TATA CONSULTANCY SERVICES

Tata Consultancy Services Limited

Q4 & Full-Year FY18 Earnings Conference Call.
April 19, 2018,19:00 hrs IST (9:30 hrs US ET)

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

Kedar Shirali: Thank you, Karuna. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Fourth Quarter and Full Year of Fiscal Year 2018 ending March 31st 2018.

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 here 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; and Mr. Ajoy Mukherjee -- EVP and Head of Global Human Resources.

Rajesh and Ramki will give a brief overview of the Company's performance followed by 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 the quarterly fact sheet available on our website and which has also been 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, and good morning, good afternoon and good evening to all of you. We have had a strong finish to the year with Q4 revenue growing at 11.7% YoY on dollar terms and 8.2% in rupee terms, which is 7.2% in constant currency. The $185 million of incremental revenue we added sequentially in this Q4 is the highest ever we have added in a fourth quarter.

Our operating margin for the quarter expanded sequentially by 20 basis points to 25.4% with net margin expanding sequentially by 0.4% to 21.5%.

For the full year, our revenue grew by 8.6% in dollar terms, 4.4% in rupee and 6.7% in constant currency. We added $1.51 billion incremental revenues during the year and crossed the $19 billion mark in FY'18. Full year operating margin came in at 24.8% and net margin at 21%.

Before we move on to a discussion on how the various segments performed, I want to spend a few minutes on the primary drivers of demand. In earlier calls, I have spoken about Business 4.0, TCS' thought leadership framework that helps progressive organizations leverage digital technologies to drive growth and transformation. This has resonated very well with customers across all our industry verticals.

The three key components of their transformation spend are the building of the digital core, the intelligence layer and the experience layer. While much of the attention has been on the latter two, the transformation of the core is a much larger, far more complex and riskier undertaking. And yet, it is the most critical program without which many of the digital initiatives simply cannot proceed. FY'18 saw many of our customers embark on this re-architecture and refurbishment of their core. With our contextual knowledge, domain expertise and our depth in digital and the intellectual property that we have built around this, we have been able to emerge as their preferred partner in these strategic initiatives.

The new service organization structure we put in place earlier this year – consisting of several new digital transformation service practices, is closely integrated consulting and service integration practice and our cognitive business operations group – has resulted in a very focused and holistic approach to the digital opportunity, resulting in significant market share gains.

Revenue from digital engagements made up 23.8% of our overall revenues this quarter, an industry leading growth of 42.8% YoY for the quarter.

Let me now give you some color on how various segments performed during the quarter and the year:

As a reminder, all the growth numbers that I will mention at this point on are YoY and in constant currency terms.

- In Q4, barring BFSI which grew 2.9%, all other verticals grew above the company average.
- Growth was led by Energy & Utilities which grew 33.7% and Travel & Hospitality at 25.4%;
- Life Sciences & Healthcare also had strong growth at 12.6%; Retail which had faced some headwinds in the last few quarters grew at 8.4% YoY.
- In Banking and Financial Services, we experienced good growth in Europe and the rest of the world.
- In the US too, there is significant demand for our services driven by investments in Cloud, Blockchain, Automation, etc., however, spending by some of our larger banking customers in North America is still slow and needs close watching.
- On a full year basis, barring BFSI which grew 3.2% and Retail and CPG at 1.5%, we have had very strong growth in the other six industry verticals which have averaged 13.2% on an aggregate.

So just to summarize, growth was led by Energy, Utilities, Travel, Hospitality, Life Sciences, Communication and Media, all of them growing at 11%, 12%, 20%. From a geography perspective, growth during the quarter was led by Continental Europe, which is up 19.1%, and UK, which is up 10.7%, and APAC at 8.6%. North America grew slower at 4.9%, a marked improvement over the growth we have seen in the last four quarters. On a full year basis, core markets grew above our company average, which is Continental Europe as I mentioned, UK, Latin America and India.

A very important proof point of our participation in our customers' Business 4.0 spend is the steady increase in the number and size of digital assignments they are giving us, which result in increased wallet share and size of revenues that we generate across these customers across various revenue bands. At an aggregate level, this is evident from the client metrics where we see strong progression of customers into higher revenue bucket on quarterly as well as annual basis.

During the quarter, we added one more client in the $100 million+ revenue band and 3 in the $50 million+ band and 13 in the $10 million+ band.

For the full year, we added 3 more clients in the $100 million+ revenue band, 13 more clients in the $50 million+ revenue band, 17 more in the $20 million+ band, 40 more in the $10 million+ band, and 66 in the $1 million+ band.

Our large customer engagements are well distributed across industry verticals and geographies. I am particularly happy to share with you that barring two of the smallest industry verticals, we now have at least one $100 million+ client in every industry vertical.

Much of the Business 4.0 spending is around leveraging technology to innovate and gain competitive advantage. Our continued investments in Research and Innovation, and the leveraging of innovation taking place in the start-up ecosystem, have given us a distinct edge in the market. The research focus this year has been on Blockchain offerings for both financial and non-financial users across multiple industry verticals.

We launched the Quartz Blockchain Solution, which offers blockchain to enable all stakeholders in a financial ecosystem to collaborate with trust. TCS built an Open Banking based API framework to help banks accelerate their digital transformation journey. The AI offerings developed by our R&I teams in the areas of conversational systems and natural language processing have been deployed internally in TCS for employee engagement, and are getting strong traction.

On a longer-term basis, we continue to invest in various areas like genome interpretation for personalizing healthcare, in materials engineering and in behavioral sciences. So our participation from an R&I perspective is across a wide spectrum, and this entrepreneurial spirit, if I will, has been at the core of us being able to participate across wide range of opportunities as they have been coming to us.

Some of our erstwhile research programs eventually get monetized. Our Rolls-Royce win that we have spoken about a couple of quarters back is built on the back of our Connected Universe Platform which came out of our R&I labs in the earlier period.

In addition to the research and innovation that happens inside TCS, we also leverage the innovation work taking place in the startup ecosystem through the TCS Co-Innovation Network or COIN. This program has now expanded its startup connects to over 3,000 startups and key innovation hubs in the US, UK, Europe, Asia and Australia. COIN is also connected to VC firms and several accelerators and incubators. Now it is a very vibrant ecosystem in which wide participation across both our customers as well as these partners. On an intellectual property area, many of our research and innovation programs eventually mature into market-facing solutions and monetize the production platforms that we spoke about on the Connected Universe One, and several of our megadeals this year were structured around these platforms.

Some like ignio™, our cognitive automation software, is faring quite well as customers begin to take on more holistic approach to automation, shifting from robotic automation to intelligent automation. ignio™'s context awareness, ability to become productive within weeks of deployment and self-learning capability give it a distinct edge in the market and makes it a core component of TCS' evolving Machine First Delivery Model (MFDM™) that many customers are now adopting. Specifically in ignio™, we won 7 new clients in Q4, and the total number of clients under ignio™ is now more than 50.

Another platform, iON Assessments, continues to expand its reach both in terms of having a physical presence in every state and union territory in India and in terms of the number of candidates who have been assessed on this platform. As of March 31, we have assessed more than a 100 million candidates on the iON platform. Additionally, TCS launched the iON learning hub, which offers life-long learning solutions for a large number of learners across K-12 standards and for working professionals.

We have spoken in the past of TAP™, our accounts payable platform. We had a new release with the two major new modules, contract management and supplier performance management, to focus on customer experience and ease of use. TAP won two new clients this year and processed 40 million invoices and purchase orders this year.

From a technology side, TCS MasterCraft™, our digital platform to automate and manage IT processes has become all the more relevant as Agile and DevOps adoption accelerate. We had three new wins in Q4 bringing the total to 93 active customers on this platform.

Similarly, we have products and platforms across industries.

TCS BaNCS, our flagship product suite in the Financial Services domain, had a very good year with 29 new wins and 25 go-lives in FY'18, of which 5 new wins and 4 go-lives were in Q4. BaNCS delivered several firsts this year: our first US core banking customer, Zions Bancorporation went live on TCS BaNCS; in Q4 we won our first US insurance customer, Transamerica, for the BaNCS Insurance platform, and also our first US client for the BaNCS Cloud core banking solution.

We launched four new solutions this year: the Quartz Blockchain Solution, which I spoke about, BaNCS Application Development Kit, Analytics and the TCS BaNCS Cloud.

In Retail, Optumera™, our advanced digital merchandising suite had two new large wins this year. Seven of the world's leading retailers are currently using Optumera™.

On the Life Sciences area, TCS' Advanced Drug Development platform which is transforming the clinical trial process for our pharma customers by harnessing the power of analytics to reduce human intervention continued to have several new wins in FY'18 including three in Q4.

Moving on to the people front, we closed the year with 394,998 employees and a diverse workforce with 131 nationalities represented, and the proportion of women rising further to 35.3%. Our ability to participate at scale in Business 4.0 spend of our customers is predicated on our ability to attract new talent and retain and transform our existing talent. Even as we hire talent in every part of the world, our focus on internal talent development at scale is helping us capture a bigger share of the opportunities ahead of our competition.

By making continuous learning fun and highly accessible, our digital learning platform has delivered fantastic outcomes. In FY'18, over 245,000 employees were trained on digital, and more than 200,000 employees have now been trained at various stages of Agile methodologies. At an overall level, our new, vivacious approach to learning and development resulted in more than 5.6 million learning days this year.

These investments that we are making in people and empowering culture at TCS, most importantly, the opportunity to be part of transformational change in helping customers navigate the way through Business 4.0 has made TCS a preferred place to work for talented engineers, and this is reflected in our retention rates, which continue to be an industry benchmark. Attrition on an LTM basis in IT Services came down by 10 basis points to 11% this quarter.

For FY'19, we have announced wage increases similar to last year, calibrated to individual labor markets and ranging from low single digit in mature markets to high single digits in the developing world, with top performers getting with the higher end of the range in each market.

Let me now give you some color on our outlook for the next fiscal:

As I mentioned, at the start of this call, many of our customers are embarking on their Business 4.0 journey, and as their preferred partner we are benefiting from the resultant uptick in their digital spending. We had a strong set of large deal wins this quarter, and the deal pipeline looks very good across the board.

Combined with strong exit that we got from Q4 performance, we are well placed to continue on this growth momentum through FY'19. As I mentioned, six of our eight industry verticals grew upwards from 9% in FY'18, four of them growing double digits. We hope that this kind of momentum will continue through.

On Retail & CPG vertical, which had a weak year, it had a strong exit in Q4 on the back of strong deal wins that we have had. We have good visibility on demand in Retail, and believe that growth trajectory for the year is secure.

On BFSI, barring North America, we have growth momentum across other markets. Even in North America, based on conversations with customers, we believe that the near-term demand visibility is much stronger than in the last year, and that gives us confidence in terms of seeing where we are. I spoke about it in my press conference earlier that we would like to wait to see how it pans out in the coming quarters. But we are quite optimistic about the overall scenario from a medium-term perspective.

Geography wise, we expect to see all our markets grow next year and the strong growth in UK and Europe to sustain. Emerging markets will continue to experience volatility, but overall growth should be at company average levels.

With that, I turn to Ramki for more details.

V. Ramakrishnan: Thank you, Rajesh. Let me first go with the headline numbers:

In the fourth quarter, our revenues grew 2% QoQ and 7.2% YoY on a constant currency basis. The sequential constant currency growth of 2% was entirely made up of volume growth of 2% QoQ. Cross-currency movements resulted in a reported revenue of ₹ 320.75 billion, a growth of 3.8% QoQ and 8.2% YoY, and dollar revenue of $4.97 billion, which is a growth of 3.9% QoQ and 11.7% YoY. Our full year revenue for FY'18 was Rs.1.23 trillion, a growth of 4.4%.

In US dollar terms, our revenue of $19.089 billion translates into an annual growth of 8.6%.

Our operating margin for the quarter expanded 0.2% QoQ to 25.4% on account of currency movements during the quarter.

For the full year, our EBIT margin was 24.8%, down 0.9% YoY, impacted by currency (-70 basis points) and wage inflation (-2%), mitigated by other operational efficiencies (+1.7%).

Net income margin in the fourth quarter was 21.5%, up 0.4% QoQ and down 0.8% on YoY basis.

For the full year, net income margin was at 21%, which is down 1.3% YoY. Of that, 0.6% of the margin decline was on account of lower other income following the return of ₹ 268 billion this year to shareholders in both dividends and the buyback.

Effective tax rate for the quarter and for the full year was 24.1%.

Our accounts receivable was at 74 days DSO in dollar terms, down one day QoQ.

The net cash from operations during the quarter was ₹ 83.99 billion, which is 26.2% of revenue or 121.7% of net income. For the full year, net cash from operations amounted to ₹ 281.6 billion, which is 22.9% of the revenue or 109% of net income. Free cash flow in FY'18 was ₹ 263.6 billion. Even after returning ₹ 268 billion to shareholders this year, our invested funds as of March 31, 2018 was ₹ 476.8 billion.

The board has recommended a final dividend of ₹ 29 per share, bringing the total for the year to ₹ 50 per share, which is a payout ratio of 44.3%. Additionally, the board has also recommended a bonus issue in the ratio of 1:1.

With that we can open the line for Questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Could you clarify the intention of the capital return for FY'18 and FY'19 and whether the contribution from the buyback was a part of the FY'17 payout or the FY'18 payout?

Rajesh Gopinathan: Ankur, we have shared earlier that our intention is to keep capital return close to 80-100% of annual free cash flow, and you will find that whichever way you look at it from a financial year perspective or from a calendar year perspective, we are pretty much staying true to that. I do not see any change to this overall trajectory, and you can expect that we will continue to do that going forward also.

Ankur Rudra: Just if you could clarify, Rajesh, the buyback, are you basically assuming that is part of the FY'18 payout, because previously suggested it was part of the FY'17 payout, which made your average payout ratio over the last five, six years above 80%, just want to be on the same page on that point?

Rajesh Gopinathan: Ankur, again, I do not want to say something that we have not said before. As I told you, whichever period that you look at, you will find that when you consider the full cycle we will be 100%.

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

Diviya Nagarajan: Two questions for you, Rajesh. You spoke about and I think NGS also spoke about some green shoots on the Banking side. Could you just elaborate on what do you mean by that -- is it based on project wins and deal signings, some color on that? And the second question is some time over the quarter there was some hope that we could approach a double digit revenue growth trajectory in FY'19 and what is your comment on that regarding what we have seen in the quarter?

N.G. Subramaniam: Hi, Diviya, NGS here. By green shoots, what I meant is in North America, specifically in respect of some of our clients in the past we have had challenges in growth. In the current quarter, during Q4, what we saw is that : (1) the de-growth in some of those large accounts has stabilized, (2) we have started to see some demand emerging; (3) by discussing with these clients, we have had some visibility into what all they will be investing in the coming financial year. All this gives us the confidence that we will be able to participate more in the coming financial year and that is what gives us the confidence.

Diviya Nagarajan: Rajesh, if you could comment on the trajectory to get to double-digit growth, if it is still an aspiration for fiscal '19 and what will get us there?

Rajesh Gopinathan: One way to look at it is that we were at 6.2% full year to full year, and in the last quarter, we are at 7.2% in CC terms year on year. We think that we should be able to get this up as we go into next few quarters and execute on it. So when will that happen? I do not know. But, we are quite confident that we should be able to maintain the trajectory. There might be some blips along the way, but we are focused on getting there.

The underlying confidence comes from areas that I have just spoken about in the past. One of the big drags on it has been BFSI. As you know, we are much more optimistic on the Insurance side. Banking NGS spoke about; in Retail which had poor performance until recently, we have very strong deal wins, and as we execute on those deals and draw down on that deal pipeline, we are quite confident about Retail going into the next year.

So when you look at it from a segment perspective, we are quite confident about where we see the demand outlook, and both our existing pipeline as well as our existing deal set. So that is where it is coming from. I cannot give you a more definitive idea as to which period it will happen. But one way to think about it is that we have broken into double-digits, even though in dollar-denominated terms, but we will try our luck and go forward with it.

Moderator: The next question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: So my question was on the recent new large deal wins. So, Rajesh or Ramki, could you just comment on the margin profile of these deals and whether there is any back-ended or front-ended element to that? Also, if you could just update us on what your target margin range going forward is going to be?

Rajesh Gopinathan: We have announced large deals across the wide spectrum. If you think about it, platform deals are different, the kind of deal that we have done with Nielsen is very different, the kind of deal that we have done with Marks and Spencer is a totally different one. I think the common feature in all of them is the fact that these are deals across a wide scope of work, and they are coming about because we have a full spectrum of services ranging from products all the way to services and operations, and we are able to stitch them together in an innovative way which clients are finding to be great drivers on the transformation journey. This framework that we have developed called the Business 4.0 framework is finding a lot of resonance and bringing more structure on how these technologies and solutions can be leveraged for business transformation and that is where this is coming from.

So there is no one single answer to what the margin profile is. Our focus is always to construct it with fairly even margin profiles. Revenue profiles on some of these deals are different, as you know, deals in Diligenta and on the platform solution side, come with front-ended revenues with a long operations tail, and that will continue to be the case in the Transamerica kind of a deal. But the margin profile is much more complex, and we cannot comment on it on a common basis.

Our target or aspirational operating band continues to be the same, and we think that with a bit of luck on the currency front, and with the increased growth momentum that we have been talking about, and our ability to bring greater operational efficiency into digital as it scales up across its component parts, all of that should give us protection, or levers to play with on the margin as we go forward.

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

Sandeep Agarwal: So Rajesh, I have two questions, and I am not asking for guidance, the disclaimer goes first. So incremental revenue of $180 million is one of the highest in last several fourth quarters, so can it be same about the deal signings also? I am not asking for a number, but what I want to know, are the deal signings are also at a very-very high level compared to past? Second, if you see without BFSI and Retail contributing much to the growth, we are already at around 12% although it is a dollar growth number, and we are seeing kind of acceleration in Retail at least in the next year and BFSI, even if you assume that green shoots just help a little bit, where can we go wrong on this 12% number for the full year?

Rajesh Gopinathan: The first part of your question is easier to answer. So definitely, our deal wins this quarter have been way ahead of anything that we have done in the past, but that is coming from the platform side. Even if you take the non-platform side, we have had a strong deal momentum in this quarter. So back to Diviya's question earlier as to where is our confidence or our expectation is coming from, it is coming from both, the deal closures, as well as the pipeline that we see, which is across both, platforms, as well as more non-platform led deals.

To your second question, Sandeep I will give a pass to that. There is no way I can give you an answer to that without breaching our policy on guidance. I think we have shared with you the segmental level kind of commentary. Beyond that I think it is speculation.

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

Ravi Menon: If I just look at the realization, that is a really nice improvement there, wondering how much of that came in from the cross-currency? If you could comment also on the volume growth which on QoQ basis, volume was practically flat if my calculations are correct, whether we should worry about that at all?

V. Ramakrishnan: On the volume growth, we had 2% volume growth in this quarter, and actually there was no realization impact, it was flat. That is why the constant currency growth has been 2% QoQ during the quarter. On a full year basis, we had around 80 basis points impact on the realizations, but otherwise, it has been fairly stable and flat, so that is where we are.

Ravi Menon: The second question is the direct cost seems to have moved up quite a bit. So, should we assume that some bit of the transition costs for one of the large deals in the US has baked in a little bit at least this quarter?

V. Ramakrishnan: I think when you look at the direct cost QoQ, a part of it is also related to the revenue growth of 3.8% on a rupee term. The major elements of cost being the employee benefit expenses and also some project expenses, these was a currency effect on them as well, just as it does in relation to the revenue. I think from other elements of cost, we have been able to drive quite a bit of efficiencies there. So on the operating margin, we are up by 20 basis points which has come partly from currency. So I think it has been a stable environment from that perspective, nothing specific to call out.

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

Sandeep Shah: Just one clarification on the North America when we say green shoots, we are talking about the Banking and Financial Services excluding the Insurance? If answer to that is 'yes', what nature of the deals which are coming to give you a conclusion that there are some green shoots? Is it coming from the same set of clients where insourcing was a risk which we have highlighted earlier?

N G Subramaniam: That is right, in fact, we are talking about non-insurance clients. Overall, we are starting to see opportunities which are digital-based, Blockchain areas, Analytics and also a number of back-end core systems transformation opportunities. All these kind of engagements were put on hold earlier. Some of those things are coming back, and as I mentioned earlier, some of the discussions that we have had with our clients also reveal that their investments profile will be slightly different, and then currently customers are also investing a lot more on security... the amount of investment that is happening in securities back into what they used to do earlier in risk management or regulations, right? So the overall investment profile which they are planning for this coming year is quite different from what it was in the last, let us say four, five quarters. And then some of these things have started to materialize. The de-growth that we were seeing in some of these accounts has also stabilized. So that gives us the impression that it has bottomed out, and we should see growth in the coming quarters.

But having said that, look, I would like to be cautious about it. I would like to see how it pans out in the coming quarter and then see where it goes.

Sandeep Shah: Just the second question on the margins, if I look at on FY'18, even assuming FY'17 rupee/dollar of 67.1, it looks like the constant currency margin is 25.5%, which is lower than your lower end of the aspirational range of 26%, 28%, but still we want to continue with that range. So what gives the confidence that we can actually be at least close to the upper end if the currency helps you in the coming year, or we can be close to the near lower end as well?

Rajesh Gopinathan: The 25.5% has been achieved in a year where we have grown practically the slowest in the last probably 5 or 10-years at 6.7%. So the margin does get impacted by growth, margin does get impacted by investments that in early stages of some of these service lines, and as that service lines expand, we think that this will allow for greater optimization, greater leverage. So it is an expectation both of improving growth, as well as improving efficiency in our newer service lines.

Sandeep Shah: Rajesh, some of your peers have highlighted some investment for localizing the talent in some of their developed markets. Do you believe that could be a headwind also for TCS in the coming year?

Rajesh Gopinathan: Many of these initiatives in the current operating environment are business as usual. So the question is do we see incremental pros or cons? Some will have cost impact, some will give support to the margin side of it. In balance, we are more optimistic about expansion, rather than concerned about deterioration.

Sandeep Shah: Ramki, can you give us a color about the tax rate in FY'19 considering the US tax reform and the BEAT tax provision impact?

V. Ramakrishnan: In FY'18, our effective tax rate was 24.1%, we expect in FY'19 the same to be in the range of 24-25%.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Our Digital business for us is around like $4 billion with 35% growth CC, which is even faster than what we did last year. If you could give some color in terms of what is the size of this market in your understanding, what is the growth in this market, what is our market share or how we are seeing our positioning in this market improving - both on capability or win ratio?

Rajesh Gopinathan: Rahul, I will answer the last part of your question. The first two are very difficult to answer, what is the size of it and where do we see, it is a very undefined kind of opportunity, so difficult to size it. There are many consultants out there with reports, their guess is as good as ours.

On the last part of it, where you spoke about what is it that is allowing us to participate and the nature of the demand as it is evolving. Digital is going away from being point solution to being integrated solution for growth and transformation. You found digital being used for customer experience, in some cases, it being used for Analytics and greater insight. So these were all individual use cases and point solutions where it was being applied over the last few years. Now we are seeing the demand emerging much more for holistic solutions.

People do not want to just experiment with it, people want to be able to deal with what they are calling the re-architecting of the core. For that, it is not about, 'can you do digital?' It is about, 'Can you provide an integrated solution across the full spectrum?' That is our sweet spot, because we are leveraging both our technology expertise as well as our deep contextual knowledge of these client systems and processes and their own history to be able to design solutions.

In that space, we think that we are far ahead of where the market is -- very clearly, ahead of the old pure play digital-only shops that had emerged during the last few years. That is where we are able to participate in much larger engagement sizes, which is what is driving some of this deal pipeline that I spoke about.

Rahul Jain: When we are participating in this new opportunity of scale operations for these companies, so are these relationships purely on digital side or then there is more scope even to do some run the business side of thing also since we have come into this new logo?

Rajesh Gopinathan: It is across the board. Our approach has always been full services, our entry might be from any service line, but our offering set is always full services. So, if we have entered only through a digital solution stack, we will participate and then try to expand across the entire spectrum. If we have entered through a more traditional service stack, we will expand into digital. That is core to the TCS strategy.

You will see the impact of it in our client profiles where you see our ability to migrate our clients across revenue band systematically QoQ, YoY, and that is predicated on this full service lines capability and the ability to cross-sell into our customer base.

Rahul Jain: So our legacy revenue which sort of is flat for the last couple of quarters, it would be moving from QoQ perspective or we see as a portfolio this can still grow at 2-3% which we have seen for the last couple of years?

Rajesh Gopinathan: There is no concept of legacy revenue. Our participation is on the technology spend of our customers, and our participation is wherever spend is today, and we will continue to do that. We give you some color in terms of where the incremental spend is. But beyond that I think it would be misleading to categorize something as legacy, something as new. The opportunity is in providing business solutions, the opportunity is not in saying that I know this technology or I know that product, the opportunity is, 'Can you provide us business solution?' For that you need to participate across the full spectrum. Now is that solution legacy or is that new world? That depends on whatever your categorization is and I leave it to you.

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

Ashish Chopra: Just one question from my side, Rajesh and Ramki. Just wanted to understand maybe the potential margin trajectory, so like last year usually wherein the wage hike brought the margins down in the first quarter and then you pulled it up through the year. With the ramp ups of some of these large deals especially the platform ones scheduled over the course of this fiscal, do you expect the margin trajectory to be any different or with any of the levers coming into play may be ex of currency?

V. Ramakrishnan: From a wage hike perspective, we do not expect that impact to be very different from what we have seen in the last couple of years. Just to give a perspective, last year we had about 2% impact on the margins, basically from the wage hikes and the progressions, etc., and typically we have that in the first quarter and then during the year we claw that back, and that is part of our strategy and that is what we have been delivering. So we do not expect that to significantly change. From the large new deals and platforms, as Rajesh explained, these are cut across several dimensions, and our general concept on any of these deals is to make sure that we have fairly steady profile on these deals. So again from that perspective, we do not anticipate any significant impact into our margin profile going forward.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: I just had a couple of questions; one is on the deal flow side. We have seen a lot of come back of the large traditional deals which had kind of vanished in CY'15 and '16, even the ISG data that comes out basically reported positive momentum in CY'17 and even for this year, they are guiding for a positive number. We have seen ourselves getting some of the large deals in the retail space as well as other clients. So just wanted to understand basically are we seeing some kind of a revival, earlier seen that those multi-year, multi-million dollar deals had vanished and they have kind of making comeback, of course, with a digital component. But is it something which we have seen on the trend or is it too early to call that out?

Rajesh Gopinathan: I think the only thing that I want to share is what I said in the past also, that large deals now are very different from the large deals of the past. These are deals of increased or large scope, and with a more heterogeneous set of service lines and integrated service offerings, whereas in the past, they were more vertically volume driven deals. So we are seeing participation. We cannot comment about where other market participants are seeing it, or what they are talking about, but our large deals are currently across scope.

Vibhor Singhal: We basically heard you mention a lot about Blockchain, that is the kind of demand we are seeing especially from the North American markets. So just wanted to get an idea on it, what we are doing in this domain right now mostly PoC, or are we seeing any some active implementations also? When do you think could we basically see at least some realistic deal flow from that domain?

N G Subramaniam: I think in Blockchain, people have gone beyond proof-of-concepts and use cases. These are real projects, real implementation that is happening, and we are participating in many of them. The demand for such Blockchain type of solutions is increasing. People have also realized that as they adopt the Business 4.0 ecosystem play, blockchain is a true differentiator in putting a technology work around Blockchain, and that is exactly what is happening in the marketplace. Blockchain will drive further opportunities and further growth for us.

Moderator: Thank you. The next question is from the line of Viju George from JPMorgan. Please go ahead.

Viju George: I just had one question with the margin profile of Digital if I may. Rajesh, if you look at this 25% of the business, the book that you call out as digital, how would these margins either the gross margin level or the operating margin level compare with the overall company average? Second part is as these deals get larger and more complex and presumably you can do more offshore of these deals, would you think that the margins of the digital contract as you call them out can improve overtime?

Rajesh Gopinathan: Viju, the second part, absolutely yes, because as I said, digital today is a very heterogeneous market with different lines having different sizes. Margin profile is entirely dependent on size. As deal sizes increase on any given service line, our margin profile will improve over time. So it allows us greater optimization, greater operational leverage, it allows greater certainty in planning, all of that is dependent on deal sizes improving. So it is very difficult to comment about that 23.8%, because it is a very diverse mix currently, but it has an improving profile with increasing deal sizes.

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

Ashwin Mehta: In the last quarter we indicated that retail would grow at double-digits this year. Are we still sticking to that expectation? Secondly, in terms of demand especially in UK and particularly for Retail in UK, ex of the large deal that you have signed, how are you seeing that?

Rajesh Gopinathan: First of all, Ashwin, Retail is 8.4% YoY for this quarter also, so the trajectory is definitely there and we are quite confident that it should break into the double-digit trajectory during the course of the next year. There have been some impacts due to a bankruptcy filing by one of our customers this quarter, but those are transient one-off issues. We have both strong deal closure, as well as pipeline. That gives us the confidence that we should be well positioned for it.

You need to cut us some slack, you cannot tell me to keep aside the large deals that we did in Retail and then tell you what else is going on, right? That completely defeats the purpose of what our focus is. So I will keep it integrated.

Ashwin Mehta: No. I was just trying to get a sense from a decision-making perspective or from spending perspective, are you seeing any impacts in UK versus what you were seeing say a quarter or two earlier?

Rajesh Gopinathan: Difficult to call out, Ashwin. UK is a complex situation right now, so it is very difficult to put one aside, or the other aside, and talk about it. Interestingly, the largest deal that we saw which is also the most transformation-led, has actually got structured inside UK. So sometimes, external stress actually leads to more accelerated decision-making, as people focus on what they need to do in their business and are more willing to engage with partners like us to carry out the technology transformation and the process transformation that they need to do. So how will this whole thing play out? I think it is very-very difficult to make a call; it will have both positive as well as negative impact.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: I had two questions. First, NGS, on your comment about the large US banks, it seems from your comments that the type of spending which is coming back is mostly towards Digital and on the Blockchain side. So should we read this as suggesting that run the business growth will not recover in the near future? Also, if you can comment on the margin profile, which those deals entail given the concern on higher onsite proportions there? The second question, Ramki, the bankruptcy impact which happened this quarter, was the impact material or too small to be significant for TCS?

N.G. Subramaniam: I think to your first question, the type of projects or type of opportunities that are coming, clearly, they are digital, and the scope of such engagements, as Rajesh said, covers now a wide range of capabilities and services, that is the first thing. The second thing is that in my last quarter's narration, I talked about Wave 2 of digital, which is all about leveraging the contextual knowledge in the back-end of the applications which are required as they embark on Cloudification, net verification and so on and so on. That results in certain amount of transformation in the back-end, and to that extent we see some opportunities which are hitherto or not considered in terms of transformation deals in terms of replacing core systems in the back-end and so on. So, putting all these together is the confidence, and the more digital the opportunity, the margin profiles in those deals are slightly higher than the normal ones. I would probably leave it at that.

The other aspect is that, in the last quarter narration I also mentioned about workplace and workforce transformation. A number of agile initiatives are being taken on. The number of these institutions were adopting co-located agile, whereas their talent is by far distributed. By co-locating, their costs have gone through the roof, and so they are slowly embarking on the concept of location independent agile or distributed agile, and that shift is also going to help TCS in terms of capturing some of those opportunities. These are all the things that gives us the confidence that is bottomed out and we are participating in some of these and that is where the green shoots comment comes from.

V. Ramakrishnan: I think coming to your question, the impact was not material in the context of our size, but specifically in this particular quarter to explain on the retail, yes, it had a small disruption in the overall revenue.

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

Rajesh Gopinathan: Thank you, So in closing, the Business 4.0 Thought Leadership Framework we launched a couple of quarters ago is resonating well with our customers, and as they embark on re-engineering and refurbishing the core, the size of our digital engagements is going up, which drives strong growth in our digital business.

We closed FY'18 with a revenue growth of 11.7% in Q4 and barring BFSI, all other vertical industries grew above company average during this quarter. Our client metrics continues to be very strong, with good additions across every revenue bucket.

We will continue to invest in our internal talent development, and to build scale in digital and agile, while empowering our employees and helping them realize their potential, this is giving us best-in-class retention rate.

Lastly, we had a strong set of deal wins during the quarter. The deal pipeline is giving us the confidence that we will be able to sustain our growth over the next year. Thank you all for joining us for this call today and have a great evening.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of TCS, that concludes this Conference Call. Thank you 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.