



Tata Consultancy Services Limited

**Q2 FY20 Earnings Conference Call.
October 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 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 Second Quarter of Fiscal Year 2020 ending September 30th, 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 NG 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 e-mailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar, and good evening once again to all of you. It has been a volatile quarter but we have had a steady growth in Q2, growing 8.4% YoY in constant currency terms and 5.8% in rupee terms and in dollar terms as the cross-currency variations kicked in. Our operating margin was 24%, reflecting our continued investment in our people and our net margin was at 20.6%.

Ramki will go over the headline numbers and the financial and segmental performance. I will later follow on and talk a bit more 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 second quarter of FY 20, our revenues grew 8.4% YoY on a constant currency basis. Reported revenue and INR was ₹389.77 billion which is YoY growth of 5.8%. In USD terms, revenue was \$5.517 billion which is YoY growth of 5.8% again.

Let me go over how the different segments have performed during the quarter: As a reminder, all the growth numbers are YoY and in constant currency terms. In BFSI, the Insurance sub-vertical continues to grow well; however, there was continued volatility particularly in Europe, mitigated to some extent by new business ramping up during the quarter. So, overall growth in BFSI was 8%.

In Retail, at a sectoral level, customers continue to invest strongly in new technology initiatives, but we were surprised by the continued weakness in pockets which brought down the overall growth to 4.8%.

Growth was led by Life Sciences and Healthcare which grew 16%, driven by the strong presence we have now established in the drug development value chain of large pharma companies.

We had good growth in Communications and Media which grew 11.8%, driven by increasing investments by customers in product innovation particularly 5G and IoT Solutions.

Other verticals continue to grow well: Manufacturing grew 7.8% while Technology and Services grew 5.6%. Revenue from Digital Engagements made up 33.2% of our revenues in Q2, a growth of 27.9%.

Geography wise, UK and Europe continue to outperform, growing 13.3% and 16% respectively. North America decelerated further, growing 5.3% while Asia

Pacific grew 6.5%. Emerging markets largely underperformed with India growing 7.7%, Middle East and Africa growing 7.3% and Latin America growing 7.3%.

Our portfolio of products and platforms performed well in Q2.

ignio™, our award-winning cognitive automation software had 10 new wins and 8 go-lives. It is increasingly viewed by customers as a critical component of their core transformation program, to build greater resilience and self-healing capability in their technology stack and reduce business risk from outages. ignio's channel partner program is progressing well with four new partners onboarded this quarter.

TCS BaNCS™, our flagship product suite in the financial services domain has become the preferred digital core for financial institutions, looking to harness the power of digital technology to accelerate their product innovation and enhance the customer experience. We had 6 new wins and 6 go-lives in Q2, covering core banking payments, insurance, securities trading and corporate actions processing.

Our Quartz™ Blockchain Solution continues to gain traction. One of the more exciting engagements in Q2 was with a Swiss private bank to build out a platform for trading of cryptocurrencies alongside wallet management services.

In the Retail space, we had 1 win each for Optumera™, Omnistore™ and SupplAI™.

In Life Sciences, our ADD platform which is a comprehensive suite of cloud-based platforms for drug development had 2 new wins. Additionally, our Connected Clinical Trials platform won the 2019 European Innovation Award from Clinical Research News.

Lastly, TCS HOBS™, our SaaS platform for communication services providers had 3 new wins and 2 go-lives.

Coming to our client metrics, they continue to reflect the ever increasing levels of trust we are able to engender, and how we are getting ever more embedded into their businesses. Quarter-after-Quarter you see customers moving up the revenue buckets as we expand our engagement to cover newer stakeholders within their organization and participate in newer areas of their spend.

In Q2, we added 3 more clients in the \$100+ million band, bringing the total to 47, 3 more clients in the \$50+ million band, bringing the total to 101, 12 clients in the \$20+ million band, bringing the total to 225, 33 clients in the \$10+ million band, bringing the total up to 398, 41 clients in the \$5+ million band, bringing the total to 554 and 33 clients in the \$1+ million plus band, taking the total to 1,032.

Let me go over the financials. We have been focused on demand capture and on building up capacity to fulfill the strong order book that we have won over the last couple of quarters. Our operating margin of 24% in Q2, reflects this investment. Net income margin was 20.6%. Effective tax rate for the quarter was 23.5%. Our DSO was 66 days in dollar terms. Net cash flow from operations was ₹86.86 billion which is 108% of our net income. Free cash flow was ₹79.48 billion. Invested funds as at September 30th stood at ₹546.39 billion.

We remain committed to returning most of our free cash flow to shareholders. This quarter the board has recommended an interim dividend of ₹5 per share and a special dividend of ₹40 per share, amounting to over ₹22,000 crores being returned to shareholders so far in FY20.

On the people front, as I mentioned earlier, we have been building capacity and gearing up for growth. Our net addition in Q2 was 14,097 employees which is the highest ever number of employees that we have onboarded in a quarter. Our total headcount now stands at 450,738. It is a young, vibrant and diverse work force with representation of 146 nationalities and with women making up 36.3% of the base.

Our investments in organic talent development continue to help us build up unmatched scale and depth in new technologies. As of September 30th, we have trained over 322,000 employees in emerging technologies and over 391,000 employees in agile methodologies. We continue to enjoy the lowest attrition rate in the sector globally; LTM attrition in IT Services in Q2 was at 11.6%.

I will now turn it over to Rajesh for the demand drivers and trends.

Rajesh Gopinathan: Thank you, Ramki. I will take a few minutes to walk through and give some color on the nature of demand that we are seeing. Let me start by reiterating that despite the negative news flow and resultant volatility, the structural

aspects of demand for our services are very much in place and customers spending has not slowed down.

We held our Customer Summits in the United States and in Europe last month. While there is some amount of caution about the economy and geopolitical developments, it was immensely energizing to interact with our customers and discover that their transformation initiatives are pretty much on track.

This is reflected in our Q2 deal closures as well, particularly in areas like core transformation, it continues to be quite strong. Our order book in Q2 was \$6.4 billion, the largest that we have signed in the last six quarters. Very encouragingly, North America accounted for \$3.4 billion of that. The BFSI order book has also been very strong at \$2.2 billion, growing from last quarter, while Retail was at \$830 million.

Let me give some more color on that: I have spoken in the past about how our participation in our customer growth and transformation initiatives is embedding us deeply into our customers business. In my view, nothing is more core than product innovation, and that is the area where we are seeing significant traction across multiple industries.

Actually, in many industries this is not new. For example, we have been providing product engineering services at scale to leading software vendors and hi-tech equipment vendors for many years. Likewise, we have been providing engineering, R&D services as a separate service offering to leading OEM, including GM and other auto majors for last many years.

What is happening today is that this trend is very visible in many more industries and our services are being viewed through a strategic length. Many customers are plugging into the TCS innovation ecosystem as a means to strategically scale up their own innovation initiatives, significantly raise the probability of success and therefore gain competitive differentiation and strengthen future sustainability.

Let me give a couple of examples in that. In the auto sector, embedded software, AI and connectedness have blurred the divide between IT services and core engineering services. With our scale and depth in advanced engineering services and in emerging digital technologies, we have been big beneficiaries of the convergence and are partnering with leading OEMs across

the world in designing new models for specific markets and building intelligence into their next-generation vehicles.

Last month, we entered into a strategic partnership with General Motors to support their global vehicle program with engineering design services in areas like vehicle exterior styling, interior design, battery and motor drives, electrification controls, advanced simulations, validations for multiple vehicle platforms, etc.

We are also working with multiple telcos in their product innovation efforts as they launch new products around 5G, fiber and intelligent networks. We are helping out in areas like building elastic network provisioning systems, network design and radio densification.

On the business side, one of the big challenges for telcos is to justify 5G investments in the absence of compelling enterprise use cases for 5G usage, beyond just the increased speed. Many of the telcos are now partnering us to help create new business-centric solutions that leverage our domain knowledge and depth in digital technologies, to address use cases that can increase enterprise demand for their 5G offerings.

Interestingly, our cross-industry presence and domain depth is helping us carry over innovative solutions built for one industry into a completely different industry, for a totally different use case. For example, our HOBS cloud platform, which is used by many telcos as a core platform to streamline their business and technology operations, has very robust configuration management capabilities to address the demanding requirements of our telco customers. As it turned out, these were precisely the capabilities that one of the largest aircraft engine manufacturers in the world was looking for, to help them actively monitor and manage product configurations of their engines in the field using IoT. HOBS is also getting used in many non-telco businesses where subscription management is becoming a core business requirement and that is becoming like a horizontal capability across multiple industries.

In the Life Sciences domain, our Advanced Drug Development platform has deeply embedded us into the drug development value chain of large pharma companies. TCS has partnered with a large North American pharmaceutical company to introduce passive adherence tracking technology into clinical trial. The TCS Connected Clinical Trials platform will use smart inhalers to ensure that patients participating in the trial are taking the right dose at the right time,

thereby transforming the adherence tracking process and ensuring greater reliability in the test results.

TCS has also partnered with a global biopharmaceutical company to significantly transform the long and arduous pharmaceutical technology transfer process. Our Digital Transfer Solution will streamline recipe development and transfer and increase the visibility and collaboration across the tech transfer process. It is expected to improve manufacturing efficiency by 40% and reduce paperwork by 30%.

So, if we were to step back a bit, many of these things actually illustrate what we have been speaking of earlier. In our Business 4.0™ framework that we have spoken extensively about in the past, leveraging ecosystems is one of the core business levers that has characterized the business transformation of digital champions. In many ways, partnering with TCS is itself a form of leveraging an ecosystem. But more importantly, more and more industries are realizing that to be able to give a holistic value proposition to their customers, they need to cut across horizontal boundaries.

Let me give you an example. An airline getting a vacationer to her destination is the primary product that the airline offers. But once the person steps out of the airplane, the interaction ends, and the rest of the vacation experience is out of the airline's scope. The customer is not looking at purely travel for travel sake, but is going on a holiday and therefore, by anchoring or participating in an ecosystem that includes hotels and resorts, ground transport and local tour operators, an airline can curate a more complete experience and provide a vacation instead of just the air transport.

This is not new. Airlines have been trying to do this for a long period of time. What is new is that digital technologies are now making collaboration across multiple industry participants a lot more dynamic, and a reality that can be exploited. But it requires companies to switch from a product mindset to a more customer-purpose mindset, and from a firm-centric approach to a value-centric approach. TCS' presence at the intersection of industries, and our technology capabilities, position us very well to help enterprises work out their ecosystem strategy and to enable collaboration across multiple industries. The collective innovation initiatives getting curated by TCS as an anchor is a core part of how we are helping customers in their transformation journeys, and hence resulting in much more complex solution set ups.

For now, let me conclude by saying that we are participating very well in the here-and-now demand. Our order book and deal pipeline are very well distributed across verticals and geographies, which gives us confidence from a medium to long-term perspective.

With that, please open the line for questions.

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

Sandip Agarwal: Just few questions. One, on the digital side. This quarter, we saw that digital growth has come off from higher range to lower. Is it primarily driven by weakness in Retail? And secondly, weakness in Retail a broad-based industry phenomenon or are you seeing some pockets of weakness, how it is?

Rajesh Gopinathan: Digital definitely does get impacted by Retail. Retail has been a big adopter of Digital, but I would not ascribe more than that to it.

Retail weakness is broad-based. It is coming across most markets and we have seen some amount of slowdown in order decision-making, which is what caught us by surprise. Especially in some of the more innovation-led, product-led kind of deal structures, we have seen some amount of delay. We will have to wait and see how this plays out. Also, the holiday season that is coming up will be a crucial determinant of where retail confidence is. So, the next few months will be critical for the industry from at least a medium-term perspective.

Sandip Agarwal: In BFSI we are seeing decent growth of 8% although it may be slightly below the company average or the overall growth. But is it also little broad-based or do you think that it is also some client-specific pockets of weakness?

Rajesh Gopinathan: BFSI is broad-based. It is similar to what we have spoken earlier. It is just a strengthening of that trend. We had spoken that large banks in Europe and capital markets in US are primarily where the weakness is coming from, and that does not change. Across Europe, UK and Wall Street, there is a weakness trend. But there is significant strength especially in insurance and then in regional banks and there are smaller banks in North America. So, in those segments, our demand flow and participation continue to be strong. So, in BFSI, there is no change in trend or no new things that are emerging, it is just the strengthening of the trend that we saw earlier.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Just a follow-up on the earlier ones. Specifically, on BFS, do you think the headwinds from capital markets and European banks are getting stronger going forward, or are those largely going to dissipate, or is it already over? The second question was on Retail. Typically, what we have seen in the past is you have strength before the holiday season, and then there is weakness in Q3. Do see that trend changing? And the second bit there was within Retail, I think for the past two quarters, we have been negatively surprised ourselves. So, what to your mind is driving this trend of negative surprises?

Rajesh Gopinathan: Being able to predict BFSI is beyond our capability. We are calling it as we see it, but the fact is that we are participating very strongly. 8% growth on a portfolio of \$7 billion is no joke. So, we are seeing very strong positive momentum. We are just talking about incremental QoQ variations and we are very focused on participating in new opportunities. Our BFSI contracts closure this quarter at \$2.2 billion is an all-time high, so I do not see any slackness in that space. It is just that the trends are weaker than what it was one or two quarters back, from a very high base. So, that is the BFSI side.

As for incrementally where the industry is headed, you guys are actually in a much better position to comment about it than we are. We are, as I have always said, a downstream player. We get to see it later.

On the Retail side, what you said has been historically true, but in the last few years, Q3 has actually turned out to be a positive quarter. Last year, in fact, our turnaround really came in Q3. We had, if I remember correctly, about 11% YoY growth in Q3. So, there is hope. But then at the beginning of the quarter, we had hoped that Q2 would be the strong quarter. That has not turned out. Deals have gotten delayed. Whether they will close in Q3 or not, we will have to wait and see. But we are strongly positioned, and we will see how the demand turns out to be, for us as well as for the retail industry, when the holiday season plays out.

Nitin Padmanabhan: Just as a clarification of what you have already mentioned. So far, the deal wins have been sort of pretty solid, and weakness is driven by sort of delays in customers going ahead with ramp ups or is it just the existing book of business that we have had with earlier clients that is sort of coming off, is that how one should understand it? What I was suggesting was we have had a very good

deal closure overall, but it seems that the headwind is coming from the existing book. So, there are two inferences here; one is despite the deal closures, the ramp ups are taking time and customers are actually delaying the ramp ups or to the existing book of businesses sort of there is some cuts there. So, how should one sort of infer this on both accounts, Retail and BFSI?

Rajesh Gopinathan: When we started sharing the deal wins, we had always cautioned that the trend lines of it has to build up, for the correlations to be established. We have been typically in the range of between 1-1.2 times the quarterly period-to-period revenue. This needs to be seen in perspective but if we step back and look at it, there are no discernible trends in terms of a significant collapse of our existing book of business being replaced by new, or any such thing.

Obviously, there is a large client base especially in BFSI and while there is some weakness which we have spoken about, there is also good participation in newer wins. If we look at our client profile and the client metrics, you will see steady growth in the number of customers at across all revenue bands. So, the number of 100 million customers is up by three. So, it is not that the existing book of business is just collapsing, and we are only adding at the bottom of it. We are seeing customer migration right across every band which should address that aspect of it.

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

Sandeep Shah: Just to follow on the order book. Rajesh, if I look at last 12-months, the book-to-bill ratio has been 1.12 which at your size is really impressive. But just further to what been asked earlier, it is not actually translating into a revenue growth. So, is it fair to say that the ACV, which is the annual contract value, the improvement has not been as good versus the TCV improvement which we are seeing as a whole?

Rajesh Gopinathan: Sandeep, in the last six quarters that we have reported the TCV, we have delivered double-digit growth last year. It was double-digit growth last quarter also. So, we have been translating that order book into real business, and delivering on it. This quarter it has dipped below. I do not think it is right to characterize that the order book is not converting. The order book is what is resulting in that industry-leading growth that we saw.

We are now seeing bit of headwind which we had spoken about and which is strengthening. We will wait and see how that turns around. And the closure of this quarter is pretty much the deals that were in the pipeline and getting worked on through the past. So, we will see how it plays itself out.

Sandeep Shah: But any different trends on ACV where tenure has actually been much higher, or you believe there is no major trend to call out on that side?

Rajesh Gopinathan: Actually, as I was mentioning in the press conference earlier, contra to market commentary, our experience has been that both, deal sizes and tenures have actually been expanding. That is why our deal volumes have been increasing and we are signing more and more larger deals.

This is contrary to what the general commentary in the industry has been. We have also said that this is probably because of our ability to stitch across multiple service lines and our unique positioning in various industries. But we are seeing large deals and we are seeing the customers are ready to commit over longer periods of time, because these are multi-year transformation programs that they are committing themselves to.

Sandeep Shah: Just in terms of growth across markets, if we look at last few quarters, the incremental growth has been driven through UK and Europe. But looking at the macro headwind where Brexit deadline is approaching, looking at Germany, the GDP growth rate is challenging... Rajesh, does it gives you a slight concern that incremental growth which has been driven through Europe may not be the case going forward?

Rajesh Gopinathan: You are right, it definitely gives us concern. However, Brexit has been with us for three years and our participation in the UK market has been very good across these three years. We did more than 20% last year and in the first half of this year we have done almost 15% in Q1 and Q2 together.

Our approach to this has always been the same. While we are cognizant of the environment that we operate in, we are very focused on the individual opportunities. In fact, we think that stressed environments provide unique opportunities, and it requires a more holistic, full portfolio of capabilities to be able to address those, which we uniquely have.

European economy has been weak for quite some time, but our revenue growth has been very strong and consistently so, over the last five years or more. That is not to say that we are not concerned about what is going on. On

whatever is happening around us, we do not have control over, but we do have control over is where we are focusing on.

Even in European BFSI, actually we have had good participation. We announced the transformation deal that we did with OP Bank. That is a one of a kind, market-making deal. Very-very complex and very unique transformation that we are attempting there.

Similarly, we have concluded one in Central Europe which is again a significant transformation deal, which will change the delivery model of a very large bank, and they have committed to it. So, there are opportunities and we are very focused on closing those, which is showing through in the order book.

Sandeep Shah: Is it fair to say that most of the headwind in the Europe capital markets maybe now bottoming out, or do you still believe that in the next couple of quarters we may have more headwinds to come? And lastly on capital allocation. Now there is no difference in the tax treatment of buyback versus dividend. With dividend, actually the process completion is much faster than the buyback, so is it fair to say that dividend maybe the preferred route which TCS may want to opt for in terms of the capital allocation going forward?

Rajesh Gopinathan: European capital markets, as a segment, is not a very large exposure area for us. So, I do not think it is a very large segment currently in itself. We are not very exposed to European capital markets. Large European banks, yes, and that is where our commentary comes from. So, I do not have any insight on European capital markets participants.

To the question on dividend, economically, the tax load on a dividend payout is lower than on a buyback by a few percentage points. So, there is definitely an economic rationale of doing it. But as for the specific mechanism, it is a decision for the board to take, considering both the economics, as well as multi-stakeholder alignment.

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

Shashi Bhushan: Do you think there is a heightened competitive intensity as peers are giving away their margins to win deals, and this is also reflected in our financial performance both in terms of revenue growth and margin?

Rajesh Gopinathan: Actually, if you go back many years, this question was pertinent and has been asked every year, practically for the last ten years. So, nothing changes in that. A weaker competitor will always be ready to try and use price as a lever. Our ability to defend our margin will depend on our relative competitiveness, and our relative competitiveness continues to be very strong.

On the margin front, we have said that from a pure economics perspective, our salary structure and our business model assumes that there will be a certain depreciation on the currency to offset the inflation differential which is embedded into our salary hike decision. We have been very disciplined about giving salary hikes and promotions and rewarding our employees in a consistent, predictable way. The volatility that you see is really a reflection, a lot coming in from the currency market side of it, which is flowing through.

Shashi Bhushan: How is the variable payout during the quarter?

Rajesh Gopinathan: We have not tweaked the variable payout. The variable payout model is exactly the same. We will do a full variable payout.

Shashi Bhushan: Do we have margin lever if the revenue momentum would moderate or stay at the similar level, apart from currency depreciation?

Rajesh Gopinathan: The margin levers are similar. We have spoken in the past that we have focused on demand capture. While the growth rate was high, our focus was on demand capture. Over time, and based on where the growth is, optimization levers will come into play.

Employees pyramid is a big part of that optimization play and we have spoken about gearing ourselves up from a training perspective. First, we were focusing on our existing employees. Then we spoke to you about how we are transforming the incoming employee training experience, and our approach towards evaluation of incoming trainees and we spoke about acceleration of the trainee joining which we have executed. In the first two quarters, we have brought onboard all 30,000 trainees. The rationalization of the employee pyramid is a medium-to-long-term exercise, that is steadily progressing. We are in its early stages, and it will continue to run. We had also spoken about bringing the external consultants' costs under control. That is also an exercise that is steadily progressing. None of these are short-term exercises. These are structural exercises which we are executing on, and all of them will be margin accretive.

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

Diviya Nagarajan: Rajesh, I think as the year progresses, how should we think about the trajectory for growth? We have seen in the last six months, the 12% number come down to about 8.5%. If the status quo persists, we are also fighting last year high base effect, could you give us a sense on trajectory here for the rest of the year? #2, as a follow up to what you just said, could you explain what do you mean by the pyramid rationalization, and what kind of measures that would really be?

Rajesh Gopinathan: Diviya, pragmatically speaking, to get to the same growth as we were at last year, we would need a very high number in H2 and right now, H2 visibility is not very strong. So, that is where we are.

Having said that, from a competitive perspective, I do not think we are any less competitive than what we were. So, we will eventually participate in whatever opportunity exists and make sure that we capture it, and stay ahead of the curve. But where the growth number will finally land up with, it is difficult to say today. So, for the growth, you will have to make your own assumptions based on where it is.

Coming to the employee pyramid, if you look at our employee cost structure, there was a very steady growth in our onsite and contingent labor hiring component which we are steadily trying to attack by increasing our entry level hiring in various local geographies, so that we can offset temporary lateral hires with more strategic entry level hiring. That program is being executed and it is as I said, a medium-to-long-term program which will bear fruit.

Similarly, in India also, if you look at our trainee recruitment and onboarding over the last three, four years, you will see a very steady increase with significant ramp up last year and this year. As we increase our trainee onboarding and increase our digital training capacity to be able to satisfy demand requirements internally, we will be able to rationalize our pyramid further and fill out the employee pyramid base which we believe is ripe for correction.

Diviya Nagarajan: If I look at your margin performance this quarter, there seems to have been essentially what is the revenue-cost mismatch. Typically, what kind of a

timeframe are we looking at for those mismatches to kind of get realigned to a more equilibrium kind of status?

Rajesh Gopinathan: The program that we are executing is a multi-year program. So, those kinds of things will take two to four quarters for that kind of mismatch to be realigned. We have onboarded more and Ramki also mentioned in the interview that we are geared for growth, but the growth did not materialize. We have onboarded the trainees that we wanted. In the next two quarters, we can be a bit more strategic about who we want to hire or how much we want to hire laterally. So, some amount of levers exist, but the large trainee addition is more longer-term.

Diviya Nagarajan: I think people have asked this question in a different way, but I think we were hoping that exposure of digital going up, the model would be a little bit more resilient to this kind of a slowdown. But essentially what seems to be happening is that even that digital spend is coming under pressure because of the macro factors. So, therefore, does the assumption seem incorrect? Is that a fair statement to make?

Rajesh Gopinathan: I would not say that. See, volatility impacts everything and it impacts transformation programs first. The importance of digital is it gives us greater staying power and greater relevance to our customers over a longer period of time.

Volatility impacts everything. Weakness impacts legacy much more than digital. So, if the volatility translates into large scale weakness, our digital portfolio will give us lot more resilience than our more legacy portfolio.

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

Apurva Prasad: On the Retail, CPG and the regional market segment, while it seems to have turned incrementally negative, any pockets that are really causing that? Any near-term outlook in terms of trends that can probably sustain or change, be it deals getting pushed out or deals moving towards more higher duration or the slow ramp-up? What would you attribute that to, and maybe the near-term outlook in these two pockets which have incrementally turned negative?

Rajesh Gopinathan: In Retail, compared to our commentary in the beginning of the quarter, we were ourselves surprised by some of the product deals that we were expecting, and in which we were strongly positioned in, did not close during the quarter. Those deals have got pushed out. In both UK and US, retail has weakened further.

And that is why this coming holiday season is going to be an important data point to see how this industry reacts.

As for regional markets, that line contains two parts: the Regional Markets and the Others. The regional markets are volatile by nature, but there is a synchronized slowdown. So, India is down, Japan is down, Middle East is down and APAC is also weak. So, to some extent that is one of the reasons why we club them into that bucket. But it is volatile and all of them have turned negative. Will anything change in these markets soon? I do not know. The reason for weakness is that all of these markets are fairly well known. So, we will have to see how those underlying demand drivers in those markets change.

The other half of Regional Markets and Others is a much more positive story, which is our products and platforms story. The products led by both ignio™ as well as by our financial products which have had again a very good quarter. ignio had ten wins and it continues to grow very strongly. BaNCS products line has also had a very strong growth with good client addition.

And on the platforms side, the UK part of our platforms business is doing very well, growing strongly. Our transformation programs have had some very good go-lives. Last weekend, in one of the large programs that we had announced, we took live, a big transformation of what is called the Salas platform. This is something that people have struggled with for the last 10-12-years. Multiple attempts have been made and people have failed at it, whereas we were able to seamlessly migrate a million policies, cutting over last weekend. We have another big drop coming up. So, the UK business, which is our more mature part of our platform business, continues to grow very well.

In our US platform business, the revenue profile is flat, which is natural, because we only have one customer. That transformation program is also going well, and is on schedule. We have a big milestone coming up in January next year and we are well on target for that. So, the platform product side is doing very well.

So it is the regional markets side which is reflecting the volatility that you see in these markets.

Apurva Prasad:

And also on the digital portfolio piece, I am trying to reconcile the fact that there seems to be more broad-based weakness there which is what you mentioned

and if I reconcile this with the fact that we are participating with lot more clients...?

Rajesh Gopinathan: Digital is not a broad-based weakness. I meant to say that the Retail is showing broad-based weakness, but misspoke in response to the first question.

Apurva Prasad: On the deceleration of digital which was clocking a much higher number, should we look at this number as more of a new normal and more in sync with some of the large players at which they are operating?

Rajesh Gopinathan: I do not know... you need at least two points to derive a trend.

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

Vibhor Singhal: Sir, my question was on the manufacturing side. So, in manufacturing, we have heard a lot of commentary from a couple of players about weakness in probably the European markets, especially in the auto sector. So, are we seeing any trend on that because we seem to be doing really well in Europe over the past many quarters? Any kind of impact that we are seeing either in terms of current numbers or maybe in terms of enquiry from clients specifically from the manufacturing segment in Europe?

Rajesh Gopinathan: Europe manufacturing, we have been participating differentially very-very strongly there. So, if you look at the deal that we had announced with Rolls Royce or the work that we do for Peugeot, these are all very non-standard and market-making kind of deals that we have done, and those relationships are going very strong and doing well. But European manufacturing in general continues to be weak. Earlier also, we had said that Manufacturing in North America is strong and our participation is also very good. Our recent announcement with General Motors is a further reaffirmation of our strength in that space and the trust that our customers are placing on us.

Vibhor Singhal: So, do you basically feel that this overall broad slowdown in European auto markets could catch up with us also at some point of time in next few quarters and lead us to a slowdown in the European growth that we are reporting or do you believe we are well kind of placed and differentiated enough to be able to withstand that kind of a broad-based weakness?

Rajesh Gopinathan: We are not particularly overdependent on European manufacturing. It will have some impact, but it is not a big dependency.

Vibhor Singhal: Lastly, my question on the margins front. We have been maintaining that our aspirational range is of course 26-28% but I think we have kind of far from it for the last multiple quarters. So, do you actually see a possible roadmap for us to... I know you mentioned about those long-term pyramid rationalization that you are looking at, so is that target still kind of valid in terms of where we are or do you believe there is probably a reset required for that target that we are looking at?

Rajesh Gopinathan: The target is still valid, but we will need some help from the currency side. So, a combination of execution and some helpful currency definitely can get us back. Remember, just four quarters back, we were at 26.5%. So, it is not out of the realm and nothing has significantly changed. It is about staying focused.

Before we got to 26.5% also, there was skepticism, but we executed on it. The growth trajectory was right, the economics of the currency side of it was right; all came together and we were in the band. Right now, both of those are in the opposite direction. So, we believe structurally it is possible. When and how we will get there, that we will have to keep on tweaking, based on where we are.

Vibhor Singhal: Did we provide the margin breakup details for this quarter as to how the margin is fell in terms of the YoY impact?

Rajesh Gopinathan: There is not much of currency impact QoQ per se and for the full year you can see it in the difference, it is 8.4% CC growth versus 5.8% of dollar growth and INR growth. So, you can work it out yourself.

Vibhor Singhal: But on QoQ, I believe last quarter we would have the visa cost impact and everything, so in this quarter that was kind of undone by some exceptional in the SG&A or was it just because of lower growth than that we are expecting?

Rajesh Gopinathan: You see it in the employee cost.

V Ramakrishnan: Of course, as you mentioned, the lower growth is definitely one factor. The second is that we have added people both last quarter and this quarter, significant additions, the highest compared to prior periods. So, for those investments, conversion is yet to happen. So, that is reflected in the margin. Despite lot of optimization in many of the other line items, the reduced growth is clearly a factor for margin weakness.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

- Girish Pai:** Rajesh, I had a couple of questions on the margin front. In response to a question in the press conference, you mentioned that you would make some tactical adjustments to push up margin in the second half while you did mention about the structural changes in making. What exactly do you mean by tactical adjustments? Where do you have these levers?
- Rajesh Gopinathan:** I was saying that primarily on the hiring part of it. We have hired with a certain assumption and we will see whether we can tweak our hiring to bring our utilization closer back in line. Those are the kind of tactical changes that we were referring to.
- Girish Pai:** Another question on the margin front. I recall that last quarter you did not pay out the full variable part I think to some senior employees. Has that been paid out in this quarter or has that been pushed back into second half?
- Rajesh Gopinathan:** This quarter we have done full variable payout.
- Girish Pai:** Rajesh, you have been mentioning the word participation. Are we referring to win rate here, or are you referring to addressing the opportunity? What exactly do you mean by participation?
- Rajesh Gopinathan:** When we call it out, we mean the win rate. The first step is being there with the competitive set, and making sure that we have deal visibility, and deal participation. Second, from there comes the actual conversion and the win. I do not necessarily differentiate between the two. For me, both are critical.
- Girish Pai:** Can you quantify what is our participation rate currently versus, say, a year back or two years back, and what have you done internally to improve that?
- Rajesh Gopinathan:** We cannot quantify it, but qualitatively we have been sharing a lot of color on that. We have spoken at length about our digital capabilities, about the Business 4.0 framework, about our cross-CXO coverage and our ability to address the diverse stakeholder suite and also our unique capability to stitch together transformation deals which are incumbent upon the full service portfolio that we have, as well as the domain capability that we have. So, all of these aspects increase the coverage universe that we have, and the differentiated positioning that we have.
- Moderator:** Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Rajesh, you mentioned that the visibility on H2 is not as great to expect an uptick. But do you also see any possibility of extended furloughs in second half? And then I had another one on Europe. Your performance and commentary on Europe essentially has generally been positive through the last several quarters while when you have been speaking of financial services from a recent performance perspective, you have spoken of some pressure with your European clients based there. So, could you just elaborate as to what verticals or what segments are you seeing growth in Europe?

Rajesh Gopinathan: Europe, I do not think there is much of a vertical color beyond what we already spoken about Banking and Manufacturing and Retail. Beyond that, I do not think there is anything incremental to add.

And on Q3, I think we will see the typical trends of Q3. I do not see any respite from that. Whether it will be more than usual, we will have to wait and see. But the typical Q3 fluctuations should be there.

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

Ashwin Mehta: I had one question in terms of your segmental margins. If I look at your Retail, CPG or others segmental margins, they seem to have gone down by more than 300 bps YoY. So, is the sluggishness in retail also coming with pricing pressure or is it just a mix issue that some of the digital engagements getting pushed out means the portfolios kind of more skewed towards the legacy which is driving these margin declines?

Rajesh Gopinathan: Period-to-period volatility is always there, but nothing beyond that to talk about. Retail, structurally has been under pressure, and you are seeing that reflected across both the revenue, as well as the margin side.

Ashwin Mehta: Just one follow up. In the cost of revenue line, the other costs have been rationalized by almost 40 bps this quarter. So, just want to get a sense in terms of what are these costs and is it kind of sustainable going forward?

Rajesh Gopinathan: You need to look at that line item together on both, the COR and SG&A sides. Seen together, there is not that much of a variation. It is lower on the COR side but higher on the SG&A side. Some of that reflects once a year events like the Customer Summits that I spoke about, which are one-off in nature. That is why we call that line item as Others. It is better to club the two together and consider it as a single line item, rather than the looking at it as a COR or SG&A item.

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

Rajesh Gopinathan: Thank you, operator. To sum up, despite continued volatility in the financial services and retail verticals, we had a steady growth of 8.4% with continued strength in UK and Europe. Importantly, while customers in affected pockets maybe cutting spends, the structural aspects of demand for our services remain very strong and overall industry spending trends also remain robust.

Our TCV in Q2 was \$6.4 billion, the highest in the last six quarters. North America and BFSI accounted for \$3.4 billion and \$2.2 billion respectively. The strong order closure and deal pipeline is an indicator of our growing traction within our customer innovation spends. Our investments in research and innovation and our large portfolio of intellectual property is positioning us well to help customers scale up their innovation efforts.

We had the highest ever net hiring in Q2 and our employee retention continues to be the best in industry. We have been gearing up for growth and our operating margin reflects our continued investment in people and head count addition. Our Q2 margin reflects that and we will now want to focus on optimization with some help from currency and get back to a better level that we have been speaking about.

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

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.