sector's growth but also affecting our UK growth to some extent.

Then from a geography perspective, all the major markets this year posted double-digit growth. Europe, I would like to single out. With a 38% growth on an annual basis it has done extremely well and that has come about because of the deal wins that we announced in the last couple of years.

From margin perspective overall, in the year we improved the operating margin by about 109 basis points from FY08 to FY09 perspective which I think is pretty healthy considering the price pressure that we have been experiencing. Overall on a year basis, we have had a pricing impact on the margin to the extent of -4.5%, so that has to be taken into account when we view this margin improvement.

Then from an outlook perspective, I think the environment is still uncertain and the sectors I would single out as having more uncertainty are Manufacturing, Hi-Tech and Telecom to some extent

With regards to other sectors, I can't specifically comment whether they have bottomed out or not, but there are some places where recovery is happening and the deal pipeline is quite healthy with about 20 deals that we are currently pursuing.

With that, I would like to hand over to Maha.

S. Mahalingam Thanks, Chandra. At TCS, we did not slacken our efforts to reach out to customers and prospects and help them address their business problems. Our core value proposition which is delivery excellence, certainty in outcomes and higher offshore is more relevant than ever in the current economic environment and we continue to win assignments. At the same time, we renegotiated some agreements and overall we remained customer focused.

The global economic situation meant volatility in currency movements. While substantially getting the benefit of declining value of the Indian Rupee against the US Dollar; we ensure that we protected ourselves from the effects of cross currency fluctuation. Even after making a large strategic acquisition this year, we continue to hold significant cash reserves.

We ended FY2009 growing 22.97% in rupee terms to Rs.27,813 Crores. In US dollar terms this works out to $6.016 billion. The breakup of revenue growth is as follows: volume growth is +17.74%, exchange is +10.8%, billing rate -4.89%, change in effort mix, that is the result of moving people from onsite to offshore is -2.27%, TCS e-Serve +1.59% and therefore the total is 22.97%.

We have talked about the weakening external situation when we announced the results last quarter. Revenue growth for the fourth quarter declined 1.45% quarter-on-quarter in rupee terms to Rs.7172 Crores and 3.36% quarter-on-quarter in dollar terms to US$1.433 billion. While we gained 4.94% this quarter by consolidating TCS e-Serve revenues and 62 basis points from currency movement, Q4 revenues were impacted by -2.65% from volumes and by -1.97% from pricing. Although revenue also declined by 2.39% from offshore shift this is the welcome move in view of profitability.

We continued our focus on improving operational efficiencies that Ram had described in our last call, scaling down our expenses in line with the deceleration in the revenue growth. Let me now give you a bit of details on some of the steps we took.

A significant margin lever in our business model is the offshore mix. At the end of FY2008, when 41.9% of our revenues were generated from offshore locations, we had spoken about targeting 45%. We made a steady progress in that area throughout this year. Offshore leverage in the fourth quarter went up another 160 basis points quarter-on-quarter to 45.2%, achieving the intermediate and, of course, the immediate targets we have set for ourselves. While we shifted some employees from various locations and so on, we also followed a compensation policy in terms of variable compensation and there was some improvement in margin as a result of it.

We also continued the scrutiny on headcount additions by limiting gross additions to 3,522 this quarter and maintaining attrition at 11.4%. We had only 521 net additions during Q4 on an organic basis.

We were able to bring down employee cost in absolute terms by 121 Crores in this quarter over the previous quarter, that is 84 basis points as a percentage of revenue. Likewise, we controlled other expenses as well. For example, we have been able to bring down travel expenses by 17.1% quarter-on-quarter which translates into a 32-basis point reduction as percentage of revenues.

For the full year, our cost discipline resulted in a 26-basis point reduction in our cost of revenue and 81-basis point reduction in SG&A expenses.

Operating margin for Q4 was 23.71%, down 105 basis points quarter-on-quarter. Margin impact of the different factors are as follows: currency +31 basis points, offshore shift +67 basis points, rate productivity change -44 basis points, SG&A components -159 basis points adding up to a total decrease of 105 basis points.

On an annual basis, our FY09 operating margin was 23.74%, up 109 basis points over last year. The breakup of margin improvement was as follows: currency +4.25%, offshore shift +51 basis points, rate productivity change -4.54%, SG&A components +87 basis points, total increase 1.09%.

Finally, net income margin for the fourth quarter was 18.41%, down 21 basis points quarter-on-quarter. For the whole year, our net income margin declined 3.59% over last year. A significant part of this decline was on account of foreign exchange losses on our revenue hedges.

On hedging, we witnessed tremendous currency volatility in FY2009 with all the major currencies depreciating sharply against the US dollar and against each other. The Indian rupee moved in a wide band between 40 and 52.50 against US dollar. GBP depreciated 38% against the US dollar but only 8% against Indian rupee, while Euro depreciated 19% against US dollar while appreciating 7% against Indian rupee.

In such a volatile scenario, our hedging strategy continued to protect budgeted realization and deliver predictability. Our cross currency hedges helped us avoid translational losses of Rs 4 billion this year. However, revenue hedges we took at the start of FY2009 with limited upside participation contributed to a Forex loss of Rs.7.8 billion this year. That said, I would like to point out that our average post-hedge rate for FY09 was Rs 44.60 against the average realization of Rs 46.30.

Moving on to cash flows, we continued our sustained drive to improve collections. During the fourth quarter, we brought down our DSOs by another 3 days on top of the 9 days' improvement achieved in Q3. After paying out Rs.24.38 billion for the acquisition of CGSL, we ended FY2009 with cash and liquid investments of Rs.42.87 billion.

To sum up, at a time of unprecedented global uncertainty and turbulence, we coped well in 2009. In response to the environment, we focused on what is within our control, i.e. improving internal efficiencies and delivering good results. By resisting pricing pressure, aggressively shifting work offshore managing our costs better and hedging prudently, we protected our operating margins and did so without diluting our capability to lead in the recovery ahead.

Kedar Shirali Thank you, Maha. We can now move on to the Q&A part of today's call. Rochelle, you can open the lines to questions.

Moderator Sure. Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question at this time may press * and 1 on their touchtone telephone. If you wish to remove yourself from the questioning queue, please press * followed by 2. Participants are requested to use only handsets while asking a question. Anyone who has a question may press * and 1 at this time. Our first question is from the line of Mr. Ed Caso from Wachovia. Please go ahead.

Ed Caso Good morning, good evening, I guess. Thank you for taking my question. I am curious if you can give us an update on the pricing environment and how that has worked into client discussions when they come to the end of projects and start new projects.

N. Chandrasekaran The pricing environment continues to be challenging definitely, there is pressure, not necessarily when the contracts come up for renewal, but also at different points in time.

If you really look at our customer-base, they are large companies and if you look at the top 100 companies, more than 40% of them have declared decline in their revenues in the last earnings announcement. More than 55% of them have declared declining profits. A good number of them have also declared losses. So this is the environment in which they are living in. So, that definitely translates into cost management initiatives for them, which also results in pricing pressure.

So all I will tell you is that you please look at our annual numbers. We had a 17.7 volume growth organically and we have had a pricing impact of about 4.9%. Going forward, our take is that for FY10, we would say that it is in the lower single digits – that is the likely impact we are factoring at this point.

Ed Caso Thank you.

Moderator Thank you, Mr. Caso. Our next question is from the line of Mr. Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Joseph Foresi Hi gentlemen. My question here is first on the visibility. I was wondering is there any change in the amount of visibility that you have going into this year? I am wondering if you can give us any commentary on decision making. Is it starting to pick up, are people actively making decisions or has there been any change in the demand environment in that perspective?

N. Chandrasekaran Yeah, this is the most difficult question and in the question definitely you want the best possible answer, but we will try and tell you. From our point of view, I think there is still no, very clear clarity. But if you look at certain sectors like Retail, Utilities and Pharma, we have clarity. But sectors like Manufacturing and Hi-Tech, definitely there is a lot of cloud around visibility.

And all companies are not closing budgets; some companies are taking practical steps, a quarter at a time. That is the behavior. So the discretionary spend which actually was in a very tough situation in the beginning of the calendar year is probably better in some sectors. But definitely overall, there are still delays and lack of approval for discretionary budgets. That's the best possible I could give you in terms of a qualitative color.

Joseph Foresi And then, secondly, I was wondering if you have any commentary or any changes you are seeing in the political environment given what's happened here in the US. Any adjustments that you may be making with moving more work offshore or in regards to H1Bs, any commentary in the political environment…..

N. Chandrasekaran I think from the US point of view, I think there is no direct impact so far. And in this environment, actually we have accelerated our optimizing of the resource base and definitely we are driving more work offshore and we have seen that resulting in a significant shift offshore this quarter and also resulting in margin improvement - almost 68 basis points on a sequential quarter basis.

So, we will definitely continue to drive the offshore movement and optimize the employee cost as tightly as possible. Definitely. And in terms of visa situation, I think we have enough visas for the need that we have going forward for FY10, so that is not an issue.

Ed Caso And then just a last one, if I could sneak it in – your decision to hire next year. Obviously it doesn't look like you are hiring people on a quarterly basis, but you are taking people on to the bench. I was wondering if you could just explain that. It would seem intuitively that you would probably stop the hiring process and focus on pushing utilization higher. I am wondering if you could just comment on that.

N. Chandrasekaran Yeah, I will answer this question, probably Ajoy may like to add. See, the principle of recruitment what we have taken is that not only going forward, but actually in Q4. We have tightened recruitment. So we are really not adding any laterals - it is very very tightly controlled, only where it is absolutely needed. Niche skill is where we are looking at. And we have about 24,000 fresh trainees for FY10 where we have given offers. They will have a certain joining rate and those trainees will come all through the year and the first batch does not start until the later part of the second quarter. We will synchronize the time at which they join as we know more at the end of Q1.

So this is the principle and also there will be our attrition running around 11% to 12% at this point in time, so we have factored some attrition as well for this fiscal year.

And you need to see this also in the context of what we have experienced in the last five quarters. If you recall in the December 2007 quarter we first announced that we are seeing the impact in the financial services market. Specifically, if I recall, we said that there are 2 clients where we are seeing severe cutting budgets and then that translated into impact from the Financial Services and later on into Manufacturing, High-Tech and another sectors. We have had a tough year but despite that, we had a volume growth of about 17.7%.

We have taken all this into account so we have controlled any lateral additions very very tightly and the freshers approach I have already told you. So I do not think that we are looking at dropping utilization. We are definitely going to make our efforts to improve utilization and that is the goal.

Joseph Foresi Okay. Thank you.

Moderator Thank you Mr. Foresi. Our next question is from the line of Mitali Ghosh of DSP Merrill Lynch. Please go ahead.

Mitali Ghosh Yes good evening. I was just wondering if you could talk a bit about how you expect the volume flow in the next few quarters, how should we expect the next quarter to trend and also while on volumes, what you are seeing in the banking sector, you have discussed the trends in a couple of other sectors but what you are seeing happening in the banking sector now.

N. Chandrasekaran Mitali I think it is very difficult to say at this point because the uncertainty is still there. There are surprises and there is no clear visibility in terms of the discretionary budgets, so one cannot say whether what is expected to ramp up will definitely get ramped up. That is the uncertainty in which we are operating. So it is very difficult to give you even a range in terms of what can happen in the volume growth or if there will be volume growth.

Then in terms of the Banking & Financial Services sector I think the point I was making is that we are seeing more impact and more cloudiness around Manufacturing, Hi-Tech, and Telecom sectors than the Banking sector.

In the Banking sector, we can see some spots of recovery but whether it is systemic, whether it is bottomed out, and whether it is going to turn around I think it is too early to say. We just need to wait for one more quarter and we will be able to better answer this question three months from now.

Mitali Ghosh Okay and if you could provide some color on the operating margin outlook for next year and how you expect the different factors to impact it?

N. Chandrasekaran See again, we cannot say anything about what is going to ever happen to exchange, so leave this exchange out of the equation. And when we talk about the offshore moment, yes the drive will continue, we will continue to move more work offshore - there is some headroom and for all the work we have initiated there is some more distance to go. So we will definitely improve the offshore margin. And then we should also factor in that there is going to be a pricing decline. So you have at least the trend for the offshore and the pricing. Currency, I think your guess is as good as ours.

S. Mahalingam Mitali, Mahalingam here. The effort in terms of improving efficiency will continue. It is not a finished job as far as we are concerned. We did talk about 45% but that, as I said, was only an intermediate and immediate goal. There are possibilities there. And the second one is that all the expenses are under scrutiny. So that program is going on and you have seen the impact in the last three quarters on a consistent basis.

Mitali Ghosh Right. I just want to follow-up to that what are you targeting in terms of utilization?

N. Chandrasekaran See, utilization as we said, the number of people that we are recruiting is primarily at the trainee level so we are definitely trying to improve the utilization without trainees distinctly. The utilization of trainees into projects and that utilization going up will very much depend upon the volume that we will see. So it is very difficult to say, but utilization excluding trainees, we think will go up.

Mitali Ghosh Okay and just finally two things: one is in terms of the tax rate, what do you expect in FY10 and FY11 and just some color on the forex hedge loss that maybe we can expect over the next couple of quarters. Is there any change to that or does that remain similar as last quarter?

S. Mahalingam You see as far as the tax rate is concerned there is no change as far as next year is concerned.

As far as the hedging loss next year, you know that we have got close to about Rs 700 Crores or Rs. 7 billion in OCI but as far as the next quarter is concerned we have got $120 million coming in at maximum participation of Rs 41. Now, one will have to work out what exactly is going to be the currency factor because as you can see the rupee has been started appreciating against the dollar towards limited extent, so we cannot really say. So that is only one that is moving up. As far as the year as a whole is concerned, $349 million is the one with limited participation at 41.

Mitali Ghosh Okay. Thank you very much.

Moderator Thank you Ms. Ghosh. Our next question is from the line of Mr. Moshe Katri of Cowen & Co. Please ahead.

Avishai Kantor Yes, Hi it is Avishai on behalf of Moshe. I have got few quick questions. First thing, with regard to existing customers asking to renegotiate existing contracts is there, how widespread is that and is there any way to quantify the average requested pricing concession?

N. Chandrasekaran It is pretty hard to give a precise number on this, but as we said the pricing negotiations range anywhere from 4% to 15% - that is the demand and it does not mean that we negotiate at the price but there is a demand but it is not in a very systematic way. I think it varies from sector to sector and customer situation to customer situation and also differs from type of engagement.

It is fair to say that generally, there has been an attempt to renegotiate the price. The only thing that we can say is that we have looked at our portfolio, we have looked at what has happened this year, we have looked at the other clients in that situation and we have at this point in time factored in an impact of lower single digits for us for the next fiscal. That is the only comment I can make.

Avishai Kantor Thank you, and with regard to budgets, what sense do you get as far as you know have IT budgets been largely finalized and if so, what is the trend in terms of expected offshore spending within those budgets.

N. Chandrasekaran I think the budgets, where it is finalized, are predominantly focused on a lot of ADM work, lot of maintenance and analytics work.

Discretionary budgets in general are very hard to combine across the industries. Okay, there is a cut in discretionary spent across the industry segments but definitely there is an attempt from the customers to increase offshore volumes, absolutely. That is again across sectors.

Also, in certain companies they are not really increasing the budgets, they are taking a very tactical view of case by case approach. So, it is a mixed-bag over there.

Avishai Kantor Thank you. My last question - if you can just comment on sales cycles.

N. Chandrasekaran I would not say that there is any unusual change in the sales cycle. Wherever there is an RFP or wherever there is an opportunity that is being pursued, we do not see any significant change in the sales cycle. But if you are trying to create an opportunity proactively and if it requires discretionary funding, it can be really long.

Avishai Kantor Okay, great. Thank you very much.

Moderator Thank you. Ladies and gentlemen, before we take the next question, we would like to request that you limit your question to one per participant so that the management is able to address all your questions. Our next question is from the line of Mr. Julio Quinteiros from Goldman Sachs. Please go ahead.

Julio Quinteiros Great. Can you just decompose the fourth quarter revenue a little bit better? I was trying to understand that the dollar contribution of the Citi acquisition first of all. And then, if you could decompose the pieces of volume growth, pricing impact, etc., just to get a better sense on what the fourth quarter sequential underlying volume growth looked like for the core business?

S. Mahalingam Yes Julio. The fourth quarter decomposition goes this way. Volume is -2.5%, pricing is -1.97%, exchange impact is +62 basis points, change in offshore leverage is -2.39% and e-Serve added +4.94% and therefore overall growth -1.45%.

Julio Quinteiros I am sorry that 4.9% was what?

S. Mahalingam e-Serve that is CGSL, Citigroup's BPO.

Julio Quinteiros That was at +4.9%?

S. Mahalingam That is right.

Julio Quinteiros So it looks just from the numbers that the dollar contribution from Citi would have been roughly $60-$66 million.

S. Mahalingam $71 million.

Julio Quinteiros So then the underlying core business itself looks like it declined about 8% quarter-to-quarter.

S. Mahalingam Less than that Julio. It is closer to about 7%.

Julio Quinteiros Okay got it, great. And then just, I think the trajectory that you are expecting for when you were expected to bring headcount back on board - that should match your demand improvement that you said. When exactly was that supposed to match up again?

N. Chandrasekaran As I said, the major headcount that we are talking about is the fresh trainees for whom we have made the offers. They will start in the second quarter, middle of second quarter.

The actual sequencing we will roughly plan it at the end of the first quarter and try and match it to the volume uptick.

Julio Quinteiros Okay, but with that is that also when you expect revenue to come back again or is that just headcount additions situation? I guess I am trying to sense specifically is when you expect to start growing again?

N. Chandrasekaran It is a difficult question to answer. I think you know we do not give guidance as you know. All I can tell you is that Q4 has been a volume decline and a pricing decline but if you look at the year-on-year I think it has been 17.7% volume increase which is pretty decent in the current environment in spite of the impact of Q4.

So we will need to carefully wait for another month or two because you know what is bothering us is not the new deal pipeline. The new deal pipeline, the closure is not the issue we are having. The issue we are having is the sudden hole that comes in your existing client base.

If you look at our last fiscal year our top clients have all had holes in terms of the revenues dropping on a year-on-year basis. In spite of that this 17% has come in spite of the fact that several of the top clients have de-grown. So there are chunks of holes there is coming and there is no predictability in these holes. We will like to see a few months of a time where we are not experiencing a hole.

So we are watching the Auto sector, we are watching the Auto Supplier sector, watching the other Manufacturing sector, the High-Tech sector, so we want to make sure that we are not getting those holes in the months to come. Till then it is very difficult to predict whether we will have volume growth or not, that is exactly the problem.

The problem is not in the deals we have closed because there we normally get 2%-3% and there we have visibility and especially the deals that we have closed this quarter or last quarter all have happened after the turmoil has happened. So these clients exactly know what they are committing too. There is no issue.

The problem is the existing accounts when there are surprises. So I cannot be more accurate.

Julio Quinteiros That is helpful. Thank you very much.

Moderator Thank you Mr. Quinteiros. Our next question is from the line of Viju George from Edelweiss, please go ahead.

Viju George Yeah, hi. Thanks for taking my question. You did mention that in telecom, there was a significant client that was affecting your outlook. Are more downsides from that client expected or you think you are seeing the worst from that substantially?

N. Chandrasekaran I cannot say at this point in time.

Viju George Maha, just a data point - what is the hedging loss in Q4 in this quarter?

S. Mahalingam The hedging loss was Rs 192 Crores.

Viju George One last question. You did mention that you are not quite sure of your growth prospects at least in terms of volumes in FY10? Am I getting at that correctly, just going by what you have said in the previous answer?

N. Chandrasekaran We did not say whether we will grow or we will not grow. All we said is it is difficult to say at this point in time primarily because there is uncertainty in the environment and there is more cloud.

Viju George Finally, one last question please. If you view rupee at these levels, what would be approximate hedging losses you might take in FY10 if further rupee stays at 50?

S Mahalingam You know FY10 the only, the one with maximum participation or limited participation is $349 million and if are taking Rs 49 now then it is really about Rs. 8 that you would get.

Viju George Okay, yeah, that is clear. Thanks a lot.

Moderator Thank you Mr. George. Our next question is from the line of Yogesh Agarwal of HSBC Securities, please go ahead.

Yogesh Agarwal No, thanks a lot. All my questions have been answered. Thank you very much.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Sandeep Shah of ICICI Securities, please go ahead.

Sandeep Shah Yes sir, can you give us the volume growth in the international business this quarter?

S. Mahalingam We do not give that.

Sandeep Shah Okay, because sir, if you look at the international business excluding the CGSL in dollar terms the revenue has declined by almost 10%.

S. Mahalingam You know we have not furnished all the details and so all that I can tell you is that is not the correct one.

Sandeep Shah Okay and for the full year you said that pricing has impacted the margins by 4.5% and offshore has improved the margins by 51 basis points. So the offshore improvement has been significant in FY09, so why the improvement is just to an extent of 51 basis points?

N. Chandrasekaran For the full year, offshore improvement is about 160 basis points and you know we improved. In Q1, we had negative pricing of about 90 basis points. In Q2 I think it is 0.3 up and then we had a 1.1 decline in Q3 and then a 0.44 something in Q4.

So if you put it altogether, that is where you see the pricing impact. From an offshore improvement perspective it is 160 basis points resulting in 51 bps.

S. Mahalingam In any case we have been saying that the margin impact of offshore movement is between 20 to 25 basis points for every percentage shift.

Sandeep Shah Okay, and just one last thing, there is some high number of common clients we share with Satyam, so is there any client churning where we are getting higher benefit versus the peers? Can you throw some color in terms of how the churning from Satyam clients to TCS and its impact.

S. Mahalingam In general we do not talk about specific competition. So I would not see that as a significant opportunity or anything. I think overall there are opportunities in some clients which we pursue, but I would not like to put a number to it.

Sandeep Shah Okay. Thanks a lot.

Moderator Our next question is from the line of Ashwin Mehta of Mangal Keshav Securities, please go ahead.

Ashwin Mehta Well I just wanted to check with Maha - have there been any changes in terms of the underlying hours per day that we bill since 1st of April?

S. Mahalingam No, I just want to clarify one thing that the number of hours that we bill corresponds to the number of hours that we work for the customer. There is no discount that is passed on because we have got a slightly longer working day.

Ashwin Mehta Okay. And another is in terms of write-back on taxes, have there been any write-backs in this particular quarter?

S. Mahalingam There has been some write-back and that is the reason why in this quarter you would find that the tax amount has come down.

Ashwin Mehta Okay, and just one last thing in terms of our rent having gone up by almost 80 bps in this particular quarter. What could have contributed to such a significant jump?

S. Mahalingam See there are essentially three things. One is there have been certain additional premises into which we have moved. The second one as a resultant from in-sourcing that had taken place in an overseas location there was an increase and the third one was there was a dispute and we have been taking some steps in terms of settling that dispute.

Ashwin Mehta So a lot of it could be one-off or we expect this elevated level to continue?

S. Mahalingam You know there are some parts which are really one-off and not the full extent of increase but let me say, substantial part of the increase is one-off.

Ashwin Mehta Okay. Thanks a lot.

Moderator Thank you Mr. Mehta. Our next question is from the line of Anthony Miller of Tech Market View, please go ahead.

Anthony Miller Yes, hello gentlemen. I want to speak about a little bit of a sort of color and movement on the UK and European scene. Firstly if you look at UK and Continental Europe and you look at it in local currency terms, which country markets have you seen the best growth in, in the last quarter and which have been the least satisfactory for you?

N. Chandrasekaran I think continent Europe overall it has done very well, not only in Q4 but also over the entire fiscal year, even excluding the exchange. And also UK has done well if you really remove the exchange impact. Obviously we have had an exchange impact in UK because of the Sterling weakening. So I would say that first Continental Europe, then UK.

Anthony Miller Is there any material difference in the sort of the shape of the demand in UK and Europe versus the US either because they are the first two sectors that are behaving differently or even demand for particular service lines is different?

N. Chandrasekaran I think you know in these markets we are seeing growth in Retail, Financial Services and Utilities. These are the three sectors I would say that we are growing in these markets.

Anthony Miller Okay and just finally, what exchange rate should we be using for, so I missed the dollar one? Can you give me the dollar, for Euro, and for Sterling that we can apply to the numbers to get the local currency effect?

S. Mahalingam You know what I meant as far as the dollar was concerned was that you know - I presume you are asking about the overall movement that took place or what exchange rate you should be using?

Anthony Miller Well, actually what factual exchange rate so that I can just apply them on my model to get the local currency numbers please?

S. Mahalingam As far as this quarter is concerned, the average rate as far as US Dollar is concerned was 50.04, for Pound it was 71.91 and for Euro it was 65.62.

Anthony Miller Thank you very much.

Moderator Thank you Mr. Miller. Our next question is from the line of Srivatsan of Spark Capital, please go ahead.

Srivatsan Yeah hi. Just wanted to get some understanding on pricing, if assuming Q4 pricing levels had to stay right through for next year, what will be the exact impact on pricing would be for on a Y-o-Y basis such as FY10 vis-à-vis FY09 would be?

N Chandrasekaran You could calculate it. I do not have it handy.

Srivatsan Okay. That is something which you do not have handy, but what is the drop you have seen from Q1 to Q4 in pricing drop for this financial year?

S. Mahalingam That is what we have said you know that overall pricing drop for the year as a whole.

N. Chandrasekaran It is 4.89%.

Srivatsan 4.89%, okay thanks a lot.

Moderator Thank you. Our next question is from the line of Dipesh Mehta of Khandwala Securities, please go ahead.

Dipesh Mehta Thanks. Almost all the questions have been answered just one question about our SG&A. We have two items R&D and employee. Is there any reclassification of it sir?

S. Mahalingam There has been no reclassification.

Dipesh Mehta Okay thanks.

Moderator Thank you Mr. Mehta. Our next question is from the line of Diviya Nagarajan of JM Financial, please go ahead.

Diviya Nagarajan Hi. I was just observing that among our service metrics, except for BPO on an organic basis, all our service lines have declined during the quarter including some of the so-called non-discretionary spend areas such as Infrastructure and Testing. What has caused this phenomena? We have seen some ramp down in some specific large clients which is led to this or is this a phenomenon that we have seen across industries, across clients?

N. Chandrasekaran Well it seems so we, for our services, you know you are talking about the quarter-on-over the year?

Divya Nagarajan I am talking on a quarter-on-quarter basis.

N. Chandrasekaran Quarter-on-quarter basis I think you should have seen growth both in BPO and Infrastructure and it is just that we have had a huge decline this quarter, revenue decline so that is what you are seeing across the board, it is more because of the hole we have faced with specific clients.

Diviya Nagarajan Right. And pardon me if I got this wrong, we are expecting almost no volume for the next year, is that what we are saying?

N. Chandrasekaran No, we have not said any guidance from the volume growth. All we have said is that at this point in time there are two points that I made. One is on the new clients that we won, on their ramp ups, we have some clarity and visibility. The problem we have is in predicting any unexpected holes that occur in the existing accounts that has been happening all through the last three quarters. And we are not able to predict that. Unless we get clarity on that for the next month or two, it is very difficult to clearly say how much will be the volume growth or not. That is all we have said. We have not said one way or the other.

Diviya Nagarajan Right. In the earlier conversations you had kind of indicated that fourth quarter might be the worst in terms of volume decline and after that we probably see things improving.

N. Chandrasekaran We hope so.

Diviya Nagarajan Are we still seeing that because you know if we looked at the numbers this quarter we seem to have deteriorated much greater than expected. Do you expect that to carry over in 2009?

N. Chandrasekaran I think in the fourth quarter numbers are I think pretty much on the expected lines because if you see the volume perspective the de-growth was about 2.6% and I think we are expecting there will be a volume decline and the pricing decline in the fourth quarter. Also you have to factor in a 2.4% of decline in fourth quarter in the revenue due to the offshore movement that is pretty significant. That is something that you got to factor in. I think some of the other people also who reported who asked some questions on fourth quarter numbers probably did not take them into account. There is a 2.4% revenue drop due to shift offshore and whether this is the worst ever, I mean as I said, it is about the uncertainty that can come in any of the large accounts that we have. So we are not able to clearly give an answer on that account.

Diviya Nagarajan Right. Thanks and all the best for a tough year.

Moderator: Thank you Ms. Nagarajan. Ladies and gentlemen, due to time constraint that would be the last question. I would now like to hand the conference over to Mr. Kedar Shirali and the management for their closing comments.

Kedar Shirali Thank you Rochelle. I would now invite Mr. Ramadorai to deliver the closing remarks for today.

S. Ramadorai Thank you everyone. All I wanted to summarize was to say that it has been a challenging environment and we expect the uncertainty to continue for some time.

In spite of that, our revenues crossed a 6 billion mark which was up 23% year-on-year, strong volume growth in terms of about 17% for the year, operating profits $1.42 billion up about 29%, the operating margin improvement was to the extent of 102 basis points. We have generated cash and declared dividend of Rs. 14 per share and the 19th consecutive quarter of dividend paid out since we went public. We did declare 1:1 bonus subject to the board approval and the shareholder approval; board has taken the decision but it has to be with the shareholders during the AGM.

We did achieve the offshore mix of 45% and which was an improvement like I said of 310 basis points. More importantly the DSO was reduced by 12 days in the last two quarters. We did add new clients and large deals were closed and then the benefits of the acquisition of the Citigroup BPO will be seen.

We did add gross of 48,595 people including the offers which we said we have made for the year 2010 from the campuses at about 24,885.

In a tough, challenging environment it has been a good performance and we will look at the customer experiences, customer focus and operational efficiencies as the theme and across the world including the emerging markets will be the key focus. Thank you.

Kedar Shirali Thank you sir.

Moderator Thank you sir. Thank you Mr. Shirali and gentlemen of the TCS management. Ladies and gentlemen that concludes this conference call. Thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines. Thank you.

Note: This transcript has been edited to improve readability