



Tata Consultancy Services Limited

**Q1 FY20 Earnings Conference Call.
July 9, 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 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 First Quarter of Fiscal Year 2020 ending June 30, 2019. This call is being webcast through our website, and an archive, including the transcript will be available on the site for the duration of this quarter. The financial statements, quarterly fact sheet and press releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr Rajesh Gopinathan -- Chief Executive Officer and Managing Director; Mr N G Subramaniam -- Chief Operating Officer; Mr V Ramakrishnan -- Chief Financial Officer; and Mr Milind Lakkad -- Global Head, Human Resources.

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 emailed 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. We have had a good start to the new fiscal year, with Q1 revenues growing at 10.6% YoY in constant currency and 11.4% in rupee terms, which is 8.6% in dollar terms.

Our operating margin of 24.2% fully reflects the salary increments we rolled out across the board w.e.f. 1st April and the currency headwinds that we experienced during the quarter. Despite that our net margin for the year was 21.3% which is about the same as in Q1 of last year.

I will now ask Ramki to go over the headline numbers, financial and segmental performance. I will step in again later to talk about the demand trends that we are seeing. Over to you, Ramki.

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

In the first quarter of FY 20, our revenues grew 10.6% YoY on a constant currency basis. Reported revenue in INR was ₹ 381.72 billion which is YoY growth of 11.4%. In USD terms, revenue was \$5.485 billion which is YoY growth of 8.6%.

The demand for our services continues to be driven by the large-scale deployment of digital technologies as part of our customers growth and transformation initiatives. Revenue from digital engagements made up 32.2% of our revenues in Q1, a growth of 42% YoY.

We have recast the way we report the revenue breakup by industry vertical to reflect recent changes to our organization structure, including reclassification of some customer accounts. To help you discern trends and make comparisons, we have provided the restated data for the last four quarters in our quarterly fact sheet.

Let me now go over some of the different segments and how they performed during the quarter. As a reminder, all the growth numbers are YoY and in constant currency terms.

Growth was led by Life Sciences and Healthcare which grew 18.1%. Most of our other verticals also reported industry leading growth rates. Banking, Financial Services and Insurance grew 9.2%, Retail and CPG grew 7.9%, Communications and Media grew 8.4% and Technology and Services grew 7.8%.

Geography wise, UK and Europe continue to outperform growing 16% and 15% YoY respectively. Other markets also continue to grow well. North America grew 7%. Asia Pacific 9.5% and India at 15.9%, Middle East and Africa as well as Latin America grew 6.4%.

Our portfolio of products and platforms performed well in Q1. Ignio™, our cognitive automation software continues to gain share in the market. Last month ignio celebrated its fourth birthday, doubling its revenue as well as the number of customers YoY. In Q1, ignio had 16 new wins, taking the total number of customers past the 100 mark.

In addition to gaining scale, ignio has also grown immensely in scope. At a time of its launch, ignio's original focus was transformation of IT operations using artificial intelligence. It made the IT infrastructure stack self-healing by preempting many of the problems before they arose, and autonomously resolving a lot of the incidents that did occur. It has since expanded in scope to cover batch jobs management and ERP application support in the IT domain.

Now, largely driven by customer demand for deploying its cognitive capabilities in new business-centric use cases, ignio has expanded into intelligently transforming business operations. For a large retailer in North America, ignio carries out reconciliation of supplier invoices, streamlining the cash flows and freeing up their working capital.

TCS BaNCS™, our flagship product suite in the financial services domain, continues to gain traction. We had seven new wins and five go-lives in Q1 covering core banking, insurance, anti-money laundering and securities trading. The BaNCS Core Banking Software-as-a-Service version is gaining popularity across the world, with smaller banks and credit unions looking to leapfrog into the digital era, gain agility, launch innovative products and deliver a superior customer experience.

Our Quartz™ Blockchain Solution was named the Best Blockchain Breakthrough of the Year at the Financial Technology Forum Innovation Awards for the pioneering work we did for two financial institutions in Africa. This pilot project lays the foundation for an innovative pan-African financial ecosystem for cross-border information exchange and transaction settlement. Quartz had two wins in Q1; one for a leading energy operator for trading of renewable energy certificates, and another, for setting up a crypto currency

bank. We also had one go-live for a blockchain-based cross-border remittance system using the Quartz gateway at a Saudi Bank.

In the retail space, Optumera™, our AI-powered merchandise optimization platform had two new wins in Q1 while OmniStore™ had one win. In Life Sciences, our Advanced Drug Development platform, which is a comprehensive suite for digital transformation of drug development, had three new wins, including one on a new platform that we launched to digitize and streamline the site selection and activation activities in the study design phase of clinical trials.

By focusing on transformational solutions that address our customers' growth and transformation imperatives, and by developing a full set of services catering to the needs of a broader set of stakeholders within the customer organization, we have been able to deepen our relationships, embedding our teams deep within their businesses.

As an outcome, you can see strong movement of customers up the revenue buckets in our client metrics. In Q1, we added four more clients in the \$100 million plus band, bringing the total to 44; three more clients in the \$50 million plus band, bringing the total to 100; 13 more clients in the \$20 million plus band, bringing the total to 219; 29 more clients in the \$10 million plus band, bringing the total to 384; 43 clients in the \$5 million plus band, bringing the total to 551, and 36 clients in the \$1 million plus band, taking the total to 1,014.

Let me now go over the financials. The annual salary increments we had affected across the board from April 1st and the cross-currency movements in Q1 resulted in a margin headwind of 2.3%. We were able to mitigate this to some extent through a concerted drive for rigor and operations. Our operating margin for the quarter was 24.2%.

Higher Other Income and a lower effective tax rate of 23.4% this quarter helped boost in net income margin to nearly the same as the year ago at 21.3%. Accounts receivable was at 70 DSO in dollar terms. Net cash flow from operations was ₹ 84.46 billion which is 103.9% of net income. Free cash flow was ₹ 75.54 billion and invested funds as of June 30th stood at ₹489.03 billion. The board has recommended an interim dividend of ₹ 5 per share.

On the people front, we continue to invest in workforce transformation. As of June 30th, we have trained over 315,000 employees on digital technologies and over 365,000 employees on agile methods.

To support our growth, we continue to tap into talent pools across the world and add to our ranks. During the quarter, we added 12,356 employees on a net basis, the highest that we have added in the last five years, bringing the total headcount to 436,641. Moreover, we issued joining letters to over 30,000 fresh graduates in Q1 and completed onboarding of 40% of them within the quarter. We expect to onboard the rest by Q2 itself. This is in contrast to the year-long onboarding process of the past.

Our accelerated localization initiatives and focus on diversity and inclusiveness continue to yield good results. The proportion of the women in the workforce rose further to 36.1%. Number of nationalities represented in our workforce is now 149. All of this is resulting in a very vibrant and engaging workplace that attracts and retains talent. We continue to enjoy the lowest attrition rate in the sector globally. LTM attrition in IT Services in Q1 was at 11.5%.

I hand it over now to Rajesh for demand drivers and trends.

Rajesh Gopinathan: Thank you, Ramki. The digital part of our business is now almost \$7 billion and growing at over 40% YoY. This momentum is on account of the mainstreaming of digital technologies and the central role that they are playing in our customer growth and transformation initiatives.

Given the vast amount of data available about each and every individual, every interaction can be heavily personalized today. I have spoken about it in the past. Mass personalization is a key pillar of our Business 4.0™ framework. Consequently, marketing is far more precise today and its impact can be more accurately measured. Marketers are investing in targeted, creative, performance-based, demand generation campaigns, using the latest digital engagement technologies.

The objective is to create and deliver relevant content through the right channel at the right time, to help consummate the sale. The biggest challenge for CMOs is to do this with speed and its scale in an industry competing for talent and skill. This is our where our scale, end-to-end capabilities covering creative design as well as technologies, and contextual knowledge, position us well to partner our customers in their end-to-end transformation journeys. Our award-

winning creative design teams at TCS Interactive are working closely with customers to design engaging user interfaces for front-end systems, while seamlessly integrating with our technology teams to make them end-to-end, and smoothly delivered and executed.

We helped an international container shipping company become an industry benchmark for customer experience by building them a new user interface that provides online quotes and instant booking, helping them realize their bold vision of making the experience of booking a container as easy as booking a seat on an airline. You will appreciate that with containers shipping, given the complexity of their supply chain, providing this kind of an experience in an industry of this nature is a second order, third order problem, compared to a more point-to-point solution that an airline uses. Moreover, a GDS (Global Distribution System) equivalent does not exist in the container shipping industry, so there is no common platform where this kind of transaction can be put together.

Being able to take an experience from one industry, and use that as a benchmark and deploy that in a totally different industry is an area where customers see us enablers, or catalysts for their innovation. They appreciate our ability to bring our cross-industry knowledge to bear, and provide a full, end-to-end solution for customer experience transformation, from design to technology execution.

Another example that we wanted to share is the work that we are doing for Deutsche Bank out of Spain, where we have partnered to reimagine their portfolio performance analysis report that they periodically share with their high value customers, so their customers can understand their investment portfolios better. We applied design thinking concepts and used Agile methods to collaboratively come up with a new design that enabled an easier and more intuitive understanding of the portfolio performance. The new reports have resulted in an approximately 20% increase in advisor satisfaction rating across private banking. Deutsche Bank Spain has received Celent's 2019 Model Wealth Manager Award for Client Experience for this new investment reporting experience designed and implemented by us.

This whole space of wealth management and customer experience is significantly transforming the way banks are focusing on their more value adding segments or more profitable segments. We have spoken in the past about the work that we have done for a leading wealth manager in the US,

where we have been able to put analytics on their core platform of which BaNCS is an integral part, and then exposed that to a robo-advisory kind of a front-end so that we can significantly increase the personalized attention that we are able to provide, even for lower value portfolios across their customer chain.

Customer experience goes far beyond just personalized marketing campaigns on an engaging well-designed user interface. It is the aggregate outcome of all the organizational processes, systems, the underlying infrastructure, all of them being made to act in tandem to make the interaction frictionless and pleasant, that leaves the customer feeling valued. This is the space that TCS has very strongly started to occupy, and in fact, in many industries, dominate.

The customer journey begins with digital marketing, progresses to the point-of-sale and continues long after the sale. In some industries such as financial services, the relationship with the customer lasts for years after the sale has been first consummated. In today's hyper-competitive world, these relationships cannot be taken for granted. We are helping enterprises look at the customer journey in its entirety, and redesign the processes and supporting systems for speed and simplicity, incorporating greater intelligence for both personalization and responsiveness.

Very often, the manner in which the enterprise interacts with the customer gets hamstrung by the complexity and inflexibility of the systems and processes, which is the same theme that we have spoken in the past, that we need to look at it end-to-end. As businesses grow, often by acquiring other businesses, their estates become more complex, with multiple systems performing the same function. Customer data becomes siloed. So, even a fairly simplistic front-end design becomes complex to deploy, and we need to think about it holistically, before we just turn around and design a whole new front-end.

We are partnering with many such organizations to carry out core transformation, holistically reimagining their operations by applying our Machine First™ approach across the entire stack, automating business processes and IT operations, and simplifying legacy application stacks, eliminating redundancies, and rearchitecting them with modern cloud native structures.

In our press release, we have shared a quote from the CEO of Nielsen, David Kenny where he spoke about how MFDM™ is a core part of the transformation

that they themselves are going through. There are multiple instances where we are proposing a Machine First philosophy and ignio as our transformation platform is being used to drive outcomes going far beyond automation and productivity improvements, to really increase the quality of the customer experience. So, it is a very integral set of tools and capabilities that we are able to bring to bear in the area of customer experience transformation.

Yesterday, we have shared with you some details of the work that we are doing for Scottish Widows. This is one of the platform deals that we have spoken about. For them, we consolidated their customer data from multiple systems onto our life and pension policy administration platform and drastically simplified their operating environment, eliminating 80% of the operating processes. Customer service representatives are now empowered to respond to queries by readily pulling data from their terminals, helping them achieve a 80% first contact resolution rate.

So, whether it is platforms, whether it is transformation, or it is design, the ability to participate across this entire chain is what we are seeing as the new competitive edge, and which we are trying to sharpen further. We wanted to talk about what we are seeing our customers focus on, and contextualize Machine First in terms of going beyond automation, and how it is a strategic lever for transforming customer experience.

Let me conclude by saying that we have had fairly strong deal closures this quarter, and our total value of contracts signed in Q1 of FY 20 is \$5.7 billion. This compares to \$4.9 billion in Q1 of FY 19. Of this, \$2.8 billion was from North America. BFSI contributed to \$2 billion and Retail was a shade over \$1 billion.

Our deal pipeline continues to be very healthy and well distributed across verticals and geographies, and that is what is giving us the confidence that we are participating in these transformation initiatives of our customers and staying relevant to customers as we continue to gain market share across most of the theatres that we operate in.

With that I want to open the line to 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 Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Two questions here; firstly, I am trying to reconcile the accelerated hiring to the slight moderation that you have in your revenue outlook that you now try to maintain double-digit versus expecting a slight acceleration earlier?

Rajesh Gopinathan: Diviya, it is a reflection of the medium-term demand outlook that we see. And again, as I said, the fact that we are participating in transformation journeys of our customers, staying relevant, gaining market share. So, we are very excited about bringing onboard the talent, which is in line with our philosophy that we want to continuously emphasize home-grown talent, and we want to make sure that we have the capacity up and trained and ready as we see the demand unfolding.

In fact, to put it in perspective, the entire 30,000 offers that we made, we will have to wait and see what the joining ratios come out to be, but we expect to bring them onboard in the first two quarters itself. We are going through a fairly reimagined process both on the hiring as well as on the initial training program, significantly leveraging our digital infrastructure to reimagine, as I said, both the on-boarding as well as the initial training. Overall, it is a much larger strategic shift that we are executing in the way we go about acquiring talent, and how we start to integrate that deeper inside our business units. I do not think we should read too much into the quarterly elements of it. It is the strategic nature of it that is of greater interest to us.

Diviya Nagarajan: My second question is a follow-up to the first part of the first question really. Typically, the first quarter tends to be sequentially the strongest quarter for you as we have seen in the last few years and year-over-year comps also start getting tougher as the year progresses because we had a nice ramp up as the year progressed in fiscal '19. So, what criteria are we really looking at to maintain this double-digit growth rate and assuming that some of the softness that you are seeing in the sectors that you have already called out continues, is there a risk that the double-digit number then does not really materialize this year?

Rajesh Gopinathan: We will have to really wait and see how Q2 pans out. If you were to ask me from a short- to medium-term perspective, we do not necessarily see anything new out there, but the weakness that we have spoken about in our last earnings call, that has actually materialized, and whether it gains momentum or whether we are able to ride it out, we will have to wait and see.

Q2 is going to be an important quarter to be able to answer that question. Today, we do not have anything incremental to add to what we have already shared.

Diviya Nagarajan: So, are you saying that Q2 could see a different seasonality this year than we have seen in the past, is that how we expect things to play out?

Rajesh Gopinathan: No, Diviya. If Q2 comes in strong as typically Q2 does, then we would be well set for the double-digit trajectory. Otherwise, we are pushing it forward into H2, which is never a comfortable space. So, we will have to wait and see how Q2 pans out.

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

Sandeep Shah: Just wanted to ask how the growth which came in this quarter compares with what you were expecting last time during Q4 result call at the start of the quarter. Was there any change versus the growth which actually panned out?

Rajesh Gopinathan: It is softer than what we expected at the start of the quarter, but the areas of strength per se are similar, we were expecting Europe and UK to continue to do well, and Life Sciences to do well.

The weakness in the BFSI sector has been more pronounced, though we had called it out at that time, it has been a bit pronounced. In Retail, we have seen a bit of slowdown, which we think we should be able to recover. It is more a single quarter issue and therefore we think that we will recover next quarter.

But it goes back to what I commented on the earlier question, that Q2 is an important quarter and we will have to wait to see how that pans out before we make any further comments.

Sandeep Shah: Rajesh, I think in the television interview, earlier we were mentioning US-centric capital markets, but we are now also saying Europe-based banking. Is it something new headwind or this was already expected earlier?

Rajesh Gopinathan: No, in US, it is the banks on the capital markets side. And in Europe, we said generally banks. There's no change in this. In fact, that is the same thing that we said in our last earnings call.

Sandeep Shah: Some of your global peers are now able to command a pricing power because of the scaled digital offerings. So, do you believe that time has come for all the large players like you and the other global peers, where pricing power will go more on a positive side because of the scaling up of digital and that could be a tailwind to the margin which is available going forward?

Rajesh Gopinathan: We do not want to comment about other players. We are focusing on maintaining industry-leading profitability and growth, and on both those metrics we have a fairly decent position. I think that is the final competitive metric that we want to look at. The rest of it, we do not want to comment on.

Sandeep Shah: Just last book-keeping, can you share some color in terms of the lease accounting impact at the EBIT level, as well as on the balance sheet and what could be the reason for the subcontracting cost going up and would that be a new normal going forward?

Rajesh Gopinathan: Ramki shared earlier in the press interview, that the lease accounting impact at the EBIT level, is slightly below ₹100 crore.

On the subcontracting cost, it has been on that trajectory for quite some time. It is a reflection of the increasingly tight supply situation in our core markets and as I had mentioned in the past, our decision to participate aggressively in capturing demand, and to sort out the delivery model as more and more clarity emerges around it.

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

Ankur Rudra: First question, Rajesh, you referred to tough comps for the first quarter on YoY basis. Perhaps some of it was the large platform deal which is now anniversarying. How do you feel about that, as you go further into the year particularly in the context of relatively very strong TCV continuing in this quarter, the customer conversations you had so far and in the context of your focus on defending double digit growth?

Rajesh Gopinathan: Demand outlook and overall competitiveness is very-very strong. I am confident today as we were even two, three quarters back, we were speaking about a revival. So, confidence from medium to long-term perspective is high.

In the short-term, as I said, I will reserve my comments till Q2. But back to the first question that was asked, we are gearing ourselves for the demand that

you see out there, and we are setting up our capacity and setting our strategy on that basis. There's no change to that.

Ankur Rudra: Maybe somewhat related, you highlighted lot of examples of how you are winning more larger digital scale projects. What has been the progress on another dimension you referred in the past where your interest is to expand your addressable market beyond just the IT spend, as a result of greater digital pervasion of technology? Maybe you can comment in terms of projects, verticals, geographies?

Rajesh Gopinathan: Absolutely. That has now become an integral part of our KPI across our entire sales team and we are systematically building out on that. I do not have off hand numbers to share with you, but probably we will break it out for you. Anecdotally, I will tell you that we are making very strong progress in this field. If you take areas like banking, we are moving more and more into both, the CFO space as well as the CRO (Chief Risk Officer) space. Compliance is also a big component of our CRO strategy.

In other industries, the CMO space, or the marketing side of it is nicely building up. In the marketing space, our approach is two-fold. On one side, we want to capture the front-end design business, leveraging the investment that we have made into people and the build out that we did at TCS Interactive. On the other side, we also see a huge opportunity to bring a more engineering-oriented thinking, to the entire marketing operations space where there is a significant amount of leverage that we believe that technology can play in cleaning up the space. So, think about it – to densify the creative at one end of the spectrum and platformize and technology-enable the middle and the downstream aspect of marketing operations. That we see as a huge benefit.

In Life Sciences and Pharma, we are systematically growing into the R&D space. So, we were in the pharma co-vigilance and the compliance and reporting part. Now we are going into the R&D and the discovery part of it. Our ADD platform is acting as a door opener and then pure services in that space is also opening up. We have invested in creating capabilities on wet labs and moving more and more into a space which is very-very heterogeneous and very inefficient. So, we see huge opportunities to clean up and transform those kinds of businesses.

So, pretty much across the board, we are seeing steady expansion away from the CIO stack and moving across different opportunities. We will start

organizing the data and start sharing maybe initially - individual data points like we did, and then later on in a more systemic way.

Ankur Rudra: Obviously, as the business rotates into digital significantly quickly, these initiatives, would there be any upward or downward bias on margins as a result of this?

Rajesh Gopinathan: Difficult to say. Our focus is to try and maintain the margins by ensuring that our product portfolio reflects the cutting edge solutions that our customers demand, and appropriately have a good mix of it. Both pricing and margin will be driven by that strategy, rather than for margin expansion. We are keeping a watch on the volatility that is coming out of currency, but as I said our business model assumes a certain amount of depreciation to offset the differential inflation, but that is something that we are keeping track of.

We are slowly converging our cost structure to better reflect inflation in the markets that we operate in. So, that also kind of negates some of the pressure over a medium-term, but those are initiatives that will take time to play out.

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

Apurva Prasad: My question is on the digital piece. That has been scaling pretty impressively substantially over the past few years. Do you think that scale can be a deterrent here and just the size of it reaching US\$7 billion, do you think this kind of growth rates may not be sustainable despite the fact that we are getting a lot more end-to-end transformation?

Rajesh Gopinathan: This is a question that we have addressed multiple times in the past. It is a question of how do we design solutions that actually leverage the scale as a strategy asset, rather than organize ourselves in a dysfunctional manner where scale becomes a liability. So, we are very-very focused on this dimension. And what you said about end-to-end, that is the classic way how the scale across the full scope of capabilities becomes significantly a differentiator for us, and a great value add for our customers.

More and more of our customers are looking towards us as an innovation catalyst and there, our scale becomes a huge strategic benefit because what they see in us is a full spectrum of capabilities that they are interested in today, as well as in areas that they might not be interested in, but where they want to

get early visibility on, so that they can think about it and maybe make small point experimentation on it.

We are in fact further doubling down on it by significantly integrating our COIN partner ecosystem, so that we act as a gateway for our customers, and once they are onboarded on to the TCS ecosystem, they have seamless access to both the innovation work happening inside TCS, in our CTO labs, and in our industry labs, and also the innovation that is happening in our partner ecosystem.

So, we feel that there is a network effect and an ecosystem effect where incremental scale and incremental participation becomes more valuable for all participants inside the network.

Apurva Prasad: On the margins where you talked about, how should we look at it more on a constant currency basis, I mean, there is obviously the currency headwinds, with the tech supply crunch onsite and subcontracting actually going up, how should that aspect be seen?

Rajesh Gopinathan: It is a good challenge from an analytical perspective, because when you think about constant currency, the currency should be held constant both on the revenue side as well as on the cost side. The cost bakes in the inflation impact and if you were to remove that inflation and look at it, that would be a good way. But I do not think anybody has that level of data, and neither are we hairsplitting to figure that out.

When we give salary hike, it is a reflection of inflation in different markets and that differential inflation is reflected in the currency movement, or expected currency movement in the various economic models that we look at. So, I think constant currency margin is an artificial construct and something that we should have abandoned long back. It is high time that we move away from it.

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

Ravi Menon: You mentioned that the hiring of freshers this year pulled in a little bit due to your ability to hire and train them at scale and because of the demand pattern [unclear]. Could you just elaborate a little bit on this?

Rajesh Gopinathan: Let me guess what you are asking, because your line was not very clear. Are you asking us the training strategy because of which we are accelerating our

hiring? Where we are coming from is that we believe that our ability to absorb a much larger trainee inflow is significantly enhanced because of our shift from a physical training facility to a digitized training facility, and being able to provide this training as part of a series of projects so that it can be integrated with people through their work cycle itself. We have significantly invested in reimagining our training infrastructure and we have completely digitized it. Now that we can absorb a larger capacity, we are actually stretching the system and seeing what we can do.

Once it is done, in combination with the TNQT (TCS National Qualifier Test) infrastructure that we have set up, we will be able to move even fresher hiring into an on-demand basis and we will be able to seamlessly integrate it. So, it is part of a larger transformation that we are going through, and we are really putting it to the test by accelerating the trainee onboarding.

Ravi Menon: Does this also give you greater capacities say in the medium-term, is that what you are building towards, this because of better visibility the medium-term that you are pulling in the trainee hiring?

Rajesh Gopinathan: Absolutely. As I have said earlier, our participation in the deal flow our medium-term outlook is very positive. Therefore, we believe that we will definitely be able to consume this talent a few quarters here or there. We think that we have the cushion in our profitability to be able to strategically invest in creating this capacity, as well as in the transformation that we are attempting.

Ravi Menon: On the deals that you won, anything that ramped a little slower or got pushed out, compared to what you are expecting at the beginning of the quarter?

Rajesh Gopinathan: No, Ravi, there is nothing in the existing deals, that has been pushed out or slowed down. Nothing specific that we can comment on.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: I had a couple of questions on the platform business of yours which appears to be doing very well. So, first, if you can give me some sense of the scale of the business currently and maybe how this would have grown in the last year? Second, any color if you can give in terms of how much of our order booking or the deal pipeline, would be constituted by such platform-led deals?

Rajesh Gopinathan: Let me answer the second part. We do not break up our order booking like that. So, the TCV that we have reported through this quarter is pretty much BAU (business as usual) services deals, rather than one-off deals like the platform-led deals we announced in the Dec quarter of fiscal 2018. What was your first question?

Pankaj Kapoor: My first question was in terms of the current scale of the business, since it is part of the regional market I guess, so if you can give some sense in terms of what could be the revenue contribution from the platform business currently is and how this would have probably scaled up in the last year or a couple of years?

Rajesh Gopinathan: We are not breaking that out.

Pankaj Kapoor: Obviously, it seems to be concentrated largely on the insurance vertical as of now. So, any thoughts or any investments that you are making in terms of expanding it to other verticals maybe retail or any other parts of banking?

N G Subramaniam: Pankaj, in addition to the insurance platform, our foray into the banking cloud, covering the retail and wealth management part is doing well, and we are on track, having launched it in the United States. The first customer has already been onboarded and has gone live with it, and we see a good pipeline to expand that US banking cloud. About 18 months ago, we launched the same platform - banking cloud in the UK, and we are looking at other opportunities in the banking space.

The third platform that we are actively promoting to set up as a utility is in the capital markets side. Securities back office is an area of focus for us and that includes asset servicing. It is an area where we have a huge potential customer base, all of whom are currently on an on-premise model. We are actively working with them to see how we can move them into a platform model as they come up for the next phase of innovation.

Rajesh Gopinathan: Also, it is important to note that platform does not automatically mean very large-scale projects only. Platform is a much broader strategy for us and the work that we are doing in Life Sciences, Telecom, each of these are platform offering which are steadily gaining traction, but there the ticket sizes of individual transactions are much smaller, and we are also seeing similar opportunities in securities and in other spaces. So, the platform strategy for

TCS is not concentrated only on large ticket transactions, but it is a much wider strategy.

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

Manik Taneja: I had a couple of questions around our performance in Europe. So, you have been quite positive on traction that you are seeing in that geography for quite some time. There have been a couple of acquisitions amongst the local European players, consolidation in that geography in the last month or so. Just wanted to get your sense as to how you are reading that?

The second question was around the possibility of pricing increases; about a quarter or two back there was an expectation in the industry that there is a possibility of getting price increments from the customers, how do you see that going forward?

Rajesh Gopinathan: We do not comment about competitor moves. So, we continue to see traction and I think our market position is strengthening and we continue to increase market share in almost all the countries that we are operating in.

We are slowly seeing like-to-like pricing increase in line with general inflation in some select pockets, and we are focused on trying to broaden that. But in our industry, productivity is a significant component of the value proposition. So, our focus is to defend the portfolio-level realizations rather than like-to-like realization levels. So, it is a complex scenario. Our ability to cycle into newer service lines which have a good price defense, and ensure good portfolio level realization remains strong. We are quite happy with the progress that we are making in that space.

Manik Taneja: Just to prod you a little bit further on the pricing increase, is this a geography related phenomenon wherein you are seeing some pockets of improvements or is it more broad-based improvement that you are seeing?

Rajesh Gopinathan: That is very client-specific and relationship-specific.

Moderator: The next question is from the line of Sudheer Guntupalli from Ambit Capital. Please go ahead.

Sudheer Guntupalli: Among the top US banks there seem to be an increasing talk about in-sourcing trends now, almost all of them now want to position themselves as technology

companies like let us say FAANGs, which do most of the technology work in-house. Even some of the retail companies like Home Depot, etc., have recently ramped up their technology headcount by almost as high as 40% or so in some cases. So, we understand that in-sourcing trends also move in cycles. What is your take on this risk playing out at this point in time?

Rajesh Gopinathan: I have addressed this multiple times in the past. Our stance on in-sourcing does not change. We believe that there is a role for location strategy in our customers' build out of technology capabilities, and there is a space for a partnership strategy or a technology supply chain for customers. These are two independent elements.

Sometimes when certain shifts happen there might be short-term optimization, but this is a cycle that we have seen multiple times in the past. So, the optimal cycle is that these are two independent decisions and will work in parallel... I would not say independent, but parallel decisions and we do not think of it as a competitive threat.

Sudheer Guntupalli: Regional markets witnessed a very strong growth during the quarter. So, this part of the portfolio may be more volatile than the rest. When we are talking about double digit growth for the full year, what are our base case expectations on this piece?

Rajesh Gopinathan: The reason we broke out that line item separately was because of its nature of being much more volatile than the rest of our business. 85% of our business has a certain revenue characteristic, and 15% has a different characteristic. Beyond that we are not going to give color in terms of line-item wise forecast of growth.

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

Shashi Bhushan: Did the quarter play out much weaker than we expected both in terms of revenue growth and deal wins?

Rajesh Gopinathan: As I said in the beginning, revenue growth was definitely softer than we expected. On the deal wins, it has not been. Our actual deal wins have continued at pace.

Shashi Bhushan: Do you think we need to accelerate deal wins in order to achieve double-digit growth?

Rajesh Gopinathan: We will need to wait till the end of the year, so that we see a couple of years of that data before we can comment on what would be ideal. But it is unlikely that we would actually provide an answer to that question even in the future.

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

Dipesh Mehta: In two verticals - communications and manufacturing, we are seeing some revival in terms of growth trajectory. So, can you provide some more detail about what is driving it and your outlook?

My second question is about the macroeconomic factor, and whether you see any weakness or some kind of blurring in terms of visibility about near-term projects because of client indecisiveness or some kind of delay which you are seeing? Or you do not think any macro factor has so far impacted your visibility about near-term future?

Rajesh Gopinathan: On the Communications side, we see strong growth in the Media and Information services space, and also this is actually one industry where we are performing relatively better in Europe and UK than in North America. It is pretty much driven by strength in the media and information services space and our participation in the spend. In Manufacturing, it is the other way round. US manufacturing is basically strong for some time and it continues to be strong for us, whereas Europe and UK are relatively softer.

From a macro perspective, beyond what I shared earlier about banking, we do not have anything further to add to that.

Dipesh Mehta: Just on manufacturing, if you can provide some more detail about which area is seeing more traction and where you are seeing some weakness?

Rajesh Gopinathan: Manufacturing, especially in the US, is strong across both, auto and non-auto; process, resources, all of it is doing very well. So, really there is not much to call out between them. Whereas European auto obviously is much weaker. It is more a regional split rather than a sub-vertical split.

Moderator: Thank you. The next question is from the line of Sumeet Jain from Goldman Sachs. Please go ahead.

Sumeet Jain: Firstly, wanted to understand about your platforms business growth. I think you called out a pretty strong growth for each of your major platforms, but when I

look at your regional market and others performance this quarter, it has been a bit soft. So, wanted to understand like which geographies within that is leading to that softness?

Rajesh Gopinathan: The reason again as I said we define that as a separate line is so that we do not get into QoQ commentary on growth trajectory in that. That line is volatile and we will only talk about it from a longer-term trend lines rather than short term ups and downs and it is composite of both platforms as well as more regional markets, all of them have characteristics of volatility in them.

Sumeet Jain: Secondly, I think in your order book details you called out that out of US\$ 5.7 billion, around US\$2 billion is from BFSI. So, do you include the platform related orders getting to BFSI within this order book.

Rajesh Gopinathan: No, this order book is like-to-like with the revenue line that we report as BFSI. It is coming from that same segment.

Sumeet Jain: Which implies that your book-to-bill ratio is pretty strong in BFSI, am I correct in that?

Rajesh Gopinathan: Trend lines on that are yet to be developed with time, but yes, you can say that.

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

Rajesh Gopinathan: Thank you, operator. To sum up:

- We had a good start to FY20 growing at 10.6% in constant currency and all major industry vertical showing good growth.
- Digital is nearly a third of revenues now and continues to grow strongly at 42% YoY. The strong momentum is on account of that we focus on transforming the customer experience and our participation in these trends on account of our end-to-end capability here.
- On the margins despite the impact of salary increments and currency volatility, our net margin stayed stable at 21.3% and we had an EPS growth of 13%.
- Our net hiring in Q1 was the highest in the last five years and our employee retention continues to be the best in the industry.

- Demand for our services has been strong driven by increasing investments in transforming customer experience.
- We signed contracts totaling US\$5.7 billion in Q1 and the deal pipeline continues to be healthy.

Thank you all for joining us in this call today and have a great evening ahead.

Moderator: Thank you members of the management. On behalf of TCS that concludes this conference call. Thank you for joining us and you may now disconnect your line.

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