Tata Consultancy Services Limited

Q2 FY 2018 Earnings Conference Call.
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Moderator Ladies and gentlemen, good day and welcome to the TCS Q2 FY'18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you and over to you, sir.

Kedar Shirali: Thank you, Zaid. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Second Quarter of Fiscal Year 2018 ending September 30, 2017. 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, Quarterly Fact Sheet 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. Rajesh Gopinathan -- Chief Executive Officer and Managing Director; Mr. NG Subramaniam – Chief Operating Officer; Mr. V Ramakrishnan – Chief Financial Officer; Mr. Ajoy Mukherjee – EVP & Head of Global Human Resources.

Rajesh and Ramki will give you a Brief Overview of the Company's Performance followed by a Q&A Session.

As you are aware, we do not provide specific revenue or earnings guidance, and 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 our Quarterly Fact Sheet available on our website and also e-mailed out to those who have subscribed to our mailing list.

With that, I would like to turn the call over to Rajesh.

Rajesh Gopinathan: Thank you, Kedar. Good morning and good evening to all of you. I am very happy to be with you to talk about our September quarter performance.

As most of you would have seen in the charts we released earlier, our revenue growth in Q2 puts us back on an upward trajectory once again. On a YoY basis, we grew **7.1%** in constant currency, **8.3%** in USD terms and **4.3%** in INR representing acceleration over the last quarter.

On a sequential basis, our **3.2%** volume growth translated into **3.2%** revenue growth in both USD as well as INR terms. Good revenue growth was accompanied by good profitability -- we staged an impressive margin recovery, only partially aided by currency, putting us firmly back on the profitability path that we wanted. Our operating margin was **25.1%** and the net margin was at **21.1%**. Ramki will talk about it in greater detail later on.

From a segment perspective, I will first run through the numbers from an industry and geography perspective and then give you a little more color on what is happening in the BFSI and Retail verticals.

On a YoY basis, with the exception of BFSI and Retail, all other industry verticals showed revenue growth **upwards of 9.5%** and four of them growing in **double-digits**. Two of our verticals – Energy & Utilities and Travel & Hospitality grew +20%.

On a sequential basis other than CMI and Retail and CPG, all other verticals grew above the company average in Q2. Growth was led by Travel and Hospitality which grew **8%**; Energy and Utilities which grew **7.2%**; Life Sciences and Healthcare at **3.6%** and Technology and Services at **3.4%**; BFSI and Manufacturing grew **1.9%** each.

We had a very strong set of deal wins in Q2. Of the 11 key wins, we had **three** each in BFSI and CMI; **two** in Retail and **one** each in Life Sciences, Manufacturing and Travel.

From a geography perspective, growth was once again led by a strong **5.3%** QoQ growth in Continental Europe and **5.7%** growth in Latin America. North America continue to grow below company average, primarily due to the softness in BFSI and Retail.

UK and APAC grew at **2.5%** and **3%** respectively. Within that, I am happy to report that Japan which went through a volatile patch has shown modest growth in Q2 and we expect that to sustain going forward. India was volatile, declining 6.9% QoQ, reflecting the projection signature of our business here.

Of the 11 key wins in Q2, we had **five** in North America, **three** in APAC, **two** in Europe and **one** in UK.

On Banking and Retail, there has been much talk; in BFSI we have grown **2%** in June and **1.9%** sequentially in September, but we declined a bit in Retail this quarter.

I want to update you on what is happening on these two areas and what we are hearing from our customers. In Retail, we now see many of our larger customers getting their strategy together and moving beyond just eCommerce and Omni-Channel, and embarking on a Business 4.0 transformational journey.

I will talk about it in some more detail in a bit but for the purposes of our discussion here, suffice is to say that they are investing in interconnected channels that will help them leverage the ecosystem, make data-driven decisions and provide a differentiated experience to their end customers. Some examples of such investments are in the use of augmented reality, virtual reality and AI-powered chatbots.

We are participating in these programs and expect to see the revenue benefits sooner rather than later. Consequently, we believe that we have bottomed out in Retail and should see improved performance in the coming quarters.

The scenario in Banking is slightly more complicated. Most banks have completed the first wave of digital investments. In the journey to Business 4.0, they are looking to transform their core systems and are exploring the most appropriate architectures and delivery models to achieve that. I am happy to say that we are partnering each of them in arriving at the right model that is best suited for them. But it is somewhat difficult to predict at this point when these efforts will ramp up sufficiently to move the needle on our BFSI growth. The next logical point to revisit this is at the end of the next quarter when we will have some visibility into their next year's spending plan.

At any rate, I want to emphasize that with every one of our banking customers, our wallet share is either stable or increasing. The speculation around loss of share, prompted by softness in revenue growth is quite incorrect.

Let us now take a step back and look at what Business 4.0 is all about: Over the past two quarters, I have been engaged with many of our customers and leaders in the respective industries across US, Europe and APAC. Thinking back and distilling our conversations with them and looking at the direction in which they are going, it is very clear to us that the advent of the fourth industrial revolution has also triggered a very profound technology-driven transformation of businesses into smarter more agile enterprises. We call this transformed state Business 4.0.

At the core of getting to Business 4.0 is a shift in mindset from optimizing the use of scarce resources to harnessing the abundance enabled by technology. The defining attributes of organizations pursuing Business 4.0 transformation, their ability to mass personalize, leverage ecosystems, embrace risk and deliver exponential value.

I want to illustrate that with an example. We are partnering with a leading US specialty retailer in their shift beyond the business of retail and distribution, to become a custodian of the ecosystem and provide a connected ownership experience, all executed in an agile way. I covered this in my earlier press call also. What we have seen is a initial reaction in the retail industry where eCommerce came in and significantly attacked existing retailers both from a supply chain perspective as well as with price discounting. What we have seen is retailers invest in integrating their supply chain and cleaning up their inventory management systems, etc., so that they were competitive in some form – if not able to match, at least stay within striking distance on the price point. But the competition is now shifting to customer experience and it is in that space that brick-and-mortar retailers are trying to integrate their online presence - their eCommerce channels, with their offline and brick-and-mortar presence to give customers an experience that is beyond just a lower price point.

We are seeing increasing traction in that and that is how these retailers, like the specialty one that we spoke about, are transforming themselves into not just offering the lowest priced gadget to the customer, but helping the customer think through what is it that they want in their home and how to design the overall digital experience for the home. They are differentiating themselves by acting as a trusted advisor and managing the overall buying experience for the customers.

What is most important is that we are participating in these journeys and if you look at what is known as the Digital IQ Index for Big Box Retailers, we are the strategic partner of choice in Digital for four of the Top Five retailers in that index.

Agile at scale is a very important aspect of this transformation and as pioneers of highly scalable, location-independent Agile model, with over 170,000 employees trained in Agile method, we are the partners of choice for more than 500 customers who are embarking on their Business 4.0 Journeys.

An example of that is a large European client where we have close to 2,000 employees engaged in 100% Agile projects located across nine geographies and across multiple time zones, using multiple technologies.

The conventional assumption that Agile is all about co-location has been totally brought to the test by us, and we have *proved* that for scale, location-independent Agile is the way to go.

We are occupying a thought leadership position on this and we are significantly investing in IP, process, methodologies; we are releasing white papers on it.

That is resonating a lot with our customer universe as they struggle to adopt Agile development methodologies, while their own talent pool is distributed across multiple locations. It is not just about where the customer and the vendor talent pool are located. In fact, the talent pool within the customer's organization itself is distributed. So, mastering location-independent Agile is a key requirement for customers, and TCS is pretty much leading from the front in redefining how the industry develops along this dimension.

The traction shows up in the steadily increasing size of Digital deals, and in our Digital revenue growth, as well as in our client metrics.

Revenue from Digital engagements made up **19.7%** of our overall revenue this quarter, an industry-leading growth of **31% YoY**.

This strong performance is an outcome of many things that we have done right for the last few years. Our investment in reskilling the workforce at scale and in design and innovation centers across the world, our focus on Agile delivery models, automation and leveraging of the Cloud, and of course the ability to bring it all together with our contextual knowledge and industry expertise is what differentiates us in being able to enable Business 4.0 transformation for our customers.

The reorganized service practices under the Business and Technology Services group have helped us sharpen our focus on the individual components of the digital service stack, and orchestrate complex engagements entailing multiple service practices working together with the Industry Solution Units to deliver transformational outcomes.

The tip of the sphere in this regard is our Consulting and Service Integration practice, whose newly launched offering saw more than **10** major wins in Q2 across enterprise agility, mergers and acquisitions and divestitures, global shared services, supply chain and front office customer experience transformation.

Our offerings under the Cognitive Business Operations, leveraging cognitive technologies to simplify and streamline business and IT operations, are finding a lot of traction with customers. We had **two** large deal wins in this area in Q2.

Similarly, in the Internet of Things we continue to gain mainstream adoption, giving us double-digit sequential growth in that area with several wins, including a digital twin and AI-based remote monitoring and optimization solution for a Japanese heavy industrial equipment manufacturer.

We also experienced robust growth in the Enterprise Application Services area, driven by transformational wins around newer cloud platforms from OEM partners like SAP, Oracle, Salesforce, Microsoft and others. We have also expanded our partner footprints in specialized areas.

We have provided a more detailed illustrative list of digital wins in Q2 in our press release to give you a flavor of the areas where customers see us as their partner of choice.

Our market success in individual segments of the digital service stack as well as the overall Business 4.0 transformational space, backed by strong customer references, is resulting in strong performance by TCS in various industry analyst assessments.

In multiple reports, analysts are attributing our strong showing in their assessments to very positive customer feedback, our investments in digital design capabilities, innovation, intellectual property and vertical-specific solutions.

In Q2, TCS was ranked as a leader in nine Digital-related assessments in areas like IoT, Mobile Application Development, Testing, Digital Workplace Services, Cloud Services and Finance & Accounting as a Service.

At an overall level, we are placed in the winner circle in an assessment around Digital Technology Strategy and Consulting Services, validating our Business 4.0-centric, consulting-led approach to Digital Transformation.

Coming to client metrics, our success in Business 4.0 transformational opportunities is also resulting in strong client metrics. We have strong client additions across all revenue bands in Q2. During the quarter, we added **one** client in the $100M+ revenue band, bringing that total to **37**. In addition, we added **six** clients each in the $50M+, $20M+, $10M+ and the $5M+ bands.

As you know, strong client metrics have always been one of TCS' biggest differentiators and a testament to our customer-centric model that leverages contextual knowledge, full services capabilities and the fruits of our R&D and innovation programs to continually expand our engagement and our relevance with each customer.

Today, I want to highlight to you a different aspect of our success. If you look at the entry level category, that is the $1M+ band, we added **28** clients there in Q2, highlighting our increasing success with newer clients as well, driven by the strong credentials we are building in every industry vertical especially in Business 4.0 services.

Rapid and continuous innovation is at the core of the Business 4.0 proposition and our own investments in research and innovation have helped us build a solid reputation in this area. For this, I must give credit to our CTO, Ananth and his team who have systematically built a culture of innovation across the company, with the network of evangelists embedded within each business unit and working with domain experts within that unit.

Many of the outcomes from the research and innovation programs he runs within TCS as well as in the larger, external innovation ecosystem – which we call COIN or Co-Innovation Network – get embedded into our own products and platforms such as ignio™ or into bespoke solutions that our Industry Solution Units design for our customers to give them that competitive edge in the market. Such innovations not only boost revenue but also add to our reputation as the go-to people for Digital innovation, way ahead of our competitors.

There are many other innovation solutions that do not necessarily bring any immediate economic benefit but result in deeper, differentiated capabilities within the organization or have a beneficial impact on society.

In the first category, I am very happy to announce that the TCS-IIT Kanpur team competed against 16 world-class teams from 10 countries in the Amazon Robotics Challenge held in Nagoya in Japan, and we stood third in the picking challenge and fourth overall, ahead of the MIT Princeton team and three other teams in the finals.

In the second category, I am proud to share with you that TCS was featured in the Fortune Magazine’s annual list of the Top 50 companies that are changing the world. We are the only company from India to do so. TCS' mKRISHI, a solution incubated by our CTO organization, was identified as an innovative Digital solution that is helping to make a positive impact for marginalized farming communities.

Coming to Products and Platforms, our portfolio represents the monetization of our research and innovation effort. The market success we are enjoying on that front is quite gratifying.

TCS BaNCS, our flagship product suite spanning the complete financial services value chain leads the field with 14 new wins and 19 go-lives in Q2.

I am particularly happy with the signing of a 15-year long deal by Diligenta in Q2 with Scottish Widows, wherein we will provide end-to-end policy administration services for over 4 million heritage customers, using TCS

BaNCS our cloud-based single instance, multi-tenant, end-to-end policy administration platform.

This finally breaks the multi-year drought in deals that Diligenta suffered and which we have spoken about in earlier calls. The good news is that the pipeline there looks good with other large deals lined up. Additionally, we are actively scouting other markets outside the United Kingdom for platform-based opportunities in the Life & Pension space.

In the Life Sciences area, our highly successful TCS Advanced Drug Discovery (ADD) platform suite added **two** new, large life sciences companies as customers in Q2. We launched the Connected Clinical Trials platform within the ADD suite, jointly developed with Janssen Research, a J&J company. CCT utilizes the best of Digital technologies, that is, mobility, IoT and big data analytics to streamline patient engagement during clinical trials and improve outcomes for life sciences companies.

Similarly, TCS HOBS, our pre-integrated end-to-end platform for telecom business and operational support systems, won **two** new customers in Q2, bringing the total to 25.

iON, our assessment platform assessed over 5 million candidates in Q2, completing 97 million candidate assessments till date. Three other platforms, Chroma, Customer Insights and Intelligent Urban Exchange have had one win each.

Ignio™, our cognitive automation software for IT operations continues to do well in the marketplace with three new wins in Q2, bringing the total number of clients to 35. I am particularly happy to see Digitate as an organization develop an identity of its own. They have successfully leveraged ignio's pre-loaded knowledge base, cognitive and self-learning capabilities to carve out a differentiated position in the automation space. They have a good deal pipeline and, as a sign of their growing maturity as a product organization, there are more ignio-led deals in the pipeline which are independent of TCS' services offerings.

Finally, on the people front, we added 15,868 employees on a gross basis and 3,404 employees on a net basis, closing the quarter with a headcount of 389,213 people. We are continuing with our effort to hire local talent in all our major markets and reduce our dependency on visas. In Q2, we hired 3,725 employees outside India, bringing the total to 6,979 in the first half of the fiscal year.

Our employee-friendly progressive policies and continuing investments in building up their skills is yielding rich dividends. In terms of diversity as well as retention rates, we have industry-leading metrics. The percentage of women in the workforce hit an all-time high of **35%** and our attrition in IT Services came down 30 basis points QoQ to **11.3%.**

With that, I will conclude my opening remarks and hand over to Ramki to take us through the financials.

V Ramakrishnan: Thank you, Rajesh. I will go through the headline numbers. In the second quarter of FY'2018, our revenues grew **1.7%** QoQ and **7.1%** YoY on constant currency basis.

Volume growth was robust at **3.2%** QoQ.

The cross-currency movements resulted in 1.5% positive impact on revenue QoQ in INR as well as USD terms this quarter.

Reported revenue in INR was ₹ **305.41 billion**, which is a sequential growth of **3.2%** and YoY growth of **4.3%**.

In USD terms, revenue was **$4.739 billion** which is QoQ growth of **3.2%** and YoY growth of **8.3%**.

Moving on to the Operating Margins, we continue to invest in our people. You might recall that we had announced our normal annual salary increases on April 1st. In the second quarter, we went through our normal promotions cycle. Despite all this, we were able to improve the Q2 margins by 1.7% QoQ to 25.1%. Out of this, 50 basis points was due to the rupee depreciation against both Pound and Euro QoQ but the remaining 1.2% of margin expansion was entirely due to tighter execution and judicious cost management by all our business units.

I also want to point out that our investment program continues to be geared for growth and we have not cut back on any of our investments in Digital, be it in hiring the right talent or training, or creating new design and collaborative spaces or in infrastructure.

Our Net income margin in the second quarter expanded 1% QoQ to 21.1%. The effective tax rate for the quarter was 23.8%. Our accounts receivable was at 76-days in dollar terms, up by four days QoQ.

The net cash flow from operations was ₹ 58.1 billion which is 19% of our revenue and 90.1% of the net income. Free cash flow was ₹ 53.2 billion.

The invested funds as at September 30th stood at ₹ 358.4 billion. The Board has recommended an interim dividend of ₹ 7 per share.

With that, Kedar, we can open the line for questions.

Kedar Shirali: Operator, you can open the line for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: My first question was on Digital. Rajesh, can you also give us a bit more color on whether the deal sizes have started becoming larger then? Is there more visibility or should we expect that revenue stream to continue to remain volatile for the near-term?

Rajesh Gopinathan: Digital actually is not volatile. It has been steadily growing, and both QoQ as well as YoY, it has been recording fairly strong growth. So I would not characterize it as volatile.

What we are seeing is that some deals are starting to come which are of significant size and some of them are coming in unexpected areas also. We are pursuing very large engagements in the IoT space in the multiple tens of millions kind of size, which we hope to close during the course of this quarter. In more traditional ones like cloud and other areas also, deal sizes are significantly increasing. So overall there is a movement towards larger deal sizes. But I would say that still it is weighted more on smaller deals and smaller engagements.

We also need to keep in mind the three big themes that we see driving this industry transformation -- Agile, Automation and Cloud – within that, Agile is a completely different mindset towards operations and delivery and that will result in changed contracting methodologies also. So, deal size itself might not be the right way of thinking about it. What we are seeing is, just like the concept of continuous integration and continuous release, we are seeing SoWs also form a common stream because scope is defined in a dynamic manner, rather than fixed over a long period of time. So relationships matter more than deal sizes. As we get more deeply integrated with the customer, and customer development teams in these relationships, the relationships will be sticky though the actual headline deals themselves might be smaller in size.

Anantha Narayan: My final question was, this may be a very simplistic way of looking at it, but if I were to break your business into two parts – Digital is 20%, growing at 30% and the remainder is probably growing at 2% or something like that, is there any trigger which can enable that remainder to grow faster than the current rate?

Rajesh Gopinathan: I do not know what the trigger would be, but definitely in underpenetrated segments, that base will be growing faster than that. We are not breaking it up by industry verticals. In industries where we are much more penetrated and where technology adoption has typically been ahead of the curve, a predominant amount of new investment is going to be in Digital. So it is very difficult to say what the final play of that is going to be. But we are seeing increasing demand for Digital in customers who are well invested both on the technology stack as well as in the global delivery stack, whereas we are seeing demand for more traditional services from customers who are late stage adopters of some of those trends; so it is difficult to say.

Moderator: Thank you. The next question is from Sandeep Agarwal from Edelweiss. Please go ahead.

Sandeep Agarwal: One quick question on the BFSI part and another on Retail. Rajesh, you already explained it in a bit, but just wanted to know do you see -- that this disruption of online is going to further impact the larger clients? We saw some kind of few companies filing, one or two have also filed for bankruptcy in the retail space in last few months… What is your sense on the BFSI side, you said already that we will come to know more about at the end of the next quarter, but still would like to know what will be the first time we always have seen historically that whenever the profit in banking and the spend start going up but this time we are not seeing that kind of linear relationship yet. So is it a further delay or there is a change in decision-making processes or you not call out anything right now?

Rajesh Gopinathan: Let me take Retail part and then I will give it to NGS to address the BFSI question in more detail. In Retail, what we are seeing is, as I said, customers evolving beyond price as their only value proposition or the only thing that they are looking for.

As customers look for an inter-connected experience and they start valuing it, big box retailers are starting to make a comeback. That does not preclude one of them or some of them filing for bankruptcy, or any such event that happens.

But even in that kind of a scenario, what we are more optimistic about, or what we are more enthused about, is that the battlegrounds are shifting away from a situation where it looked like a clean win-loss kind of a situation -- with only e-Commerce players winning and all the traditional retailers losing.

We are seeing increasing segments where the traditional retailers are coming out and actually creating a value proposition which is not easy for a pure e-Commerce player to replicate. So this push and pull in the industry, which is entirely based on technology leverage, is where we are participating and where we are seeing a lot of traction.

We are seeing that increasingly with many customers that we are working with -- be it electronics retailing, home improvement, apparel. In all of these areas, inter-connected retail is the new battleground and that is a more even battleground than where it was a few years back.

NG Subramaniam: I think if you take Banking and Financial Services, most banks have completed what I call as Wave 1 of digital adoption. As they are embarking on Wave 2 of digital adoption, to give that inter-connected experience, they are looking at different sets of technologies -- be it Analytics, Artificial Intelligence or Automation, all these are coming together along with design thinking and experience-driven personalization kind of technologies. Currently what is going on is that there is a set of pilots, because a lot of new technologies are emerging in each one of these areas and the banks are deciding which strategic stack that they should align with, for their Wave 2 of the digital adoption. As they see it, many these pilots are happening and TCS, with the revised set of service units that we have, we are able to participate in some of those initiatives.

As they embark on some of these, what we also find is that it involves touching the core and there is a necessity to leverage the systems, processes and contextual knowledge of the existing backend systems. In that context, we see that the size of the digital deals are expanding and we hope that that will be the trend and as they finalize the digital stack and the technologies of analytics, automation, etc., we will be able to participate in some of those larger things.

Currently, a majority of the investments are happening in the banking sector in large banks. Some of the banks are building new infrastructure, including new buildings which are aligned to collaborative work places in agile technologies, and we are participating in some of this.

In our own development centers, we are also investing heavily in transforming our workplaces into agile workplaces and putting in place some of the methodologies that Rajesh talked about in terms of location-independent agile.

So net-net, what I feel is that banks are clearly embarking on digital transformation. Now, this is what I call as the Wave-2 of the digital transformation and we are well-positioned to participate in this. Banks are also considering some of those traditional approaches to creating efficiencies in terms of using shared services or promoting industry utilities. Specifically in the insurance space, there are slivers like securities processing or asset servicing or reconciliation. These types of areas the opportunity is coming for creating shared services or utilities.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Rajesh, about a year ago, we were at a position where Retail had begun to soften and at that time you had suggested that it would recover in a couple of quarters as we are hoping for right now. Just wondering if you could share what appears to be different this time in terms of what customers are telling you or what you are seeing in the marketplace? The sort of linked question to that is you highlighted that you are trying to win new types of work in the example you gave on the specialty retail, which was quite useful. Just a question related to that, how much of this is driving an expansion in the total tech pending within your Retail customers, is your wallet share increasing as a result of this or is this coming at a cost of existing business?

Rajesh Gopinathan: I think almost all of the new Tech spending in Retail is increasing the overall tech spend. There is definitely a productivity agenda where given the extreme financial stress that many of them are in, they are looking for adoption of elements like Agile, Automation to increase productivity. Especially in Retail, almost the entire incremental investment is happening in technology, and that is where the battle ground is, and they are investing big time into it, and we are participating very strongly in that presence. So this interplay between fresh investments into technology and increasing productivity and efficiency in their existing business line is an ongoing one. We believe that momentum is picking up on the investment side. Coupled by the fact now there is a play book that Retailers are going with. Earlier they were kind of caught without being able to know what to do or how to compete? Now clearly each of them is emerging with this concept of this interconnected retail being the basis of competition and that is driving greater confidence in that investment spending and spurring the demand.

Ankur Rudra: The first part of the question was on Retail, what is different this time compared to last year when you were expecting Retail business to recover?

Rajesh Gopinathan: Last Q2, we had seen a fairly unexpected and significant fall off. At that time across our customer base, there weren't any investment programs that we had visibility on, whereas today we have much more visibility on investment programs or transformational programs across the client universe, and some of the deal pipeline that we also have on this area of transformation agenda is where this I would say increasing optimism is coming from.

So if you ask me the difference between four quarters back and today, looking into the pipeline, we could not see investment and transformation, today, we see multiple ones that are happening. Across geographies also, Europe continues to be an area where even Retail is doing quite well. So we are basing our commentary based on this.

Ankur Rudra: You mentioned earlier in the call that there was an increase in client buckets in the $100 million and $50 million clients which is good to see but we have seen an element of currency tailwind across range of currencies. I was just wondering how much of this is actual improvement versus support from the currency because you have had headwind before in these buckets?

Rajesh Gopinathan: When you have six plus going up across multiple bands, even a few are coming out of that, the rest of it is actual volume driven, and if you look at it actually it is going all the way down to the $1 million plus itself. We have been speaking about the fact that we are seeing a robust pipeline and we are seeing a lot of traction in the pipeline, lot of the translation is coming across.

We are also seeing interesting elements where in some of the industries, part of the business is being spun off as standalone specialized entities, where our participation is actually quite good. So we are seeing client base itself transitioning into multi client base kind of scenario. So there are many elements at play here; a pipeline that is converting, increasing participation; some amount of industry restructuring; and some amount of currency at play also.

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

Sandeep Shah: NGS, regarding the Wave-2 adoption in BFSI, can you give some color based on your interaction about when the clients would be ready in terms of awarding this kind of projects, maybe more and more to the third-party outsourcer or do you believe that such investments have started but they are more captive rather than been awarded to a third-party outsourcer because if we look at the first half, the growth in BFSI is close to around 5% in CC versus company average at 6.8% to 7% and the growth within BFS could be even lower than 5%. So do you believe that CY'18 could be different versus CY'17 looking at the Wave-2 adoption of digital?

NG Subramaniam: That is precisely the dilemma. It is very difficult to say when all this will tick in. But what we are seeing is that the type of projects that I explained before are happening, and we are participating in some of those, and as the need to integrate more and more with the core and changes in the core and the contextual knowledge and processes knowledge are more important to deliver that with business of the experience. We see that customers are moving digital work from the small vendors to players like us. That is the trend that we are seeing.

We are doing quite a number of small pilot projects in some critical consumer-related areas where a number of these capabilities like IoT, Automation, Artificial Intelligence, Analytics, and in some cases, Integration of Video Technologies, Facial Recognition Technologies, Voice Recognition Technologies, all of them come into play and effectively integrating some of the fintech solutions into the overall solution and that is the kind of work that is happening right now.

I am sure that based on the success and how this is working out, coupled with the location-independent agile models would enable us to capture a good share of that opportunities in our customer base.

Sandeep Shah: NGS, is it possible to see a U-shaped or V-shaped recovery is possible in BFS going forward?

NG Subramaniam: I would like it to be hockey stick.

Sandeep Shah: Rajesh, in the press conference you made a remark that there is a measured optimism based on your interaction with the clients across the globe. So do you believe that looking at the global macro also improving across the developed countries, the CY'18 may slightly be better versus CY'17 in terms of decision-making and the project awards plus the size of the deals on the digital going up…I am not asking numbers but directionally?

Rajesh Gopinathan: There was nothing wrong with the global macro in CY'17 also or rather FY'18. So I do not think per se macro is the one that that is at play here. So the increasing optimism or the one that you commented about (measured optimism) is not so much about macro. I think it is beyond our limited faculties to comment on the macro.

It is more of customers seeming to have specific ideas that they are exploring, like, we give examples in retail of inter-connected retail or in banking like NGS said, open banking platforms, opening up their systems to better integrate with the fintech eco system and taking it together rather than thinking of it as an M&A exercise of investing in fintech. So seeing specific activity and directed activity emerging is where the optimism is coming from.

Sandeep Shah: With some optimism in Retail as well as Insurance where Diligenta is winning new deals, this year FY'17 the seasonality may not be that great in H2 Vs H1 or you still believe the seasonality may remain where H2 is slightly softer than H1?

Rajesh Gopinathan: We play it as it comes along. We will have to wait and see how it unfolds.

Moderator: Thank you. The next question is from Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: I want to know if you are experiencing any continuation in reduction in the project duration what you had mentioned earlier and if there is an acceleration in the refills, which I am trying to basically reconcile this with the overall growth as we had strong client additions in the $1 million band?

Rajesh Gopinathan: I think our commentary was about the size of projects with existing customers. As I said in customers where we are seeing increasing adoption of Agile, project sizes are of six weeks sprints and eight week sprints and scopes being dynamically created for those kind of period, rather than a large scope being signed off for an extended period of time.

Refill rates, we have visibility on the backlog but it is not necessarily a contractual thing. But typically, the more you start working in Agile, teams become very-very deeply integrated. So the actual stickiness of the relationship increases even though the contract might not be there. So it is an evolving landscape.

In fact, one of the big reasons why we are successful in Agile, is that we are attacking it across multiple dimensions, it is not just about project methodology or a technology-led initiative, it is about Enterprise Agile, so contracting is a big area. Budgeting is a big area, how do you budget and how do you replan? HR is a big aspect of it. How do you measure success of teams when business and technology teams are jointly embedded with small project delivery kind of situation. So it is something that is going to impact enterprises across the full spectrum. These are early days yet.

The excitement is that we are participating in defining the path, creating early success factors and reference models around it. So we will have to wait and see how it evolves. But I think directionally, it is going to be stickier relationships and smaller contracts.

Moderator: Thank you. Next question is from the line of Prasad Padala from SBI Mutual Fund. Please go ahead.

Prasad Padala: One question on the Digital side. Can Digital ever be a game of scale like some sort of vendor consolidation… if not immediately, at some point of time where scale gives you an advantage and it could lead to some kind of vendor consolidation in the future?

Rajesh Gopinathan: I think like NGS said, rather than scale, it is contextual knowledge and our ability to work across the full spectrum that gives us the advantage because point solutions and proof-of-concepts are all done. Now it is about moving the needle. For that, full spectrum capability is what matters and that is where I think we are significantly differentiated from most of the other participants in this space.

Prasad Padala: Just a follow-up on the front, so when it comes to digital capabilities, so what are your thoughts on building the capabilities in-house versus acquisitions?

Ajoy Mukherjee: That is what we are doing, that is what we have talked about for some time. Given the knowledge that we already have about our customers, systems and technology, it makes sense to retrain our own people. It is not the first time that we are witnessing a technology refresh, we have had it before and we have dealt with it. So this is in our DNA and we have talked about the whole digital transformation, how we have transformed our learning and development platforms, how we are transforming our own people on the digital space. So we are doing that and we will continue to do that. When required certain skills that we cannot train in-house, we will definitely hire from outside as well as we have been doing, but majority will be by retraining our own people.

Moderator: Thank you. The next question is from Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: In Digital, you mentioned that there are rather well integrated teams with client personnel as well that there is no real visibility about the contract structure. So does it change how your approach planning for outside the supply – should we anticipate fewer trainee hires and lot more just-in-time hiring?

Rajesh Gopinathan: Not necessarily, as I said, relationships will be stickier. We have visibility in Agile and the concept of a backlog is very strong. Visibility into the backlog gives you the ability to take intelligent or informed guess as to what the downstream is likely to be. You have a good idea about how progress is happening vis-à-vis its ability to meet business goals. So you will prioritize projects where the backlog is strong and business delivery is strong and you know that these projects are likely to continue to remain funded. So we are going through a transformation.

I do not think it is visibility improving or decreasing. Visibility will come from different elements compared to where it was earlier. May be earlier visibility came from contracts, now visibility will come from better insight into project progress. So it is a transforming scene.

Ravi Menon: I was looking at the H1 trainee hiring, it seems pretty low and I think it is lower since FY'14. You had indicated at the beginning of the year that overall hiring will be lower this year but should we see this kind of hiring trend for trainees continue in H2 as well?

Ajoy Mukherjee: The trainees that are coming in is basically the offers were given last year itself. So they come in Q1, Q2, Q3, Q4 based on the way the requirement pans out and based on the way we are training our people. It is primarily related to that. I had mentioned that our trainee intake will be lower and the same stands for this year as well, the kind of campus hiring that we are doing this year will be very similar to what we did last year.

We still remain the largest recruiter of trainees in technical campuses.

Rajesh Gopinathan: I think it is the rationalization of hiring that we did earlier (last year). As we have always said, we were positioned for higher growth than we what finally came through (last Year). So there is a question of addressing that and taking up some of the slack on it. We have been very transparent about our hiring and we have been executing on that path very consistently.

Ravi Menon: You said that the clients are now still making the decision about which technology stacks to go with. So do you think that could happen over the next 6 to 12-months or do you think it still further out that many of these stacks are still evolving, so people will take some more time before they embrace one stack and make more enterprise wide spending decisions about digital?

NG Subramaniam: We have a number of technologies which are getting evaluated, piloted and newer technologies keep coming almost on a weekly basis but we all hope that the banks or organizations do not end up selecting multiple technologies in a particular area and end up in a spaghetti of technologies. So I think the banks are cautious about it and I do hope that they will be zeroing in on what is good for them, and their business, in which areas and then we will be hopefully working with them in selecting some of those technologies in the near future.

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

Diviya Nagarajan: Two questions from my end; Rajesh, you spoke about Business 4.0 and the move to Agile and the need to kind of make the entire organization more agile. As we move from the traditional service delivery methodology into agile, how does it change the way you recruit and train people and more importantly how does it change the way you sell to the customer?

#2, you spoke about this 15-year deal that you have signed on the Diligenta side. The last time we had such a large deal it actually contributed quite significantly to year-on-year growth. Should we expect that kind of contribution from this deal for Diligenta next year?

Rajesh Gopinathan: Let me first address the second part. At this stage, we are constrained in terms of speaking publicly about the Diligenta deal. The specifics of the deal will be probably shared in more detail, after some time.

Ajoy Mukherjee: From recruitment and training point of view, I think there are multiple ways in which we are recruiting and there are certain changes also in terms of spotting the talent in the universities when it comes to digital skill sets. Most of the skills are available with the kind of digital natives that are coming from the university at this point in time given the current generation that is there.

From a training point of view, I think what we are looking at is primarily given Agile way of working, the same person who does the development, will have to do the training, and will have to deploy. So it is in the DevOps kind of a range. It is full stack developers or the IT engineers, that is what we are calling them. So that is the training that is going on.

Rajesh Gopinathan: In terms of selling to clients in Agile, the biggest difference right now as I said is, customers are thinking through Agile. Our positioning on Agile as the location-independent Agile and scaled enterprise Agile is resonating very strongly with customers. We have clear thought leadership in this area, we are way ahead of others, completely differentiated positioning and something that customers are very strongly supportive of because without providing location-independent Agile, the benefits of Agile will get lost in the entire move towards co-location. So it is resonating very strongly with customers.

Our ability to participate ahead of the thinking and to shape customers' thinking and the way this whole model is evolving is changing the way we are selling. So it is happening in Agile, it is happening across the spectrum in digital technologies, areas that NGS spoke about. We are really occupying the space at the head of the idea funnel and participating with customers in defining their digital transformation journeys.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you.

Rajesh Gopinathan: In closing, Q2 was a strong quarter marked by robust volumes and an uptrend in our revenue trajectory and an impressive margin recovery.

With the exception of BFSI and Retail, all verticals grew upwards of 9.5% YoY (in constant currency) and we believe we have bottomed out in Retail and expect better growth in the quarters ahead.

Our Business 4.0 offerings forward by our pioneering location-independent agile methodologies are resulting in good growth in our Digital revenue and strong client metrics with good client additions across all revenue bands.

We had excellent deal signings in Q2 and the highlight being the deal signed by Diligenta after a long break.

Our investments in Research and Innovation and our products and platforms are giving us significant market success and differentiated positioning.

Lastly, we continue to add high quality talent in our ranks and investing in our people, resulting in industry leading retention level.

Finally, thank you all once again for joining us today and we wish all of you a very happy festive season ahead and Happy Diwali once again to everyone.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of TCS that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.

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