Tata Consultancy Services Limited

Q3 FY14 Earnings Conference Call.
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Moderator Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you. And over to you, Mr. Shirali.

Kedar Shirali Thank you, Melissa. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the third quarter of Fiscal Year 2014 ending December 31st, 2013. 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 website.

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

Chandra and Rajesh will give an overview of the company's performance followed by the Q&A session. As you are aware, we do not provide specific revenue or earnings guidance. Anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the 'Analyst Presentation' available

on our website and which has been emailed out to those on our mailing list. With that I would like to turn the call over to Chandra.

N. Chandrasekaran Thank you, Kedar. I would like to start by wishing all of you a wonderful 2014. Thanks for being here on this call.

I would like to give a summary by first stating that we have had a very good quarter. From my perspective it has been excellent financial performance and I will try to give you more color.

As we went into the quarter, typically, the Q3 quarter, we normally indicate two things as headwinds from a revenue perspective. First, the number of working days is lower in this quarter; second, the seasonality which results in furloughs which all of you know and all of you expect and factor it in.

We added an additional headwind sometime during November, indicating that we are seeing softness in the India market, and we expect for the next 2-3 quarters the softness to continue due to the impending election, and we will not see growth, in fact, we might see a decline.

Now if you look at the results – the overall results, excluding India, has been growth-oriented in all markets but in India we have had a decline of about 8.5% on a sequential quarter basis. What it translates to is a 3% dollar growth overall and 1.5% rupee term growth and 2.1% constant currency growth at an overall level.

If you split it as volume and pricing, we had 1.8% growth in volume and 74 basis points improvement growth related to pricing and realization. And then we had an impact of 40-odd basis points due to offshoring, resulting in a 2.1%. But if you exclude India, the volumes grew 2.5%, and the dollar term revenue growth was 3.8%.

In terms of the industries, all the industries have done well.

In terms of the geographies, all the geographies have done well. Particularly, US had about 2.1% sequential growth in CC terms and Europe grew 5.5% in CC terms.

In terms of the sectors, BFSI has also done very well, especially, the BFS and Insurance was soft this quarter and BFS has shown very good growth, and I do not remember the number off hand but it is around 2%.

Now, if you come to the Services, all our service lines, except Asset Leveraged Solutions have delivered growth. And Asset Leveraged Solutions had an exceptional growth last quarter, and this quarter had a decline on a sequential basis.

In terms of client additions, we have had incremental client additions in every revenue band, whether it is a million dollars, $10 million, $20 million, $50 million and it has been very a nice ramp up that has happened.

In terms of utilization, we are at an all-time high at 84.3% ex-trainees and 77.5% trainees. Gross employee additions have been close to 14,500. Attrition has also been stable at around 10.9% and we have revised the headcount addition for this fiscal year from 50,000 to 55,000.

In terms of deal wins, we have had 8 large deals that we have won this quarter. The number of deals in the pipeline is also healthy. In fact, there are deals which should have closed this quarter but which have slipped into the next quarter, especially in the Retail sector, primarily because retailers have been focused on holiday sales and stability and support. So some of those deals will get closed in the early part of 2014 and ramp ups will start towards the end of the quarter for some of those deals.

In terms of the margins at the operating level, we have declined by about 42 basis points from last quarter to this quarter that is pretty much due to the rupee appreciation which had an impact of 45 basis

points. On the operational performance per se, we had an improvement of 60-70 basis points in operational performance which would have translated into margin improvement, but that was totally reinvested back into sales and you will see it in the different line items.

At the net profit level, Rajesh will add a little bit more color, but we have done spectacularly well; almost 50% growth on a year-on-year basis and 13.5% growth on a sequential quarter basis due to a swing in the forex and also improvement in the interest income. So it has been a very good quarter.

Going forward, as we look at the budget for next year, all the indications that I hear from clients and the data I have with respect to the pipeline tell me that we are going to have a very very good year, a better year than the current year, primarily because Digital projects are growing in terms of the number of customers engaging with us, in terms of the number of engagements with each of them, and the size of those engagements.

However, I must point out that the domestic business I expect to be very soft. I don't think discretionary projects, which form a good portion of our India business, will kick in because there will be delays in closures until the election. I would even put it until September quarter, we should probably be conservative in terms of our growth in India business.

Overall, the environment otherwise is pretty healthy and definitely I will be happy to answer any questions, but before that let me give it to Rajesh so that he can give some color.

Rajesh Gopinathan Thank you, Chandra. Let me quickly go over the headline numbers once again.

Our third quarter revenue was Rs.212.94 billion representing a growth of 1.5% QoQ and 32.5% YoY. Revenue in dollar terms is $3.438 billion, representing a growth of 3% and a YoY growth of 16.6%. In constant currency, our revenue growth was 2.1% QoQ.

In terms of revenue growth – we had a business growth of 2.52%, broken up into volume growth of 1.78% and constant currency realization growth of 0.74%; this was tempered by an offshore shift of 40 basis points and currency impact of 61 basis points resulting in a total growth of 1.51% in terms of reported INR.

Moving on to the operating margin – improved utilization and other operating efficiencies and realization improvement gave us 65 basis points improvement in operating margin, of which we reinvested 62 basis points into strengthening our front end sales and other SG&A activities. We had a currency impact of 45 basis points leading to an operating margin of 29.75% which is down 42 basis points from our reported number last quarter.

Our net income margin expanded by 254 basis points to 24.96% which was primarily boosted by forex gain of Rs 2.95 billion and an effective tax rate of 23.7%.

Our accounts receivable was at 79 days compared to 80 days in the quarter before.

In terms of cash flows – we have had a good quarter. We crossed the Rs 50 billion mark in this quarter and generated Rs 54.07 Bn in operating cash, which represents 101.7% of the Net Income.

Our invested funds for this quarter ended at Rs.188.57 Bn.

Lastly, the board has recommended an interim dividend of Rs.4 which is the same as last quarter. With that we are now open to questions.

Moderator Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal Just a couple of questions for Chandra; one, on the Digital side, I heard you were saying that there is a lot of demand which is coming from that space and we also believe that it will be the next big driver of growth, but two-three questions here: first, are all the clients ready for

deployment of Digital technology? Secondly, are you seeing this demand in Digital technology coming only from front-end channels, basically from front-end desk, primarily in the Consumer and Retail side or are you seeing it across verticals, across functions? And thirdly, how big is this opportunity or it will be too early to comment on that? My second question is: when you say that next year will be much better year than this year, are you indicating it in percentage terms what it is?

N. Chandrasekaran There are multiple questions you asked. In terms of the Digital space, we are seeing a strong engagement across the customer segments. It is not sporadic. We are seeing all the customers talking to us about Digital, and it is no longer about developing some apps. The discussion is moving on to what is the collective power of these technologies and what does it mean. So that is the kind of dialogue we are having.

And in terms of how big this opportunity is, it is big enough to drive a few billion dollars of revenue over the next few years. Over the next two to three years, I am talking about a few billion dollars. I cannot quantify better than that at this stage. But what I will say though is I expect the Digital revenues from here to incrementally increase on a sequential basis, quarter-after-quarter, for some time to come.

Digital, by definition, has a huge opportunity in the front of the house. So, there will be a lot more opportunity in terms of front of the house, whether you call it channels, or you call it insights. But most of the digital initiatives require a huge back-end play in terms of data. Digital is just not purely Mobile and Social, there is Cloud and there is Big Data. And putting together a data architecture, as customers they start their journey in Digital, they need to do a strong data play in the back end. So there will be back-end opportunities, but the visibility is in the front.

In terms of the companies, obviously, the consumer-facing companies have a huge play. Having said that everybody wants to track the consumer – B2B companies want to track the consumer. The entire

consumer products industry, FMCG industry, is trying to understand their consumer better and then track their consumers. No longer is it products. The Retail, CPG companies and those kind of sectors are going through a massive transformation from a product architecture to a consumer architecture.

I believe we are entering a new economy called a "Digital Consumer Economy." So this plays in a variety of industries. While this can be related to Banking, Insurance, Travel, Retail, Consumer Products, etc., you are also seeing the effect of Digital in other industries including Manufacturing, although they will always lag behind considering the first set of industries. Hopefully, I have answered all your questions.

Sandeep Agarwal Yes, exactly, that was what my question was that are the data architectures already ready or the clients ready to spend to rejuvenate them to go through this phenomenal change. And secondly, when you say next year will be much better than this year, what does exactly it imply? So these two questions.

N. Chandrasekaran On the first question, yes, because in order to take the full power of this Digital, they are having to spend on the data side and there are different solutions in different client situations, primarily based on what their current data situation is. Are there multiple systems, multiple databases? There are so many different complexities. So it is not a generic answer, what is the level of opportunity, what is the level of spend, but definitely data management and data architecture are major areas that get addressed along with the Digital.

In terms of what does it mean, I cannot give you percentages and we do not give that. I do believe that in terms of growth, it will be a better year than current year.

Moderator Thank you. The next question is from the line of Mitali Ghosh from Bank of America. Please go ahead.

Mitali Ghosh I had a question as well on Digital, which we also believe is one of the key things that is taking off this year and just wanted to understand a bit more in terms of how TCS differentiates itself in this market. So that is the first question.

N. Chandrasekaran I cannot give you too much because which of a differentiation I would rather talk to the client and then start giving more details about it. We have made huge investments in this space in terms of not only setting up a specialized center in the Silicon Valley two and a half years ago.

We have built capabilities in terms of people, external talent, training, special tools, which are our own IP – in terms of foundational tools as well as functional and domain tools. We have looked at Digital as a theme across industries, with specific offerings in each of industry.

Those are the capabilities we have built and we are in active engagements with several of our customers.

Mitali Ghosh Second question is on Continental Europe. That is the other trend that we are looking at and I think in the results we have seen so far, clearly over the last few quarters in fact, that is an area that is again looking like it is going to take off. So if you could give a bit more color in terms of the trends you are seeing in Continental Europe in terms of adoption of global sourcing, and how the whole language, culture, human resource issues are being tackled there?

N. Chandrasekaran From TCS' perspective, if you really look at the last several quarters, we have been continuously delivering good growth in the European marketplace.

When you look at Europe as multiple regions, we have built a critical mass in each of these regions. We have been continuously getting ranked #1 in the European Customer Survey in different segments over the last three years. This year we are ranked #1 in every market in Europe in which we operate. So, I think we have built a reputation. We have a built a critical mass in terms of the scale of our business and the integration of the local team with the India team is also

complete, be it Germany, be it France, be it Nordic, be it Benelux. So, all of these position us extremely well.

Most of the opportunities you are seeing today are opportunities that are coming out on a simplification as well as the sheer number of clients that we are adding. This is not a market in which we have had a big presence over a period of time, so the client additions have been very healthy and we are beginning to engage in simplification and consulting and ERP. I think the digital initiatives in this market will pick up as go. There is a strong offering that we have and the critical mass is just being attained and so there is a lot of upside.

Mitali Ghosh Just lastly on the margin front, I think Rajesh was quite clear in terms of the range of 26-28% being broadly the target range, my question is really that given that you are obviously above the range, how should we think about the pace of investments that could take place? And secondly, what are the operational levers might be there?

N. Chandrasekaran I think we are very comfortable with the range that Rajesh indicated, and we want to stay with that range, so that we can give you that comfort that we will stay in that range. Obviously we are operating above that range as you rightly picked up. We are not in a hurry to reinvest in any ad hoc way, but we will reinvest definitely in a strategic way. I cannot tell you whether it will be in one quarter or two quarters or three quarters.

Mitali Ghosh Would you have further operational efficiencies as well in this part?

N. Chandrasekaran We are comfortable enough to commit to that range.

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

Diviya Nagarajan Just a question on your outlook for 2014. You spoke about the digital space, the deal size is getting more incremental in numbers and the size. Could you give us some sense on how these deal sizes have panned out in the last 12 months, and how do you expect to see it for

the next 12 months as well, and how they are compared to your traditional deal sizes?

N. Chandrasekaran When the Digital space started, most of the engagements were very short-cycle engagements for building a lot of apps. Large-scale big data engagements are not the kind of commitments that were happening. Most of the engagements were sub-million, sometimes a few hundred thousand dollar engagements.

Now the engagement sizes are above million, multi-million engagements. Customers are looking at it as a program rather than as a project and multiple technologies come into effect. So that is the kind of opportunities that are emerging.

The only thing I can tell you, Diviya, is that it will get incremental better quarter-after-quarter, because people are figuring it out. They clearly see the opportunity, clear see the possibility, and they are figuring it out.

Diviya Nagarajan Some sense on the deal sizes; if you can quantify how the sizes compare to your traditional deals?

N. Chandrasekaran As I said, from sub-million deals, the deals are all a few million dollars in size now.

Diviya Nagarajan My last question is to Ajoy. You have done a commendable job on keeping attrition steady. We have seen it inch up for the rest of the sector, but assuming that the outlook gets better, it is possible that could trend up in line with the rest of the sector and you are running a pretty tight utilization as well. Some sense on how you plan for incremental attrition if at all and the bench that you are creating for the next 12 months please?

Ajoy Mukherjee From an overall human resources point of view as you said, yes, we are maintaining our retention levels at a pretty high level, attrition is at 10.9%. The kind of initiatives that we have taken and the overall

business environment are definitely helping us in keeping the retention levels at this stage.

Our hiring, what we have done, and utilization is all in line with the operational efficiency that we want to drive and we are going towards that. So utilization is 84.3% excluding trainees, as we mentioned, and 77.5% including trainees.

Coming to your question about attrition going forward, I think the cyclical part of it will come into play as far as Q1 and Q2 are concerned. From our headcount addition perspective, that is something that is still being planned, and once that is finalized, we will announce by February-March timeframe for the next fiscal year.

Moderator Thank you. The next question is from the line of Pankaj Kapoor from Standard Chartered Securities. Please go ahead.

Pankaj Kapoor Chandra, first question for you. Based on your early conversation with the client, do you expect CY14, it will be more a pickup of discretionary spend which will be driving the growth or will you see more of volume coming in the traditional outsourcing business?

N. Chandrasekaran Definitely, the volumes in the traditional outsourcing will continue to come in. That is for two reasons: one, there is still a huge amount of simplification initiatives both in the US and Europe. And, with the Europe market opening up, there will be more opportunities in that space.

A corollary to that is TCS-specific. The number of deals, size of engagements and the proof points that we have created in doing large scale simplification / transformation initiatives in different markets is on the increase. So that will position us to bid in more opportunities in the coming year than we have been bidding in the past.

Then there is definitely digital, that will drive discretionary spend; discretionary spend will be predominantly driven by Digital, that is correct. So, it will be a combination of both.

Pankaj Kapoor Rajesh, second question is on the margin outlook. You mentioned the band and where the comfort level is. Again, since our current levels are significantly higher and you are looking at a staggered reinvestment, do you expect this to come down maybe over the full year period or do you expect these investments to come in the early part of the year itself?

Rajesh Gopinathan We are not giving guidance in terms of when the investments will come. The intention of this guidance is tell you what the business model is geared towards. And we give you a lot of transparency in terms of on a quarterly basis what the impact of exchange rates are. Within that – that is, our stated intent, and the numbers being where they are – you will have to take your assumptions.

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

Sandeep Shah Just on the Digital, is it possible to share some amount of scale, which TCS has achieved here in this year?

N. Chandrasekaran We are not reporting that number so far. I guess you need to wait till we start reporting that number.

Sandeep Shah Chandra, just in terms of the cannibalization, just assuming that you maybe a prime vendor for a traditional outsourcing for a large consumer-facing client. If some of those apps are actually moving on a digital fashion, has it led to any kind of a revenue cannibalization for that client? what is your experience here?

N. Chandrasekaran We never look at it as cannibalization. We always look at this as transformation. So we always proactively engage with customers where there is an opportunity to transform, whether it is in the back end or in the front end. So, this has always resulted in additional business with the client. We have never seen a situation where something is replaced, so it gets cannibalized, so we do not look at it like that. If there is an opportunity to add value, because it is the right

thing to do for the customer, we go ahead and then propose that and do that. That does not necessarily result in cannibalization.

Sandeep Shah It may not be visible now, but once the acceptance of digital picks up scale, do you foresee this could be a threat, may not be in the near term but maybe after one or two years?

N. Chandrasekaran We do not think so, so we will see.

Sandeep Shah In terms of the size of deal versus your scale, it looks like still not big enough for you to drive the bigger growth through the Digital. So in that scenario do you believe that you have to invest more in terms of the sales force for targeting a bigger growth out of Digital?

N. Chandrasekaran No, no, I do not think so. I do not think that the size of the deal is anything to do with our sales or anything like that. On Digital, customers are learning. They may allocate a huge budget, but they cannot commit a huge budget because the whole transformation is not something that one can think through so easily. So, the whole journey of imagining the digital impact is something that the customers are going through.

They have a lot more clarity now than before, so the deal sizes have gone up from before. But please don't expect customers to sign up half a billion dollars checks on Digital. That is not the way it is going to be done. But, they will spend half a billion dollars, but it will be in terms of a lot of projects of varying sizes; some could be a few million, some could be 10 million, that is something that will evolve.

There are lots of opportunities, and the way these will get structured will evolve. It is nothing to do with Sales.

Sandeep Shah Last question, Rajesh, in terms of the OCI, can you give us the detail and how it can flow to the coming quarters going forward?

Rajesh Gopinathan Fairly small. OCI this quarter is Rs.41 crores and that is pretty much for Q4.

Sandeep Shah So Rs 41 crores is a gain or loss?

Rajesh Gopinathan Rs 41 crores is what is sitting in the balance sheet which will come to Q4 as a loss.

Moderator Thank you. The next question is from the line of Nitin Padmanabhan from Espirito Santo Securities. Please go ahead.

Nitin Padmanabhan Chandra, when you spoke about next year being better, I just wanted to clarify, did you mean that it is from a holistic perspective in terms of the whole company or was that referring to just the international business?

N. Chandrasekaran For the holistic company.

Nitin Padmanabhan The second thing was the company has almost doubled in size since the last major restructuring. Do you think that the current structure really allows the continuity of growth and how do you envision that going forward?

N. Chandrasekaran The current structure does allow the continuity of growth, but we keep tweaking changes as is desired. We have been doing that even last year, and we will continue to make those changes in order to keep the agility.

Our whole criteria is towards three things -- we want to just keep the agility, we want to keep our entrepreneurship, and we want to bring the power of the entire company which has been nimble and being relevant to customers. I think we are just about there at this point in time.

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

Joseph Foresi I was wondering if you could talk a little bit about what is exactly causing the uptick in the environment? Obviously, it is probably linked to customer confidence in the macro, but I know you talked about

Digital and some of the drivers, but I was wondering what we should be looking for the uptick and how we should be measuring that?

N. Chandrasekaran I think from the US market definitely there is a lot of customer confidence and customers are driving growth initiatives for their own business, and that is translating into Digital. There are many companies which have not done simplification and those companies are coming to engage the global model and that is resulting in a large number of deals in terms of simplification.

From a European market perspective, I think the momentum has picked up. European companies are adopting the business model. On the other side, our own presence in the European market in different sub-segments is scaling up, and our local resources and local management teams are reaching optimum levels. So we are able to bid for more opportunities in Europe now than we were bidding before. So, it is a question of the addressable space expanding in Europe and the customer accepting our value proposition because we have developed critical mass, because we have shown that we are committed to the local market, whether it is an acquisition in France or other initiatives like opening a center in Düsseldorf or whatever. So, it is a combination of factors that is driving our addressable space and our ability to participate and win clients and enter into very large European clients is increasing.

In Latin America, I think we have again grown substantially; our local presence has become very sizable; we have close to 12,000 people now in the Latin American region with local development centers, and our ability to again participate and customers wanting to engage with us is on the increase. So we will do extremely well in that market going forward. There are different factors that are all coming together in different markets.

From an offerings perspective, as I said, simplification is continuing to be very important, and Digital is definitely going to be driving growth incrementally better and better as we look at the next 3-4 years.

Joseph Foresi Just kind of sum up, it is a general pickup in the economy and then you are seeing discretionary spending come back, you are moving it to new geographies like Europe and then we have got some added work in newer areas like Digital. Is that a fair way of summing it up?

N. Chandrasekaran Yes, that would be correct.

Joseph Foresi In an environment like this, you said domestic is being maybe weak, what other areas are there some level of concern, typically when the demand picks up like this, we worry more about attrition and wage increases going up. Are there any other areas that you are keeping an eye on that kind of would move in this area, and what are your thoughts about the wages in the labor environment?

N. Chandrasekaran On wage increase, it is a function of the market. Also, we are continuing to do well, so we will do the right thing in terms of rewarding employees.

Second, attrition. So far, we have managed extremely well. We have shown that our retention rate is really top class, and we will not become complacent. This is an area we worry about every day. Ajoy and his team have done a fabulous job and we continue to believe that we will be able to keep our employees, keep our performers and continue to give them greater opportunities and an environment in which they would love to work. So, we will continue to do that.

We will have to focus on regulatory changes; anything to do with the US visa regulations or in other markets, similar regulatory changes. These are the things that we have to keep a watch absolutely.

Then, from an India market point of view, we will need to wait for the elections. Then the Rupee is another aspect. How much appreciation can happen is something that we are going to watch, because history has shown to us that it can very quickly weaken, and it can very quickly strengthen. We would not like to take any of those things to chance. So, we are on vigil all the time.

Moderator Thank you. The next question is a follow-up from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal My question is to a follow up to my previous question to Chandra. I agree that you have detailed a lot on the Digital side, but are you seeing very high trend of artificial intelligence also coming in other areas, other than robotics, or still there is some time for that?

N. Chandrasekaran The artificial intelligence and robotics will become very important for this whole Digital story, but these are early days for those areas. But we think they are investing.

Moderator Thank you. The next question is a follow-up from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah Chandra, last question with changing demand trends towards Digital and some of the trends also indicate that there is a decline for a large implementation of a third-party software. Some of the vendors including you plus some of the peers have a large scale in terms of third-party software professionals. So do you believe this demand trends may lead to a challenge in terms of changing or doing some adjustment at the delivery end in terms of these work force management or how do you tackle that as an issue?

N. Chandrasekaran I have two comments. One is that our Enterprise Solutions business is continuing to grow. Even this quarter, we have delivered excellent growth. So I do not see that that demand slowing down currently.

But how the workforce gets trained on new technologies is something that we have constantly done over the years. So our delivery engine will continue to re-train people, continue to position people, continue to develop the architects who have holistic knowledge about multiple technologies. Those are the things that we continuously do and we are pretty confident that this is another transformation in technology, which we will embrace smoothly.

Moderator Thank you. The next question is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon Just a follow-up on the lines what Sandeep asked right now. You mentioned that for the new technologies, you have been recruiting and training the work force for quite some time. So if I am understanding correctly, are you saying that the pattern you cater to demand, the employee profile for new technologies is a little different from what traditionally is? And if you could elaborate a little bit on whether the mix ratio would change freshers to lateral for that?

N. Chandrasekaran Every time there is a new offering and a new service line, there will always be a change in the required skill sets – some of which will be met by re-training, some through lateral additions, so it is a combination always.

We have enough senior people who are very strong in multiple technologies and who are already in the Digital space, and we have also brought in a lot of laterals over the last 2-3 years to be able to lead some of these technologies.

So I do not think this is some exceptional issue to discuss in terms of mix, what is the cost differential, what is the margin impact etc. I do not think there is anything to get worried.

Ravi Menon When you said that you are making some onsite investments, this is also geared towards catering to this new technology, because I have heard some peers like Accenture say that the skill sets for these are still mostly onsite?

N. Chandrasekaran It is always a combination of onsite and offshore, and then some of the skill at onsite we have been investing, and, in fact, over the last two years we have hired a large number of people who have the capability of design and architecture and channel design, etc. These are the skill sets that we have been hiring for the last two years.

Ravi Menon So that you are saying that the cost is already baked in into the current cost structure if I understand it correctly, is that right?

N. Chandrasekaran Thank you for putting it black and white.

Moderator Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain Just to comment on the two things, which you have mentioned. One is that you expect a better year next year and you also expect Digital space to have deal, but the size is not expected to be very big initially. So if you could try and break up in terms of how you see growth in terms of the traditional line of businesses versus what you see for Digital? We obviously know Digital would be big, but what would be on the traditional side?

N. Chandrasekaran Sorry, I will not be able to give you more specific information than what I have already told you.

Rahul Jain Just in terms of if you could say a year growth better or …?

N. Chandrasekaran I can only tell you that the Digital growth next year is going to be better than this year and it is going to be incrementally better going forward. Anything more than that I cannot tell you.

Moderator Thank you, the next question is from the line of Abdul Karim from Narnolia Securities Limited. Please go ahead.

Abdul Karim In the recent analyst meet, you had opined for a lot of incremental growth to come from Digital sector and today also you have discussed more on Digital. Do you see any merger and acquisition for the Digital sector part of this, and also you are looking at acquisition opportunity in Europe? Would you like to put some color related to this set of questions?

N. Chandrasekaran There are opportunities. I cannot tell you whether we are going to do or whether we have anything planned, but we have certainly opportunities. It can happen if there is a right opportunity.

Moderator Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management and Mr. Shirali for closing comments. Please go ahead.

N. Chandrasekaran Thank you all for being with us on this call. As I said, we are pretty happy with the way this quarter has panned out. As we enter 2014 calendar year we remain positive about the opportunities as I have outlined, and we will come back and talk to you again in three months' time. Thank you and wish you all a great 2014 once again.

Moderator Thank you gentlemen of the management, and Mr. Shirali. Ladies and gentlemen, on behalf of TCS that concludes this conference call. Thank you for joining us and you may now disconnect your lines, thank you.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of what was said during the call.