Tata Consultancy Services Limited

Q1 FY21 Earnings Conference Call.
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Moderator: Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing '*'then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you. And over to you, sir.

Kedar Shirali: Thank you, Margaret. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the First Quarter of Fiscal Year 2021 ending June 30th, 2020. 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 call. 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. Subramanian -- Chief Operating Officer; Mr. V. Ramakrishnan -- Chief Financial Officer; Mr. Milind Lakkad – Chief HR Officer.

Rajesh and Ramki will give a brief overview of the company's performance followed by the Q&A session.

As you are aware, we do not provide specific revenue or earnings guidance. 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 turn the call over to Rajesh.

Rajesh Gopinathan: Thank you, Kedar. Once again, a very good day to all of you. I hope all of you and your families are safe and healthy. Thank you once again for joining us on this earnings call.

Q1 saw the full quarter impact of COVID on our business and it played out broadly along the lines that we had outlined in April. You can see the hit or the demand side impact on our Q1 numbers.

Revenue dipped by 6.3% year-on-year in constant currency terms and 7.8% in dollar terms. In rupee terms, we marginally grew at 0.4% on a year-on-year basis. Life Sciences and Healthcare continue to be the bright spot and we continue to grow in double-digits this quarter. However, all other business verticals suffered from revenue declines of varying degrees.

The biggest impact was obviously in our retail cluster which includes travel, transportation and hospitality. But with most manufacturing activities grinding to a halt, all big sporting and entertainment activities canceling and widespread financial distress, almost every vertical got impacted across every market.

Our operating margin for the quarter was at 23.6%, down 55 basis points on a year-on-year basis and net margin came in at 18.3%.

I will now ask Ramki to go over all the headline numbers and the financial and segment performance and I will come back later to talk a bit about the demand trends that we are seeing. Over to you, Ramki.

V Ramakrishnan: Thank you, Rajesh. Let me first go through the headline numbers. In the first quarter FY 21, our revenues de-grew 6.3% YoY on a constant currency basis. Reported revenue in INR was ₹383.22 billion, which is a YoY growth of 0.4%. In USD terms, revenue was $5.059 billion, which is YoY degrowth of 7.8%.

Let me now go over the segmental performance during the quarter. As a reminder, all the growth numbers are year-on-year and in constant currency terms. With the exception of Life Sciences and Healthcare which continued to grow at 13.8%, all our other business verticals showed revenue declines in Q1.

BFSI revenue declined by 4.9% largely due to the pandemic related softness in UK and Canada, and residual supply side issues from early April. Other than that, BFSI revenues held up relatively well in other markets.

The Retail cluster took the biggest hit, degrowing 12.9%, impacted by the virtual shuttering of many retail segments as well as the travel, transportation and hospitality sub-vertical. A few sub-segments like Grocery and Pharmacy Retail and CPG performed well during the quarter.

Communications and Media de-grew by 3.6%, pulled down by the media sub-vertical which was impacted, as Rajesh mentioned, by the cancellation of major sporting and entertainment events and the resultant impact on advertising revenues.

Manufacturing declined by 7.1% this quarter with most production grinding to a halt. Technology and Services de-grew by 4%.

Virtually all markets declined in Q1, with the exception of Europe which grew 2.7% and Latin America which was flattish at 0.2%. North America declined by 6.1% and UK by 8.5%.

Among the emerging markets, APAC de-grew by 3.2%, EMEA by 11.7% and India by a significant 27.6%.

Our portfolio of Products and Platforms had a very strong Q1, defying all the fears of delays in deal closures.

ignio™, our cognitive automation software acquired 8 new logos in Q1. During the period, 13 customers went live on the product. We continue to grow the channel partnerships adding 4 new value-added resellers and 2 technology partners.

To encourage and empower customers, to build their own custom extensions to ignio's out-of-the-box capabilities, we launched ignio Studio during the quarter. This is a low-code environment that allows our customers teams to harness ignio's context-aware cognitive capabilities in new use cases unique to their business and IT environment and derive even greater value from their investment.

In view of the strong demand for ignio skills in the market, we have ramped up the capacity of Digitate Academy, doubling the number of ignio-certified professionals trained in the last 12-months. In Q1, 682 individuals from customer as well as partner organizations were trained and certified at ignio.

TCS BaNCS™, our flagship product suite in the financial services domain had 7 new wins and 5 go-lives in Q1. We had 3 new wins in Insurance, 2 for the Wealth Management product, 1 for Market Infrastructure and 1 for Asset Servicing.

Interestingly, 4 of the 7 wins this quarter were for the SaaS version of the product and were with top tier banks in the US and Europe. This is indicative of the increasing levels of comfort that large banks are developing with the SaaS model even for their core systems, and bodes well for the future growth of the BaNCS cloud suite.

Based on current trends, we expect more than 50% of the TCV for the TCS BaNCS suite this year to come from the SaaS offerings.

The Quartz Smart Ledgers Solution had 2 new wins and 2 go lives in Q1. One of the top four US banks, as well as a leading Japanese financial institution, selected for scrubbing and refining incoming corporate event feeds and to modernize their asset servicing operations.

In the Algo Retailing space, we had 1 new win for OmniStore™ and 1 go live each for Optumera™ and OmniStore.

We launched two new products under the Optumera suite during this quarter:

- The first one is TCS Optumera Fashion Assortment, which uses artificial intelligence and machine learning to enable apparel retailers to predict the success of a new style, set initial prices right and harness innumerable factors including attributes, images, and trends to determine the right mix of products, thereby driving sales and profitability.

- The second is TCS Optumera Promotion Optimization which enables retailers to harness the power of cognitive technologies to identify growth opportunities and determine the most effective promotional strategies for their merchandise across channels.

Additionally, we launched the TCS OmniStore Scan and Go, a customer app platform that enables the scanning of products anywhere across aisles and self-checkouts with contactless digital payment, resulting in a seamless shopping experience.

Our HOBS SaaS platform for communication service providers had 4 new wins and 1 go live. Two of the new wins are existing customers who have realized significant business benefits from their prior implementation of HOBS and are now rolling it out to newer parts of their business.

Moving on to our client metrics, as you are aware, these are an important validation of TCS customer-centric strategy of continually expanding and deepening our engagements by constantly investing in newer capabilities and launching newer services and products relevant to our customers.

In Q1, we added 4 more clients in the $100 million plus band bringing the total to 48; 11 clients in the $20 million plus brand bringing the total to 130; 13 clients in the $5 million plus band bringing the total to 564 and 52 clients in the $1 million plus band taking the total to 1,066.

Moving on to margins, the sharp decline in revenue had a proportionately large negative impact on the operating margin. In our cost management measures, we took a very supportive approach to our employers and suppliers, and looked at only other efficiency levers. These measures and some currency tailwinds helped us deliver an operating margin of 23.6% and net income margin of 18.3%.

- The effective tax rate for the quarter was 25.8%.
- DSO was 68 in dollar terms.
- Net cash flow from the operations was ₹92.9 billion which is 132.6% of the net income.
- Free cash flow was ₹86.68 billion which was up 14.8% year-on-year.
- Invested funds as of June 30th stood at ₹511.12 billion.
- And the board has recommended an interim dividend of ₹5 per share.

On the people front, we ended the quarter with a total headcount of 443,676. Women make up 36.2% of the workforce, and 146 nationalities are represented in it. Our heavy focus on organic talent development initiatives has resulted in *any time, any place learning* becoming part of the popular culture. Learning intensity grew sharply in Q1, registering a 24% increase over the prior quarter, despite the absence of fresher onboarding during this period.

In terms of outcomes, over 353,000 employees were trained on multiple new technologies and over 4,500 open positions were fulfilled this quarter entirely with internal candidates. We continue to be the global industry benchmark for talent retention. LTM attrition in IT services in Q1 was at 11.1%.

With that I turn it over to Rajesh for the demand drivers and trends.

Rajesh Gopinathan: Thank you, Ramki. Before I talk about the demand trends, I want to give you a bit of an update on our operations side. The Secure Borderless Workspaces™(SBWS™) model which we adopted at the end of last quarter to help keep our customers mission critical systems and operations running even while under lockdown, has not only won us tremendous goodwill from customers but is also now a fairly significant part of our go-to-market discussions.

Since we last spoke, we have successfully institutionalized SBWS, strengthening and extending into cover a broad range of activities including the entire customer engagement, prospecting, sale and even the onboarding of new projects. During the course of this quarter, we have executed about 32 transitions entirely in a secure, contactless way.

Similarly, from a HR perspective, we have significantly intensified our employee engagement initiatives. We spoke about it at some length during our press conference earlier today and would be happy to talk more about it. But let me summarize by saying that HR has established one-on-one connects with over 400,000 TCSers, and is providing them with a range of resources for their physical and emotional well-being and that includes a full spectrum of regular connects, counseling services, self-help resources, etc. We have also invested within our various communities and ecosystems to ensure that we can provide quarantine centers and whatever other help possible to TCSers and their families.

As restrictions get eased in many parts of the world, many of our employees have been waiting eagerly to return to their workplaces. However, we have taken a conservative approach and are enabling it in a very calibrated way, in line with our overall Vision 25x25, taking all precautions to create a safe workplace and complying with individual local regulations and advisories. It is a fairly extended, detailed exercise that is pretty much dynamically evolving on a day-to-day basis and I want to once again call out the great work being done by our operations and HR folks in navigating through this unprecedented crisis. Currently, about a percentage of our workforce is working from our facilities and we expect that we will see a steady increase in this number during this quarter, while maintaining very conservative and prudent stance on it.

So that is the overall commentary from an operations perspective. As I think said in the press conference, Q4 was about an immediate, agile, adaptable reaction to the lockdown that happened. Q1 has been a lot more about employee engagement and ensuring that our large workforce is taken care of, and enabled to do the things that they have been executing on.

From a demand perspective, we saw many customers react to the changed circumstances and uncertain business outlook by reprioritizing their agendas through the quarter. But as expected, and very encouragingly so, technology has been at the core of their immediate response to the pandemic, as well as in their preparation for the recovery ahead.

We have benefited from three broad spending themes this quarter. The first one is our Secure Borderless Workplaces and Collaboration tools. With most countries implementing lockdowns and shelter-in-place restrictions in the first half of the quarter, we saw many customers investing in implementing secure remote workplaces and collaboration tools. We saw many instances where these tools had already been procured by customers, but in its deployment – both at its scale, and in its nature of deployment – that had not been leveraged to the extent that TCS had done in its own circumstances. So, our experience actually helped drive many of these conversations, and we helped roll out a significant amount of these kinds of digital infrastructure solutions across a wide customer base.

And the corollary to that, once again, similar to our own experience, is that as you roll out something like this, the surface area from a protection and security perspective increases manifold, and enterprises needed to recalibrate their security posture and to shift to risk-based tech management versus a compliance-driven strategy.

This saw a huge surge in demand which we believe will continue. We have been providing our cybersecurity services, and also collaborating with many partners from our COIN network to deploy new age perimeter-less security solutions, and multi-layer solutions cutting across both data-in-rest as well as data-in-motion and multi-factor authentication at the end, plus real-time dynamic monitoring of the entire estate to detect and deal with any threat that appears.

So overall we believe that these are themes that will continue in strength and we are at the start of a significant upsurge in demand for these services. SBWS has resonated very well with our customers because of the holistic nature of its construct. It goes beyond just IT and cyber security, and also addresses the other concerns of CXO stakeholders when switching to a remote model. Even our HR practices and our approach to employee engagement, our approach to productivity management, motivation, all these have been areas where customers have been very keen to engage with us, and have invited us to multiple forums to address their executives to help them think through how to deal with this new operating environment which is likely to stay with us for some period of time at least.

Looking forward into the immediate future, as workplaces and factories reopen, we now have several new solutions that enable employers to create a safe workplace particularly in complex industrial settings, using IoT and analytics to enable social distancing and carry out contact tracing and have better risk management. We have used solutions that we had originally developed from a smart city perspective and we have repurposed that really fast to enable that for these kinds of use cases. And again, TCS itself has been the biggest proving ground for many of these solutions, and therefore of great relevance to customers as they navigate through this.

Coming to the second theme, which is customer experience. With the sharp change in customer behavior triggered by the pandemic, many businesses were forced to switch to an online mode, or rather, an online-only mode, triggering a lot of investment in front-end transformation, customer experience enhancement and customer journey improvements.

In some cases, this has driven a significant demand for services from TCS Interactive, as well as from our Analytics and Insights practice, and in other cases the front-end changes have triggered more extensive core system modernization initiatives.

To help enterprises adapt to the post-pandemic consumer preferences, we launched Contactless Experiences™ as a multidisciplinary service offering suite that addresses the need to eliminate in-person interactions across a wide range of use cases, spanning multiple industries from curbside pickups for contactless shopping to remote valuation and clients inspection from a insurance perspective.

The third big theme is something that we have spoken about in many past to digital transformation side is the core transformation. The pandemic highlighted the need for operational resilience and agility within the enterprise, resulting in several transformational engagements with the objective of building a lean, adaptive core, encompassing operations, applications and underlying infrastructure and cyber security.

There are customers who had to rejig their supply chain pretty much dynamically, using analytics and automation to identify alternate suppliers and also to be able to plug that into their multiple supply chain solutions so that they could look for alternative routes, alternate modes of transportation and even more dynamically reoptimize their systems for the new environment.

One of our engagements was with one of the largest medical supplies distributor in the United States, where the entire optimization logic had to change to take care of very dynamically changing locations where the medicines were required, and which kept on evolving on a daily basis. So being able to do this with a combination of technology and operations support has been the hallmark of the full services suite that TCS has brought to bear in many such situations.

CIOs are looking to optimize costs also, and to accelerate the adoption of public and hybrid cloud model, driving growth in cloud revenues this quarter. Our pipeline from a digital infrastructure and cloud perspective has actually been the highest in the last many quarters. A lot of the large deals that we see is coming from an accelerated adoption of the core infrastructure and compute fabric transformation which is a key enabler for switching to this mode at a large scale basis.

Several of our large scale deals also entailed adopting a new lean IT operating model, based on our Machine First™ approach, incorporating the cognitive power of ignio to pre-empt issues and autonomously resolve a lot of those, essentially making the technology stack self-healing and thereby adding to the resilience.

Some transformation programs which were paused in end of March or April, May when the pandemic hit, were restarted during this quarter. Some others got deferred indefinitely and the spends reapportioned to address more immediate imperatives. But I am happy to say that none of this reprioritization resulted in any reduction in deal values or average deal tenure during the quarter. The order book is characterized by an increased set of large deals at the top end, and a very large population of small deals, which is in line with what we would have expected given the nature of changes that are going on.

Overall, from a Q1 order book perspective, contrary to the fears of economic uncertainty and travel restrictions, etc., deal closures have continued at pace and we have pretty much transitioned to a form of closing, as well as engaging and initiating contracts, in a contactless way.

The total contract value of deals signed in the quarter was $6.9 billion. In BFSI, the contract value was $2.1 billion, and the Retail order book was $0.9 billion. The TCV from deals signed in North America stood at $3.3 billion, again a healthy trend from a quarterly run rate perspective.

Looking ahead, the outlook on the overall global economy looks uncertain. But while the pandemic spread shows some sign of slowing down and is continuing to be highly unpredictable, we believe that companies globally, as well as governments and other institutions are reacting better to it, and now the wheels of the economy, as it were, are starting to slowly move.

We are seeing more and more traction with many of our customers who are bringing things back online, and testing out new business models to get back to business. It is also geographical. We have seen, from a geography perspective, the most positive movement in Europe. And we continue to be cautiously optimistic about US, on an industry-by-industry perspective.

Overall, from an aggregate impact perspective, we believe that we have probably bottomed out in Q1. As we had mentioned last quarter, we think the deepest cut would come in Q1. So from here, we should be on path of growth.

Our confidence comes from our strong and deep customer relationships which have grown stronger during the course of this crisis, and the absolute belief that technology is a key enabler to our customers recovery journeys, and for their growth and transformation thereafter.

Post pandemic, we believe enterprises will depend ever more on technology-led innovation to drive their differentiation. This is a very long-term structural opportunity for us that expands our addressable market. All the investments we have been making over the years in research and innovation, upskilling our employees, intellectual property, partnerships etc, positions us well to gain a big share of this opportunity and power our future growth.

With this we can open the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: Great to see a healthy order book, I guess all concluded virtually and your comments that the worst of the pandemic impact is behind you. I was just wondering about how the shape of these very strong signings have been -- was there a tailwind from strong booking you already saw in March, or did you see a strong reopening as you said economies are beginning to reopen? You did characterize how demand is shaping up, but how are you retooling your offerings to participate in these opportunities beyond just cost saving and cloud migration?

Rajesh Gopinathan: Thanks, Ankur. A bit of all happening. Many of the large deals that we have announced this quarter are actually closures from deals that were in the pipeline from earlier periods. Some of them have been reshaped by the COVID experience. One of them -- the utility company that we have called out -- that was a classic situation where our SBWS deployment attracted a lot of attention and we were able to quickly help them utilize shelf ware that they already had and deploy that at scale, across a very wide employee base. That changed the nature of the opportunity and expanded the overall scope of the opportunity, so that we signed a much larger engagement with them over a longer period which also includes consolidation of the overall landscape.

Some of the other deals, in fact most of the other large ones that you have spoken about, are all coming from earlier periods. But this quarter has been characterized by a dumbbell kind of a structure – we have had a few very large deal signings at the top, and we have had a very large number of smaller deals, at the other end of the spectrum.

However, when we look at it from a pipeline perspective, the pipeline has a good mix of all sizes of deals. There are some very large transformation programs that customers have fast tracked and there is a lot more willingness to talk about it, both in terms of size, as well as in terms of speed. Even offerings like our platform offerings have seen uptick in interest where customers are more and more looking at holistic, all-in solutions and partners who can actually provide that for them. So the pipeline is more balanced, while the actual deal closures were more, I would say, polarized.

From a service perspective, the immediate opportunity upsurge is in the actual digital infrastructure rollout because we believe that the acceptability of the public cloud infrastructure, even if it were to be deployed in a hybrid cloud solution set, has significantly gone up and interest in that has significantly gone up. While people were mostly on an experimentation mode, there is now a willingness to commit in a much larger way, and we see a huge uptick in that. In the near-term, that will be the backbone of the demand.

The other end of it is the entire customer experience transformation aspect, and rejigging of core systems to be able to handle that. So whether it is the retail part of it, or in areas like wealth management, or insurance, mortgage underwriting in all of these areas, front end systems are being significantly reimagined, not just from a look and feel perspective, but in terms of actual core functionality to completely change it. Then, contactless engagement is making its way into everything. Insurance claims, damage assessment, underwriting all of these are lending themselves to very significant analytics-based solutions which involves both image analytics, as well as actual physical data-based ones.

So we think it is a fairly full spectrum impact, led by the large infrastructure side and with a large volume of smaller digital transformation on the core functionality exposed to the front end.

Ankur Rudra: Rajesh, you said that overall, the quarter played out as you were expecting but I am sure there are a few positives and negatives that you saw as the quarter played out. Was there anything in particular, across industries or service lines, which either surprised you positively or negatively?

Rajesh Gopinathan: From a service line perspective, actually, probably we had not fully thought this through, but in retrospect, it makes a lot of sense what I just described in terms of the upsurge in the infrastructure side of it. But that's not much of a surprise to us. From an industry perspective, I think banking and financial services proved to be more resilient than what we had originally expected, given the experience in Q4. Especially now, with the supply side getting sorted out by April and May, the demand side of it has turned out to be much stronger than what we had originally anticipated. But this has to be seen in the context of where we were. So from that trajectory, there is an uptick whereas we were originally anticipating a softness given the big losses that had been reported and anticipated.

On the flip side, in areas like communications and media, we had not fully anticipated the kind of impact that we saw. That caught us a bit by surprise. Also, some parts of the Life Sciences and Healthcare value chain, like medical devices, like areas related to various forms of elective procedures, those resulted in some amount of weakness, which was surprising and unanticipated.

But within the overall context, and given the extent of change and the speed of change that we have been talking about, it is all well within the realms of what you would expect in retrospect. So we are gearing ourselves up for the expected demand and everything that I am saying needs to be seen in context of what we clarified last time also. It is typically our nature not to give specific guidance. I am just sharing what we are seeing because it is a fairly dynamic situation, and we want to be transparent with what we are seeing, so that you guys can make your decisions accordingly.

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

Sandip Agarwal: This pandemic has quickly changed the user behavior significantly and things have moved to online very, very quickly because they have been probably forced to do that. So my question is that we always plan our workforce and train them according to some estimates and this pandemic has been very sudden and I know we have a very robust planning and repurposing system. But I just wanted to know the demand which is now going to come over the next few quarters because of the behavioral change, do you foresee that we have to repurpose or retrain some of the people into this new demand areas or do you think we were well prepared for it?

Rajesh Gopinathan: Sandip, we were quite well prepared for it. In fact, one of the problems that we were having is that if you look at the numbers that we are talking about, in terms of number of associates trained on digital technologies, we have been well above 300,000 for quite some time, whereas our demand, as you know was well below 50%. Or rather, our total business from digital was below that during the times we were sharing the data. One of the key concerns of associates has been that we have got trained, now we need to be deployed. Long back, in a townhall, when the digital part of our revenue was in the 25% - 28% range, I had said that what it means is, one in four of is working on a digital project. But what it also means is that this is growing at 40% - 50%, so the projects of future will come from there. You need to train today, so that you are ready for the demand of the future. So this upsurge actually helps us meet associate expectations, and I believe that we have the talent inventory required to meet this demand. And more importantly we believe that relatively, we are probably the best positioned in the industry to take that kind of a demand upsurge in a seamless, holistic way across multiple services.

Overall, we are quite comfortable with our talent position. And the learning infrastructure that we have custom-built and deployed is also flexing beautifully into the SBWS space also. I think Milind shared earlier that our actual total hours of engagement across many of these programs have significantly increased, and we have more than 20% increase in learning hours. So we are well positioned.

Sandip Agarwal: So if I can have a quick follow-up on that, so I just wanted to check one more thing, we are so ahead and we have trained so many people in the highest demand area, so will it also imply that probably if you exclude the pandemic effect for the time-being, and there is huge upsurge in demand is coming because on high increase in online activity which pushes the digital and the cloud business significantly, then we will have a very high chance of gaining market share quite substantially from mid players or small players who would not have been so well prepared on this technology or at least from the training purpose?

Rajesh Gopinathan: Sandip, our perspective on this always has been different from the overall market. We believe that our industry has a fair amount of inertia, but the momentum is always unstoppable. So whether it is decline of traditional business, or it is a scaling up of new business, we always told you that our experience has been that there is a fair inertia that is required for real large enterprises to adopt things at scale. The rate of adoption will increase, but it will not be a dramatic spike up or a dramatic spike down, it is much more measured when you deal with technology at an enterprise scale. So directionally and relatively, of course, there is an uptick but I do not believe that it is an express elevator going up. That is not the way we are anticipating or preparing for it.

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

Mukul Garg: Rajesh, you are suggesting that at least for you the demand seems to have bottomed out and you will get back to growth from Q2 onwards. Given that a large part of your client base is still degrowing compared to the pre-COVID level, does this mean that you are seeing an upward reset in technology spend already at clients or should we read this primarily as a market share gain story?

Rajesh Gopinathan: It is a combination of both. Definitely, technology is front and square in every single client's response to COVID, across industries. So definitely there is significant elevation of technology in their spending league tables, as it were. And as I said, there is a flight to quality and customers are looking for partners of scale and quality that they can support them in this journey. So there is market share gain and there is inherent demand being created because of increased acceptance of technology.

Mukul Garg: So just to probe a bit in this, historically what we have seen is a low single digit spend on tech as part of the total spend from large corporates. Where do you see the percentage of overall spend by corporate on tech in future?

Rajesh Gopinathan: I do not know that. It is for the analysts to comment on, but definitely if experiences in industries like Retail are to go by, it saw a significant upsurge in its technology intensity and similar models I am sure, will get drawn up. But I do not have that answer.

Mukul Garg: Just a clarification on the revenues during this quarter. Was there any skew towards June in terms of business growth? Obviously, I am not including the supply impact in April. But on the demand side how was the overall trend between April to June?

Rajesh Gopinathan: There has been a definite upswing, but it is more regional and vertical-specific. So if you take something like Banking in Europe, it had been most impacted in April, because they were the most conservative in adopting the SBWS solutions set, whereas many of those issues have been addressed and we are seeing actual recovery of demand there. Whereas if you take something like UK or if you take airlines, there we are yet to bottom out. So it is a mixed bag depending on geography and industry, and a fairly complex environment.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.

Sudheer Guntupalli: We have been the early advocates of the work from home model. So from an employee standpoint, it obviously comes with more time and convenience at hand. In that backdrop, do you foresee a risk of the highly skilled talent in niche technologies actually embracing the model of freelancing, or simultaneously working on multiple projects at multiple companies which can be sourced through platforms like GitHub, etc., because this could be more remunerative to them from a financial standpoint. Conversely, will companies find it more difficult to retain highly skilled talent in that new paradigm we are looking forward to?

Rajesh Gopinathan: I think the core to it is the difference between the way we see it and the way you articulated it. We do not see it as work from home. We see it as Secure Borderless Workspaces. And the key factor there is, it is not just about connecting a laptop to the end of a network, but it is about deploying a holistic solutions set across the entire operating environment. And that holistic solutions set includes processes, quality management, employee engagement, learning systems, etc., none of which is available when you are on a freelancing basis. But the market has space for everybody. I don't think there will be a large scale shift and we are very confident that our employee value proposition is the best in the industry, and it has been significantly enhanced by the experiences over the last three months.

Sudheer Guntupalli: And one of the key concerns 90-days back was the potential stress on working capital cycle. But that seems to have been very well managed with collections remaining healthy. Is there any pending impact here which may be reflected in the financials of subsequent quarters as in collections related to the execution during this quarter? Or is it fair to assume that working capital cycle should more or less remain stable versus where they are now? And any color on what you are noticing on pricing trends over the last one quarter and even after that will also be helpful?

Rajesh Gopinathan: It is very difficult to comment on. In fact, we were positively surprised by the collection environment. I would say working capital management was from our side, but collections environment. Probably it was also supported by the nature of the government and institutional response to the crisis. So, primarily the nature of the response has been to support the balance sheets of impacted companies and industries, and that has also helped everybody in the value chain as it were.

As and when that balance sheet support goes away, core business dynamics will come to play. So probably the balance sheet impact has been deferred and we will need to see how this will play out. This is not just a question from our working capital perspective, but it has key implications on the nature of the economic recovery. Quite frankly, we are interested watchers but we do not have anything further to be able to come up with a forward looking answer to it.

On the pricing, as I said, it has both sides of it. Industries and companies that are significantly impacted, obviously are looking for all forms of support from their partners, and we are taking a very pragmatic approach to it. And balancing that is a fairly large scale flight to quality. Customers have very clearly understood what the benefits of quality are, and therefore there is a resurgence of demand for that value. So we are seeing both sides of it, and we are fully participating on both ends.

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

Apurva Prasad: So my question is more on the revenue softness that you saw. Was it more a function of the price and the overall scope and price compression, or more a function of deferral of projects and therefore is the recovery path also premised on the fact that these temporary price cuts and deal deferrals will revert? And alternatively, you did sort of touch upon this aspect, but if you can also give maybe some additional color on the fact that, is the near-term growth recovery premised more on incremental growth opportunities coming from vendor consolidation as you suggested flight to quality, versus the recovery in the enterprise tech budgets?

Rajesh Gopinathan: It is a little bit of everything. This quarter is not a one off kind of the thing. There definitely has been price compression in the most impacted sectors. And in those sectors the demand collapse is going to be fairly long drawn, whereas there is upsurge in demand across many other sectors which are, as I said investing, to retool their business models rapidly to participate in the recovery.

So both the impact and the recovery is going to have shades of everything in it, the current quarter also had all sorts of things. One thing that there was a bit of lingering softness in this quarter is the supply side problems that we had in the end of March and early April. That will not be there. That is a one-time kind of surge that we will see. But beyond that it has got everything. So no specific color to be given on it.

Apurva Prasad: And Rajesh, if we can just highlight that supply aspect which you just mentioned how much would that have impacted? And just the second part of that is more on the operational side on the Vision 25x25. So I mean there is going to be a major overhaul now with that kind of delivery landscape that changes. So do you see any structural margin levers coming from that effort especially because you are getting a lot more employee fungibility?

Rajesh Gopinathan: The absolute impact of the supply side was similar to last time, slightly more but in that same range. But in terms of its relative impact for the quarter, it was significantly less. It is about I would say a fifth or so of the impact this quarter would have come from supply side impact, but on a quarter-on-quarter basis it was almost the same with about 10% more than what it was last time. On SBWS, I will let NGS address that question. He is the man behind the Vision.

N.G. Subramaniam: Overall, the provenness of SBWS is now established and it is gaining from strength to strength. Employees are happy, and we continue to see that productivity, velocity, and all that is kind of stabilizing after what we saw initially and what we announced last quarter. So there is clearly an opportunity to leverage all of this. That is where the Vision 25x25 comes in. We do believe that customers also like this model and they also like this idea of location independent agile, the 3-4-5 framework and how it contributes to talent fungibility and integrating a global workforce, irrespective of where they are.

So all that are positive takeaways for us in the last three months. We have institutionalized SWBS and I think our employees are also liking the fact that 25% of their time they can spend in the office, and the remaining time they can connect remotely and then be meaningful. Overall we are quite optimistic, quite confident about this model. Our security operations center has been monitoring nearly about 400,000 end-point devices now. So all this augurs well for the future, I should say.

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

Diviya Nagarajan: And my question is kind of a little more simple, I think if you look at the kind of impact that you have had in the quarter, would it be able for you to separate out what was the impact of the supply disruption that happened this quarter that is likely to reverse in Q2?

Rajesh Gopinathan: On a constant currency basis, of the impact that we had, about 20% of what you can assume is from the supply side.

Diviya Nagarajan: And you also spoke about some of the other sectors. Specifically on banking, could you kind of run us through what you think are the reasons banking has held up really, really well and I think you did allude to how this is one of the sectors that has surprised you on the upside. Could you run us through what your assessment is and why banks have held up well? And within the banking space what are the kind of projects that you have seen accelerated or decelerated because of this downturn?

Rajesh Gopinathan: I think it is probably linked to the nature of the government response that happened. Banks reacted early on to the crisis by significantly taking a conservative stance on their provisioning, reporting significant reduction in their profit. But these were provisions, not cash losses. But the nature of the support that has come, has primarily been to destress the entire economy and provide that balance sheet support that I spoke about. So, some of that has changed the risk perception of the environment whether it be overseas or even for that matter parts of India.

Even more importantly, banks have actually participated in the distribution of this funding and that itself has been a demand driver for us in terms of reconfiguring the systems to actually enable this kind of a distribution because bulk of the support has gone through the banking channels itself. The nature of support is one of them.

The other element of it is the acceleration of various forms of remote banking, contactless banking. We have seen one of our largest customers in Europe where they had been experimenting with video banking on the wealth side, significantly committing to it and their CEO speaking about the fact that this is not something that probably they will go back on, even after the crisis is over. They see this now as an integral part of their overall customer engagement platform.

Similarly, we have seen various other forms of changes in the insurance space. I spoke about big transformations happening on the mortgage side. Mortgage underwriting, mortgage insurance, the original evaluation, all of that is switching to contactless and there is a lot of activity happening there. Claims underwriting, claims assessment, these are also seeing a fair amount of upsurge. So overall, there is a reduced immediate risk perception because of the amount of monetary support that has gone into the system. And there is actually a willingness to experiment to ensure that these systems are scaled up so that they can deal with a similar kind of a lockdown situation if it were to persist or reappear, which is a scenario that almost all of them are planning for.

Diviya Nagarajan: My last question is on margins. You have seen margins kind of get a meaningful impact this quarter because of top line impact. How is the visibility for margins coming back into at least last year's territory, if not your target zone, for the rest of year?

V Ramakrishnan: Diviya, I think the way to look at it is that the significant impact in the margins has been primarily because of the contraction in demand. While we have been able to claw back quite a bit of it, but if the contraction had not been there, this sort of an impact would not be there. So, on the reverse, with growth coming back over the next few quarters, we should see the expansion in the margin also in relatively a similar manner. Apart from that, whatever other things which we can do on discretionary spending, we will continue to do and calibrate as we go along, depending on how the recovery happens.

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

Rajesh Gopinathan: Thank you. So to sum up, the revenue impact of the pandemic played out broadly along the lines we had anticipated at the start of the quarter. We had revenue declines across all our business verticals with the exception of Life Sciences and Healthcare.

But at an aggregate level we believe that we have bottomed out in Q1 and we should now be on a path of growth from where we are currently.

We have been innovating through the quarter and staying close to our customers, coming up with new service offerings and solutions catering to their current imperatives. This has resulted in a good number of deal wins for us. Our order book during the quarter was very healthy at $6.9 billion, driven by three broad spending trends – on secured workspaces and remote working, front-end transformations and core transformation Initiatives.

We had a good set of financial metrics. Despite not taking any aggressive cost containment measures on the employee or partner front, we were able to deliver an industry-leading operating margin of 23.6% with a significant cash conversion at 132.6% of net income.

On the operations front, we have fully institutionalized our Secured Borderless Workspaces model and are now implementing it for many of our customers as well. On the people front, most importantly, TCSers have been investing their time in upskilling themselves. This quarter saw a surge in the learning effort and as a corollary to all of this, our retention continues to be an industry benchmark with IT Services attrition at 11.1%.

So with that, I want to once again thank all of you for joining us on this call today. I wish all of you a very good day and good night. Thank you and bye.

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 lines.

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