



Tata Consultancy Services Limited

Q3 FY19 Earnings Conference Call. January 10, 2019, 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 participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation conclude. 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 third quarter of fiscal year 2019 ending December 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 with us today, Mr. Rajesh Gopinathan – Chief Executive Officer and Managing Director; Mr. NG Subramaniam – Chief Operating Officer; Mr. V Ramakrishnan – Chief Financial Officer; Mr. Ajoy Mukherjee – EVP and Head of Global Human Resources. Additionally, we have Mr. Pratik Pal – Global Head of our Retail cluster which includes CPG and Travel, Transportation and Hospitality verticals, joining us this evening.

Rajesh and Ramki will give a brief overview of the company's performance, followed by a Q&A session. As you are aware, we do not provide specific revenue 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 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 once again, good evening to all of you and a very happy new year. We are wrapping up 2018 with a strong revenue growth, in fact, strongest revenue growth in 14-quarters on a constant currency basis; our Q3 revenue grew 12.1% YoY on constant currency terms, 9.7% in dollar terms and 20.8% in rupee. We saw growth accelerate in all key verticals and across all our geographies. Our operating margin for the quarter was 25.6% compared to 25.2% for the same period last year, and our net margin for the quarter was at 21.7%, an improvement of 57 basis points over the same period last year.

I will ask Ramki to go over the headline numbers, financials and segmental information and later on I will step in again to talk about a few broad demand trends before we open it up for questions. Over to you, Ramki.

V Ramakrishnan: Thank you, Rajesh. First, let me walk through the headline numbers: In the third quarter of FY2019, our revenues grew 1.8% QoQ and 12.1% YoY on a constant currency basis. Reported revenue in INR was ₹373.4 billion which is YoY growth of 20.8%. In USD terms, revenue was \$5.25 billion which is YoY growth of 9.7%.

Coming to the segments, let me go over how the various segments performed during the quarter. As a reminder, all the growth numbers are YoY and in constant currency terms. We continue to see good recovery in our Banking, Financial Services and Insurance vertical; our BFSI business accelerated further this quarter, growing 8.6% compared to 6.1% in the prior quarter. Growth was led by Energy and Utilities which grew 18.1%; Life Sciences and Healthcare at 15.7%; Communications and Media which grew 10.8% and the Retail cluster grew at 10.5%. Revenue from digital engagements made up 30.1% of our revenue, growth of 52.7 YoY.

Geography wise, all our markets showed growth acceleration in Q3. The growth leaders continue to be UK which grew 25.1%, Continental Europe at 17.6% and APAC which grew at 12.6%. Growth in North America was 8.2% and India and Latin America grew 9.7% and 7.6% respectively.

Coming to Products and Platforms, they continue to do well. Let me first talk about ignio™, our cognitive automation software. Two very important market trends are driving strong demand for ignio™; First, customers are increasingly taking a Machine First™ approach to operations, and moving from point deployments to enterprise-wide adoption of automation. Secondly, customers are moving away from robotic automation to intelligent automation. Having established a very strong client base and references within the first three years

of its launch, ignio™ is very well placed to capitalize on these trends. We had 10 new wins in Q3, spread across North America, UK and Europe.

In addition, Digitate won several pilot programs, that should hopefully result in larger engagements in the future.

TCS BaNCS, our flagship product suite in the financial services domain had 5 new wins and 5 go-lives during the quarter.

Our Advanced Drug Development platform had two wins in Q3:

- Our global UK-based pharma major signed up to automate case intake of adverse events or pharmacovigilance.
- A large US-based pharma company signed up for innovative solutions in the regulatory space.

TCS iON had an excellent quarter. In addition to successfully executing the world's largest recruitment exam on behalf of the Railway Recruitment Board in India, assessing over 18 million candidates, they had several new customers signing up. Most importantly, the deal sizes are going up and some of the large iON deals are huge even by global standards. One of the contracts signed by iON recently had TCV of over \$0.5 billion.

Our customer-centric model has meant that we stay very focused and finding newer and newer opportunities to add value to our customers by looking at our customers business in a holistic way. Our full stakeholder services strategy and our deep contextual knowledge of our customers businesses has allowed us to deepen our relationships and gain share. Those of you who follow our client metrics know that quarter after quarter, year after year, there is a steady migration of customers up the revenue buckets.

At the end of Q3, we had 45 clients in the \$100 million+ revenue band, 8 more than what we had last year same time. Likewise over the last year, we have added 5 clients in the \$50 million+ bracket, bringing the total to 99, 8 clients in the \$20 million+ bracket, bringing the total to 211, and 55 clients in the \$1 million+ band, taking up the total to 996.

Let me now cover the financials briefly. Despite the currency volatility during the quarter and slight increases in the cost of doing business in the major markets, our operating margin has been very resilient at 25.6% which is up 0.4% YoY.

Aided by a higher other income, our net income margin remained expanded by 0.6% YoY to 21.7%. The effective tax rate for the quarter was 24.2%. Accounts receivable was at 70 DSO in dollar terms. The net cash flow from operations was ₹86.8 billion which is 23.3% of our revenue and 107% of our net income. Free cash flow was ₹81.5 billion and invested funds as at 31st December stood at ₹438 billion.

The board has recommended an interim dividend of ₹4 per share.

Moving on to the people front, we added 6,827 employees this quarter. Our localization initiatives are progressing well and resulting in a more diverse organization. The proportion of women in the workforce rose further to 35.8% in Q3. Likewise the number of nationalities represented workforce has gone up further to 151.

Our investments in workforce transformation resulted in TCS' logging 14.2 million learning hours on our digital learning platform in Q3. As of December 31st, we have trained over 292,000 employees on Digital technology and over 318,000 employees on Agile methods. These ongoing investments in organic talent development, our empowering and energizing workplace and progressive HR policies have resulted in industry-leading talent retention rates at TCS. Our last twelve months' attrition in IT services was 11.2% in Q3.

I now hand it over to Rajesh for giving color on the demand drivers and the trends.

Rajesh Gopinathan: Thank you, Ramki.

As has been the case in the prior two quarters, our strong performance in Q3 has also been driven by our expanding participation in the customers digital transformation initiatives. For example, the accelerating growth in BFSI is driven by increased spending by banks on areas like next-generation customer experience using micro-segmentation, rearchitecture of data for delivering insights and the adoption for micro services for greater business agility.

In our press release, we have provided a sampling of the kind of customer engagements we entered into in the December quarter. If you go through them, you'll see that the common, overarching theme is one of business transformation driven by top line concerns, and the need to participate across multiple segments. Every enterprise is reimagining multiple aspects of its business, some of them more profoundly than others, and looking to leverage

technology to differentiate itself in a Business 4.0 world. It is not very hard to see why they are doing it. Technology-based challengers are disrupting multiple industries and causing upheavals. Retail is a sector which has been in the throes of this for some period of time. We have seen that impact on many long-established retail brands whose businesses have eroded and some of them have faced financial stress or even liquidation.

Our approach to industries going through such turbulence is to participate very aggressively in our customers' growth and transformation agenda while remaining vigilant. However, we do have the risk that if something unexpected comes around, like I said - any such stress, we would take some impact from such events, but we believe that the larger opportunity is worth that risk.

More importantly, if you look at the strategic responses from the incumbents, there has been a massive ramp up in their technology investment. They have been steadily investing in building up online channels, integrating them with the physical store and the more ambitious ones are looking at how to tweak their business models to leverage their *phygital* presence to build moats around their businesses and differentiate themselves from pure eCommerce players.

We are partnering with many of our retail customers in their Digital First initiatives and putting in place operating models and digital architectures that will help them accomplish the goal. We have Pratik here, and for those of you who would like to understand this further, Pratik would be happy to get into more details.

The important thing is that whether it is Retail, BFSI or any of the other industry, our participation in the growth and transformation initiatives did not happen by accident or in a day or suddenly. It has been the outcome of a long process of evolution that we have gone through, and it has been enabled by the customer-centric organization structure that we adopted in 2008 and which we have been doubling down over the course of the last year.

Significant investments have gone into building the necessary capabilities. We have been systematically investing in our research and innovation program and integrating the CTO function closer and closer with our overall business operations.

In addition to foundational areas, our researchers have taken up promising themes across various industry verticals and come up with innovative solutions

that we have been showcasing to customers at our innovation centers and customizing them to meet their specific needs. In many of these cases, the outcomes are various forms of intellectual property, some of them which are getting productized and others which are getting integrated into a solution as accelerators and frameworks, but all of which help customers reduce risk as well as time-to-market. So, our service portfolio, enhanced by our R&I capabilities and our IP portfolio, are an integral part of a complex service delivery and service architecture that we are putting in place and allowing us to participate in a very differentiated way in our customers' growth and transformation agenda.

The other element of it is that while the R&I agenda and integration of the CTO side is happening, in many cases the most impactful innovation does not necessarily come from the formal structure. It comes from within TCS teams working with customers at their location. These teams often possess very deep contextual knowledge of the customer's business that we have been talking about multiple times in the last year or two, and which is often unparalleled even within the customers own organization given the continuity and the longevity of many of our relationships. It is the incremental little innovations that come up on a daily basis in a collaborative, agile workspace, rather than one big idea, that ultimately creates value for customers and ensure that our ability to stay relevant to the customers continuously increases. This flows through into the metrics that you see in our client portfolio and the steady mining that we are able to achieve here.

Then there are our alliance partnerships. In addition to close relationships with virtually all the major technology providers, we have been systematically investing into our Co-Innovation Network (COIN™) where we partner with start-ups with promising new technologies that we jointly take to market or embed into the solutions that we build.

This quarter, we launched several solutions that we jointly developed with partners and customers. We are partnering Red Hat to build verticalized cloud native solutions. We have launched a solution for using drones for testing of railway assets and their maintenance in partnership with SAP. Similarly, we have partnered with a customer, Singapore Airlines, to launch a jointly developed solution that transforms airlines' ground operations using digital technologies. We have also recently partnered with Honeywell and they were speaking about it in the aerospace marketplace that has been built. So, there

are multiple instances where we are becoming very strategic partners in this digital business transformation that many of our clients are going through.

All these elements, our research, innovation, investments, the contextual knowledge, our portfolio of intellectual property and our Business 4.0 Thought Leadership framework are critical differentiators which have helped us gain significant market share as well as mind share. To further strengthen our positioning in this expanding opportunity, we have launched a new sub-brand called TCS Pace™ in the December quarter, which embodies all these differentiated capabilities.

On the ground TCS Pace will translate into essentially physical TCS Pace Port™ hubs which are flexible modular spaces, featuring innovation showcases, co-innovation network, start-up accelerators, TCS Think Spaces, Academic Research Spaces, Agile Workspaces, etc., which are all designed to ignite collaborative experimentation, research and rapid product prototyping alongside customers, partners and academia.

Coming back to where I began, the accelerated business momentum that we are seeing is on account of our ability to participate in our customers' growth and transformation initiatives. It shows up not just as industry-leading growth and digital services and strong overall revenue growth in the quarter gone by, but also in our deals and in the pipeline.

We had very strong deal closure this quarter, giving us the biggest order book year till date in FY'19. The total value of contracts signed in Q3 was US\$5.9 billion. Importantly, the order book has expanded in every segment – whether you look at North America or BFSI or Retail. Our deal pipeline is also looking quite strong, giving us an excellent start into the new year.

With that I want to open up the line for questions.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan:

A couple of questions here. Could you guys just give us a sense of how you see demand trending in the current environment, there are growing macro concerns, how do you reconcile this with the strong contract momentum that you are seeing right now? The second is on I am trying to understand why margins went down, normally this is a quarter for margin improvement and the

net currency impact is still being positive or at least flat. So, could you just run us through what were the additional costs of doing business that you are talking about in the basis points impact on the margins?

Rajesh Gopinathan: Sure, Diviya. We are participating in the demand that we are seeing. And as I said, our order closure for this quarter has been almost a billion dollars more than the order closure for the immediately prior quarter. And it is not just order closure; our pipeline itself has expanded, and it has expanded across segments, both geographical and industry segment. This is the reality that we see.

Now, we also read about the macro issues. We have no greater insight on the macro and its timeframe. Our approach is that that is not a factor that we can control. So, we will participate aggressively in the demand that we see. We are investing to participate and anticipate the pipeline that we have, and pretty much that is the element that you see reflected in our margin picture also.

When the demand came about, our intent is to always participate as much as possible. And towards that, the immediate response to it has been to hire into the subcontractor pool – which is the flex pool that is available. If you look at the COR - SG&A breakup, you will find that that line item has expanded by about 60 basis points.

Similarly, on employee hiring, you will find that we had about 6,800 net additions. In aggregate, we have now hired 27,000 people in the last one year on a net basis. This compares to a net addition of about 7,000 last year. So, we are investing in our own people, we are investing in the flex capacity, and we are investing in making sure that we capture the demand that we see, while keeping an eye out on the overall market. But we see strong momentum and we are going to back the sales team in making sure that we capture it.

Diviya Nagarajan: Just a follow up on that; do you expect the subcontracting cost to continue remain elevated given the supply conditions? Secondly, also talk about some weakness in banking, could you just kind of throw some light on that?

Rajesh Gopinathan: On subcontracting, there are two elements to it; the short-term impact of it is as you see demand spiking, we will acquire and period-to-period there will be some volatility in it. Subcontracting is typically a costlier option than obviously a more optimized employee pool, both from an operations perspective as well as from a cost structure perspective. But we are quite confident that we will be able to rationalize that over a period of time, once we have visibility and we are

able to plan for it in a slightly better horizon. So, I am not too worried about the spiking on that.

The supply side constraint in this market is a real constraint and obviously that will play out in cost terms, as well as in terms of availability. There, our perspective is that we are not incrementally more impacted compared to anybody else. In fact, if anything we are better situated than most participants in that market, whether it be competitors or customers to actually have a better structure and that should result in multiple elements in the market, whether it be pricing or cost rationalizing over time.

So, to your question, it's difficult to say, but we are not wedded to any artificial margin. We will participate aggressively in demand and we will optimize. We do not see a structural challenge to our overall margin perspective, and that is the medium-term view.

You had made a mention about currency. The impact of currency is net negative for us. So, we grew 1.8% on constant currency but in rupee terms the growth is about 1.3%. So, the currency impact, both on the revenue line as well as on the margin line has been a net contraction.

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

Sandip Agarwal: Rajesh, I have two questions: One, on the digital side, we once again saw very strong growth on the digital side and in the initial comments what I hear is that the sizes are also going up. so can you throw some more light on that side, what is exactly happening on the space – are the existing clients increasing their budgets or increasing the size or more budgets are getting reallocated from marketing or the situation is like we are getting more revenues or higher growth because of new clients coming in? Question #2, on the retail industry, how you are seeing the digital playing out because sometime back we were seeing some weakness in the industry that because of the brick-and-mortar model not spending aggressively but what is the sense there now?

Rajesh Gopinathan: Sandeep, I will ask NGS to address your first question and then Pratik can come in on the retail specific view of it.

NG Subramaniam: Yes, Sandeep, overall the demand for digital has been at, I would say is very high for us, and every single offering that we have carved out under the leadership of Krishnan has received enormous traction in the marketplace.

Specifically during the quarter, I think IoT, Intelligent Automation, Artificial Intelligence-based Automation, and Blockchain – these are areas where we have seen lot of new deals. And these are fairly secular in terms of both verticals, as well as across existing customers and new customers. There are new customers who have just signed up with us, specifically for automating their operations and then bringing in intelligent automation into their operations. So, it is fairly secular. The demand pipeline for intelligence automation itself... the whole set of offerings that we have come up with under the Machine First™ approach, with the Machine First™ delivery model, has received very good traction, I should say.

Pratik Pal:

Hi, this is Pratik here. Retailers continue to invest significantly in what you call the online/offline retail, or what we call interconnected retail. The only thing is that the nature of investment in this interconnected retail is moving from the front end to the back end, more in the supply chain which is a much larger and bigger investment. We are participating very heavily in some of these large transformations that are going on around the supply chain for enabling the interconnected retail.

Having said that, if you see this last holiday season, while not only the overall sales have gone up, if you really look at the numbers, the sales from online/offline or omni-channel retail have actually gone up significantly higher, the highest in the last six years. This is a very good testimony that the offline retailers which has a very strong online presence are doing extremely well and are probably taking market share out from the online-only retailers. The good thing is that we participate with lot of these large retailers who have this online/offline presence. Hence, while there are one or two blips here and there, and that will continue, we do see good demand going forward. Thank you.

Moderator:

Thank you. We will take the next question from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah:

Just the question first in terms of margins. So, if I look at the first nine months the average rupee-dollar is close to around ₹ 69.9 to ₹ 70 while the margin on the first nine months is close to 25.7%. But in the television interview, we still said that we have a comfort range of 26 to 28%, at the same time we want to participate aggressively in terms of the demand which is increasing through digital. So, what gives you confidence to still say that EBIT margin could be in the range of 26 - 28% despite rupee-dollar being almost ₹ 70 versus what it used to be earlier your range was based on close to ₹65, 66?

Rajesh Gopinathan: Sandeep, you are making multiple assumptions, so let us address it. Our margin is a structural margin band which is actually based on where we expect currency scenario to be, not pegged to some artificial static currency. It is important that you understand the business model. The business model is based on delivering from high inflation location and selling into low inflation location. Our prices are indexed to inflation in developed markets which typically are in the low single digits. Our costs are indexed to inflation in an emerging market, which is typically in the high single digit or even double digit areas. This differential will get reflected over time in a currency depreciation, and that is an economic fact that our business model is strongly built upon. So, the expectation of steady margin assumes a steady economic model but these markets are lumpy and they are sticky. So, typically they will correct themselves over a period of time. As long as we take long enough view, we should be able to achieve that.

Our commentary is that we see structural stability in our business model and if that business model's structural stability is not impacted – it can get impacted typically only by competitive pressure coming either from a customer side or from another competitor side or replacement side. Replacement side which had been spoken about can we participate in digital, will we get disintermediated by automation? I think we have more than established that we are actually on top of those curves. In overall relative competitiveness terms, I think if anything we are stronger today than what we were in the past. So, that is where the confidence about being able to maintain stable margin bands is coming from, rather than one-off commentary about some impact that we see or some changes that we see in the market.

Sandeep Shah: I think fair enough. Just a follow up to this. Rajesh, in the client negotiation are you able to actually pass on this message where you are in a position to say for a client to compensate for a high inflation cost in terms of delivery versus delivery to location where there is low inflation?

Rajesh Gopinathan: Absolutely. Many customers contracts build in, either explicitly or implicitly, Cost of Living Adjustment factors. It is a pricing call as to how that appears – does it appear as a separate line item, or does it appear as an integrated pricing? But more importantly, it is integral to our business model and our decision making process. Quite frankly, it is well understood by most of our mature clients and in the markets that we operate in, and that is where you see this resilience over a period of time.

Sandeep Shah: In terms of revenue side, I think this year we are being doing extremely good in terms of YoY growth trajectory. But if we assume there are no major macro shocks, do you believe that the demand momentum can help us in terms of achieving a double digit over a period of time in terms of next two, three years rather than just CY'18 or FY'2019... I am not asking for a guidance, but is it like your confidence levels are higher looking at the demand momentum?

Rajesh Gopinathan: We had set ourselves an explicit target to get back to a double digit growth trajectory which, we are happy to say, we have achieved and we are quite confident that we will end the year FY'19 with double digit growth. Beyond that, I do not want to comment about future. We are giving you early visibility on data as we see it. That is why we are sharing with you what our deal closures are. We are sharing with you commentary on what we see as the pipeline. Beyond that, I would not want to be drawn into a comment.

Sandeep Shah: Just a follow up; in terms of this time looking at the macro risk as a whole, at the same time most of the large deal awards are coming through are integration of the back-end with the front-end which is largely digital, is it fair to say if macro shock not bigger, the correlation of macro risk to the IT spend maybe lower versus what it used to be earlier? Do you believe the digital demand is more discretionary or do you believe no, the macro shock will lead to slow down in digital demand?

Rajesh Gopinathan: Our experience has been that in practical terms, when the bottom falls off a market, customers will cut what they can cut fastest, not necessarily what they should cut or what they would like to cut. So, after some time rational cost structure changes happen – which is more rational and more sophisticated. I do not think this will change depending on the technology cycle per se. If a sudden downturn happens, everything will be cut. Whoever can be cut first will be cut, it does not matter whether that was the worst thing to cut.

Moderator: Thank you. We will take the next question from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: You have indicated that the deal closure in this quarter was around \$5.9 billion which was almost 20% increase over the previous quarter. In fact, in both June and September quarters, this remain flattish at around \$4.9 billion. Just want to check if there is any positive booster coming in here because of the budget flush reasons in US organizations given typically December is the fiscal close for most of them, if at all there is any such impact because of these budget

flush reasons, will it be possible to give the quantitative or qualitative color on that?

Rajesh Gopinathan: Typically, budget flush will happen in actual spend, rather than contract closure. I would not think that that is there. But we have essentially shared with you this data and we have told you that we are sharing it on an as-is where-is basis. We will start commenting about trends and year-on-year changes as we build this over a period of time, and we understand it better and you understand it better.

Sudheer Guntupalli: Within BFSI and Communications, can you highlight which are the sub-segments which have driven growth acceleration in this quarter, and even otherwise which are the sub-segments which are doing well in these two verticals?

Rajesh Gopinathan: If you take banking per se, the North American market is better than Europe and UK. In insurance, it is kind of the other way round; overall insurance is good, but we have seen good strength in Europe and UK insurance. On the services side of it, NGS has commented earlier on the various technologies and micro services architecture etc, where the demand is coming from in BFSI.

CMI continues to be a very volatile sector. As you know that we had a soft quarter last quarter. It swung back up, but it is still too complicated to give you a very trend-line based theme. 5G is one big component of the spend that will come, but even that one will take time and it will get manifested not necessarily in CMI alone, but across multiple industries. So, we are well positioned to participate, whether it be 5G, whether it be fiber rollout, whether it be the virtualization of various business models inside the CMI space. But the sector is likely to remain volatile in the foreseeable future.

Moderator: Thank you. We will take the next question from the line of Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: Our large deal flow has been very strong over the last few quarters now, almost six quarters. A few questions related to that; what are some of the key competencies that TCS would have built over the years to win these large deals?

Rajesh Gopinathan: We have spoken about this that we probably have the most balanced and integrated service portfolio in the industry, and we have invested significantly to stitch it together to be able to deliver integration solutions to our customers.

That is the biggest differentiator and earlier on as I mentioned, the combination of service portfolio that has been constantly invested on to keep it relevant and close integration with both domain assets, intellectual property assets, our product portfolio and very close working with alliance partners and an ecosystem, that is allowing us to participate in complex deal structures.

Shashi Bhushan: A couple of questions on the execution side. What are the risks that these large deals possess both in terms of revenue and margin over the tenure and any initiatives to mitigate those?

N.G. Subramaniam: I think success in our entire business lies in execution. Over a period of time, we have built very strong methodologies, delivery governance and systematic way of risk mitigation, let me put it this way. So, the way the deals are structured, the projects are structured, the execution milestones are structured, is done very collaboratively with our clients. Then based on our own knowledge base of what does it take to deliver some of these engagements, and how business value can be realized both for our clients and for ourselves in a systematic and periodic manner. So, the overall value proposition, the tools, technologies, the solution accelerators, and the quality management systems, all of that play a role in structuring these large engagements.

Some of them will be cost-heavy in the beginning but how quickly we can move into a situation where we will be able to draw down depends on how quickly we are able to deliver some of the early milestones. Any of these large projects, one of my own personal experience is that if you do not miss the first three milestones, then the rest of the things will work like a clock.

So, we rely on that execution capability of ours with the strong delivery governance that we put in place, and the right level of connects with the right operating, as well as management leadership at the customer side – all these are critical success factors.

Moderator: Thank you. We will take the next question from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: My first question is on these four segments that we said on Digital, IoT, AI and Intelligent Automation. Some of the larger peers have been working on a partnership model where they have partnered leaders like Amazon, Google and Microsoft to put them on their cutting-edge side in these technologies. So, are we working on such kinds of alliances to take our edge on this competitive strength furthermore?

- Rajesh Gopinathan:** Absolutely, as we have mentioned early in the opening comments also, our abilities set is built on a combination of investment into our own assets as well as very strong collaboration with partners across the full spectrum, both the larger technology partners as well as emerging technology partners in the COIN network. So, we are absolutely trying to maximize the leverage of the ecosystem across the full spectrum.
- Rahul Jain:** In terms of the competitive landscape, if you can define some of the differentiation that you already highlighted, so how it has changed – is it becoming less competitive game within the client and deal size which you are chasing or it is still intensified and just that our deal win ratios improved versus in the past?
- Rajesh Gopinathan:** Competitive intensity has not necessarily reduced, but definitely the field is a much sparser one in many of these newer areas.
- Rahul Jain:** Because if we see from an absolute addition perspective what we have been adding versus what is the total net addition by the Indian IT export, from that perspective it is definitely rising from a market share perspective and even from an incremental global IT spend perspective, the incremental market share is getting significant. So, how this can sustain and what can drive this incremental market share this is to for a much longer period?
- Rajesh Gopinathan:** That is the essence of what we have been talking about, that it is a fairly differentiated offerings and complex offerings which are not easily replicated. As long as we remain vigilant and relevant to our customers, I think we should be able to participate incrementally more and more in their spends.
- Rahul Jain:** Lastly on the BFSI, do the significant earning uptick for these players in CY'18 can influence the prospect for our clients in the subsequent CY'19 or it is not any function of that materially?
- Rajesh Gopinathan:** Our hope is of course that they will spend some money on us but actually the financials look good for all of them. Balance sheets have never been healthier. So there is a technology imperative, there is a capacity to spend, and hopefully that will translate into even more spend next year.
- Rahul Jain:** So, that would also go towards the core modernization kind of a space or this would be more on the run side of it?
- Rajesh Gopinathan:** Definitely, the capital spend on core modernization should continue. There is significant amount of pent up demand. As I said, technology imperative is also

quite high. So, we are now well and truly into a technology refresh, and it all depends on what the appetite for it is. The demand is definitely there.

Moderator: Thank you. We will take the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, just two questions primarily on the growth front. So, I think it has been consecutively seven or eight quarters that we have done extremely well in the European geography, much ahead of growth in the US geography. So, just to basically on the cautious side, any headwinds do you see from this growth that we are reporting in the European geography that you might want to be cautious about, otherwise you see this continuing growth in the next few quarters as well? Secondly, on the overall growth front, right now if we look at our size, it is around more than \$5 billion quarterly, around \$20 billion we are bigger than Accenture in terms of our outsourcing business at this point of time. Keeping the other macro headwinds and other things aside, do you at some point of time feel that size is probably becoming an impediment for us in terms of growing in let us say double digit this year of course, we manage to do it and that is a real commendable task but going forward do you see the size becoming an impediment in terms of we being able to achieve an industry leading growth or a double digit growth per se?

Rajesh Gopinathan: Both your questions are difficult to answer, so let me answer the Europe part of it. There is nothing that we currently see that would show weakness appearing in Europe. Obviously, there are few sectors, few elements where weakness keeps coming in and out but overall I think if anything the European environment has changed for the positive over the last two years rather than move to negative. Again, all of it keeping aside any major macro headwind say for country problems, etc. So, Europe, structurally we do not see anything that is currently on the horizon in our business per se, outside of whatever you are hearing on the macro side.

The size question, we keep on getting asked this question. We do not have incrementally any new ways to answer it, but let me put it this way; if ever we get to a point where size is the only reason we are not growing, we can very well split ourselves into two companies of equal size, and then continue growing. It is not a basis.

N.G. Subramaniam: The other point which I can add is that in Europe specifically, we see a thinking of customers wanting to share platforms, wanting to create ecosystems. I think our Business 4.0 thought leadership framework enables such a thinking and

we are increasingly looking at such opportunities where we will be able to create ecosystems along with our customers by rolling out solutions using technologies such as blockchain. I think this is one area where we see some emergence, we see some thinking that is developing. Specifically, in terms of sharing some of the technology platforms on the newer technologies.

Vibhor Singhal: If I can just extend that question to just one small more thing that I wanted to ask, as Rajesh said, that last two years we have seen tremendous growth momentum and structural changes in Europe which are all positive in the direction, is it also a thing that till now let us say of course we had other geographies growing but, UK was of course always a large part of our business, almost 50% of the overall revenue that is coming from Europe and now as we basically expand our business to Continental Europe where probably English is not the primary language, we have already been growing in those geographies, but does that mean that the growth will probably come at a little bit of higher cost in terms of we needing to hire more local guys with more local languages and cultural thing and that could be let us say such maybe a bit of dampener in terms of margins from this geography?

N.G. Subramaniam: All the things that you said are factors that we should consider while formulating the solution, formulating the strategy. We have been operating in Continental Europe across multiple language speaking countries for over two, three decades now. We have a very calibrated model in terms of how do you formulate the solutions, how do you formulate delivery locations for such solutions and which are the business models that we should practice, all of it. We are now confident that the growth as it emerges across Continental Europe, whether it is Nordics, whether it is Central Europe or UK or in the Eastern Europe, I think the different models can be applied. We are very well geared for capturing some of these.

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

Viju George: I had a question on cost of delivery. In this call you alluded to cost rising including subcontractor cost. That is probably going to be felt at a sector wide level and I am sure it is not going to be restricted to TCS. Do you think that it may be possible for us as an industry to maybe pass this on as higher pricing to clients maybe with bit of a lag?

Rajesh Gopinathan: Viju, as I said earlier, the market is becoming significantly supply-constrained and we are in no way worse off than anybody else. In fact, we have a fair

amount of margin head room to absorb it, whereas that is not the case for many others. So, this will start translating into the pricing side of it. There were some assumptions that there will be significant insourcing and all of service providers will be impacted by client preferring to take things in-house.

Increasingly, among clients there is a greater realization that that is not an easy task to execute on. And if they try to execute on it, they are also participating in the same market with a much lesser capability to actually build the talent pool required for it. So, rational decision making will prevail and some amount of market forces will come into play. But as you rightly mentioned typically these things take time. There is a lag impact to it.

So, we are very focused on one thing – we will capture demand and we will bet on our ability to be executing better than others, and our ability to rationalize these cost structures over a medium to long term period.

Viju George:

One other question I had, I think you have addressed this partly, but if we look at the development spend that we see around ourselves today, it is very digital-centric versus may be four or five years back where it might have been a little bit more ambitious if I may put it that way, may be growth looking out for four to five years hence. Today digital one says it is little bit more less discretionary, it is intended to create a sustain competitive advantage for the lagger, this intent to catch up, so does that make the nature of developmental spends less immune or relatively less immune to some global macro disturbances compared to may be four or five years back, I am just trying to understand whether this has become a strategic area for clients that they will not pull back at a hint of may be a little bit of a macro issue, not a shock?

Rajesh Gopinathan:

Viju, this abstraction at an industry level, you guys are much better than us to do it. But let me share with you one industry and what we see, and which kind of corroborates your line of thinking. If you look at retail, and if you look at that industry in terms of the structural strength that it has had, even in the throes of financial distress, most retailers have only doubled down and significantly increased their technology spend especially on the digital transformation agenda areas that Pratik referred to omnichannel, multichannel, integration, etc., So, that is a great example in a very-very stressed environment that this is not discretionary spend, this is not something that somebody is doing because they think that they are investing for the future. So, that is when you look at it in one extreme you can see that play out.

Now different industries in different parts of the cycle, how will decision-making be across industries and across individual companies and industry. That abstraction I think you guys have better access to data to think that through. But retail is a great example of the reality of what we just spoke about.

Moderator: Thank you. Next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Just a couple of things I want to query. You mentioned on the insourcing captive side. Is it fair to assume that the challenge especially on the BFS side from capital insourcing do you see that going down? Secondly, you also talked about the addressable pipeline going up. Any quantification can you provide in that? And related to that is the TCV number which spiked up pretty well this quarter. So, has there been any change in the duration in that on a blended basis, will that be looking different vis-à-vis the TCV in the past couple of quarters?

Rajesh Gopinathan: The in-sourcing side, the commentary on it has significantly started dying down, but that is not to say that there are not still a few such initiatives out there. But definitely, the widespread commentary on it has become a lot more rational and people have started internalizing the full implications of that strategy and the complexity of executing that strategy. So, that is definitely the case.

You had asked about the TCV expansion. That is not driven by expansion in the time period of deals. We are really not giving too much of details on TCV at this stage. As I said that is a data set that we are also keeping a close track on and trying to see how to make sure that we share with you something that we are confident about, rather than speculating on what is there. But first level answer is, we do not see lengthening or shortening of the deal cycles.

Moderator: Thank you. Next question is from the line of Yogesh Agarwal from HSBC. Please go ahead.

Yogesh Agarwal: Rajesh, I wanted to ask again something around, the worries around the US macro weakness. If you look at the last one year UK macro has been anything but you guys have done phenomenally well there and certainly the participation in the existing spend has gone up. So, just assuming things continue to get weak in the US what in your view, are there pockets of demand there where the participation goes up in a muted spending environment?

Rajesh Gopinathan: Difficult to say. As I said earlier, sometimes stress results in greater focus on transformation engagements. Definitely, one thing that happens is in a stressed market clients prefer vendors who very clearly have the ability to ride through it and can invest through the cycle. So, the relative competitiveness of somebody like us significantly increases in a stressed market and our attractiveness to customers actually increases manifold. So, our participation also goes up.

You see that manifest itself in various things – vendor consolidation, cleanup of a lot of maverick spending. All of that gets cleaned up and we participate aggressively in those kinds of scenarios. So, you see the retail kind of scenario where macro headwinds and as the stress result in technology spending, you will see consolidation coming and flight-to-quality in stressed environments, and we participate on both sides of the table.

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

Rajesh Gopinathan: Thank you, operator. So, to sum up, we had a strong Q3 with revenue growing at 12.1% constant currency, the highest in the last 14-quarters and growth has accelerated across all geographies in our key verticals. Our strong performance and industry leading growth in digital services is on account of our strong showing in the expanding digital transformation spend of our customers. Our investments in research and innovation, our contextual knowledge, our intellectual property and thought leadership have been critical differentiators in helping us shape these new opportunities. We have now launched a sub-brand called TCS Pace to further reinforce our positioning in this very large opportunity side. In the short and medium term, we have excellent demand visibility, with Q3 giving us the biggest order book in FY19 till date and a very robust deal pipeline.

With that I want to thank you all for joining us on this call today and once again wishing all of you a very happy new year and great weekend.

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.