

Tata Consultancy Services Limited

Q2 FY21 Earnings Conference Call. October 7, 2020, 20:00 hrs IST (10:30 hrs US ET)

Moderator: Ladies and gentlemen, good day and welcome to the TCS Earnings

Conference Call. I said 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 concludes. Should you need assistance during the conference call, please signal and 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 Second Quarter of Fiscal Year 2021, that ended September 30, 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 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.

Rajesh Gopinathan: Good evening and good day to all of you.

Kedar Shirali: Mr. N.G. Subramanian -- Chief Operating Officer.

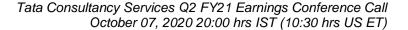
N.G. Subramanian: Hello, everyone.

Kedar Shirali: Mr. V. Ramakrishnan -- Chief Financial Officer.

V. Ramakrishnan: Hello. Hi, everyone.

Kedar Shirali: And Mr. Milind Lakkad – Chief HR Officer.

Milind Lakkad: Hi, everyone.





Kedar Shirali:

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. Anything said on this call which reflects our outlook for the future, or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the Quarterly Fact Sheet available on our website and emailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan:

Thank you, Kedar. And once again, good evening, and welcome to this call. Thank you for joining us. I am pleased to share with you our Q2 performance, which has seen a very sharp recovery in our revenue growth and margins, and another very strong order book.

Of course, after last quarter's steep fall, our revenues mostly continue to be below prior year levels in constant currency and US dollar terms, so we will use sequential or quarter-on-quarter growth figures in this call to give you a better idea of the immediate trends.

Our revenue grew 4.8% QoQ in constant currency terms, and 7.2% in reported dollar terms. In rupee terms, the revenue growth was 4.7% on a sequential quarter-on-quarter basis.

Excluding an exceptional item towards a legal claim, our operating margin for the quarter was 26.2%, a sequential expansion of 259 basis points (bps), and our net margin came in at 21%.

I will now have Ramki go over all the headline numbers and the financial and segmental performance, and later I shall step back in to talk about 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 21, our revenue grew 4.8% sequentially, as Rajesh mentioned, on a constant currency basis. Reported revenue in INR was ₹401.35 billion, a QoQ growth of 4.7%. And in U.S. terms revenue was \$5.424 billion, which is QoQ growth of 7.2%.



Coming to the segmental details for the quarter, as Rajesh mentioned, I will be sharing the quarter-on-quarter growth numbers in constant currency terms.

We saw strong growth in our two largest business verticals BFSI and Retail in Q2. BFSI grew 6.2% with a strong momentum led by the Retail Banking and Mortgage sub-verticals. The Capital Markets and Insurance segments also performed well.

The Retail cluster grew 8.8% despite continued weakness in discretionary retail, CPG and the Travel and Hospitality sub-verticals. In addition to increased digital investments, we also benefited from the ongoing flight to quality, resulting in market share gains.

The Life Sciences and Healthcare vertical continued to outperform, growing 6.9% sequentially and 17.2% on a YoY basis. Technology and Services grew 3.1%, Manufacturing 1.4%, while Communications and Media degrew by 2.4%.

All our markets showed good sequential growth with North America growing 3.6%, UK 3.8% and Continental Europe 6.1%. Among the emerging markets, India grew by 20%, EMEA by 8%, Latin America by 5.5% and Asia Pacific by 2.9%.

Our portfolio of award-winning Products and Platforms continued to report strong demand and business expansion in Q2. Ignio[™], our suite of cognitive automation software, acquired 10 new logos in Q2. In this period, 12 customers went live on the product.

We have been harnessing its context-awareness and versatility, in very innovative business use cases, driving tremendous transformational outcomes for our customers. For one large American department store company, we have built an 'always-on' store solution, powered by ignio, that provides an interactive dashboard with a detailed view of the health of the IT assets of each store, such as servers, databases, routers, POS terminals, printers, scanners, and so on. Using this, operations team can now complete their ready-for-business assurance checks for all the stores within minutes every morning. Store managers can start their day without the fear of disruption due to application or infrastructure issues and the resultant business losses.

We continue to expand Digitate's channel partnerships, adding four new partners in Q2. During the quarter, the Digitate Academy trained and certified



449 professionals from customer as well as partner organizations, an indicator of the strong demand for ignio skills in the market.

TCS BaNCS[™], our flagship suite product in the Financial Services domain, had five new wins and 10 go-lives in Q2. We had two new wins for our digital banking platform, two for our securities platform, and one for payments.

The Quartz Smart Ledger Solution had two new wins and one go-live in Q2. One of the wins is to implement a distributed ledger ecosystem for a leading private sector bank in India, to enable the seamless exchange of information with their counterparty banks, and significantly improve the efficiency in their interbank borrowing process.

Our HOBS SaaS platform for communication service providers had two new wins. In both cases, the customers are looking to power their business process transformation using TCS TwinX™, an enterprise digital twin solution powered by AI, simulation and intelligent predictive capabilities.

Lastly, as customers progress in their core transformation journeys and modernize their application state, we are seeing accelerated demand for TCS MasterCraft™, a suite of intelligent automation products for end-to-end enterprise application modernization. In Q2, there were 12 new wins for MasterCraft. Agile, our Cloud-Based Enterprise Agile DevOps platform, had three new wins, taking the total number of users past the 12,000 mark.

Let me now go over our client metrics. The steady upward movement of customer accounts, up the revenue buckets, is a surest validation of our customer-centric strategy and is driven by our constant investment in newer capabilities and launch of newer services and products that cater to an expanding set of stakeholders.

In Q2, we added two more clients in the \$100 million plus band, bringing the total to 49; three clients in the \$20 million plus band, bringing the total to 228; 11 clients in the \$5 million plus band, bringing the total to 565, and 44 clients in the \$1 million plus band, taking the total to 1,076.

Coming to margins, we have always maintained that growth is the best margin lever and that is very evident in our numbers this quarter. But before we get there, I want to inform you that we have provided ₹1,218 crores as an exceptional item this quarter, purely as a matter of prudential accounting



towards a legal claim that we are contesting in the US courts. All the numbers that I discuss this point on, are excluding the impact of this provision.

Our operating margin expanded 259 basis points to 26.2% despite a neutral currency. Our net income margin also expanded to 21%. The effective tax rate for the quarter was 24.8% and our DSO in dollar terms was at 65, an all-time low.

Net cash from operations was ₹116.18 billion, which is 125.9% of net income. Free cash flow was ₹99.86 billion, up 25.6% year-on-year. Invested funds as of September 30th stood at ₹585.94 billion.

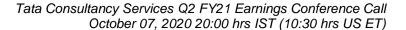
The Board has recommended an interim dividend of ₹12 per share. Additionally, it has also approved the buyback of 53.33 million equity shares of TCS, which is 1.42% of the total paid up equity capital, at ₹3,000 per equity share, for an aggregate amount not exceeding ₹160 billion. This excludes taxes and related expenses. The buyback will be executed on a proportionate basis under the Tender Offer route using the Stock Exchange mechanism, subject to shareholder approval through a postal ballot.

On the people front, we increased our recruitment globally to support our growth, ending the quarter with a total headcount of 453,540. It is a diverse workforce with women making of 36.4% of the base and with 147 nationalities represented.

We continue to invest heavily in our organic talent development initiatives, reimagining the learning process to also cover virtual leadership development programs. The learning intensity went up sharply in Q2, with TCSers logging 10.2 million learning hours during the quarter, a 29% increase over the prior quarter. Over 352,000 employees have been trained on multiple new technologies, and over 25% of open positions were fulfilled this quarter with internal candidates.

We continued deep engagement with over 35,000 campus hires for the purpose of getting them industry-ready through innovative learning practices using virtual hackathons, podcast series, professional Ninja certifications, ideathons and business skills training using online games and simulation.

During the quarter, our HR achieved 100% virtual onboarding of over 8,000 freshers across India, the US and Europe, after first making them project-ready





through our Xplore program. In Q3, we plan to onboard another 12,000 freshers.

As you all know, our continued investments in people, our empowering culture and progressive HR policies have made us a global industry benchmark for talent retention. In Q2, our LTM attrition in IT services, which includes all departures, voluntary and involuntary, was at 8.9%, an all-time low even by our own standards.

We will be also rolling out salary increases with effect from October 1st.

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

Rajesh Gopinathan:

Thank you, Ramki. I will start by giving you an update on our operations which has been a very core pillar to the performance that you have seen in the quarter. So on behalf of NGS, let me give you a good, short summary of it.

With the health and wellbeing of our employees being our top priority, and in line with our Vision 25x25[™], we have been encouraging all our employees to continue working remotely using our Secure Borderless Workspaces[™] model. Currently, about 3% of our workforce is working out of our facilities, and that too only for the most business critical activities.

We have invested in setting up medical helplines, ambulance services, and first line COVID isolation centers within TCS premises at 11 cities. We are also providing self-help and counselling services, which have already been availed by nearly 8,000 TCSers in Q2.

We have also ramped up our employee engagement and outreach. Our OneTCS channel has hosted inspirational leaders, mental health and wellbeing experts, virtual town halls, and global talent hunt competitions, all designed to ensure that we increase engagement, we increase interactivity and reduce stress and the feeling of isolation, to keep our employee morale at a high.

We are further strengthening our SBWS model for greater operational resilience, and to make it location-independent by default. We are embedding it with richer analytics and dashboards to provide a more visibility of ongoing projects to project managers as well as customers, and facilitate a data-driven delivery excellence model that we have always been known for.



This is also helping business leaders to more closely track the unit performance across a range of operating metrics and take decisions that are transparent and backed with data.

We have rolled out what we call the IUX Workplace Resilience solution at all our locations in India, and in some of our larger centers overseas. It is an Alpowered business command center, which empowers local site administrators to assess employee risk profiles on a daily and weekly basis, and use that to decide who can be safely allowed to return to work, if they were required to do so. The solution is also now available to all our customers as they design their own return to work strategies, and this is receiving a lot of interest and traction across a wide spectrum.

Coming now to demand drivers during the quarter, as detailed by Ramki, we had a broad-based growth across all markets and industry verticals.

The sharp rebound in our revenue growth in Q2 was driven by multiple factors, a big component of it being a flight-to-quality, which we spoke about earlier and which is continuing at pace. While there were a few formal vendor consolidation exercises, customers have been reassigning many small-sized engagements from existing incumbents to TCS across our customer spectrum.

Customers are also accelerating their technology investments to power their recovery and revival, as well as their transformation journeys. And we are their preferred partners in this exercise. Our customers' technology investments during the quarter continued to be along one or more of three distinct themes – customer experience, employee experience, and operational resilience.

This is driving strong growth for individual service offerings related to these themes like cloud services, cyber security services, analytics and cognitive business operations. More importantly, initiatives for enhancing customer experience or strengthening operational resilience are triggering large core transformation initiatives in some cases. Our differentiated positioning is helping us win more than a fair share of these deals.

Our deep domain expertise and contextual knowledge, as well as our ability to stitch together multiple service capabilities to create a bespoke solution, closely tailored to meet each customer's unique context and business imperative is one of our core strengths, which we have spoken about in the past also. Similarly, our Machine First™ approach and our intellectual property



are often very central to many of these transformations and help significantly accelerate the business value realization of our customers.

The total contract value of deals signed in Q2 was \$8.6 billion. In BFSI, the TCV of deals signed during this quarter stood at \$1.7 billion, while the Retail order book was at \$1 billion. The TCV from deals signed in North America stood at \$3.2 billion. Our pipeline continues to be very strong, and well-distributed across industry verticals and market, with a good mix of small, medium and large deals.

Stepping back a little from near-term trends and looking at the larger technology landscape, I would say that the pandemic has been a material catalyst in driving a better appreciation, and urgency and adoption of hyperscale cloud platforms by enterprises globally. While the hyperscale providers have been steadily building on their technology stacks over the last five years, enterprise adoption has been measured. The current unfortunate situation has precipitated a much more accelerated value realization and adoption of these solutions.

The pandemic has driven home the downsides of carrying a technology debt and the need for greater resilience, resulting in accelerated initiatives to put in place cloud-based foundations that will serve as a secure, resilient and scalable digital score.

We are probably at the start of a multi-year technology upgradation cycle. The full strategic value of these investments will be realized only when these platforms are viewed not just as compute and storage solutions, but as complete innovation ecosystems. Once a customer has a robust digital core, we help them harness the power of other technologies like Al and ML, and the rich native capabilities of these platforms, to create innovative new business models, to anchor purpose driven ecosystems, and to provide differentiated customer experiences. We believe this is an even larger opportunity, because enterprises will depend ever more on technology-led innovation to drive the differentiation in a post-pandemic world.

We have intensified our investments and created new cloud practices to gain market share in this rapidly expanding opportunity. Our cloud practices aligned to measure cloud hyperscalers are full-serviced, multidisciplinary units offering customers the full range of services, transformational as well as operational, on the respective technology stacks, spanning advisory services, migration,



modernization across applications, including SaaS and enterprise productivity suites; as well as infrastructure data, edge, security, etc.

Over the last few months, we have operationalized local Threat Management Centers across 10 cities globally. These provide our customers a full set of cyber resiliency services with built in service assurance, data segregation, and compliance to various local regulatory requirements.

While these investments are very important, and the deep technology expertise we are building in each of these hyperscale stacks is invaluable to our customers, it is our firm belief that what truly sets us apart in our industry is our domain and contextual knowledge, and our investments in research and innovation. Let me spend a couple of minutes on each of these.

From a domain knowledge perspective, our value to our customers comes not just from supplying technology skills, but in terms of our solutioning approach, where we use our deep domain knowledge and our technology expertise to come up with innovative technology solutions to their most pressing business problems. Our verticalized industry-based organization structure has helped foster and grow industry vertical expertise over the last decade.

We keep receiving external validation of our leadership in these areas. Recently, the head of our mortgage services practice received the Housingwire Vanguard Award for Thought Leadership in the home lending industry. There are multiple such instances of recognition across a wide set of forums on our work, both from a contextual perspective and from a domain perspective. And research firms also routinely place us at number one in rankings on industry-centric capabilities in BFSI, Life Sciences, Retail, Manufacturing, etc.

Industry knowledge itself is valuable, but when it is ported across and applied in a different industry, it creates a new driver for innovation and value creation in the new industry context. This kind of cross-industry leverage of knowledge and skills, which we are uniquely positioned to orchestrate, makes us even more attractive strategic partners to our customer universe.

There are multiple instances of it. For example, our knowledge of claims processing and operations in the BFSI sector lends itself very well to the demands of the healthcare sector, or dynamic pricing which has been our hallmark in the retail space for quite some time now, is being leveraged across



a wider range, like Auto OEM, and other transformation that we are seeing in multiple other industries.

Coming to the second big pillar of what differentiates us, we have spoken a lot about contextual knowledge. This is the tacit, often undocumented, knowledge about our customers' business, operations and technology landscape, that our teams pick up on the job from extended exposure to that environment. At TCS we value this knowledge immensely, because this is at the core of coming up with differentiated solutions that best address our customers' business problems, and integrate seamlessly with their IT landscape.

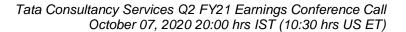
Knowing what works or doesn't work in a particular environment, given the nuances of the systems, databases, and mix of technologies in that environment, can go a long way to both accelerate speed to value, avoid costly mistakes, reduce risk for our customers, and save time and resources. Contextual knowledge, because of its nature, is also very highly differentiated and difficult to obtain. It is only by working on the systems over a prolonged period that individuals pick up these insights.

Combined with that fact is our focus on talent retention, which allows us to continuously develop and invest and build on this knowledge pool. In a way, we have been investing into this. We have spoken a lot about it. But this quarter, we also have a big milestone that I would like to share on this.

We have formally run programs to recognize and nurture this talent within TCS and in this quarter, that program has now crossed 10,000 contextual masters, and we are looking forward to increasing that number multi-fold as we go forward.

The third big differentiator is our tradition of investing ahead of the curve in Research and Innovation, and proactively coming up with innovative new solutions that can solve our customers' business problems.

In many instances, the innovation results in intellectual property, products, platforms or other accelerators that can help customers accelerate business value realization, and drive new, profitable revenue streams for us. Ramki has already covered the strong performance of a products and platform, so I won't go over that again. But it is increasingly becoming a core component of our solution footprint across our largest customers. In the context of the earlier two differentiators, I would say that our most productive Research and Innovation





initiatives have been at the intersection of industries and technology. And one such area, Cyber Insurance, is an example of that. This is a suite of solutions and services to help insurers adopt insight-based risk selection and pricing for their cyber products.

So many of these themes we have spoken about in the past. What we have seen is a renewed urgency and a renewed demand for many of these solutions. We have said in the past that the technology imperative, and the technology availability has always been there. The financial capability to invest has also been there, what was in shorter supply was a very strong business imperative to do so. The current circumstances have, unfortunately, addressed that business imperative by bringing home the importance of that resiliency, that is so core to continue the growth and transformation. So we are well positioned to participate in that. And this quarter is an example of that participation. And which is why we believe that it positions us well going forward.

With that, we can open the line for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session.

The first question is from the line of Shashi Bhushan from Axis Capital. Please

go ahead.

Shashi Bhushan: Congrats on a great comeback. What percentage of the growth in the quarter

was due to easing of supply side constraints and seasonality and what would

be otherwise?

Rajesh Gopinathan: Sashi, not very meaningful from a supply side perspective. So I don't have a

backup for it, but it is not very meaningful.

Shashi Bhushan: Okay. Do you think the pace of digital transformation could slow once

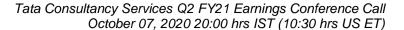
pandemic concerns eases or is it more structural and sticky in nature? And also, do you think ROI expectation of clients for these digital investments have

increased or is it at the same level where it was pre-COVID level?

Rajesh Gopinathan: Good question. If I look at it, we have been speaking about this multi-horizon

technology cycle. What we are currently seeing is a significant focus on resiliency, digital core and digital collaboration. And a lot of it is being achieved by significantly adopting cloud technologies and migrating enterprise workloads both on the productivity side, as well as on core enterprise functionality side on to these hyperscale platforms. That is phase one, we

believe, and it does deliver on the resiliency part.





But once this migration is done, that actually significantly opens up the opportunity to start incrementally exploiting native capabilities of these platforms. And that is the real business value driver that will come.

Given that the heavy lifting and the friction of this migration is getting addressed currently, driven by the urgency of the pandemic, we believe that post that, phase two would almost be an inevitability. The timing and velocity of it, we would not be able to comment on right now. But I believe that we are over a very, very important technological hump, if you will, in terms of going to the new technology architecture of the future. And that is where our optimism comes from. What was your second question?

Shashi Bhushan:

Second question was on ROI expectation.

Rajesh Gopinathan:

ROI, yes. In fact, that's an interesting question. So if you think about it, all these benefits that we have spoken about, adaptability, resilience, security, etc., these existed in these technology platforms even earlier. But the reason the adoption was not as fast, was because business cases were routinely underplaying the value of resilience, the value of security, the value of adaptability.

What the pandemic has done, unfortunately, but what it has actually emphasized is, it has very immediately put a business value to this resilience. So I don't think that the ROI expectation has changed, it is actually the numerator has suddenly got many more line items, whose reality has been emphasized beyond doubt. So that is what is driving the accelerated decision.

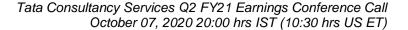
The technology always existed, the capabilities existed, it just didn't pass the business case, when compared against a depreciated asset. Now it's a completely new lens that people are looking at it from, and that will continue. And that hump is gone. The good thing is that the next phase is a low CAPEX phase with significantly higher ROI, because it is incremental spend rather than a single, heavy asset-shift kind of a model.

Shashi Bhushan:

And last one from my side, this H2 FY'21 outlook. Do you think seasonality would have similar impact as of yester years? Or is the tailwind strong enough to offset some of these headwinds like furloughs and shutdowns?

Rajesh Gopinathan:

I would not like to comment about beyond the current quarter and year. So we will have to wait and see how it concludes.





Moderator:

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

Sandeep Agarwal:

Congrats on a very, very great set of numbers. And congrats on very good execution and very good commentary. Rajesh, I have one very simple question, how you are seeing the correlation of data, cheaper and wider availability of data and higher speed with cloud adoption and digital prepandemic and post-pandemic, if there is a view you can share?

And secondly, how are you seeing the movement of digital? Because when we see the numbers, it look like our business is also becoming very, very, B2C kind of transformation is happening, versus B2B earlier. And I think that leads to a very bigger and sustainable acceptability or adoptability of the technology versus earlier. Are these inferences right or you would say that it is too early to call that?

Rajesh Gopinathan:

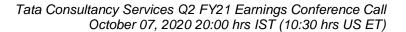
Sandeep, I'm not sure I understood your question fully, so let me attempt it. Our commentary and the demand that we are seeing is very, very focused on B2B. At the end part of it, our customers are focused on end-customer experience, they are focused on employee experience, but our clientele remains very strongly large global enterprises. And that is where our focus is and that is where the opportunity is. We are not seeing a shift into a B2C business model at our level.

The question in terms of adoption of digital technologies, data, etc., that is very real. The current focus has been more on the infrastructure resilience phase, the next element of it will be in building a multifaceted digital core. And the exploitation of these, in true business value terms, over and beyond the resilience factor, will come when the data is exploited and new business models are created based on the data set.

So we are actually going to be seeing much faster adoption of many of the themes that we have spoken off in the past; none of this is new. It is just that we are now, as I said, beyond a certain threshold from which the incremental adoption can be much faster.

Sandeep Agarwal:

Thanks. Actually the answer which you answered first also, actually my question was a little, I think, not clear, but the answer was right. So I was just trying to understand that because of wider adoptability of digital, the B2C piece which your customer actually goes and generates revenue and makes decision





making, that basically has more cascading effect now than earlier. So I got your answer. Thanks a lot.

Moderator:

Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli:

Congrats on a stronger than expected comeback. My first question is on Europe geography. Does this trend have to do more with the fact that most of economies in this continent have broadly recovered from the medical situation? Or it has to do more with the fact that things are more with the general trend that we are significantly ahead of competition in this particular geography? What I am trying to understand is that as other geographies also come out of the medical situation, can the current robustness in Europe, both on demand and supply, be a good lead indicator?

Rajesh Gopinathan:

I think it's a combination of all these factors. I mean, the sustained investment that we have done in the geography, and customer relationships and the footprint that we have built, as also, the earlier recovery trajectory, or rather the earlier normalcy trajectory that many of these countries enjoyed. So it's a combination of all of it. We have seen very good revenue momentum in this geography in the past, so it is kind of reverting back to that growth trajectory what we are experiencing.

Sudheer Guntupalli:

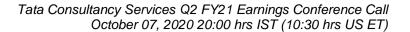
Sure, Rajesh. And deal wins this quarter, excluding Phoenix, which is \$6.1 billion, it looks a tad lower than the average of the previous two quarters. In the press briefing you gave some colour about the nature and size of the deals. Apart from the typical lumpiness, is there some other trend which is worth noting here?

Rajesh Gopinathan:

Not much. As I said, I spoke about it in the press, like you said. This quarter has been particularly characterized by a much larger volume of relatively smaller sized deals. But when we look into our pipeline, the distribution is not very different from what it has been in the past. So there could be various explanations for it, but we don't see any structural shift to the overall nature of the deals. It is just that this quarter has been more about smaller TCVs and much more broad based wider participation across a large customer set.

Sudheer Guntupalli:

Sure, Rajesh. One last question to Ramki. Sir, margins are now within your aspirational band of 26% to 28%. Excluding some seasonal factors like, let's say, wage hikes, which are impending, do you believe margins can be





sustained at this level or expanded going forward? What are the pluses and minuses you see from the current levels?

V. Ramakrishnan:

Definitely we believe it can be sustained. And primarily, growth momentum has to be also an important factor. And you rightly pointed out, so we will have some impact when we roll out the salary increases. But definitely we have been working on various efficiency levers across the business. And as I said earlier, the broad based revenue growth also brings in its own efficiencies. So I think we are confident, Sudheer.

Moderator:

Thank you. The next question is from the line of Divya Nagarajan from UBS Securities. Please go ahead.

Divya Nagarajan:

Congrats on a strong quarter and a good comeback after Q1. I think many of my questions have already been answered, but just wanted to get some colour on, from a contract flow perspective, what are the big change that we are seeing in what you have seen in post COVID contract close and the nature of contract close to what you were looking at earlier? Specifically, is it just that you are seeing an acceleration in the pace at which customers are moving, or has the nature of contracts also started to change? That's question one.

Secondly, I think on the press conference you talked about some exaggerated Q3 behaviors. Could you kind of elaborate on what you mean by that? Thanks.

Rajesh Gopinathan:

Could you repeat that, Divya, exaggerated?

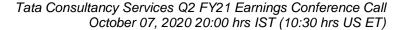
Divya Nagarajan:

You talked about some exaggerated seasonality going into the second half. So just wanted to understand what you were saying there.

Rajesh Gopinathan:

Yes. So the nature of deal wins, as I commented earlier, has been more biased towards medium and small deals this quarter. But we don't necessarily see this as a trend while we are watching it. Because as I said, the pipeline itself, composition is much more classical than what the Q2 numbers are. The decision making, nothing dramatic for us to be able to call out a movement in one way or the other. The digital transformation agenda is front and center with all CXO levels, so we are seeing much more traction across the wider spectrum of the CXO executive suite. But there is no further color that we can currently add to it. We will wait and see how it progresses.

From an exaggerated impact of Q3, we are seeing some amount of dialogue along those lines. I don't want to call out till it is a specific one, but we will have





to wait for another month or so to see whether that picks up steam. The current revenue momentum that we have will be a tailwind and the seasonality talk that you are hearing would be a headwind, and we will have to balance it out and see where it lands up. I am sorry, but we don't have much more visibility to share with you currently.

Divya Nagarajan:

Got it. Just as a follow-up. I think it's good to see the retail pick up this quarter. Could you kind of kind of break this down into how much of that recovery was because your customers have started spending more and how much of it is due to some of the unique offerings that you have within the retail space?

Rajesh Gopinathan:

No, it's a combination of both. I wouldn't be able to back it up that way. But one, I don't know whether you picked up, I shared that I think in the press conference that retail CPG as a sub-segment of our overall retail. So if you exclude travel and hospitality, revenue growth is positive on a year-on-year basis. And that has been driven a lot by changes that are happening with what you call the essential retailers. They have been at the forefront of leveraging all forms of technology transformation, both on the e-commerce side, as well as significantly on data, security. Also our product suite, which we call Optumera is being a big component of participation in this space, whether it is dynamic pricing, merchandising, allocation, inventory and supply chain optimization, across the full spectrum, our solutions have found very, very good resonance.

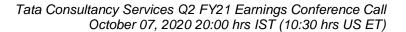
So it is essentially driven by new technology spends by a whole spate of retailers, especially what you would call essential retailers. Discretionary retail still continues to be weak. And the holiday season will have a big impact. We will see whether they recover strongly during the holiday season.

Divya Nagarajan:

Got it. And just a last follow-up on the earlier question on the pipeline, you said that the pipeline that you have is much more classical in terms of size distribution, but specifically in the last three months of the last four or five months post pandemic, have you seen new large deals continue to come into the pipeline the way you were seeing it before?

Rajesh Gopinathan:

Yes. If you are asking, have new deals come into the pipeline? Absolutely yes. Quite a few of them are there, and they are also progressing well. There is no delay that we are seeing. There is a lot of interest, and they are progressing well. We will have to wait and see how the conversion happens.





Moderator: Thank you. The next question is from the line of Pankaj Kapoor from CLSA.

Please go ahead.

Pankaj Kapoor: Congratulations on a good quarter. Rajesh, even in March, April, when you

spoke, and everybody was generally uncertain, you had talked of strong V-shaped kind of a recovery coming in, especially the second half. So given the way things have played out in the last few months, do think the pace of recovery has been much stronger than your early assessment? And was there any advancement of the growth from the second half now, to the second

quarter itself?

Rajesh Gopinathan: Absolutely, Pankaj. I wouldn't say dramatically faster than what we said, but

this was slightly faster than what we expected. Remember that we are still (-

3%) on a constant currency basis from a year-on-year perspective.

We had first set a target saying, let's get back to the INR high point by Q3, and flat by Q4 on a constant currency basis. It is still a touch and go on whether we can bring the Q4 forward to Q3. We will have to wait and see whether we can

achieve constant currency flat in Q3. I am not 100% on that, yet.

As for the positivity in the demand environment, earlier we had shared that on the expectation that this is not a structural breakdown of a given industry, unlike what happened during the GFC time. And we had also counted on the positive impact of the significant balance sheet help that governments had very rapidly committed to, both the volume and the speed at which it had happened. All of that has actually helped. Definitely, in many industries, that balance sheet help has been a pillar, or the cornerstone, of the recovery and the investment

sentiment that we have seen.

So short answer, it is better than what we had originally anticipated, but not very dramatically different than what we said. And we are on the trajectory with

a slight... I would say, we are slightly ahead.

Pankaj Kapoor: Understood. And your caution on the second half, is it largely centred on the

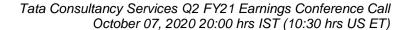
macro variables like whether there will be a second wave etc.? Or this is

something at a micro level also do you see any risk?

Rajesh Gopinathan: One is, of course, the health side. If that happens, it's, of course, totally an

unpredictable one. And more on the economic economy side, as this balance sheet support gets withdrawn, if it is withdrawn, we will have to see how it plays

out, because that's also unexplored territory. So there are significant





uncertainties still, that's why I also mentioned in multiple forums that the recovery is real, and directionally, it is definitely positive. But we need to be careful because we are not out of the woods, by any stretch of imagination.

Pankaj Kapoor:

Understood. And just lastly, obviously, there is a strong spend on digital, which is boosting your digital portfolio. But don't you think that because of this increase in investment in digital, is there some cutback happening on the legacy services portfolio of ours, either in terms of volume shrinkage or in terms of pricing?

Rajesh Gopinathan:

Pankaj, we stopped calling this out because we fundamentally believe that it's very difficult now to differentiate between "digital" and "legacy". If you look at a lot of what this current quarter has been about, it is about moving existing workloads on to the cloud. And that requires a very in-depth knowledge of the existing technology landscape, of the applications, the environments, the nuances of it, and also a good appreciation of the to-be cloud environment, and how to move these kinds of workloads.

In fact, for one of the European customers we are deploying mainframe solutions on private and hybrid cloud environment. So would you call it legacy? Would you call it digital?

These distinctions no longer makes sense. What is important is that technology is front and center on every CXO agenda, every board agenda. And we are very well positioned to benefit from that.

Moderator:

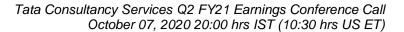
Thank you. Next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra:

Congratulations on a very strong, broad based performance. Rajesh, as you are seeing the signs of recovery and demand from your perspective, could elaborate the main things which give you confidence that this is a multi-year secular demand recovery, as opposed to a cyclical recovery from the things we saw a few quarters ago?

Rajesh Gopinathan:

Ankur, it's based on this call that the big hump was committing to the new architecture. And the new architecture is the cloud architecture. It is the hyper scalar architecture. That hump is being crossed. Once it is crossed onto that, the decision to actually consume the native capabilities there, and therefore the decision to incrementally keep on changing the architecture to be more aligned to the capabilities there, will be a much easier decision.





We believe that what this pandemic has done is to actually give enterprises a push over the technology hump. And that hump was you are comparing the potential unknown future benefits, against a highly depreciated technology asset, and asking yourself, does it make sense? That question went out of the window, and the jump has been made, and the jump is being currently made.

That should bode well for the future demand for many of the good things that we have been talking about for quite some time. That is what our thesis is built on. We fundamentally believe that is true. It is based on our interactions with our customers. But you need to make your own call on whether you believe in that thesis or not.

Ankur Rudra:

Understood. Thank you. And just one follow-up on the demand side. You mentioned that your order book is full of smaller deals, or at least medium sized deals as opposed to before. Are you seeing for these kinds of deals, sales cycles shortening, because access to decision makers is faster? And also, are you seeing any kind of acceleration on execution from deal to revenues? Because maybe perhaps, virtual onboarding is faster in the current environment, how do you see that change?

Rajesh Gopinathan:

Ankur, for the small and medium ones, absolutely. Faster deal cycles, faster execution, we are now routinely onboarding on 100% virtual mode across a wide spectrum of services, not just I mean, traditional as well as new, and very, very fast, dynamic standing up of teams. And while still small, the SBWS impact on fast turnaround in new deals is very, very visible and gaining momentum. So absolutely that's the case.

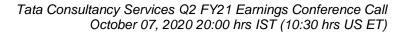
And for the larger deals, as I said, the pipeline is there, and we will have to see how the conversion happens.

Ankur Rudra:

And just last question on, you had six months now living with the pandemic, any further thoughts of your talent model, any incremental streamlining on how you are thinking about this on an overall basis?

Rajesh Gopinathan:

Nothing significantly different from what we have already been sharing. The biggest benefit that we are looking at, and the biggest change in the operating model, is talent fungibility. We should be able to maximize utilization of when we think about it is a much more fungible talent base. We were earlier more thinking regionally, rather than collectively. So that is where the big opportunity lies. We believe that now it is only a matter of time that we will actually be able





to think of that as one single talent cloud, because that acceptability threshold has been significantly reduced. And there will be no going back on it now.

Moderator:

Thank you. The next question is from the line of Rishit Parekh from Nomura. Please go ahead.

Rishit Parekh:

Most of my questions have been answered, but just one question, Rajesh, for you. The urgency to drive digital transformation, do you think that it will over a medium to longer term drive an increase in IT budgets across client segments? And while obviously it is initial time, but any instances that we have seen to support that thesis?

And second, where would the investment come from given clients financials across the board are largely stretched, right, and recovery is still some time away across the board? Thank you.

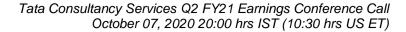
Rajesh Gopinathan:

Absolutely technology budgets will see increased money flowing to them, that is the core of our thesis, and we are seeing this industry after industry. If you take Retail, as I said, ecommerce and touchless fulfilment has become a cornerstone. If you take Manufacturing, in automobiles, the entire dominance of a dealer centric customer outreach or a channel system is being now challenged by much more digital front-end solutions. So something as traditional as automobile is significantly experimenting, I wouldn't say still shifting, but experimenting with something that was almost unheard of a year back or so.

In areas like health care, we are seeing a very structural shift from location-centric and a very centralized kind of an architecture to a much more decentralized service delivery architecture. We are seeing shift from more feebase to value-based models as the data centric nature of the healthcare industry keeps on unfolding.

So in industry after industry, we are seeing a very meaningful commitment to leveraging technology in very core business model changes. And that can only be good from a technology budget perspective.

Where will the funding come from? Actually, as I said, in the past also, client balance sheets were in very good shape. So if you leave aside a few stressed sectors like airlines, client balance sheets going into the crises were in very good shape. So the funding per se, or the accessibility to funds was never an issue. It was more the business rationale which was not always meeting up to





whatever were their decision-making thresholds. That has gotten addressed, I don't believe investable surplus was the issue that was holding it back.

Rishit Parekh:

Okay. And just one question on retail, right? While you have answered partly some of it, but if I look at just some of the data points that is coming out of the US, right, in general, I think we have seen a higher increase in bankruptcy rates there, right. So do you think the recovery that we have seen now is more sustainable, or you think it's more likely to drive sort of investments or make yourself ready for the upcoming holiday season? And that's what's driven the current uptick?

Rajesh Gopinathan:

It is more sustainable. The surviving ones are investing more to ensure that they don't go down the same path. Similarly, the US is very efficient in recycling assets and protecting potential future value. So bankruptcy itself is always a positive driver there, or mostly a positive driver there. And their path out of bankruptcy will also be technology-driven. So I think it's a very efficient market there and it is acting as you would expect it to.

Moderator:

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

Vibhor Singhal:

Congrats on a great set of numbers. So just one question from my side. So, I just wanted to pick your brain on basically, given the proximity to US elections and given the uncertainty that we have in terms of how long the actual results might be this time, given the postal bailout in US and everything, are we seeing some delay in deal closures from the client side or from delayed decision making? I mean, I don't know, we probably keep asking these questions every four years, but is this some kind of delay that we are seeing on the ground as of now? Or it is probably the same thing and nothing much that has changed?

Rajesh Gopinathan:

From a business decision-making perspective, I don't think we have seen any significant impact due to the election cycles.

Vibhor Singhal:

Okay. And if at all there is something, you believe that it could probably anyway comeback post elections, as it always does in the JFM quarter?

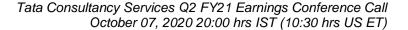
Rajesh Gopinathan:

I don't want to speculate on that. There are many more well-informed people

who write extensively about it.

Moderator:

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





Rajesh Gopinathan:

Thank you. Let me close by saying that in July, we had said that the peak impact of the pandemic was behind us, and I am happy that we have rebounded sharply from there with a 4.8% sequential growth.

Our operating margin has also expanded nicely by 259 basis points to 26.2%, with a net margin of 21%. The growth as well as our very strong order book of \$8.6 billion was driven by market share gains and increased spending by customers along three broad themes; customer experience, employee experience, and operational resilience.

On the people front, we onboarded about 8,000 freshers entirely virtually, and also ramped up our hiring to support our growth. Our investments in organic talent development saw a surge in the learning effort during this quarter. Our retention continues to be an industry benchmark and a significant competitive differentiator for us, with IT services attrition at 8.9% which is an all-time low.

Looking ahead, we will need to ride out the storm, the short-term volatility. But in the medium and longer term, we will benefit from the multi-year technology upgradation cycle that is playing out as enterprises embrace the hyperscale platforms and use their native capabilities to fuel their innovation and competitive differentiation.

Our expertise on these platforms as well as our industry knowledge and customer specific contextual knowledge, and our investments in research and innovation positions us very well to benefit fully from the secular tailwind.

Thank you all for joining us on this call today and wish you all a very good night. Stay safe.

Moderator:

Thank you members of the management. On behalf of TCS, that concludes the 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.