

**Tata Consultancy Services Limited****Q4 & FY23 Earnings Conference Call  
April 12, 2023, 19:00 hrs IST (09:30 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 '\*' 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 fourth quarter and full year FY 2023 that ended March 31, 2023. This call is being webcast through our website, and an archive including the transcript will be available on the site for the duration of this quarter. The financial statements, quarterly fact sheet and press releases are also available on our website.

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

**Kedar Shirali:** They will give a brief overview of the company's performance followed by a Q&A session. As you're aware, we don't provide specific revenue or earnings guidance. And anything said on this call which reflects our outlook for the future, or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the quarterly fact sheet available on our website and e-mailed out to those who have subscribed to our mailing list.

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

**Rajesh Gopinathan:** Thank you, Kedar. Good morning, good afternoon and good evening to all of you. In FY 2023, our full year revenue grew at **17.6%** in rupee terms, **13.7%** in constant currency terms and **8.6%** in dollar terms. Our operating margin for the year came in at **24.1%** and net margin was at **18.7%**.

As you are aware, four weeks ago, we announced a leadership transition at TCS. I'll be stepping down from my role and stepping away from TCS on September 15th. The Board identified Krithi, who has led our largest segment, BFSI, over the last many years, as the CEO-Designate. Today, the Board also announced that Krithi will be taking over the role of CEO and MD on June 1st.

We are currently going through a structured transition plan and for the purpose of this call, I will speak about the year gone by, and he will cover the forward-looking topics.

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

**Samir Seksaria:** Thank you Rajesh. In the fourth quarter of financial year 2023, our revenue was **₹59,162 crore**, which is a year-on-year growth of **16.9%**. In dollar terms, revenue was **\$7.195 billion**, a year-on-year growth of **7.4%**. In constant currency, our revenue growth in Q4 was **10.7%**.

For the full year, our revenue was **₹225,458 crore**, which is a growth of **17.6%** over the prior year. In dollar terms, the reported revenue was **\$27.927 billion**, a growth of **8.6%**. Constant currency revenue growth for the full year was **13.7%**.

Let me go over our financial performance. Our operating margin in Q4 stayed flat sequentially at **24.5%**. With supply-side challenges abating, we were able to further bring down our use of sub-contractors in Q4. The benefit of that, other efficiencies and some currency gains was canceled out by higher on-site costs.

Our full year operating margin was at **24.1%**, a contraction of **1.2%** over the prior year. In terms of headwinds, our annual wage increase set us back by **1.6%**. The supply side challenges during the year cost us another **1.4%** and travel expenses went up by **0.3%**. This was mitigated by **0.5%** of realization improvement, **0.5%** of benefit from a flatter employee pyramid and **1.1%** of currency benefit.

Net income margin in Q4 was **19.3%** and for the full year was **18.7%**. Our EPS grew **11.2%** during the year.

Effective tax rate for the year was **25.7%**. It's worth noting that this has risen steadily from about **24%** in FY 19 as more of our facilities come out of SEZ tax benefit.

Our accounts receivable was at **65 DSO** in dollar terms, down 1 day sequentially.

Net cash from operations was **₹118.64 billion**, which is **104%** of net income. Free cash flows were at **₹110.95 billion** and invested funds at the end of March stood at **₹498.23 billion**.

The Board has recommended a final dividend of **₹24** per share, bringing the total dividend for the year to **₹115** per share. For the full year, including the buyback tax paid out at the beginning of April, the company's shareholder payout was **₹45,602 crore**.

Over to you, Milind.

**Milind Lakkad:**

Thank you, Samir.

We are honoring all the job offers and had a net addition of **821** employees in Q4 and **22,600** employees for the full year, resulting in a closing headcount of **614,795**.

These numbers mask the full extent to which we had ramped-up our talent acquisition during the year to cope up with the unprecedented churn in the first half of the year. We onboarded over **44,000** freshers, and our highest ever number of experienced professionals during the year.

We continue to have a very diverse workforce with **150** nationalities represented and with women making up **35.7%** of the base. Our investment in organic talent development continues to deliver exceptional outcomes. In FY 23 TCSers logged **48.3 million** learning hours and acquired around **6 million** competencies.

Increased rigor and focus on external certifications resulted in **53,000** TCSes acquiring certifications on hyperscaler cloud skills during the year, bringing the

total number of such certifications to over **110,000** and making TCS one of the top-2 partners of the largest cloud providers.

Our cohort of contextual masters continues to expand and is currently over **62,000** strong. We are investing in grooming them into future transformation leaders by collaborating with Ivy League B-Schools to create tailored leadership development programs for them.

We are also helping our mid-level employees gain market relevant skills, so that they can grow faster in TCS. The curated programs we have designed for them have seen massive participation of over 90% of that cohort, with over 60% receiving certifications.

As more and more employees started returning to work in the course of the year, we have been ramping-up *phygital* training to enhance learning outcomes. Over **80,000** employees have benefited from such in-person training in Q4.

Xcelerate, our industry recognized talent transformation platform has seen nearly **400,000** TCSES record their career aspirations, of which **100,000** are progressing towards their aspired role.

Similarly, our award-winning Elevate program, which links learning to career growth, has over **407,000** employees participating in it.

Our LTM attrition in IT services was at **20.1%**, down **1.2%** sequentially, but still very high because it reflects the unprecedented levels of churn in prior quarters. Our quarterly annualized attrition on the other hand, fell by over **4%** sequentially and by close to **10%** from the peak level in Q2.

Over to you, NGS, for some color on segments and production platforms. Over to you.

**N G Subramaniam:** Thank you, Milind.

Let me walk you through our segmental performance details for the quarter. All growth numbers are on year-on-year constant currency basis.

From an industry vertical perspective, growth in FY 23 was led by Retail and CPG (+19.7%) and Communications and Media (+14%). All other verticals grew in a narrow band around the company average. Technology and Services

grew by **13.7%**, Life Sciences and Healthcare grew by **13.3%**, Manufacturing grew by **13%**, and BFSI by **11.8%**.

In Q4, customer sentiment across BFSI, Retail and Technology services verticals, particularly in Europe and US, was one of caution. We saw clients deferring newer initiatives which were not critical, and in some cases, completely halt discretionary projects. Anxiety around the stability of the banking sector in March also added to the uncertainty. Consequently, growth decelerated across all verticals.

Q4 growth was led by Retail and CPG, which grew by **13%**, and Life Sciences and Healthcare which grew by **12.3%**. Other verticals grew in single digits. Technology and Services grew by **9.2%**, BFSI by **9.1%**, Manufacturing by **9.1%**, and Communication & Media by **5.3%**.

In terms of geography, full-year growth was led by North America (+15.3%), UK (+15%) and Continental Europe (+11%).

In emerging markets, Latin America grew by **17.3%**, India by **14.6%**, Middle East and Africa by **7.8%** and Asia-Pacific grew by **7.6%**.

The increased caution in Q4 resulted in a deceleration in many markets, but not in the United Kingdom. Q4 growth was also led by United Kingdom, where growth accelerated to **17%**.

North America grew by **9.6%**, while Continental Europe grew by **8.4%**. In emerging markets, Latin America grew by **15.1%**, India by **13.4%**, Middle East, Africa by **11.3%** and Asia-Pacific by **7.5%**.

Our industry-leading portfolio of products and platforms had a very good quarter.

ignio™, our cognitive automation software, signed up **5** new customers and **12** clients went live in Q4.

Economic uncertainty is further driving customers to accelerate efficiency through automation. This is resulting in increased investment in AIOps and AI/ML technologies. ignio continues to be well-positioned as an end-to-end platform with point solutions for monitoring, AI/ML analytics, cloud hybrid infrastructure coverage, and so on.

TCS BaNCS™, our flagship product suite for financial services, had **2** new wins and **6** go lives during the quarter.

For a leading savings and investment company in the UK, we successfully completed the migration of annuity books sold by the customer to a specialist insurer onto TCS BaNCS, and also completed the first phase of migration from a heritage landscape to a public cloud.

Our Quartz blockchain platform has partnered with Bitcoin Suisse to build a next-generation crypto financial technology platform, supporting the latter's journey of becoming the leading global crypto financial services provider.

In Life Sciences, we launched a new solution in TCS ADD™, our Advanced Drug Development platform. TCS ADD Medical Writing is a one-stop AI-assisted solution for fast, intelligent authoring and review of regulatory and scientific documents for drugs and devices.

TCS OmniStore™, our AI-powered universal commerce suite, had **1** go-live this quarter.

TCS HOBS™, our suite of products for communications service providers, had **1** new win and **4** go lives.

TCS TwinX™, our digital twin solution, had **3** wins and **1** go live.

TCS iON had **23** new wins and **3** renewals in Q4. During this period, it served over **54** assessment customers and administered assessments to **18 million** candidates. Over **1,900** corporates leverage the TCS National Qualifier Test now as their entry-level recruitment platform.

Lastly, MasterCraft™ and Jile™ won **26** new clients in Q4.

Let me now go over our client metrics. As you are aware, our customer-centric business model rests on our ability to continually expand and deepen our client relationships. These metrics provide a measure of our progress in the journey and a validation of the strategy.

In Q4, we added **2** more clients year on year in the \$100 million+ band, bringing the total to **60**; **30** more clients in the \$50 million+ band, bringing the total to **133**; **23** more clients in the \$20 million+ band, bringing the total to **291**; **22** more clients in the \$10 million+ band, bringing the total to **461**; **27** more clients in the

\$5 million+ band, totaling **665** and **59** more clients in the \$1 million+ band bringing the total to **1,241**.

Over to Rajesh to speak on demand drivers during the quarter.

**Rajesh Gopinathan:** Thank you, NGS.

In his segmental commentary, NGS spoke of the cautious stance that many of our clients have taken, particularly in North America and Europe. This has resulted in a dichotomy. On the one hand, we saw clients hitting the pause button on ongoing discretionary projects and deferring new non-critical projects, affecting our revenue growth in Q4 across most industry verticals in North America and Europe.

At the same time, we saw clients launch more new initiatives oriented towards cost optimization or strategically important projects, resulting in a very strong deal flow and pipeline replenishment during the quarter.

In terms of demand trends, we saw a spike in operating model transformation deals. In FY 23, we signed **29** large operating model transformation deals, business as well as IT operations, compared to **18** in the prior year. We also continue to see vendor consolidation and multi-service deals.

TCS Cognix™, our suite of over 600 pre-built automation components, is gaining traction because it significantly accelerates the operations transformation and helps clients realize their ROI much earlier, all the more relevant in the current environment. In FY23, Cognix helped win over **\$1.6 billion** of TCV.

Let me share two examples of operations transformation executed using Cognix.

A US-based multinational oil field services company engaged TCS to build a future-ready finance organization. We deployed TCS Cognix to leverage intelligent automation and solve the problem of intercompany mismatch of financial entries, arising from disparate and siloed operations across 450-plus business entities and 80 countries. The program helped substantially bring down instances of unreconciled entries, improve key metrics stability and speeded up key processes.

Similarly, a UK-based Telco chose TCS as its strategic partner to revamp its IT infrastructure backbone for resilient, always-on communication service. TCS leveraged its deep contextual knowledge, TCS Cognix, and MFDM to deliver the transformation. This resulted in a robust operating model that delivered higher levels of certainty with uninterrupted and enhanced services for its customers. The superior quality of service contributed to industry-leading customer satisfaction, improved NPS and lower churn.

In Q4, we won an all-time high number of large operations transformation deals. Here are a couple of examples.

TCS was selected by IHG Hotels and Resorts, one of the world's leading hotel companies to drive enterprise process automation across several IHG businesses and business verticals, including finance, travel agent commission, revenue compliance and audit, revenue services, sales and HR. The program aims to digitize and automate business processes to drive efficiencies and cost optimization across the enterprise.

Similarly, Delta Airlines has partnered with TCS on solutions around cognitive business operations and cloud management to better enable enterprise resiliency and reliability.

The other demand driver is cloud transformation, which remains a very strong focus area for our clients and a key growth driver for us. During the year, clients engaged us to take up their more complex, bigger workloads and accelerate the modernization and migration to the cloud. This trend continued in Q4 and we won several new deals around this field. Let me share a few examples of recent cloud transformation engagements.

A leading global software company has partnered with TCS to enable its SaaS business model and GTM strategy. TCS is helping modernize products across four lines of business and make them hyperscaler-ready. Leveraging its thought leadership, contextual knowledge, IPs like TCS Cloud Exponence and TCS Cloud Assurance, and our ecosystem of hyperscaler partners, TCS helped migrate 32 SaaS solutions to the cloud. This migration is helping the clients make their product suite cloud vendor agnostic, and thereby more attractive to their end customers.

A large US commercial property and casualty insurance company selected TCS for its multi-year application modernization and cloud migration journey to gain competitive advantage and business resiliency. TCS successfully



modernized those critical applications and seamlessly migrated them to the cloud. This has rendered the client's application stack future ready and ready to support new business models for product rollouts. The modernization has also improved business resiliency with 99% improvement in application availability and enhanced security.

Flight Center Travel Group's, 30+ travel companies across the world faced varying pace of travel recovery, creating a need for flexibility and ability to scale fast. TCS' thought leadership and advisory helped Flight Center harness the power of cloud with a unified global approach. Leveraging its contextual knowledge, TCS transformed critical business functions on the new multi-cloud platform and implemented TCS Cloud Exponence to provide orchestration and 24/7 management. Flight Center's new technology backbone has enhanced its resilience, improved its time to market and gives it the ability to drive business transformation and capitalize on new opportunities.

Moving on to growth and transformation, clients continue to invest in new initiatives designed to support their business growth strategy, either through innovative business models, new services or by targeting new market segments using technology.

A large food retailer in the UK partnered with TCS to implement a technology initiative critical to its asset-light growth strategy of expanding through franchise stores. TCS leveraged its domain expertise and contextual knowledge of the client's application and IT landscape to design a new platform that brings franchise stores on par with owned stores through advanced automated multi-level forecasts and replenishment capabilities to streamline inventory across their supply chain. It provides greater visibility of sales and stock movement, agility in introducing new products and even flexibility to convert owned stores to franchise stores. The new platform enables rapid onboarding of new existing franchise stores and enabling the client to accelerate the expansion of its franchise network and drive growth.

In Q4, we won a new deal from Bridgestone Americas, the leading US-based tire manufacturer and an existing client. They have engaged us to transform and expand their subscription-based mobility offerings globally. TCS will help define a global template for the subscription business, catering to the different lines of business and enable new business models across different markets, driving the company's global expansion.

I'll now invite Krithi to talk about demand trends in BFSI sector and our order book. Over to you, Krithi.

**K. Krithivasan:** Thank you, Rajesh.

The banking and financial services industry is the largest spender on technology and that reflects in its outsized share of revenues within TCS' business mix. While we saw some softness in BFSI in North America due to discretionary spending being put on hold, all of the demand trends that Rajesh spoke about are very visible in BFSI as well. Clients continued to push ahead with cloud migration, operations transformation and other strategic G&T initiatives. As the largest provider of IT services in the banking and financial services domain, with deep domain expertise across the end-to-end financial services value chain, TCS is deeply entrenched in the sector's G&T initiatives. Let me begin with a couple of examples of product innovation.

A global information services company partnered with TCS to launch a new commercial fraud solution for banks and other financial services firms and drive new revenues for the client. TCS leveraged its deep domain knowledge in this area to design a comprehensive commercial fraud solution that blends consumer and business datasets to provide ML-powered predictive insights on the legitimacy of businesses, their ability to repay and the likelihood of credit abuse.

The solution offers a much more comprehensive set of capabilities compared to competing products, resulting in a good offtake of the solution. Within the first few months since its launch, the new solution has been adopted by the top 10 banks in the US, and customers have reported a 62% improvement in fraud detection.

A US-headquartered global bank partnered with TCS to transform its new card launch process to gain market share and drive growth. Leveraging our expertise in human-centered design thinking, we designed the solution with an interactive UI and automated workflows that make it easier for the bank's credit card business to create and launch new products in the market.

This has enabled the bank to launch new products 70% faster. Moreover, the reimagined product design workbench is resulting in better, more competitive products and has driven a 10% increase in new-to-bank customers.

A large European bank partnered with TCS to transform its enterprise-wide credit risk management. It was using multiple risk models across its different portfolios, resulting in greater complexity, slower decision making and higher compliance risk.

TCS' contextual masters collaborated with the bank's teams to conceptualize a new centralized, cloud-based risk management platform that deploys the most appropriate risk model for each portfolio, and ingest data from across enterprise and determines the credit worthiness of the borrower.

The simplified landscape and centralized risk control framework has enhanced regulatory compliance. Processing time for consumer credit request is down from 10 days to 2, enhancing customer satisfaction and driving growth. Instant provisioning of verified risk parameters is also helping improve certainty in credit origination surface.

Enhancing customer experience on digital channels continues to be a key trend. Here is one example of that.

TD Bank Group is working with TCS to continue to transform the bank's public-facing digital assets. TCS will leverage its deep contextual knowledge and co-innovation model to assist TD to launch new capabilities designed to help deepen the bank's relationship with its customers, enhance the bank's self-service features and empower its customers and advisors with easy access to insights and improved tools. This is expected to help TD enhance its agility, deliver richer customer experience and drive greater digital adoption among its customers.

And lastly, an illustration of how large banks are embedding ESG criteria into their businesses.

A Europe-headquartered global bank engaged TCS, its strategic partner, to develop an ESG data distribution platform to support its regulatory reporting on its own sustainable finance framework.

Leveraging our deep domain knowledge in the area of ESG and sustainable finance, the TCS team designed a new cloud-based solution that makes high-quality ESG data available to internal stakeholders, for more accurate insights on sustainability, sustainability and ESG performance of their deals and products. Its sophisticated taxonomy management capability accommodates

the taxonomies of different jurisdictions, simplifying regulatory compliance and reporting.

Moving on to deal wins, we had a strong order book in Q4 with a TCV of **\$10 billion**, a book-to-bill ratio of **1.4**. This includes 1 mega deal we signed in February with the Phoenix Group.

Our Q4 order book contains an all-time high number of deals with TCV above \$50 million. It is a well distributed set of deals across all the verticals and geographies. The BFSI TCV was at **\$3.1 billion**, while the retail order book was at **\$1.3 billion**. The TCV of deals signed in North America stood at **\$5 billion**.

For the full year, the order book was at **\$34.1 billion**. While this is similar to the order book at the end of FY 22, our FY 23 order book is less lumpy and has more deals in the \$50 million to \$100 million TCV range. In other words, we have been able to build up an equally large order book without as many mega deals in the mix. This implies faster revenue conversion compared to last year's order book and gives us better visibility into growth next year.

With that, we can open the lines for questions.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. Participants who wish to ask a question may press "\*" and 1 on their touchtone phone. If you are using a speakerphone, please pick up your handset while asking a question. This is required to ensure optimum audio quality on the call. Should your line have any disturbance, you may be asked to return to the question queue if you do not have a clear connection. Ladies and gentlemen, we will wait for a moment, while the question queue assembles.

We have our first question from the line of Ankur Rudra from JP Morgan. Please go ahead.

**Ankur Rudra:**

Thank you, Rajesh. Thank you so much for your leadership and insight for over the last 40 plus quarters. We will miss you. Krithi, congratulations on the innovation and best wishes for the period ahead. In terms of questions, I think the first one is on demand. There appears to be a sharp change in demand commentary. This quarter, besides the print disappointment, could you elaborate how much of the slowdown and change in sentiment came after the event of the last three or four weeks of March versus what was already in motion? And on a related note, you obviously have the highest exposure to the banking industry. You have seen several cycles. Where is the visibility on

demand and revenues now for the first quarter and FY 24? And if this uncertainty gets prolonged, how do you expect client priorities and behavior to change?

**Rajesh Gopinathan:** Thanks, Ankur. Let me take the first part and then I'll have Krithi answer both the FY 24 and the demand forward. If you look at where the impact has come from, I would say that we shared with you in the last quarter's comments, beginning of this year, that while there was softness in US in Q3, that is our Q3, calendar Q4, we expected that it would significantly pick up in the New Year. And that's just adequate caution on the client's part resulting in softness in Q3.

That expectation has not borne out. It has, in fact, turned incrementally even more negative. That sentiment trigger obviously was to a large extent what happened on the banking side in US, but it has also been across the board. So, if you look at areas like Manufacturing, especially on the process and industrial side, that is reflecting the weakness from a more global perspective. Areas like Retail in the US are reflecting the sentiment of the local market and especially on the expectation from what's going on in the credit terms.

So going back to your question, the change is more in terms of the US market. We expected it to come back strongly in the New Year. That has not happened and that's the scenario that we are in. And the weakness is not just coming out of the BFSI, it is coming across sectors in North America. Krithi, do you want to talk about BFSI and the expectation forward?

**K. Krithivasan:** Like Rajesh mentioned, there has been weakness in BFSI because of the market uncertainty in the last quarter. But as we mentioned, the order book has been quite strong, in fact one of the highest order books that we have in the recent past. And like we also commented, the order book is less lengthy and it has more smaller deals or short duration deals, which means the revenue conversion could be even higher.

But having said that, like we are not going to give guidance for immediate quarters because uncertainty is still there and clients are still looking at their priorities and things they want to spend. But we are comfortable with the medium to long-term spend looking at our order book. So the demand still is strong and order book quality is good. So that gives us the confidence that medium to long term, things will be stronger and better.

**Ankur Rudra:** One question was, do you think if the uncertainty gets prolonged, plan, priorities and behavior might change?

**K. Krithivasan:** It's obvious that if the uncertainty continues clients will also continue to weigh their priorities.

**Ankur Rudra:** Okay. As a follow-up on the strategy, TCS changes its guard very rarely and very smoothly historically. Could you comment on any change in strategy, both because of the change in guard and the change in demand sentiment at the moment?

**K. Krithivasan:** Leadership change doesn't mean a strategy change. All of us have been working with this organization for so many years and all of us have a good understanding. Whatever strategy Rajesh put in place was also a collective leadership decision on how we want to go forward. So I don't expect a drastic strategy change. We'll be tweaking what we do based on the market situation. Our strategy is anyway based on client centricity and employee empathy. So those two are the basic pillars, we'll continue to drive home our strategy based on that.

**Ankur Rudra:** Thank you. Maybe the last question on technology. Just curious to hear your thoughts as a leadership group on how generative AI changes the nature of technology consumption and if it impacts the bargaining power for clients or for TCS over the medium term?

**K. Krithivasan:** I'll turn this over to our ChatGPT guru, Mr. NGS.

**N G Subramaniam:** Hi Ankur, NGS here. I think generative AI as a technology is very interesting. We have been working on it for some time and we have done some pilots internally and I think it has the potential to live up to the expectation that every area can be technology driven. That is number one.

Number two is that it can further accelerate the adoption of technology, including those which are at the frontier areas of innovation. We are quite excited about it.

Many quarters ago, I think at one of the analyst calls, I mentioned that AI/ML has the potential to fundamentally change the way that we deliver software to our clients. And a significant part of what we are doing today can get automated, can get generated.

Fundamentally, we are a tools driven organization. We had developed MasterCraft™ decades ago, which is a software that generates software. We are quite excited with the opportunity of delivering proven code, either you can call it a low code, no code, zero code, but -- or a generative AI kind of a software, but the result is, a software that generates software. I think we'll build such an expertise around that capability, around the toolset, and stay relevant to our clients' expectations.

**Ankur Rudra:** NGS, thank you so much for the color and Rajesh, best of luck for future endeavors.

**Rajesh Gopinathan :** Thanks Ankur.

**Moderator:** Thank you. We have a next question from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

**Sudheer Guntupalli:** Yes. Krithi, firstly congratulations and all the best in your new innings. Couple of questions from my side. The prevailing industry perception seems to be that because of macro uncertainty, deal mix is shifting towards cost optimization, which are typically large deals that may take longer time lines for revenue conversion. But your prepared remarks suggest the contrary about the order book that got built during FY 23. So how do we read this contradiction?

**K Krithivasan:** Sudheer, cost and optimization deals need not be large. Very often, customers look at immediate operations because in times of uncertainty, they want to control cost and so something quick. So the deals are cooked in a way that they can also get benefits immediately.

Like we discussed before, our order book is actually very less lumpy, with just one mega deal and a number of medium to small-sized deals. So that gives us the confidence that there will be faster revenue conversion. I don't know whether we can say that all cost and optimization deals will be larger. Some of them may be larger, many of them need not be.

**Sudheer Guntupalli:** Got it. And you made an interesting point in the press meet that many of your clients, which are the large US banks are benefiting because of recent banking issues and the consequent deposit flight. So if the banking situation doesn't materially escalate from here on and as and when the negative sentiments received, could this be a net positive outcome for TCS over the next 12 to 18 months, given some of the key clients are actually becoming stronger with a further possibility of M&A integration related spend?

**K. Krithivasan:** That should be a fair assumption, Sudheer. We have a very strong presence in the banking sector and we will continue to work with our clients closely to bring in solutions by which they can leverage the market conditions and leverage extra deposits they get. So I would say that's a fair assumption.

**Sudheer Guntupalli:** Thanks Krithi. And Rajesh all the best for future endeavors.

**Rajesh Gopinathan:** Thank you.

**Moderator:** Thank you. We have our next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

**Sandeep Shah:** Thank you for the opportunity. Thank you Rajesh, and all the best for your future endeavors and congratulations, Krithi, for your new role. The first question is just an extension to what Ankur has asked. So looking at your commentary, it seems that there could be a near-term pressure or caution from clients' side in terms of the IT spend. So FY 24 could be slightly different where growth could be back-ended versus front-ended, which is seasonally the trend in most of the normal years? Or do you believe FY '24 may have a soft growth across all the four quarters?

**K Krithivasan:** Sandeep, I don't want to comment on the overall FY 24. As we called out, Q4 has been soft because of the uncertainties. And those uncertainties are not fully resolved. At the same time, we are comfortable with the order book we see. And we also commented on the tenure of the order book in terms of the short duration of the project.

So that gives us the confidence that many of these projects will get done in a short period of time and we'll be able to realize the revenue. But we cannot take away the fact that there could be some transformation project or discretionary project that could get cancelled if there is a further deterioration of the sentiment. So, these are all the facts that we are working with. But we'll continue to be close to our customers. We don't want to comment on how Q1 or Q2 is going to be or how FY 24 is going to be.

**Sandeep Shah:** Okay, fair enough. Just a question in terms of margin. Can you explain what was the nature of the on-site cost pressure during 4Q? And also question about FY 24 margin, because FY 23 margin has been impacted by supply-side issue. With supply-side issues abating, whether it is fair to say the margin management could be better in FY '24 versus FY '23, or it is hard to say



because of the global pressure, especially on the inflation side, which can impact the on-site wage hike?

**Samir Seksaria:** In the current quarter, we had increases in the onsite manpower cost item. Some part of it was on account of replacement of higher cost sub-contractors with employees, and some part of it due to increased local hiring.

Coming to FY 24, as you rightly called out, we'll have a set of headwinds and we'll have to look at the overall set of levers which can help us address those headwinds. Given the current uncertainty, it's difficult to give a timeline. But yes, the way we are exiting the subcontractor cost side of it should be helpful. And we should be able to further double down on that.

**Sandeep Shah:** Thank you and all the best.

**Moderator:** Thank you. We have our next question from the line of Abhishek Kumar from JM Financial. Please go ahead.

**Abhishek Kumar:** Good evening. I just wanted to understand what is driving the growth in the UK market? Rajesh, you had mentioned in the last quarter that unlike continental Europe and the US, in UK there is some clarity. They had moved decisively towards the cost takeout project. I'm just trying to tie it up with Krithi's comment that cost takeout projects may not be longer gestation period projects. And is that something, the clarity in terms of what they need to do reflecting in better growth in UK? And if that is the case, would that be a template that US also can follow once there is some sort of clarity either way, either on the discretionary side or on the cost takeout side, things could quickly come back and the growth can resume?

**Rajesh Gopinathan:** Abhishek, UK is exactly what you described and what we said in the past. The market is reconciled to the operating environment and knows that it needs to do something because externally nothing is going to change. And it is not just cost takeout, transformation projects are also ongoing.

Last quarter, we had spoken about a very large telecom deal. That was a combination of cost takeout as well as a massive movement onto the cloud to be able to make their whole enterprise stack agile, so that they can introduce new products faster and respond to market conditions differently.

Similarly, in the utility sector, we have spoken about how the market regulator is moving to introduce greater competition and greater agility there. We worked

with the Rail Delivery Group, which is another regulator on the transportation side, which is also moving massively to leverage data and introduce greater agility, and use the data to improve overall efficiency of the system and to enable newer entrants to come in and to offer services.

So, it would be wrong to characterize the UK market as a purely cost takeout market. It is a market where the structural cost bases are being reset, but significantly new competitive forces are also at play as industry structures are being actively worked on. We are participating very strongly across the board.

As you know, we are the largest services provider in the UK market by a margin and that is playing to our advantage because our ability to shape the opportunity and to participate in it is very very significant. Interestingly, it is happening not just on the private side, but on the public sector and the semi-public sector side also, where also our participation is very high. So, UK is a great story about technology being part of the solution for any such scenario.

Now, will that play out in US? That depends on the nature of the US always has been at the forefront of leveraging technology. US companies as an overall ecosystem are also much more dynamic, much more decisive in moving and much more risk taking. So, the starting base is very different.

So, does UK provide a playbook? Not on a like-to-like basis. But conceptually, our entire business model is predicated on the belief that what we are seeing in UK is likely to play out in market after market, where technology leverage will only keep on increasing rather than decreasing, in any scenario, whether it is a challenges scenario or a growth scenario. What we need to do is to make sure that our service portfolio is fully able to participate on both sides of the spectrum simultaneously.

**Abhishek Kumar:** That is very insightful. Thank you and all the best.

**Moderator:** Thank you. We have our next question from the line of Pankaj Kapoor from CLSA. Please go ahead.

**Pankaj Kapoor:** Thanks for the opportunity. Rajesh, wish you the best and Krithi, congratulations. Can you give some color on how the deal velocity panned out within the quarter? Did you see clients delaying decisions on deals that would have otherwise closed by, say, March end in the last, say, 15-odd days? And if possible, can you quantify the impact of that?

**Rajesh Gopinathan:** Actually, deal velocity has not reduced. In fact, if anything, it has accelerated, especially in Europe. We have seen significant acceleration in decision making on deals in Europe. We had called out delays earlier but in Q4, we have seen an acceleration. If you look at deals greater than \$50 million, we have closed more deals in this quarter in Europe than what we did in the first three quarters of the year. Is that just a catch-up to things that got delayed during the year, we'll have to wait and see.

Coming to the pipeline, there too we had shared with you in the past that in Europe, though the decision making was slow, the pipeline buildup was very steady and very encouraging. So we'll have to wait and see how it translates in the next two quarters. But this quarter, decision making in Europe has increased.

It's very encouraging because initially, we told you about how the sentiment had turned incrementally positive in Europe, both on their overall economic side, having dealt with the winter positively, receding fears on an energy crisis and also increasing optimism on the China scenario. So that positive sentiment has resulted now in increasing deal closures. We'll have to wait and see how it turns out in the rest of it.

US also, our TCV has been very strong. And it has been strong through the quarter, even in March. And it is coming across both existing customers as well as new customers. In fact, in this year, our new client TCV in the US has been a record high. So there is nothing that shows that deal flow has actually slowed down. In fact, as I said, one specific market, Europe, it has actually accelerated.

**Pankaj Kapoor:** So is it fair to assume that events of last few weeks actually had an impact more in terms of client just pausing ongoing projects, which is the reason why we saw the impact on the reported revenues, but the deal decision making has not been impacted?

**Rajesh Gopinathan:** Absolutely, Pankaj. Narrowly answering the question, that's exactly right. The revenue impact is due to discretionary projects being deferred, or expected project startups getting delayed. We have not seen large scale project cancellation. We have not seen deal flow slow down. It's a very immediate, short-term kind of impact that we've seen play out over the last couple of months. But it requires close watching to see how it develops through the course of the next quarter.

**Pankaj Kapoor:** Of course, thank you. Samir, my question was again, on the higher onsite cost. You mentioned subcontractor replacement was the reason, but I'm just wondering, wouldn't that be already baked in when you spoke of the 25% exit margin in the previous call, and the currency tailwind that we saw was not anticipated? So if you can just help understand what was the math there?

**Samir Seksaria:** On the onsite costs, it was not just subcontractors but also additional local hiring. On why we ended up here and not at 25%, that is not just because of just the higher onsite costs. It is also due to customer sentiments turning increasingly negative from where we started off at the beginning of the calendar year to what we saw in February and March. When discretionary projects are paused, that has an immediate impact on the revenues while we continue to incur the related costs in the short term. And that's why we couldn't exit at where we had targeted.

**Pankaj Kapoor:** Understood. Thank you and wish you all the best.

**Samir Seksaria:** Thank you.

**Moderator:** Thank you. We have our next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

**Gaurav Rateria:** Hi, thank you for taking my questions. So, first question, just going back to the conversion of the order book to revenue, just to get it a little better, is it fair to say that last year you ended the order book on TCV basis, a particular growth, your ACV growth would have been slower than that? And this year in FY '23, your ACV growth would have been better than the TCV growth, which gives you more confidence on your faster conversion of order book to revenue for next year. Just trying to understand, is that the correct understanding?

**Rajesh Gopinathan:** Gaurav, we do not comment on ACV. I do not want to get dragged into it. But from the perspective of the composition of the order book this year, it is more weighted towards the medium-sized deals than mega deals. So, you know, the \$50 - \$100 million range has been a larger constituent rather than the \$500 million plus book.

**Gaurav Rateria:** Got it. Secondly, Rajesh, you mentioned that the sentiment in Europe has kind of improved and that has reflected in better velocity of the deal flows. Is it fair to say that at least for the next two quarters, the growth drivers for overall revenue will be more led by Europe than the US?

**Rajesh Gopinathan:** That's a stretch. But I don't know, we will have to wait and see how it, Europe is also complex, especially BFSI. Do you want to comment on BFSI?

**Milind Lakkad:** Gaurav, if you look at Europe, different regions play out differently. In BFSI, we are seeing good traction in Nordics and Benelux. Central Europe is slightly complex and difficult. So, to make a generic statement that Europe would turn out to be more positive will not be appropriate. Each vertical and each region is going to play out differently. Overall, the sentiment is improving. We are not saying that it has become strong overnight that it will drive our growth. It's improving.

**Gaurav Rateria:** Got, it. Last question. Rajesh mentioned about the kind of reorienting the operating model to adjust in line with the changed macro conditions from a cost structure perspective. So, typically it takes about a quarter or two to kind of adjust that or make that adjustment within the operating model. And, is that a fair assessment from a margin perspective in the sense that it takes about a quarter or two to reflect that the cost structure and the better margins from overall company standpoint?

**Rajesh Gopinathan:** Actually, let me explain what I meant. I kind of carried over from the discussion in the press conference. As you know, our reliance on contingent labor has significantly increased, mainly because of the various travel restrictions and supply side challenges in the local market.

A combination of high demand and significant dislocation on the supply side had resulted in a significant increase in our dependence on contingent labor. We are structurally and systematically moving to go back to our more preferred operating model, which is about 5% to 8% of our onsite workforce being contingent labor.

This is also very important for us to ensure quality of delivery and to manage the overall experience at the customer level. So we have been systematically executing that. We are about 25% lower than our peak contingent labor reliance in the North America geography. We have quite a distance to go to bring it back to our desired operating range, and we will continue to do that, relying on improvements in the travel and visa availability.

Once we have that, we will again have a greater ability to flex up and down depending on where the demand is. So, that is where I was coming from. This is a multi-quarter journey and it is not purely driven from a cost perspective. It

is as much driven from the need for stability and resilience of our overall operating model.

We are executing on that, which positions us well in the current environment. If the demand spikes, we anyway have the base load there and we can go back to the more immediate supply sources. And, if it reduces, we will keep on systematically bringing this down, benefiting margins because it is typically more costly than our long-term employee base.

**Gaurav Rateria:** Got, it. Thanks for the explanation Rajesh and all the best for your future endeavors and congratulations to Krithi. Thank you.

**Rajesh Gopinathan:** Thank you.

**Moderator:** Thank you. We have our next question from the line of Ravi Menon from Macquarie. Please go ahead.

**Ravi Menon:** Thank you. This is similar to what Pankaj asked that the way the deals have come through, you know, it shows that the demand environment has not really changed, but the quarters of early growth, it has become pretty negative. So, are you seeing this change in pipeline or delays in decision making that this negativity is not just temporary caution? Or should we think about this as something similar to furloughs and we will see this come back in a quarter or two?

**Rajesh Gopinathan:** Ravi, as of now, no. But we'll have to wait and see if it persists, and how it turns out. As of now, we have not seen any significant change in the deal pipeline. And the actual pipeline replenishment continues to be quite strong. But we'll have to carefully watch how the decision-making plays out in the next quarter or so.

**Ravi Menon:** And you had talked last quarter of a more normalized annual gross hiring of around 125,000 to 150,000 people as attrition normalizes. Is that still the range you're working with?

**Milind Lakkad:** See, we don't call out on gross hiring for the year. In general, for the campus hires, I talked about 40,000 campus hires. Number of lateral hires will be dependent on the demand from the business every quarter.

**Ravi Menon:** Thanks. And one last follow-up, if I may. It looks like you could have taken up the utilization, but you opt to I mean let the natural attrition, you chose to still

replace that. Why would you do that when you don't really have much visibility into the demand?

**Milind Lakkad:** I think it's a mixture of both. We are doing both. We are actually developing doing a rigorous talent development of our people coming in from the campus. At the same time, we need the people from the market, and that is how it is playing out. We need both.

**Rajesh Gopinathan:** And Ravi, the BA side of it, which I explained earlier, is also part of that. We're not just replacing that attrition. We are also replacing on the BA side.

**Ravi Menon:** Thanks everyone, best of luck. And thanks Rajesh it's been great having you. Krithi welcome aboard. I hope, this should be an easier than what Rajesh had. Thank you.

**Rajesh Gopinathan:** Thank you, Ravi.

**Moderator:** Thank you. We have a next question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

**Vibhor Singhal:** Thanks for taking my question. So, just a couple of questions from my side. Last quarter, we mentioned that the growth in the retail vertical last quarter was primarily driven by the travel vertical. Does that continue to be the case this quarter as well? And how is the core non-travel part of the retail function, say the FMCG and the CPG part of the business faring on an overall company basis. My second question was on the overall scenario at this point of time. I mean I'm sure the TCS management has been through similar kinds of downturn before and come out of that challenge as well. So typically, in these kind of economic slowdowns or downturns, do clients end up asking for pricing discounts or do competitors resort to some pricing under cuts, which basically forces us also to maybe follow them, which would impact the profitability or the growth or both in this kind of a scenario?

**Rajesh Gopinathan:** Sorry, I was on mute. On the Retail side, TTH [Travel Transportation and Hospitality] continues to do well. But our performance is not purely driven by that. Especially in this quarter, most segments have done well. Essential retail has done well. Some parts of discretionary retail and fashion have been challenged. North America retail has been quite weak, whereas North America travel continues to do well.

So overall, most segments are doing well with Travel and Hospitality outperforming within that, and North America retail underperforming. That's the way to understand this quarter's retail side of it.

On the pricing side, we have had this discussion earlier too. In our industry, unlike a product industry, discounting and price undercutting is not as easy because an incremental deal is one thing. But once you offer a price, it's very visible across your entire customer universe. So the ability to do that in a very systematic manner is quite restricted. So it's a much more disciplined industry in terms of pricing. That is what's playing out. We'll keep watching it. We will stay tactically responsive in the market, and we'll deal with it as it comes.

**Vibhor Singhal:** Got, it. Thanks for taking my questions. And wish you all the best.

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

**Rajesh Gopinathan:** Thank you. We are pleased with our FY 23 performance, growing at 17.6% in rupee terms and 13.7% in constant currency terms. The steadily deteriorating macro environment has meant decelerating second half. Our Q4 revenue growth was 16.9 in rupee terms and 10.7 in constant currency. However, we have had a very strong order book with an all-time high number of large deals. Our operating margin in Q4 was flat sequentially at 24.5%, and our net margin was at 19.3%. On the people front, LTM attrition in IT services further fell to 20.1%.

Lastly, I want to thank all of you for all the positive sentiment that you've shown. It's been an absolute pleasure interacting with all of you and anticipating and reacting to your questions. So, thank you for that goodwill and that attention that you've given us. With that, we wrap up our call. Thank you all for joining us today and enjoy the rest of your evening, day and stay safe. Thank you.

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

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