

Tata Consultancy Services Limited**Q3 FY23 Earnings Conference Call.****January 9, 2023, 19:00 hrs IST (08:30 hrs US ET)****Moderator:**

Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press '*' then '1' on your telephone keypad. To withdraw your question, please press '*' then '2'. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kedar Shirali – Global Head, Investor Relations at TCS. Thank you and over to you, sir.

Kedar Shirali:

Thank you, operator. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the Third Quarter of Fiscal Year 2023 that ended December 31, 2022. 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 Release are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today, Mr. Rajesh Gopinathan -- Chief Executive Officer and Managing Director; Mr. N G Subramaniam -- Chief Operating Officer & Executive Director; Mr. Samir Seksaria -- Chief Financial Officer; Mr. Milind Lakkad -- Chief HR Officer.

The management team will give a brief overview of the company's performance followed by Q&A.

As you're aware, we don't provide specific revenue or earnings guidance. And anything said on this call which reflects our outlook on the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the

second slide of the quarterly fact sheet available on our website and which has been e-mailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar. Good morning, good afternoon and good evening to all of you. We had very good growth for a seasonally weak quarter. Our US dollar revenue crossed the 7 billion mark in Q3 and revenues grew **19.1%** in rupee terms, **13.5%** in constant currency terms, and **8.4%** in dollar terms.

Our operating margin for the quarter was **24.5%**, an expansion of **0.5%** sequentially. Our net margin came in at **18.6%**.

I'm very happy to share that the board has announced a dividend of **₹75** per share, including a special dividend of **₹67** per share. Including the interim dividends paid out in the first half of the year, this translates into a shareholder payout of **₹33,297 crore** for year-till-date.

I will now invite Samir, Milind and NGS to go over different aspects of our performance during the quarter. I'll step in again later to provide some more color on the demand trends that we're seeing. Over to you, Samir.

Samir Seksaria: Thank you Rajesh. Let me first walk you through the headline numbers.

In the third quarter of FY'23 our revenues grew **13.5%** year-on-year on a constant currency basis. Reported revenue in INR was **₹582.29 billion**, an year-on-year growth of **19.1%**. In dollar terms, our revenue was **\$7.075 billion**, an year-on-year growth of **8.4%**.

Moving to the operating margin, we had 70 basis points benefit from the currency movement. Operational rigor including utilization, reduced use of subcontractors, resulted in a net benefit of 0.3% or 30 basis points, offset by 50 basis points headwind from higher third-party expenses and increasing cost of return to normalcy. Overall, our operating margin expanded 50 basis points sequentially to **24.5%**.

Net income margin was **18.6%** impacted by foreign exchange fluctuations.

The effective tax rate for the quarter was **25.7%**. Our accounts receivable was at **66 days'** sales outstanding or DSO in dollar terms, up four days sequentially.

Net cash from operations was **₹111.54 billion**, which is a cash conversion of **102.8%**. Free cash flows were at **₹102.15 billion**. Invested funds at the end of December stood at **₹669.24 billion**.

Lastly, as Rajesh mentioned, the board has announced an interim dividend of **₹75** per share, which includes a special dividend of **₹67** per share. Total shareholder payout, year till date, amounts to **110%** of free cash flow.

Over to you, Milind.

Milind Lakkad:

Thank you, Samir. You might recall that our approach to overcoming the supply side challenges faced by the industry was to bring in fresh talent at scale, and then train them on new technologies.

In the prior six quarters, we onboarded 135,000 fresh engineers. In Q3 alone, we brought on about another 7,000 fresh engineers amounting to a total of 42,000 freshers year-to-date. These are unprecedented numbers.

Our biggest strength has been nearly 125,000 TCS at middle and senior levels, who have been with the company for over 10 years on average. They have been central to our ability to culturally and operationally integrate all the fresh talent we brought onboard and ensuring that the project outcomes and customer experiences continue to be the best-in-class.

Last year, our net hiring was significantly ahead of our revenue growth. Our focus this year has been on utilizing all that excess capacity and making our newest employees productive. Between that and elevated attrition, we had a net reduction of headcount and our workforce strength as of December 31st stood at **613,974**. We continue to have a very diverse workforce with 153 nationalities represented and with women making up 35.7% of the base.

On the learning front, TCSers clocked 11.4 million learning hours in Q3, resulting in an acquisition of 1.3 million competencies. LTM attrition in IT services was at **21.3%**, slightly down quarter-on-quarter but still very elevated as it reflects the high levels of churn in the prior quarters. Our quarterly annualized attrition on the other hand fell by nearly 6% in Q3, and we expect it to steadily trend down over the coming quarters.

Over to you NGS for some color on segments and product trends.

N G Subramaniam: Thank you, Milind. Let me walk you through our segmental performance details for the quarter. All growth numbers are on a year-on-year constant currency basis. Growth was led by Retail and CPG which grew 18.7%, led by strong demand in the Travel and Hospitality segment while retailers had production freezes during the holiday season.

Life Sciences and Healthcare grew 14.4%. Technology and Services grew 13.6%. Communications and Media grew by 13.5%. Manufacturing grew by 12.5% while BFS, our largest vertical grew by 11.1%.

Let me now walk you through the growth figures by geography. Among major markets, North America as well as UK grew 15.4%, while Continental Europe grew by 9.7%.

Moving on to emerging markets, Latin America grew by 14.6%, India by 9.1%, Asia Pacific by 9.5%, and Middle East and Africa by 8.6%.

Moving on, our industry-leading portfolio of products and platforms continue to perform well.

ignio™, our cognitive automation software suite signed up 10 new customers and 7 clients went live during the quarter. The business health monitoring solution for ignio is gaining traction with customers and went live in over 2,000 stores for a major American auto retailer in Q3.

Enterprises are increasing their investment in AI ops, and automation technologies to improve employee productivity and resilience. ignio is uniquely positioned to ride on this particular opportunity with an end-to-end platform that offers self-healing and machine learning ability across the customer lifecycle to help them in their journey of being an autonomous enterprise.

TCS BaNCS™, our flagship product suite for the financial services domain had six new wins and seven go lives during the quarter. We continue to gain share in the market infrastructure institution segment with a new win in Q3.

The subsidiary of a leading European CFD selected TCS BaNCS market infrastructure, implementing a unique system offering settlement and correspondent banking services to their customers.

One of the largest asset managers in the USA with over US\$7 trillion in global assets, migrated its personnel advisory services and digital advice offerings to the cloud-based TCS BaNCS to its management platform, enhancing their advisor experiences, improving accuracy and low latency responses for performance configuration analytics for millions of customer portfolio of record numbers.

Our **Quartz** blockchain platform have two new wins and one go live in Q3. A Swiss multinational pharma major has increased their adoption of Quartz further, building on the successful initial pilots we executed using blockchain, smart contracts and digital payments. Quartz smart solution for contract performance monitoring and Quartz Gateway are going to be used to eliminate inefficiency in cross-functional manual processes entailing procurement, finance and treasury.

In Life Sciences, **TCS ADD™**, our Advanced Drug Development platform, enabled by artificial intelligence was implemented for two leading pharma companies for automation of adverse events intake and processing. With this, TCS ADD has successfully completed automated processing of half a million adverse event cases. Our offerings in this platform address patient centricity, smart clinical analytics, interoperability, and AI-enabled automation, that are emerging trends in the life sciences industry.

TCS Optumera™, our artificial intelligence powered retail merchandising suite went live for four clients. **TCS OmniStore™**, our AI-powered universal commerce suite had two go lives.

TCS HOBS™, our suite of products for communication services has one new win and four go lives in Q3.

TCS iON had seven wins in the quarter ending December. During this period, we served over 35 assessment customers and administered exams for 8.8 million candidates. We reached a new industry partnership milestone in Q3, engaging with 1,580 corporates that leverage the TCS National Qualifier Test as their entry level recruitment platform. Over 3,700 candidates have gotten placed till-date.

Lastly, **MasterCraft™** and **Jile™** had won 10 new clients in Q3 and 21 renewals.

Let me now go over our client metrics. These metrics are an important validation of our customer-centric business model.

In Q3, we added one more client year-on-year in the \$100 million plus band, bringing the total to 59; 12 more clients in the \$50 million plus band, bringing the total to 130; 35 more clients in the \$20 million plus band, bringing the total to 290; 30 more clients in the \$10 million plus band bringing the total to 456; 39 more clients in the \$5 million plus band, bringing the total to 658 and 42 more clients in the \$1 million plus band bringing the total to 1,217.

Let me now request Rajesh to speak on the demand drivers.

Rajesh Gopinathan: Thank you, NGS. As mentioned by NGS, the seasonality led to some moderation in growth in verticals like BFSI, Retail and Technology and Services and across all our key markets. While the seasonal aspect should reverse in the next quarter, the macroeconomic uncertainties are likely to result in a more balanced year in 2023 after two years of strong growth.

For now we see a client caution translating into greater focus on cost optimization. We're seeing an increase in the number of large operating model transformation engagement. In the first three quarters of FY'23, we won 20 such deals versus 16 in the prior year same period. Our innovative approach to redesigning the operations and embedding AI and intelligent automation into individual processes using TCS Cognix™ has been delivering superior outcomes for our clients and differentiated positioning for TCS.

We are also seeing an uptick in vendor consolidation. Our scale, full services capability and track record of delivering outsized savings through operating model transformation is helping us win such deals. We have won quite a few such deals across BFSI healthcare, manufacturing and telecom and we see many more in the pipeline.

Here is a good illustration: The BT Group, UK's leading provider of fixed and mobile telecommunication, announced a new partnership with TCS for its digital unit to boost its modernization plans. TCS will manage and ramp down over 70% of digital legacy technology estate, and boost capacity to accelerate the build of its new strategic technology architecture, supporting the group's growth.

Coming to cloud transformation, it continues to be a strong area of growth. As I had mentioned in the last quarter, clients are much more focused on execution of their cloud journeys and the increased intensity is translating into an expanded opportunity for us. Our strategic industry-specific solution fabrics built on market leading hyper scalar platforms accelerate enterprise digital transformation and drive exponential business value through industry innovation.

We won several new cloud transformation deals in Q3. Here are a few examples.

We were selected by Boston Scientific Corporation, a global medical devices company as a strategic partner for their purpose-led, enterprise-wide multi-cloud acceleration program. TCS' decade-long transformative partnership will help deliver cloud-native resilient and futuristic operations that will fuel Boston Scientific's global business growth and its mission of transforming lives through innovative medical solutions.

TCS expanded its partnership with the UK headquartered international savings and investment firm to help them transform into a cloud-only organization by 2025, through a series of technology and business transformation initiatives.

Leveraging its deep contextual knowledge of the client's IT and business landscape, TCS will help modernize and transform their application estate using cloud-native architecture, and seamlessly migrate them to a public cloud using TCS Cloud Counsel and TCS Migration Factory. This will also simplify the legacy infrastructure estate and facilitate their exit from on-premise data centers.

We have been engaged by the largest online travel company to build a unified, modernized enterprise data platform, which entails creating a data lake abstracting data from transitional systems and other data sources and building intelligent self-learning engines leveraging AI/ML models and rendering seamless experiences to customers and associates. The marketing meta-analytics we deploy will enable greater personalization and tailored recommendations on their portal.

Moving on to growth and transformation, we usually talk about G&T engagements focused on the front end, helping clients launch innovative new

products and services or new technology-enabled business models or channel improvements and personalization that enhance customer experience.

I'll come to those in a bit, but before that, I also wanted to share some examples of how technology-led innovation at the back-end can also result in revenue growth and improved customer satisfaction. Predictive analytics, machine learning and AI are fueling such innovation.

Let me illustrate with three examples. PostNord, a European communications and logistics solution provider has partnered with TCS to achieve their 'Win in Parcels' key strategic priority and to be the market leader. Their key objective is to transport more parcels per truck in each trip made between the terminals and their regional hubs.

TCS developed a touchless AI-based solution using machine vision and importantly, existing security CCTV cameras, to accurately measure the truck fill rate in real-time. It leverages a TCS proprietary algorithm to optimize the line haul planning and truck departures. This has helped improve the revenue yield per truck, reducing the number of trips and associated costs, and even the carbon footprint.

TCS partnered a US headquartered multinational biopharmaceutical company in co-creating and implementing an industry-first AI-based solution to transform the handling of patient complaints about drug-device combination products, such as pre-filled injections and auto injectors.

The solution triages complaints and automatically separates out product-related complaints from drug-related adverse events, resulting in faster processing of complaints, timely feedback to patients and to internal design and production teams for remediation. This has helped improve product quality, enhance patient experience and contributed to improved sales of such combination products.

Toyota Material Handling in North America engaged TCS to transform its field service teams' ability to diagnose and repair. TCS' solution enables guided troubleshooting, self-service and cognitive search of technical product support content using AI/ML and NLP, which helps reduce downtime associated with unplanned maintenance by 10% to 15%. The transformation has improved first time right fix, reduced dealer overheads and resulted in service stickiness,

leading to increased service part sales for dealers and to Toyota Material Handling.

M&A continues to be a recurring theme in our customers T&T agenda. They have been entrusting us with these integration or divestiture mandates on account of our contextual knowledge of the business and IT landscapes, our highly collaborative inside-out approach to transformation, and proprietary accelerators such as TCS Crystallus™, a set of pre-configured industry and business solutions available on leading enterprise application platforms. Here are three examples:

Philips Domestic Appliances, a carve-out from Royal Philips and a global leader in kitchen coffee, garment care and home care appliances, engaged TCS as a sole-sourced primary partner to support PDS' transition to an independent entity, and its business transformation to become a digital-first and consumer-centric organization.

TCS established a digital core for the new business, designed lean business processes and successfully rolled out the pilot in seven countries. We are now working towards a big bang go-live for the rest of the world. This is expected to be the foundation for a 10x growth in sales from expansion into new markets and channels, with 20 million highly engaged customers.

Similarly, we are helping a leading North American bank with the seamless merger of a US bank. TCS' deep contextual knowledge and platform expertise was critical for success in this large and complex M&A program, involving online banking channels, treasury and payment services, auto and equipment financing, among others.

TCS did an end-to-end mapping of the products and processes of the acquired bank and carried out a parity uplift to ensure consistent experience for incoming acquired bank customers. At the back end, we integrated new lending and leasing products into the acquirer bank's portfolio and migrated the acquired bank's products, customers and users to the acquirer's platforms.

With the successful integration, the acquirer bank expanded into a large complementary contiguous market in the US, doubling its branch footprint and onboarded over 1.5 million new customers and inherited a strong commercial business with a high-quality loan portfolio.

Finally, in Q3, we were chosen by European life and material sciences company to lead the global integration of one of the largest acquisitions. TCS is responsible for end-to-end integration of warehouses and factories. It will set up a transformation management office to enable faster realization of synergies, and serve as the foundation for future M&A.

Let me now provide a few examples of TCS partnering with clients to use digital technologies to help launch innovative new products or services that drive new revenue streams.

A leading US-headquartered media and technology multinational partnered with TCS for building a single digital ecosystem platform, spanning home entertainment and mobility. As the sole strategic partner, TCS was responsible for the full lifecycle of the new technology platform for this new line.

TCS designed and implemented the solution through an API grid for the entire ecosystem leveraging AI/ML for agile operations, proactive care, proactive service management, and preventive fault management. The new business model helped deliver truly personalized and unique customer experiences to end-customers. It recently crossed 5 million customer connection and witnessed high NPS score and customer satisfaction ratings.

TCS helped a leading US money transfer service provider transform its technology estate into modern cloud-powered platform, enabling it to launch new products faster, expand into new markets and strengthen its customer relationships.

Leveraging the new integrated next-generation multi-currency digital wallet and digital banking platform, our clients have forayed into digital banking in Europe, offering customers access to a variety of differentiated multicurrency payment services in a single app. The new platform has also helped the client successfully integrate with cross-industry ecosystem partners to offer millions of customers greater ease, reliability and access to money movement, and payment service capabilities. Overall, the transformation has resulted in increased customer loyalty, reduced customer journey barriers and created new revenue streams.

Similarly, in Q3, an APAC-based automotive electronics manufacturer chose TCS as their co-innovation partner in developing a next-gen instrument panel

cluster. TCS services will span product development, HMI or Human Machine Interface, functional safety, cyber security and other cockpit related products.

In prior calls, I have given examples of how TCS is participating in large industry transformation initiatives. In the Utilities sector, we have had several examples of TCS helping utilities or power producers navigate energy transition. Our domain expertise and track record in executing successful transformations is firmly establishing us as the preferred G&T partner in the sector. Here's one more example of the same.

Western Power, a leading Australian power generator and distributor, selected TCS for our credentials in this space to design, deliver and support a distribution system operator platform solution. Our solution enables the client to orchestrate Distributed Energy Resources or DERs, such as rooftop solar batteries and large appliances across homes and businesses into a virtual power plant, aggregating the excess electricity generated by their assets and then dispatching it into what will become new energy markets and services. TCS' solution also addresses critical issues like low voltage network visibility and optimization.

With over 650 participating customer energy assets till date, the platform has demonstrated the safety and reliability of aggregated DERs and helped the client model the complexity of bi-directional energy flows. This will open doors for Western Power to participate in the futuristic energy market and build new revenue streams while safely operating within the technical limits of the distribution grid.

Likewise, we're participating in the longer-term transformation trends in the transportation sector. Last year, I had spoken about the work we're doing for Transport of London to transform the administration of taxis and private hire vehicles in London to prepare it for an electric and autonomous future. In Q3, we won a deal that will transform the railways sector in the UK.

TCS was chosen by the Rail Delivery Group, UK's leading rail industry membership body for the creation of a rail data marketplace. TCS will leverage data syndication, monetization and marketplace features of its DeXAM platform and a leading hyper scalar cloud to combine fragmented sources of rail data into one digital service.

This will optimize the sharing of data and real-time information to passengers and operational bodies, improving transparency and enable a UK-wide railway innovation ecosystem.

Let me now come to the Q3 order book.

Our deal closures in Q3 amounted to a TCV of \$7.8 billion. By vertical, BFSI had a TCV of \$2.5 billion while retail order book stood at \$1.2 billion. The TCV of deal signed in North America stood at \$4.2 billion.

With that, we will open the line for questions.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: My first question was to better understand the headcount moderation during the quarter. During the press conference, Rajesh, you talked about the focus on headcount efficiency to continue in the fourth quarter as well. Assuming the headcount stay steady in 4Q, you will be exiting the year with a headcount growth of about 4% YoY. My question was, is that an indication of growth visibility that you have today and hence the rationalization or you are confident of driving similar or higher productivity gains, and hence revenue growth could be significantly higher than that?

Rajesh Gopinathan: I think the best way to think about it is that on a year-on-year basis, our net headcount is higher. So, we have significantly invested in building up capacity from 2021, tried as much as possible to bypass the industry's hire-from-each-other attrition cycle, and focus on hiring at entry level, and invested in training and cross training our resources. That investment has hit our productive capacity and stood us in good stead. The incremental hiring for this year should be seen in context of what we've done in the last year also. Overall, we are very comfortable with where we are with our net headcount. We hired significantly ahead of revenue growth in '21 and balanced it with a more prudent hiring in calendar '22.

Going forward, we should be back to a more normal kind of hiring trend. While specific numbers will keep evolving, we should expect hiring in the range of 125,000 to 150,000 for the year, offset by more normalized attrition levels closer to our long-term averages, which will give us sufficient capacity to take

care of growth. And then we can keep bringing in shorter term hiring to take care of demand as it unfolds. So, that would be the best way to think about and model it.

Kumar Rakesh: My second question was on the deal side. So, you talked about that cost optimization deals have already started picking up meaningfully. In the past, during recessions, we have noticed that first, there's a sharp cut to IT budget, before cost optimization deals starts picking up. I understand that visibility on client budgets is still a couple of months away. But do you think this time the transition from discretionary IT spending to cost optimization deals could be far smoother than what we have seen in earlier recession period?

Rajesh Gopinathan: It's also a factor of how it is playing out in different markets. So, as I said, if we take a market like UK, that is well and truly into much more strategic long term, cost-based restructuring kind of deals. We're seeing multiple such ones play out and we're participating very strongly in that.

Markets like US, we need to wait and watch how that will play in the next couple of quarters, but we are fairly constructive. Our conversations with customers are much more balanced ones where they are equally positive, as well as cautious and we should see a mix of both cost and transformation deals.

In Europe, decision making is slow. So, it's very difficult to call it one way or the other. So, this is not some major single event that has happened globally. All three markets are moving to three different beats and each of them is indexed to their own specific outlooks.

Moderator: Our next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Rajesh, I just wanted to basically pick your brain on the performance of the retail segment in this quarter. This segment has outperformed the company average growth rate and also doing really very well. Globally, we are hearing about a lot of these retail chains, calling out weakness, especially in Europe in parts as well. So, any color on that would be helpful as to what drove this strong performance in this quarter, do you expect this to sustain in the coming quarters also? And also, is there some color to it in terms of let's say, US retail maybe doing slightly better than Europe retail, as you just called out that in Europe, the decision making is slow on an overall basis?

Rajesh Gopinathan: First of all, the numbers that we show in Retail is a combination of Retail, CPG, Travel and Hospitality. So, that's the industry group that we report on. Within that, if you look at it, travel and hospitality is enjoying a very strong rebound after a couple of very, very challenging years. And we are one of the largest, if not the largest, service provider in that industry and we were significantly impacted in the last couple of years and also we are now participating and also winning quite reasonably.

CPG sector going through multiple forms of transformation, mostly led in various forms of direct-to-customer channel strategy transformation, and significant investments going into that. Also, analytics, sustainability, direct-to-customer, each of these themes are continuing to find a lot of traction and continued investment, and we are participating in all three quite well.

Retail itself is more regional, and different markets have different focus. Plus, within retail, grocery as a segment continues to do well. More discretionary retail is, as I said, market specific.

Going to the last part of your question, US retail sales adjusted for inflation itself, have still come in stronger than last year and last year was a very strong year. So, overall, from a volume perspective, retail in the US has done well. However, profitability has been challenged, both by customers walking down the product line in terms of preferring a slightly cheaper products on a relative basis, as well as the fact that cost structures have been up. We need to wait and see how this will be translated. But some of those costs are transient, some of them will require more structural cost transformation deals.

So, it's a fairly complex set of drivers in there. It goes back to what we always said, we stay close to the customer, and we play each customer and each scenario on a one-on-one basis.

Overall, we believe that the industry continues to be very attractive. And we have the full suite of capabilities to be participating across this broad spectrum, and to make sure that we stay relevant to customers on a very individualized basis.

Vibhor Singhal: Since you touched upon the travel and hospitality segment, as you mentioned that we bore the brunt of it while COVID struck and the segment was down and now we're seeing a strong rebound in this segment. I think globally also we are seeing very strong bookings in Greece and Spain and baggage can also come

up. So, do you expect this momentum to maybe continue in the travel segment in the coming quarters as well? Of course, this is assuming no more waves and no more lockdowns and everything. But do you think you expect this momentum to continue in this segment in the next couple of quarters given that these clients would now probably start spending more on to it?

Rajesh Gopinathan: I think so. The caveat, of course, is that there is no major event that happens. But if things continue as they are, we expect that the sector will continue to do well. One, there is the demand side. In fact, the sector is supply constrained. As more capacity comes on board, they should continue to do very well. More importantly, while they did a great job dealing with the pandemic, many structural changes that need to be done have been identified, and those are longer term programs that will need to be put in place.

So, we expect a lot more of preparatory investments amongst the more forward-looking customers, and very high profitability during the course of this year will give them that war chest they require to make the investment for increasing the resilience of their network and resilience of their operation in any future potential scenarios.

Moderator: Our next question is from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

Sudheer Guntupalli: Rajesh, it has been almost 10 to 13 months since the inflation, macro, and geopolitical concerns surfaced, and some of the upstream segments of the tech ecosystem, like internet or software started flagging off on demand concerns. But so far if we look at your reported revenue growth, some of the forward-looking metrics or even your commentary, the situation for us seem to be reasonably strong, fairly resilient. If we take cues from the lag times between impact on upstream and downstream tech players historically, if something could have gone wrong massively, it should have gone wrong by now. What do you think is happening differently now. Is it the case that IT services business has become less correlated with macro in the cycle, or you think time lag for the impact will be little longer this time around?

Rajesh Gopinathan: I think as I've always said, the best way to think about IT is to think of it as an industrial perennial. The tech needs of an enterprise will evolve over a cycle, but it is not totally discretionary. So, that's one aspect of it.

The second aspect of it is that compared to let's say even five years ago, the technology landscape has stabilized significantly. There was a lot more heterogeneity in the landscape, and a lot more competing solutions in the landscape earlier. And now there is a fair amount of convergence on the main platforms, and the main basic architectural elements. So, in the wider technology products marketplace, that shakeout will be visible, which is normal at this stage of a technology adoption cycle.

But the focus in terms of actual enterprise investments to execute on those transformations is continuing. So, lesser number of platforms, greater focus on larger programs, much calmer technology environment – all this is typical at this stage of technology adoption cycle. So, probably that also kind of reflects in the difference between the product space and the services space. But beyond that, I don't think we have any greater visibility.

Sudheer Guntupalli: My second question. There is the broad agreement by now is that growth for the industry in FY'24 will revert to pre-COVID levels impacted by macro issues and the unwind of COVID pull forward impact, etc., Keeping aside the negativity around the near term, how do you think of the medium term growth prospects for TCS... not asking for a hard guidance, but do you continue to believe that once this near term noise around macro, etc., is in the base and behind us, growth rates can again accelerate back to double digits, which has been our medium term aspiration?

Rajesh Gopinathan: We believe so. Our stance is quite positive, and as I said, if you take market-by-market, in the US, we definitely think that's the scenario. In UK, we are participating very well. The market itself is challenged. In Europe, once the geopolitical situation calms down, we believe that we have the full suite of capabilities to be able to participate. When decision-making restarts, we should be participating well.

So, overall, we are quite confident about having the full suite of services to be able to be relevant to customers across a wide spectrum of actual scenarios, and therefore we are quite confident about the medium to long term outlook.

Moderator: Our next question is from the line of Pankaj Kapoor from CLSA. Please go ahead.

Pankaj Kapoor: I have two questions. First, Rajesh, you mentioned that there is a higher share of cost take out deals which are now coming in the pipeline. So, just wanted to

understand, if such deals are also moving faster in terms of decision-making? And any color if you can give on the competitive intensity for such deals, I mean, is it normal or are you seeing such deals getting more competitively bid now by other vendors?

Rajesh Gopinathan: Speed is varying by markets. I would say that in the UK, decision making is quite fast, customers are very clear, and there is a lot of action happening there. The US is normal. It continues to be doing well, but that does not account for the short-term aspect of that market. Everybody is a bit cautious for the time being, but we don't think that will last into next year. In three months' time, we should be able to know better. In Europe, decision making has significantly slowed down. So, that's the full spectrum there.

In terms of competitive intensity, many of the deal structures are quite complex. That narrows down the field to a more limited set of competitors. Within that, obviously, people are aggressive and everybody is hungry. But at least the competition set is a much narrower set than just a few years ago, when deals were smaller, and there was a lot more focus on immediacy of response and the supply side was challenged.

Pankaj Kapoor: My second question is on the special dividend. With this, you would have almost paid out the entire amount that we paid last year, which included a buyback. So, does this mean there is a rethink in terms of the mode of capital return in favor of dividend versus buyback?

Rajesh Gopinathan: No, rather than looking at it in absolute terms, on INR terms, we are growing at 15%-plus kind of basis. So, if you consider that growth, we are still benchmarked to 80% to 100% of net profit or free cash flow kind of a trajectory, not much of difference to that.

Pankaj Kapoor: So, buyback remains something which our board can consider whenever the window opens up?

Rajesh Gopinathan: As you know, the current regulations require a 12-month gap between the two buyback announcements. Buyback will be considered when it becomes possible from the regulatory perspective. Right now, we are in a period where we couldn't anyway consider a buyback.

Moderator: Our next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Rajesh, one broader question. At an industry level where are we in terms of the cloud transformational journey or adoption by the enterprise client? And do you believe the pace of the adoption can change starting from CY'23 onwards irrespective of the macro issues?

Rajesh Gopinathan: Cloud adoption journey is, I would say, a third of the way in.

Different customers have different challenges there. Some of them who have gone very rapidly to the cloud, mostly lift and shift, are realizing that unless it is architected right, cloud costs are actually quite difficult to manage and it's a fairly large bill that can come if you do not architect and if you do not actively manage the cloud environment. So, some of the transformation activities and projects that we're doing is to actually help them execute that transformation agenda so that their application stack is architected in a manner in which it can fully leverage the variability that the cloud model offers. Unless you're able to actually switch off and release the resource, you will not participate in the variability. And to be able to do that you need to be able to architect your application properly so that resource dependency can be switched off on a variabilized manner depending on what your requirements are. So, that's one kind of work that is going on.

The other kind of work that's going on is actually the migration itself of complex workloads that require a lot more of heavy lifting. That is the other kind of an area that there's a lot of work going on. Neither of them is easy to execute. So, you should not expect much acceleration. The next couple of years are going to be about execution, rigor, operational capabilities. But it will be a steady move, neither is it likely to accelerate significantly, neither is it likely to decelerate or fall off. The movement is committed, the direction is very clear, the investments are in place and the deals are in place. Now, the execution and the operations have to happen. That's likely going to be the story for the next year or two.

Sandeep Shah: Just a question in terms of CY'23 IT budgets. Do you believe the spend of the IT budgets could be conservative in the first half of the calendar year versus the second half or you expect the spend to be remain normal like any other year, though the budgets may be slightly lower versus the earlier last two years because of the macro slowdown?

Rajesh Gopinathan: Again, going by market-by-market, in the UK, unlikely that it is any different than last year, because there is no incremental shift in the overall environment

in UK. In the US, we'll have to wait and see how the next couple of months plays out. We are positive or rather we are hopeful, but we'll have to actually wait for actual confirmation to come. We think the immediate caution that is there, probably will dissipate a few months into the year. In Europe, we will have to wait for some major event to happen for it to change. Europe will be incrementally cautionary this year compared to last year.

Sandeep Shah: Just a last bookkeeping question. I think this third-party pass-through cost increase this time does not relate to the domestic revenue, if I'm not wrong, it relates to the international revenue and will it be a growth headwind in the fourth quarter if it doesn't repeat?

Samir Seksaria: So, third-party costs actually you could link it to the domestic revenue. There has been a sequential increase, and typically Q3 has some bit of it coming in. On a year-on-year basis, we don't see that big jump.

Moderator: Next question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: So, Regional Markets and Others segment had an acceleration year-on-year growth versus the last quarter despite muted growth in India. Should we think that this comes from improved traction in the insurance BPaaS area? I think NGS mentioned six new go lives in the quarter for BaNCS. Any large deals here that you'd like to call out or maybe you also share some comments on the deal pipeline in this segment?

N G Subramaniam: I'm sorry, I didn't hear you properly. Could you repeat the question?

Ravi Menon: NGS, you talked about the six new go lives this quarter for BaNCS. Just wondering if there are any large deals in the BPaaS segment in insurance, and how the pipeline is shaping up there?

N G Subramaniam: One of the areas where we are seeing opportunities and significant pipeline is the various digital core, whether it is banking or capital markets or insurance, all of them are looking at putting together a new digital core. And it's going through a lull period in the last about two years or so. But now, people are thinking about a new core banking system, or a new security settlement system, which are really architected for the future, which are cloud-native, which are inherently micro services or inherently comes with that capability of marketplace with significant amount of APIs and micro services that will enable them to integrate into the ecosystem.

So, as you may see, during this quarter, we announced a large deal win with the Chinatrust Banking Corporation, which is really the future core in terms of architecture, in a fashion that is cloud-native, and it is truly providing open banking APIs and so on so on.

Such opportunities are opening up. At this moment we're working on three or four such opportunities where some of the large banks are looking at modernizing their core in favor of something which is completely open banking, open APIs. So are some of the market infrastructure institutions trying to create open payment system, and some of them typically say that whatever you guys have implemented in India, can you offer this whole instant digital payment infrastructure in our geography? So, these are the opportunities that are coming out of it, and there are a decent number of opportunities in the pipeline that we see in banking as well as capital markets.

Ravi Menon: SG&A, travel costs have increased sharply. How close to normal, Samir do you think we are in business travel? I think we are still about 30 bps below what we used to clock pre-COVID. So, should we think of travel as a continued headwind or you think we'll stabilize at this level?

Samir Seksaria: Yes, as normalcy continues to get through, we would expect travel costs to continue to increase. If you look at it more on the direct revenue side or the direct cost side, a lot of it is coming in. On SG&A, as things open up more on sales-related costs, as well as team building exercises and team meetings happening, that cost is increasing. We're seeing it going back to what it was pre-pandemic.

Moderator: Our next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: I have a question on budgets. Rajesh, you mentioned in the US there is a wait and watch mode and therefore budget could take some time. Is there any possibility because of that there was probably a little bit of budget flush in 4Q which could have supported the growth?

Rajesh Gopinathan: Sorry, budget flush due to what?

Abhishek Kumar: See, there's possibly an indecision or wait and watch mode for CY'23 budget. So, to exhaust CY'22 budgets, any possibility that there is a budget flush to exhaust the previous year's budget?

Rajesh Gopinathan: No, I don't think so. CY'23 will be slightly delayed in a couple of months... but again, it's entirely in the realm of speculation. So, we'll have to just wait and see how it plays out in the next few months.

Abhishek Kumar: Another related question to this is given this little bit of indecision in US, do you think the cost takeout projects in US probably would be low compared to other geographies, at the same time spending on discretionary would be cautious and that would probably keep the budgets little low?

Rajesh Gopinathan: Yes, fair assumption. Even if you look at our US TCV, that is down both sequentially and on a year-on-year basis. So, TCV still reflects that decision-making lag in this quarter.

Moderator: Our next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: So, firstly, Rajesh, is it fair to believe that the ACV growth could be lower than TCV growth as mix of the deals are changing, and should that be even considered as a lead indicator for growth going forward or you think the deal win trajectory could actually shift upwards over the coming quarters?

Rajesh Gopinathan: Gaurav, I don't have a direct answer to that, but there is not much of change in terms of the mix of deal structures between large or small or long dated or small dated. So, nothing that we can call out over the last two, three quarters that we can say that we're seeing. There is an elongation in decision making, which we had spoken about last quarter also and which has also played out this quarter. So, that the pipeline growth and the qualified pipeline growth is ahead of the actual TCV growth that we're seeing...in fact, we have seen a sequential decline in TCV while our qualified pipeline still continues to grow in absolute terms. So, beyond that, the specific mix of deals is not materially changing.

Gaurav Rateria: Secondly, on the margins, as headwinds on attrition subside, would our immediate priority be to take margins back to our aspirational band of 26%, 28% or would we prefer to prioritize some investments, keeping margin stable after recovering it to 25%?

Samir Seksaria: Gaurav, our margins or our industry-leading margins are on the back of the investments which we make, and most of our investments, whether it is in terms of talent, in terms of research and innovation, or branding, all are

factored in into the P&L. Our aspirations for the margins are taking into account all these investments

Moderator: Our next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Rajesh, we've seen pretty strong growth in regional market and others over the last two quarters; it's of the order of almost 6% sequentially. So, what is the nature of demand here and how sustainable is this going forward?

Rajesh Gopinathan: The reason of calling the segment out is because it's volatile and difficult to predict. So, its sustainability is difficult to answer. From a nature perspective it's come both from the market side – India has done very well, in fact, APAC ex-Australia also have done well. So, markets have done well, as also the product side of the business that NGS spoke about on the FS and platform side also has done well. So, it's come from both sides, markets as well as from the products side.

Ashwin Mehta: Second question was you mentioned in the press conference as well that manufacturing has been more resilient compared to your expectations. So, any trends that we can take from manufacturing given the fact that if we look at client financials, manufacturing growth over the next two years is expected to be actually better than what it was before?

Rajesh Gopinathan: I didn't know that, but that correlates to what we are also seeing. But I'm still wary, because of all the global supply chain disruption and energy price disruption. Industries like process manufacturing are much more globally integrated, and not as isolated as, let's say, Retail. So, we are still cautious. Our operating approach is always the same; stay close to the customer, deal with the customer on an individual opportunity-to-opportunity basis and we will continue to participate on that basis. But on a zoomed-out way, talking to customers, it is an industry that's not completely out of the woods.

Moderator: Our next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Basically, my question is related to TCV signing which is \$7.8 billion is slightly lower by our recent average win. Despite the fact that we have been favorable situation on the vendor consolidation exercise. What explains this mismatch?

Is it because such deals are to do more for the same or it reflect weak demand in Europe as articulated earlier?

Rajesh Gopinathan: I think it's a combination of everything; delayed decision making, but TCV will not be as linear as revenue, which is why we have given a band of 7 billion to 9 billion where we think the TCV will remain during the course of this year and it has stayed well within that band throughout for the last three quarters.

Rahul Jain: Just a clarification on this retail deal that we announced separately. Is it also reflecting the entire retail, CPG or it is only retail-specific?

Rajesh Gopinathan: This includes CPG and TTH.

Moderator: Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments. Over to you, sir.

Rajesh Gopinathan: Thank you, operator. We are pleased with our performance in a seasonally weak December quarter, growing at 19.1% in INR terms and 13.5% in constant currency.

Our order book was good, but softer than in the prior quarters, reflecting the cautious stance that many of our clients have taken. Our operating margin expanded sequentially to 24.5% and our net margin was at 18.6%.

On the people front, LTM attrition in IT services fell slightly to 21.3% and should continue to taper down in the quarters ahead. With that, we wrap up our call. Thank you all for joining us on this call today.

And I must say that you're a very mature and knowledgeable group for having resisted asking about the impact of Chat GPT on our industry. Enjoy the rest of your evening or day and stay safe.

Moderator: Thank you members of the management. On behalf of TCS, that concludes this conference. 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