



## **Tata Consultancy Services Limited**

**Q3 FY18 Earnings Conference Call.  
January 11, 2018, 19:00 hrs IST (8:30 hrs US ET)**

**Moderator:** Ladies and gentlemen, good day and welcome to TCS' Q3 FY18 Earnings Conference Call. As a reminder, all participants' 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 third quarter of fiscal year 2018 ending December 31<sup>st</sup> 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. N G Subramaniam -- Chief Operating Officer; Mr. V Ramakrishnan -- Chief Financial Officer; Mr. Ajoy Mukherjee -- EVP & Head of Global Human Resources.

Rajesh and Ramki will give a brief 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, 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. Once again, good evening and good day to all of you. Let me start by wishing all of you a very happy new year, very happy 2018.

It is my pleasure to start off the New Year with a discussion on our December quarter which turned out to be fairly strong, considering the seasonally weak nature of this period. We had strong deal closures, particularly in Digital and we will talk about it in more detail later on.

We had a robust volume growth of 1.6% QoQ, the strongest we have had for December quarter in the last three years. On YoY basis, we grew 9.1% in USD terms, 3.9% in INR terms and 6.2% in constant currency.

On a sequential basis, we had revenue growth of 1.3% QoQ in constant currency, 1% in USD terms and 1.2% in INR terms.

Let me now give you details of our segmental performance. On a YoY basis, with the exception of BFSI and Retail, all other industry verticals continue to show revenue growth upwards of 9.5%, with four of them growing in double-digits. Two of our verticals – Energy and Utilities and Travel and Hospitality grew in fact above 20%.

On a sequential basis, I am happy to report that our Retail and CPG vertical showed a good turnaround, growing at 6.4% QoQ. Other than that, we had growth coming in from Energy and Utilities at 8.5% QoQ, Travel and Hospitality at 2.9%; Life Sciences, Healthcare and CMI, all upwards of 2 to 2.5% QoQ. The laggards in this quarter were BFSI; it declined 1.5% QoQ and Technology and Services which grew marginally at 0.1%. Seasonal headwinds affected both these verticals,

more so in BFSI due to pre-existing softness in that industry, which we have spoken about in the past.

We had a very strong set of deal wins in Q3, nicely distributed across industry verticals and region. Of the 11 key wins, we had three wins in BFSI, two each in Retail and Energy & Resources, and one each in Manufacturing, CMI, Healthcare and Technology.

From a geography perspective, YoY growth was led by Continental Europe which grew 22.3%, UK which grew at 8.2% and APAC at 6.2%. North America continues to grow below company average on account of softness in the BFSI and Retail over the last one year. On a sequential basis, North America, Continental Europe and Latin America grew above the company average. After steep decline in last quarter, India stabilized in Q3.

From a deal perspective, of the 11 key wins in Q3, we had five in North America, three in Europe, two in UK and one in APAC.

In the last call, I had spoken about the new Business 4.0 world that we are living in, characterized by technology-driven transformation of businesses into smarter and more agile enterprises, capable of harnessing technology-enabled abundance, to mass personalize, leverage ecosystems, embrace risk and deliver exponential value.

This Business 4.0 framework that TCS has embraced and taken to its market with customer is resonating very well, and we see customers embrace this vision and use this framework to accelerate the transformation with TCS as their preferred partner.

As a complement, we are seeing digital deal sizes that have been steadily trending up over time. In Q3, we crossed a key milestone signing our first 50 million \$ plus digital transformation deal. While a deal of this scale is still relatively rare, confined to only the most technologically progressive customers, we believe that this is the shape of things to come as more and more organization start implementing the long-term digital strategy.

It is really a unique combination of the power of digital, combined with TCS' understanding of the technology, the domain knowledge that we possess and the contextual understanding that we have of the specific requirements of our customers, which is enabling us to stitch together these offerings into transformative and large-scale opportunities where we are uniquely positioned to compete.

Revenue from digital engagements made up 22.1% of our overall revenue this quarter, an industry-leading growth of 39.6% YoY.

The setting up of dedicated service practices within our Business & Technology Services unit, targeting the various digital areas, is giving us tremendous market focus, as evidenced by the over 150 wins that we have seen in this quarter. We have listed a few of those in our press release to give you a flavor for the kind of work that we are doing for our customers.

Strong customer references for the transformational work we do for them, and the very evident market success, is resulting in high rankings in the various assessments published by industry analysts. In Q3, TCS was ranked as a Leader in 14 digital-related assessments by independent industry analysts.

From a client metrics perspective, we had a good Q3, with strong additions across revenue bucket during this quarter. We added three clients in the 50 million \$ plus band, and bigger additions across all the other bands.

Our strong client metrics are a direct outcome of our customer-centric business model. As we have said many times in the past, our deep contextual knowledge is key to the high trust levels that we enjoy through our long engagements with our customers. This has become a critical differentiator – and our unique ability to enable all of this together to use the Business 4.0 framework to drive growth and transformation across our customer segment.

Speaking of Business 4.0, when we apply its core precepts to our own business, the elements best positioned to deliver exponential value in the longer term are our products and platforms.

Our TCS BaNCS product suite for the financial services industry had four new wins and eight go-lives in Q3. I am particularly excited by Quartz, the Blockchain Solution we launched for financial institutions earlier this year. As you all know, distributed ledger technology is showing immense promise in many different areas, and I am convinced, will substantially transform how business is transacted in the future.

To begin with, we are focusing on a few select use cases: corporate announcements, loan securitization, trade finance and card payments, but usage will continue to increase across the spectrum.

In Q3, Quartz had four wins including the engagement with BNP Paribas Securities Services, for whom we have very rapidly deployed Corporate Event Connect, an innovative block chain based platform that uses Quartz to provide fast, accurate and secure corporate event announcements to BNP's clients around the world.

When you look at ignio™, we are very encouraged by the rapid gains that it is showing in the market. We had more than ten wins this quarter. When you look at the large wins that we announced, you will find that in four of them, ignio™ is embedded very deeply. What is more important is that ignio™, which was started off primarily focused on the IT infrastructure operations space, is rapidly evolving into a full spectrum, cognitive automation and orchestration platform. The deals are distributed across infrastructure, enterprise applications like SAP, healthcare, analytics, etc. So we are seeing automation and intelligent analytics getting deeply embedded across the spectrum, and ignio is the driver of this transformation. ignio™ is approaching close to 50 customers, with strong wins this quarter.

In terms of other platforms, TCS HOBS, our pre-integrated end to end platform for telecom business and operational support, has won two

new customers in Q3, bringing the total number of customers to 27. Other platforms like TAP and Optumera had one win each.

Our iON Assessments platform assessed more than 6 million candidates in Q3, and we now have about 100 million candidate assessments that we have conducted till date on this online platform. So we are able to use technology and deploy it at a fairly unprecedented scale and we are seeing rapid acceleration across that -- one of the reasons why we are optimistic about the power of these technology is to transform the businesses of our customers.

On the people front, we continue to recruit steadily and in Q3 we added 12,534 employees on a gross basis, of which almost 3,000 were recruited outside India. Net additions was at 1,667, and we closed the quarter with the total headcount of 390,880 employees.

Overall, in the last 12 months, we have recruited 59,700 employees which includes 12,700 recruited outside India, a good indicator of how our localization initiatives are progressing.

We have always prided ourselves in our ability to attract and retain diverse talent. We performed very well on this front in Q3 and our attrition in IT Services continues to trend down, reducing 20 bps QoQ to 11.1%.

I am also very happy to see the percentage of women in the workforce continues to trend up and we now are at 35.2% on this metric. This compares very well against most of our peers in this industry and across.

So overall in conclusion, if we step back and take a look at where we stand as we enter 2018, several of the headwinds that impacted our performance over the last three years are steadily getting addressed and are now behind us. Telecom and Hi-Tech have been growing well for us over the last few quarters. Diligenta that we spoke about, is seeing strong traction. We have seen conversion of some of the deals,

and there other deals in the pipeline and we are quite optimistic about the way it is all shaping up.

Retail has turned around. We had spoken about it last quarter, and we are now seeing the early stages of that recovery, and we remain optimistic about it, with a one-year focus. We think that in its current trajectory, it is well placed to deliver double digit growth in FY19.

That leaves us with niggling pockets of weakness in BFSI. While we do not have immediate visibility into when we might expect a turn around there, we hope that a more positive macro, triggered by the various developments in the US and other markets, would probably lead to a better demand outlook in that space.

With that, I will conclude my opening remarks and over to you, Ramki.

**V Ramakrishnan:** Thank you, Rajesh. Let me go through the headline numbers: In the third quarter of FY'2018, our revenues grew 1.3% QoQ on constant currency basis, driven by a strong volume growth of 1.6%.

Cross currency movements resulted in a (-0.3%) impact revenue QoQ in USD terms and (-0.1%) impact in INR terms. Reported revenue in INR was ₹309.04 billion, a sequential growth of 1.2% and YoY growth of 3.9%. In USD terms, revenue was \$4.787 billion, which is QoQ growth of 1% and YoY growth of 9.1%. On YoY basis, constant currency growth was 6.2%.

With the continued focus on operational efficiency, we were able to improve our EBIT margin in Q3 by 0.1% to 25.2% QoQ. Net income margin was 21.1%. The effective tax rate for the quarter was 24.3% and our DSO for the accounts receivable was 75 days, down one-day QoQ.

Tighter working capital management through concerted efforts by all our teams resulted in very strong cash conversion this quarter. During the quarter, the net cash flow from operations was ₹77.8 billion which is 25.2% of revenue and 119.2% of net income. Free cash flow was ₹74.1

billion. Invested funds as at 31<sup>st</sup> December was at ₹405.9 billion. The board has recommended an interim dividend of ₹7 per share.

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

**Moderator:** Thank you, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Diviya Nagarajan from UBS. Please go ahead.

**Diviya Nagarajan:** Rajesh, you spoke about the banking outlook. There are two questions here; could you run us through how the 'BFS' versus 'I' have shaped up, versus your expectations in the quarter and within those two segments, could you run us through where are the pockets of weakness and the pockets of strength that you expect in 2018?

**Rajesh Gopinathan:** Diviya, I will start and then I will ask NGS to add more color to this. Relative to expectations, BFSI has been somewhere in that space itself. We were expecting weakness and it continues to lead it, we have seen an impact of furloughs as well as some softening of demand, which impacted the overall performance.

From a regional perspective, Europe is relatively better and the weakness is more pronounced in the US. Within the sectors of BFSI, again as we spoke, the Insurance space is relatively better compared to the Retail Banking space. But these are no different from the trends that we have spoken of in the past. I would like NGS to add on more color to this question.

**NG Subramaniam:** Thanks, Rajesh. I think the softness that we see in the BFSI is very much attributed to seasonal factors, and in particular, only in North America. In fact, we have grown in BFSI in the rest of the world -- whether it is Canada, whether it is Europe, whether it is Australia.

Last quarter, I spoke about the kind of digital programs that are emerging in the Banking and Financial Services space, and I am pleased to note that we are participating very well in such Wave 2 of digital programs. In fact, some of the digital growth that we are seeing



in this quarter is actually marked by a couple of engagements that we have participated in large financial institutions. Overall, Blockchain, IoT, these are kind of technologies which are gaining lot of traction and we see that our participation in Banking, Financial Services space, in the digital engagements we will continue to grow.

Fundamentally, we do not see any major hurdles. I believe that the institutions in the North America continue to invest internally, in terms of building the skills that are required and going through the workplace and workforce transformation that they are getting into, and some of them are nearly completing it. For some of them, this particular aspect is still work in progress and we hope that with the developments we are seeing in North America, whether it is the tax cuts or others, we believe that it should work well for the industry and more spending should take place across all the three dimensions: what they will do internally, what they will do with the captives and what will they do with partners like us.

**Diviya Nagarajan:** Just a quick follow-up; you spoke about Retail coming back to potentially double-digit growth. What goes into that assumption – is that deal momentum that you have already signed that you are beginning to see? Could you just give us some color on that?

**Rajesh Gopinathan:** There are multiple things going into it; some of it is obviously deal momentum and the pipeline visibility that we have. Some of the deals have materialized, the most recent being the very transformative deal that we have done with Marks & Spencer.

Even more importantly, if you look at what is happening in the industry, particularly if you look at the numbers coming from the last holiday season, you are seeing traditional retailers bounce back strongly with a much more integrated technology play, and it is no longer about online versus offline. It is about more traditional retailers leveraging technology to enhance their overall value proposition to customers and taking the customer buying from a pure pricing call to a more integrated experience and ownership call.

We have seen customers like Home Depot, Best Buy -- all of them emerge very strongly through this holiday season. So that is the trend that we are really enthused about. A combination of our own pipeline, and what we see as transformative change in the industry, is what is leading us to this optimism.

**Moderator:** Thank you. We will take the next question from the line of Ankur Rudra from CLSA. Please go ahead.

**Ankur Rudra:** The first one is Europe, clearly good trends continuing there. Could you maybe add some more color thematically perhaps country wise and vertical wise where you are seeing more opportunity? Is that a reason for margin softness, because Europe tends to operate at slightly lower margins than maybe US business or Australian business, and as that increases, you will have source of margin headwind which you might face?

**Rajesh Gopinathan:** Ankur, Europe performance, encouragingly, is happening across a wide spectrum, both from a vertical industry perspective as well as from region perspective. If you look at the deals that we won, you will see a very good spectrum of deals in Europe. For example, we have announced in BFS, we have announced in the EPC side. So across the board we are seeing deal momentum.

From a region perspective also, we have been strong in the Nordics and the Benelux region, and that continues to do well, Germany is performing very well for us, and even markets like France are coming back to double-digit growth now. Europe is a broad-based story.

While you are right in saying that that in Europe, deal structures are more complex and the operating environment is more complex, I would actually say that as overall volumes and overall deal sizes increase, and as we gain scale in individual markets, the margin profile on a like-to-like basis will improve over time, and converge with our other markets.

We are looking at Europe still as an investment area, and are focused on achieving scale in all the key markets there. I am quite optimistic that

its overall profile will be significantly different from what you have seen. It is a different construct, but not a negative construct.

**Ankur Rudra:** Just on BFSI if I could go back to that, sounds like from what you are saying the weakness is still concentrated in the large US banks. Is there any more source of weakness that you saw this quarter, and what needs to happen for your overall BFSI momentum to improve from here?

**NG Subramaniam:** You are right that we have explained earlier, that it is limited to a few banks in the North American market. They are all in different stages of the internal investments that they are making in terms of collaborative workplaces, adopting enterprise agility and so on. Clearly, the investments are largely in the digital area. The key thing is that most of them are evaluating different possibilities and technologies of artificial intelligence and machine learning, what kind of architecture that they need to deploy.

I think in the next one or two quarters, they will have that visibility and then they will probably finalize on a strategic digital stack, including what I call strategic bot architecture, that will span across IT, IS and Operations, and combined with the benefits that they see in the overall business environment, I believe that they will be spending more, and will be balancing the proportion of spend across the three dimensions of what they will do internally, with their captives and with partners.

**Ankur Rudra:** Last question on book-keeping side, maybe something everybody wants to know. Ramki, anything you can add in terms of color or visibility you have on the impact of this base erosion tax provision in terms of what your numbers will see maybe in CY'18?

**V. Ramakrishnan:** For FY18 we do not see anything, because whatever is applicable will only be from the next financial year. The act has come in just 15 days back, and there are still some areas where there is lack of clarity. So we are still evaluating...we are looking at the provisions and also consulting. Right now, we are not in a position to say what impact it would have. There is a reduction in the overall tax rate, so that will come

in. Some impact definitely will be there from the provisions, especially on some of the intercompany transactions. So we will have to wait and watch.

**Moderator:** Thank you. We will take the next question from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

**Sandeep Agarwal:** Rajesh, wanted to get an update how you are seeing the digital deal – is there a continuous trend of the deal sizes increasing? And with the kind of the scale going up there, will it imply that deals start moving a little bit from the boutique and start-ups to the large scale players? Are you seeing that kind of trend? Would like to give some more color on that?

**Rajesh Gopinathan:** Definitely, we are seeing an increasing trend of the digital deals becoming much more enterprise wide. As I said earlier in my commentary, the whole point is that it is an ability to leverage the power of the new technology stack, combine that with domain knowledge, combine that with the contextual knowledge of that customer to be able to stitch together transformation agenda.

So there are pure play deals that themselves are increasing in size, but the deal that we announced with UK retailer, Marks & Spencer - that is a transformation agenda. It is a complete reimagination of the technology and business operating architecture, which leverages these technologies, that leverages new age working models like agile, and a cloud first and machine first delivery paradigm.

So we are going beyond the concept of just digital as some point solutions or point technology, and starting to see enterprise level architectural adoption, and that will become the norm.

So I do not know whether I answered your question but yes, we are seeing in all our large deals, the transformation agenda is very strongly driven by the ability to leverage this technology and combine that with what is currently on the ground and stitch together a transformation agenda.

**Sandeep Agarwal:** Sorry, but if I can maybe reframe that question again, I understand that you partly answered that as well, but just trying to understand more like will it be fair to call that the stage where we, in spite of being way ahead of others in the digital space, did not get a big share because the size is very small, but with sizes increasing our share will go up significantly? Will it be fair to call that?

**Rajesh Gopinathan:** I think it would be wrong to characterize that we did not get our share, but that is besides the point. Depends on how you look at it. If you ask me, are you confident about digital continuing to drive growth? Yes, we are very confident about digital driving growth.

**Moderator:** Thank you. Our next question is from the line of Viju George from JP Morgan. Please go ahead.

**Viju George:** First question on people addition – your YTD people addition has been very measured. Is that something we can continue to expect going forward or is this got to do with utilization or do you think there is a great element of automation also kicking in, which can be a sustainable factor going forward, which means that if you are growing at the rate which you should not be really having people additions?

**Ajoy Mukherjee:** From a people addition point of view, yes, if you look at this year, it is about net-net basis about 3,600. And as we mentioned in the beginning, in the last four quarters, at a gross level, we have added about 59,000.

In the prior year, when we did campus hires, we had given about 40,000 offers. We were building capacity, we were investing to create a necessary pool that was required to meet our customer demand in terms of digital skills. And the whole talent development that we have done in building and upskilling our people, and giving them the opportunity to learn new technologies, to learn new ways of doing things, be agile trained, be aware of all the technologies and get more competencies. So that is the reason why the hiring is more controlled at this point in time.

As for the second part of your question, about automation, we have already talked about the various deals that we have got and how automation is coming in, and how it is helping us in our delivery model.

So both of what you said is true. Going forward, again, as far as hiring is concerned, for some time it is going to be measured and controlled, based on what is the demand forecast and based on what delivery teams need. We will go accordingly as per that.

**Viju George:** Okay. So, what I was trying to get answer is that a larger part of the muted people addition, is it due to utilization improvement, those kind of productive measures or is it due to automation? I think it is more due to the former, right, that is what you have indicated that you have set up capacity which has started to sort of burn?

**Ajoy Mukherjee:** That is true. And at the same time automation has also helped us, because I think the number of deals that we have won.. that is also helping us, but the capacity that we created [last year] is definitely getting utilized.

**Viju George:** Sure. The other question that I had was on Digital move broadly, obviously the growth here is very impressive. But if I look at the overall revenue growth of the company, it is still stuck in the 6% to 7% range. At some point I know this has got to do with weakness in BFSI, but do you think that digital needs to get to some critical threshold for it to be self sustaining to drive the overall revenue base because there is some legacy business also on the pressure. Any idea what a threshold might be given the current pressure on legacy?

**Rajesh Gopinathan:** I think, Viju, rather than thinking of it on a horizontal cut basis, I think it is much better to think of it from a vertical cut basis. As you have seen, some specific areas we have been addressing one by one. BFSI continues to be this space, and within BFSI also we are going at it segment by segment.

I would think it is more a vertical issue rather than a horizontal issue. I do not think there is a magic number beyond which it will impact.

Our growth, to put it in perspective, on a comparative basis in the reported period, we are tracking quite well, overall. And we are confident that that we should continue to benefit from the capacity and the capability that we have built in digital.

**Moderator:** Thank you. Our next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.

**Shashi Bhushan:** My question again is related to BFS, what is leading to softness in BFS? Is it that the financial health of our client or is it their unwillingness to spend or it is like we are not present where the spend is happening? Is it just like our size it has reached to a level where growth is going to be sub-optimal?

**Rajesh Gopinathan:** The best way to think about it is that we are not losing market share in BFSI. We are maintaining market share, both at an industry level as well as at our client level. In fact, we saw the maximum amount of transformation in this industry as regulatory pressures and front-end investments took over, over the last many years our market share has steadily expanded in this industry, among the largest competitor set. So, the question of not participating is absolutely not there, and in a very objective way you can see that.

The question of the health of our clients being an issue is also not true. In fact, the banking industry is quite well-positioned and it is well out of its blues. It had lingering legal provisioning requirements about a year or two back, but even that is now behind us. So the issue now is more around what NGS said, that for them to start the next wave of transformation, they are still in a process of actually adopting a certain architecture and thinking through how they want to do it and how they want to scale it.

We see European clients, in fact, paradoxically, way ahead of adoption of cloud and automation. In fact, in areas like Agile, large European banks are significantly ahead of US banks in the extent of enterprise wide adoption programs that they have kicked off. And our participation in all of them is very, very high. In fact, we are the leading partners for

the biggest banks in the Europe which are at the forefront of adopting agile and cloud. So, we are participating very strongly. I think it is more in terms of how this spend starts off, and how it impacts the larger base.

**Shashi Bhushan:** Another question regarding IT budget, any early indication on IT budget for CY18 for any of the verticals that you have got you can share with us?

**Rajesh Gopinathan:** I answered this in the press meet also, that probably the whole idea about thinking about an annual IT budget as a clear indication about where this spend is, is becoming dated with the technology transformation going on.

A couple of things are happening – one is that the long-term planning cycle is no longer limited to annual cycles. They are more client specific, and they are more focused on their own business periods. Even more importantly, deal structures are becoming much more complex, encompassing transformation both at an IT level as well as at a business level. So, the annual IT budget probably is something that is no longer a clear indication, and we find it not very [useful].... From a period-perspective, typically January is still early to call.

And again, if at all you have to think about budgets, it should be across the CXO organization rather than just a CIO organization.

**Moderator:** Thank you. Our next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

**Ravi Menon:** Digital has shown surprisingly a good acceleration. Is this led by a broadening of adoption or bigger deal sizes? And how sustainable is this growth momentum in digital given that your base is now quite large?

**Rajesh Gopinathan:** Ravi, 39% [growth] is not something that I would say here onwards you could bet on. The answer to your question is that it is a deepening of adoption, rather than just broadening.

The last year or so was about broadening of digital adoption, with more and more of our clients experimenting across the board with these



technologies. But recently these deal sizes are increasing is because we are seeing the depth increase and actual leverage happening across the full architecture of a client in a given business unit or a business process or an overall [enterprise] transformation agenda. So, it is depth that is driving it, rather than breadth.

**Ravi Menon:** Right. And would you say that this should continue for some more time and are there any pockets where you see people have not really gone into this or experimented with this or are still in very early stages?

**Rajesh Gopinathan:** The depth that you are talking off, it is still early stages. There are only a few [customers] that have really embarked upon whole enterprise wide transformation and committed to large programs. So, that would be very much at the early stages of that.

**Ravi Menon:** Right. And secondly, I thought that you had a deal where you had a significant rebadging and I was expecting that to show up in the regional markets quite strongly, that has not come through. So, is this something that we should expect in a more measured fashion to ramp-up or this is just something that where the contract signing has not happened, or it is still delayed by a quarter or two?

**Rajesh Gopinathan:** We do not announce a deal without a contract signing, so any deal that we have spoken about has always happened only after contract signing. But different deals have different periods and different forms of profiles. Some involve initial transformation and then an operations aspect, some involve initial lift and shift of operations and then a transformation. So it really depends on how it plays out.

**Moderator:** Thank you. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

**Ashish Chopra:** Rajesh, the first question I had was on the margins. You did mention that if we look at the current levels versus the aspired band probably currency explains a large part of that. But if you look at currency currently this gap could perhaps widen as a contribution from that factor. So, wanted to understand, in the past we have spoken about calibrating

investment basis the movement in currency, so how should we really expect the margin trajectory, were rupee to remain at current levels. Would you gradually kind of claw back to 26 or would we kind of recalibrate it?

**Rajesh Gopinathan:** I do not want to speculate about currency levels. What we had said about calibrating investments based on currency continues to be an overarching philosophy. But we had also said that once we commit to an investment we stay very, very focused on that investment, irrespective of where the overall currency or the margin point is.

Diligenta is a great example. We have stayed very deeply invested in the company, very committed to the transformation for over 10 years. And that has really made us stand out, compared to many others who attempted similar kinds of deal structures. So, our commitment to any investment that we start is absolutely limitless. We will stay with it. It is not a quarter-on-quarter kind of a phenomenon.

The impact of currency on the business model is a well-documented fact, I think many of you have written about it. With inflation differentials, there is a rational expectation that currency depreciation will compensate for that inflation differential. And when we see currency flows and trade flows resulting in currency movements in different directions, you will see that impact on it [on margins]. Long-term, where does that play out? We do not know, but we are focused on executing things that we can control, and calibrating the business model along the lines of what we see.

As Ankur asked in the beginning, when we go into market we are not deterred by margin profiles of those markets. We are more focused on what the to-be margin structures of this market are once we scale up. And again, Europe is a great example where early investments are proving very helpful, and as we increase scale we will see margin support coming from that market.

**Ashish Chopra:** Got it. And just lastly from my side, so the new segment that you now breakout within your verticals which is regional market and others, so

that is like the second largest contributor to the overall top-line in that breakup. Just wanted to understand why that has been really soft quarter-on-quarter and YoY and if you could just share some color on what are the sub-segments over there which would be weak?

**Rajesh Gopinathan:** All the non-vertical specific segments. It has our platforms in there, it has regional markets in there. So, India, Japan, all of that is there. I think Kedar can probably walk you through that. And the whole idea about clubbing all of them together into one line to report was that their performance is a lot less linear than our more traditional markets. So, it is nothing out of the way, it is a non-typical revenue profile and that is the whole idea of clubbing it together, so that you guys have visibility on what that is, versus the rest of the verticals.

**Moderator:** Thank you. Our next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

**Ashwin Mehta:** So, while quantification might be difficult to give so early on the tags reform, is it possible to give a directional sense on the direct impacts of this tax reform, would it be negative, neutral, positive according to you?

**Rajesh Gopinathan:** No Ashwin, we would not like to speculate on it.

**Ashwin Mehta:** Okay. Just a follow-up in terms of insurance: while your UK platform business is expected to recover, what are you seeing on your US insurance side? And any impacts of the recent hurricanes or fires in terms of business there?

**Rajesh Gopinathan:** Obviously, those are elements that do impact that business, but I would say that is why the business exists. So there might be a period to period impact, but I do not think that is a structural problem. You are not going to see US insurance fold up because of some individual events. The platform business, our pipeline on the platform business in US continues to be quite encouraging and we are optimistic about extending the platform play into US also. And that is also an area that we think will provide some strength going forward.

**Moderator:** Thank you very much. Our next question is from the line of Sandeep Shah from CIMB. Please go ahead.

**Sandeep Shah:** Just on the banking what I get to understand is it looks like the incremental spending on the first wave of digital which looks like clients are in-sourcing rather than out-sourcing, so what could be the reason for a decline in this quarter, it should be at least worst case could be flat, is it more to do with the renewal effect which is actually impacting you and you believe this may continue for the next couple of quarters as you are saying that the next wave of digital investment which they may outsource may take couple of quarters?

**NG Subramaniam:** As I explained earlier, the softness that we see in BFS is limited to North America, and it is pretty much due to seasonal factors and I would not read too much into it at this stage.

We are not hearing any negative commentary from any of our clients with respect to their spend on technology. I think there is a lot more in terms of their ability to actual structure transformational deals in Wave 2, and how the architecture and the digital stack plays out. Clearly there are three dimension of spend as I explained: internal IT, captives and us. Depending on what they would like to do, whether it is compliance related or whether it is more operations related which is more high end technology related or more IP related or competitive edge related, there are many factors that play into it based on which a particular spend is distributed across those three dimensions. So we are confident that this will come back. And as Rajesh explained, we continue to gain market share in BFS amongst all the players and we are not losing market share right now.

**Sandeep Shah:** Okay. Just further to that, so on the market share or the wallet share if you look at some of your larger peers on organic basis actually they are growing higher than what your growth rates as per my calculations for the nine months comes to 2.5% to 3%. So, is it like we should not read too much in terms of one period, it could be a timing difference or it could be a portfolio specific why the others are growing faster despite a higher base on that?

**Rajesh Gopinathan:** You are talking about specific to the vertical or for the whole company?

**Sandeep Shah:** No, just for the vertical BFS.

**NG Subramaniam:** No, I think all of the things that you said could be portfolio specific, it could be country specific or it could be service lines specific. All I can say is that look we have built a lot of capabilities, we continue to add digital capabilities to new offerings in the quarter. And we are participating in each one of these adequately. In fact, as I explained earlier, the revenue growth that we have seen in digital is also contributed by our revenue uptick in digital segment from the BFSI institutions.

**Sandeep Shah:** Thanks. Just last few, the decision-making Rajesh, if you can give, both NGS and you, color in terms of decision making in terms of large deals? Because if we look at some lead indicators from the ISG index it looks like the deal awards are improving, so do you also believe that is happening in the industry and also especially for some of the low penetrated services like the IMS, is it the decision making has been improving? And second, Ramki, on the BEAT tax, even the fourth quarter have an impact on FY18, you were saying it will start from 1Q of FY19?

**Rajesh Gopinathan:** So, the deal momentum, we have been saying that we are seeing an improving pipeline and we are seeing conversion on that pipeline also. So, I think as to be expected analysts are reporting events as they happen while we are reporting you what we see in the pipeline which is more forward-looking. So, it is in line with what we are seeing, we are seeing larger deals, we are seeing conversion of the pipeline and that is overall optimistic.

**V Ramakrishnan:** It is applicable for the tax year starting after January 1, 2018. We follow the April to March financial year in the US, so it is really applicable for FY19, and not for this current FY18.

**Moderator:** Thank you. Our next question is from the line of Jayakumar Doshi from Kotak Securities. Please go ahead.

**Jayakumar Doshi:** Earlier this year you had indicated that dividend payout is to the extent of about 80% of free cash flow, and you have also indicated possibility of more consistent payout rather than lumpy payout to shareholders. However, if I look at your dividend payout for the first nine months it looks like we may not be able to get close to that 80% mark in FY 2018. So how should we think about this dividend payout policy?

**Rajesh Gopinathan:** I think you probably misunderstood what we said, we had said that we have paid historically 80% of our free cash flow and we do not see that ratio coming down. We would, if anything, see that improving. And the pattern of payout is something that we should be considering.

But if you look at it over the last nine months the total money returned to shareholders is staggering ₹25,300 crores, which is unprecedented in this industry. So, I think you should take solace from that. We have no intention to move away from our very disciplined return of cash to shareholders.

**Jayakumar Doshi:** Understood. So that will apply starting FY19, is that right to assume?

**Rajesh Gopinathan:** I have said what I have said.

**Moderator:** Thank you. 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:** Thank you. So, in closing, we wrapped 2017 with a good December quarter marked with a 9.1% revenue growth in USD terms, strong volumes in a seasonally weak quarter and closure of some industry defining deals.

As we have discussed during this call and earlier that with the exception of BFSI and Retail, all our industry verticals grew upwards of 9.5% on an annual basis, with four verticals growing in double-digits. So, from a vertical split perspective we see broad based growth recovery across many verticals while our largest vertical, BFSI, has lingering weakness which we have focused on addressing.

Our investments in reskilling the workforce, in research and innovation, in building intellectual property, products and platforms are all resulting in good growth in our digital revenues and that is showing both in numbers, as well as in deal flow. We signed our first \$50 million deal in digital, marking a coming of age – as it were – for this technology stack.

And lastly, we continue to reskill our workforce at scale. Even as we recruit talented individuals across the world, we are focused on ensuring that we are able to impart to our existing workforce on an ongoing basis, the skills that they need to deal with today's technology, which is showing through in our industry leading retention rates. Attrition continues to tick down on a quarter-on-quarter basis.

So, overall, we are quite happy with where we see ourselves. We are happy with our participation in the growth and transformation agenda of our customers. And the overall resonance that our unique blend of technology capability, investments in digital, our domain knowledge and our contextual knowledge is having with our customers and its impact on our growth and in our deal pipeline.

So, once again, thank you all for joining us today and wish you a very happy and prosperous new year to all of you.

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

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