Tata Consultancy Services Limited

Earnings Conference Call
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Moderator: Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. 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 first quarter of fiscal year 2024 that ended June 30th, 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. K. Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Good evening, good morning to everyone.

Kedar Shirali: Mr. N G Subramaniam, Chief Operating Officer and Executive Director.

N G Subramaniam: Hello, everyone.

Kedar Shirali: Mr. Samir Seksaria, Chief Financial Officer.

Samir Seksaria: Hello, everyone.

Kedar Shirali: Mr. Milind Lakkad, Chief HR Officer.

Milind Lakkad: Hi, everyone.

Kedar Shirali: Our management team will give a brief overview of the company's performance followed by a Q&A session. As you are 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 emailed out to those who have subscribed to our mailing list. With that, I would like to turn the call over to Krithi.

K Krithivasan: Thank you, Kedar. Once again, good morning, good afternoon and good evening to all of you. I want to start by saying how happy I am to be interacting with all of you in my new role and I hope to meet you all in person sometime in the future.

It is very satisfying to start the new year with a string of marquee deals and a good performance, given the current circumstances.

In Q1, our revenue grew **12.6%** in rupee terms, **7%** in constant currency terms and **6.6%** in dollar terms. Our operating margin was at **23.2%** and net margin was at **18.6%**.

I will now invite Samir, Milind and NGS to go over different aspects of our performance during the quarter. I will step in later to provide more color on the demand trends we are seeing.

Over to you, Samir.

Samir Seksaria: Thank you, Krithi. In the first quarter of FY 24, our revenue was **₹59,381 crore**, which is a Y-o-Y growth of **12.6%**. In dollar terms, revenue was **$7.226 billion**, a Y-o-Y growth of **6.6%**. In constant currency, our revenue grew **7%**.

Let me now go over the financial performance. As in prior years, we rolled out a salary increase across the entire workforce with effect from April 1st, resulting in a margin impact of **2** percentage points.

By reducing our use of subcontractors and through other efficiencies, we were able to mitigate some of that impact and report an operating margin of **23.2%**, a contraction of **1.3%** sequentially, and an expansion of **10** basis points year-on-year. Net income margin in Q1 was **18.6%**.

Our EPS grew **16.8%** year-on-year. Effective tax rate nudged up slightly to **25.8%**. Our accounts receivable was at **65** DSO in dollar terms, flat sequentially.

Net Cashflow from Operations was ₹**113.53 billion,** which is **102.5%** of Net Income. Free Cash Flow was ₹**109.92 billion**.

Invested Funds as of June 30th stood at ₹**609.42 billion**. The Board has recommended an interim dividend of ₹**9** per share.

Over to you, Milind.

Milind Lakkad: Thank you, Samir. Our workforce at the end of the first quarter was **615,318**, a net addition of **523**. While we are committed to honoring all the job offers we have made, our focus currently is on leveraging the capacity we had built earlier.

Our workforce continues to be very diverse, with **154** nationalities represented and with women making **35.8%** of the base. We remain focused on developing, retaining, and rewarding the best talent in the industry and enhancing their effectiveness by bringing them back to office to foster our culture.

Our return to office initiative is picking pace, with **55%** of our workforce attending office thrice a week. Towards driving a more performance-focused work culture, we rolled out salary increases of **8%-10%** for high performers and **12%-15%** for exceptional performers following our annual compensation review.

Our investments in organic talent development continue to deliver exceptional outcomes. Year-to-date, TCSers logged **12.7 million** learning hours and acquired **1.3 million** competencies, including **180,000** high demand competencies.

LTM attrition in IT services was at **17.8%**, down **2.3%** sequentially. Based on the current trend, we expect that in the second half of the year, our LTM attrition will be back in our normal longer-term range, which has historically been an industry benchmark for talent retention.

Over to you, NGS, for some color on our segments and products.

N G Subramaniam: Thank you, Milind. Let me go through some of the segmental performance details of this quarter. Please note that all growth numbers are on a year-on-year, constant currency basis.

Last quarter, we had called out the growing caution among the clients, resulting in deferments and pauses in discretionary projects, particularly in North America and Europe. That has continued in this quarter.

Growth among industry verticals was led by Life Sciences and Healthcare, which grew **10.1%**, and Manufacturing which grew by **9.4%**.

Other verticals showed some softness, BFSI grew **3%**, Retail and CPG grew **5.3%**, Tech and Services grew **4.4%**, and Communications and Media grew by **50** basis points.

In terms of geographies, we see maximum caution in North America and Continental Europe, which grew **4.6%** and **3.4%** respectively.

We continue to have good momentum in the United Kingdom, where we grew by **16.1%**. Among emerging markets, India grew by **14%**, Asia-Pacific grew by **4.7%**, Latin America grew by **13.5%** and Middle East Africa by **15.2%**.

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

- **ignio™**, our cognitive automation software suite, saw **37** new deal wins. There were **26** go-lives.

  We continue to strengthen our cloud offering within the ignio suite by expanding coverage across all three major hyperscalers. We also launched a FinOps module in ignio to help customers analyze and optimize their cloud spend.

  Digitate scientists are collaborating with TCS Research and Innovation to leverage large language models to further enhance ignio's predictive automation capabilities.

- **TCS BaNCS™**, our flagship product suite for the financial services, had **7** new wins and **8** go-lives during the quarter.

  The deal wins were well-distributed across developed and emerging markets and in banking, capital markets and insurance. Among the go-lives, a high-profile one was that of our trading platform which went live successfully for trading, planning, and settlement at the NSE IFSC- SGX Connect, in GIFT City. Through our platform, the Singaporean and Indian capital markets can work seamlessly on dollar-denominated NIFTY derivative contracts.

- **TCS BaNCS Insurance platform** also saw excellent traction in Q1, with **3** new wins and **4** go-lives during the quarter. We have already published the details of our deals with NEST, Teachers' Pension Fund, and Standard Life International, so I won't repeat them here.

  However, it is worth highlighting that the Standard Life International deal marks our entry into continental Europe, extending our platform and services footprint to meet the needs of the German and Austrian markets to begin with and thereafter to other markets in Europe.

- Our **Quartz blockchain platform** had **1** go-live this quarter.

- In life sciences, **TCS ADD™**, our advanced drug development platform, had **2** go-lives this quarter. TCS ADD Safety went live at a Top10 UK-based pharmaceutical company to read and process adverse event cases. With this, TCS ADD has successfully automated over 70,000 adverse event cases, including clinical trials as well as post-marketing cases.

- **TCS OmniStore**, our AI-powered universal commerce suite, had **1** new win and **1** go live during the quarter.

- **TCS HOBS**, our suite of products for communication service providers, had **1** new win and **1** go-live during the quarter.

- **TCS TwinX**, our digital twin solution, had **4** wins and **1** go live.

- **TCS iON** had **25** new wins and **23** go lives. In Q1, our platform administered assessments for **18.2 million** candidates, **72%** higher year-on-year. Over **2,400** corporates now leverage TCS National Qualifier Test for their entry level recruitment.
- **MasterCraft** and **Jile** won **30** new clients in Q1.

Let me now go over client metrics. The steady increase in the number of clients in every revenue bucket is the ultimate validation of a customer-centric strategy.

The superior outcomes that we deliver result in a steady stream of repeat business and invitations from clients to transform newer parts of their business.

This is the secret of the long and enduring customer relationships that we have been able to build.

In Q1, we added **1** more client year-on-year in the $100 million+ band, bringing the total to **60**; **13** more clients in the $50 million+ band, bringing the total to **137**; **24** more clients in the $20 million+ band, bringing the total to **296**; **22** more clients in the $10 million+ band, bringing the total to **468**; **27** more clients in the $5 million+ band, bringing the total to **677** and **72** more clients in the $1 million+ plus band, bringing the total to **1,268**.

I will now request Krithi to speak on the demand-drivers during the quarter.

K Krithivasan: Thank you, NGS. As NGS called out in his commentary, macroeconomic uncertainties have resulted in greater caution among clients. Clients are taking a month-on-month approach, resulting in very limited visibility on their future spending, even within their own organizations.

On the discretionary side, while larger transformation programs like cloud migration are continuing apace, some of the smaller programs or sub-programs are coming under scrutiny.

We continue to see reprioritization of projects in favor of those which are considered business-critical and where ROI realization is likely faster. This is disrupting the normal flow of work which is usually an uninterrupted series of related projects executed one after the other.

Long-running discretionary projects, typically CTB in nature, planned and scheduled some quarters ago under different circumstances, are now coming in with reduced scope or reduced pace.

This is what is resulting in some revenue softness across most of our industry verticals, even though our orderbook has been very strong in the last couple of quarters, and there has been no problem in their conversion to revenue.

At an overall level, given the uncertain macroeconomic outlook, we see strong client interest in cost optimization, vendor consolidation, and integrated operations.

That said, the flavor of the quarter was Generative AI. In every conversation I have had with the clients over the last three months, this has unfailingly come up. Gen AI promises to transform most knowledge work by assisting and augmenting people and improving their productivity.

Over the last two quarters, we have engaged multiple customers using our co-innovation framework in exploring use cases for Generative AI across productivity improvement, content creation, and enhancing customer interactions. We are currently working on over 50 proofs of concept and pilots, and have more than 100 opportunities in the pipeline.

Let me give you three examples.

- We are working with a leading European shipping and logistics company to automate their contract administration using Generative AI, significantly improving productivity and enhancing business outcomes.

- For an energy utility on the West Coast, TCS is engaged in transforming their service desk operations using Generative AI to enhance self-service, improve the quality of service, and drive customer satisfaction. This is being enabled via conversational service-desk chatbots augmented with Generative AI capabilities to provide precise, contextual, and personalized responses to user queries and issues based on knowledge articles.

  Generative AI is also being used to automate the call quality audit function, for assessing and evaluating agent interactions with the customers, and providing recommendations for improvement.

- For a global provider of travel insurance and assistance, TCS is engaged in a pilot project to transform customer service leveraging generative AI. This will enable the customers to get highly contextualized and precise responses to any queries that they may have on travel insurance policies, especially about the terms and conditions.

  The solution would manifest as a self-service multilingual chatbot to which users can post questions about a travel policy in a natural, conversational style. Unlike traditional chatbots, the Gen AI bot can understand nuances in the question and respond with specificity and personalize to user context. Generative AI will also be used to respond to queries received over email. This is expected to result in reduced agent handling time, substantial productivity gains, and improved quality and consistency of responses.

The excitement around the new technology apart, our point of view is that the full potential of Generative AI is best realized through a holistic enterprise-wide initiative encompassing business, legal, risk and compliance, research and innovation, rather than through multiple point solutions.

We have launched an advisory offering to help customers in creating a holistic vision, strategy and plan for enterprise-wide adoption of Generative AI. Additionally, we have started talent development at scale across multiple Gen AI solution suites in partnership with the hyperscalers. We plan to create a talent pool of over **100,000** Gen AI trained associates.

This will build on the tremendous depth we possess in predictive AI, machine learning and advanced analytics, which we have been using in the last few years to build transformational solutions that can recognize patterns across large data sets, make recommendations and personalize customer experience.

Today, we have over **50,000** TCSers trained in AI/ML solution-building skills, with over **9,000** with top external certifications. We have market-leading products like ignio, Optumera, ADD, and TwinX, which use AI and ML to transform their respective domains. We have filed over **710** patents for AI inventions in the past five years, and **282** of them have been granted so far.

Two examples of recent engagements will give you a flavor of the business impact that AI-powered solutions can have.

- A Belgium provider of connectivity and digital services leveraged TCS' consulting and advisory capability to shift from cost-plus pricing to intelligent pricing within its ICT business.

  TCS delivered a differentiated approach, integrating data from multiple sources to extract meaningful insights from historical data, and an AI-driven dynamic pricing mechanism on an opportunity by opportunity basis that also incorporated anomaly detection.

  The solution has already uncovered significant money left on the table that runs into multi-million dollars, enabling revenue growth and profitability.

- For Cummins Incorporated in North America, TCS successfully delivered a strategic engagement to identify and reduce global warranty non-compliance.

Leveraging contextual knowledge, in-depth understanding of the warranty function, and working closely with the business teams, TCS built a solution that uses pattern detection and automation through advanced analytics and AI/ML to shift the detection mechanism early in the process. This initiative will potentially save millions of dollars per year for Cummins.

A well-governed and robust data foundation is a prerequisite for enterprise adoption of AI. Consequently, as part of the Horizon 1 cloud transformation, many clients are also modernizing their data estates. We have extensive experience in this area and a strong portfolio of intellectual property that has helped us gain share in this opportunity.

TCS Datom™ is an advisory framework to help clients assess their data maturity and define a holistic data analytics and AI strategy aligned to their business goals.

We also have TCS Daezmo™ that helps clients speed up data modernization initiatives with a host of accelerators and methodologies to improve project outcomes.

And then we have TCS Dexam™, our data exchange and marketplace solution platform, to help clients democratize, monetize, and commercialize cross-functional enterprise data through private or internal data marketplaces.

Let me share a few examples of recent data modernization engagements.

- A global leader in water, hygiene, energy technologies and services partnered with TCS to modernize and migrate its master data landscape to the cloud. TCS used its domain and technical expertise to deliver a modern SaaS, AI/ML, and cloud native solution that enables near real-time integration with its core ERP systems to improve performance, usability, and scalability while reducing cost of ownership and technical debt.

  The solution enables seamless integration, interoperability across various business systems, empowering teams to make data-driven decisions, and provide a strong foundation for future AI-based solutions.

- A US-based provider of connected vehicle services chose TCS as its strategic partner to enable its data monetization strategy to drive growth. TCS leveraged its proprietary Datom framework to build a data platform on a public cloud which serves as a single source of truth for data on subscribers, vehicles, and other vehicle telematics.

With real-time data ingestion and advanced analytical capabilities, the client now has a centralized repository of a very large dataset that can be monetized through AI/ML.

- A US-based market infrastructure institution engaged TCS to build a centralized data warehouse to house all the data generated by the cybersecurity software and appliances in their organization, where it can be effectively monitored, assessed, reported, and acted upon to reduce security threats and vulnerabilities.

  The TCS solution stitches together technologies of multiple providers to provide on-demand scalability and traceability through a centralized framework.

  This has resulted in a reduction of security vulnerabilities by 5% to 10% and enabled 2x faster onboarding of newer sources. Most importantly, with all the cybersecurity data hosted centrally, it is now possible for the client to use AI/ML to sift through those vast amounts of data to help analysts prioritize the threats.

Moving on to cybersecurity, as we have pointed out in prior earnings calls, this has been an area of fast growth for us. Let me share a few success stories in this area.

- Bane NOR, a Norwegian state-owned company responsible for owning, maintaining, operating, and developing the nation's railway network, selected TCS to help move to a newer and more advanced identity and access management (IAM) solution. TCS facilitated an organization-wide assessment of the IAM estate and leveraged its domain and technology expertise to craft a unique solution that will help Bane NOR secure its complex and critical IAM, and reduce risk.

- A leading supplier of rail-based transportation services engaged TCS to improve the security posture and reduce cyber risk. The TCS solution stitched together firewalls, proxy services, endpoint protection, SOC, and vulnerability management to help the client achieve high cybersecurity standards. In addition, TCS is running the cybersecurity operation for the client in a managed services model.

- A European technology leader in electrification and automation engaged TCS for transforming their privileged access management (PAM) to protect their large server estate across hybrid cloud as part of the stringent SOX compliance mandate.

  TCS managed and successfully delivered the PAM transformation, helping the client clear rigorous SOX audit control checks from third-party auditors with no significant deficiency for the first time in three years. This established a robust foundation of PAM and gave the client sufficient confidence to expand it to other critical infrastructures and applications.

Moving on to growth and transformation, we continue to see clients invest in business-critical transformational programs that will drive growth.

- A leading UK-based global leverage company partnered with TCS to accelerate growth with a B2B digital commerce platform. TCS helped design and deploy a bespoke solution that strengthens customer relationships across every touchpoint and provides world-class digital experiences for customer engagement.

  The new system also improves commercial execution with 360-degree views of customers and insights on customer behavior, enabling tailored content and communication for targeted customers. Its 24/7 self-service has reduced dependency on the sales rep, increased net sales value, and significantly reduced the cost to sell.

- A US-based industrial equipment rental company engaged TCS as its strategic partner to enable new services and revenues streamed through equipment servitization. TCS leveraged its Bringing Life to Things™ IoT transformation framework to build a hybrid cloud based IoT platform as the digital spine of the company's remote operations center.

  The platform collects field usage data, coordinates maintenance, and tracks availability of the assets that are rented out. This data is used to provide real-time asset performance insights that can help end customers avoid work stoppage, reduce maintenance costs, and improve asset utilization. Our client not only gains incremental revenue for these value-added services, but also a competitive edge in the market.

Lastly, we continue to see strong traction in operating model transformation. We have described in prior calls how these transformations entail redesign of all the processes embedding next-generation technologies like machine vision, AI, and machine learning to boost velocity, improve operational resilience, and drive efficiency.

Another aspect of these transformations that business leaders like very much is TCS' integrated operations model, with AI-powered business command centers which provide them with end-to-end visibility and holistic control across back-end, middle layer, and front-end operations along with the underlying applications, data estate and IT infrastructure layers.

This enables better alignment with business KPIs, enables faster resolution of issues, and greater resilience in operations.

- Faced with multiple challenges in their supply chain and IT landscape, a US-based healthcare distributor engaged TCS as a strategic partner to transform their operating model. Their IT tools, systems, and processes were fragmented, and they had multiple service providers supporting their IT infrastructure and business applications.

  This fragmentation resulted in lack of traceability whenever there was any system failure. Any issue potentially meant some trucks somewhere in the supply chain got delayed by four to five hours, impacting the delivery of drugs. A significant portion of the ticket resolution time was spent in just identifying the stakeholder responsible for the issue.

  We integrated their different IT service management tools into one modern platform, consolidated their service desk into one integrated team, supporting all the business applications and the supporting infrastructure, and implemented persona-based solutions for better user experience.

  We deployed our Machine First™ delivery model, leveraging multiple AI/ML-based value builders from the TCS Cognix™ Suite of Solutions to transform the process. All this has helped reduce supply chain disruption, improved the drug delivery fulfillment, and enhanced their supply chain effectiveness.

- A large US-based information management company partnered with TCS to digitally transform their CFO operation. Here too, we deployed a new operating model that integrated the business processes and IT support operations using TCS Cognix and process mining to redesign the processes.

By integrating the support teams and monitoring performance holistically, spanning business operations, IT applications, and infrastructure support, we have helped the client enhance operational resilience and velocity, helping improve free cash flow and working capital.

Moving on to order book, we had a strong order book in Q1 with a TCV[1] of **$10.2 billion**, a book-to-bill ratio of **1.4**. In rapid succession, we won two deals in the UK public sector from Teachers' Pension Fund and NEST and one from Standard Life DAC, reinforcing our leadership in the UK life and pensions market.

While the details of the NEST win are already in the public domain, including in our press release, I thought it is worth sharing an interesting detail mentioned in the standard document available in the public domain. I quote:

> “Nest commissioned a broad market assessment from PricewaterhouseCoopers to understand whether there is competition in the market capable of meeting Nest's requirements for technical experience..... PwC's expert conclusion was that, apart from TCS, there was no single supplier or consortium in the market now or the short term (assessed over the next 12 months) who could meet Nest's requirements.”

Coming back to our Q1 order book, BFSI TCV was at **$3 billion**, while the retail order book was at **$1.2 billion**. The TCV of deals signed in North America stood at **$5.2 billion**.

With that, we can open the lines for questions.

Moderator: Thank you very much. We have our first question from the line of Sudheer Guntupalli from Kotak Mahindra. Please go ahead.

Sudheer Guntupalli: Hi Krithi. Congrats and all the best once again on your new innings. Just a couple of questions. Last time when we announced our results, the banking crisis in America and Europe was just cooking. Now, is this issue still being referenced to by clients as a concern or is this subject largely behind, based on your client conversations?

[1] Total Contract Value

K Krithivasan: We don't hear about this topic much. I would say that it is largely behind us. In fact, the large banks who are our primary customers are net beneficiaries. We don't hear this as a concern anymore, Sudheer.

Sudheer Guntupalli: We understand that predicting macro six, nine months down the line may be tricky at this point, but given that this was a major panic or stress factor in the last quarter, is it fair to assume that September quarter will see a decent growth unlike June, which remained flattish, despite the seasonal strength?

I know you don't give quarterly guidance, but directionally, is that a fair assumption?

K Krithivasan: You said we don't give quarterly guidance. I don't want to say anything on Q2, Sudheer.

Sudheer Guntupalli: Just one last question. Two consecutive quarters of strong deal booking despite the weak market, not even including the BSNL deal, and this quarter execution also, largely played out in line with your expectations, and we are seeing market situation improved a bit, especially regarding this one panic factor, and you're saying pipeline is strong. How do we reconcile it with your tone in general on the demand situation? Is there a bit of conservatism you're baking in your tone to provide a buffer for any unexpected shock, especially since you have just taken charge?

K Krithivasan: No. We are not being conservative or optimistic here. We are telling what we are seeing in the market. As we explained earlier also in the call itself, while the demand is still good, we are winning new deals, but clients are reviewing the projects underway, and wherever the ROI is not very strong, the next phase of the project is getting paused. So, that's the reason we find the revenues dropping..

Otherwise, we don't see a problem in the long-term. We don't see any issue with the demand or investment on technology.

Sudheer Guntupalli: Thank you, sir. That's it from my side. All the best.

Moderator: Thank you. We have our next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: Thanks for taking my question. Krithi, after two quarters of 10 billion plus TCV, I just wanted some more understanding on your media comment earlier, when you said long-term is good, short-term cannot call. Is that based on more client-specific factors or deals deferred earlier have seen more cancellations in the near term? So essentially, what I am asking is, the softness of the project prioritization that you referred to, has that become more broad-based across clients or that has become more concentrated within the pockets?

K Krithivasan: See, except in one or two specific cases, I won't say this is concentrated. While the impact could vary from one account to another, the review and reassessment of discretionary projects itself is a broad-based trend. How much a given client pauses projects or delays them versus others might vary, depending on the individual situation.

Like I was mentioning in the media interaction, f you look at US banking, large US banks are still doing good. We don't see a major problem there. So, to some extent, it depends on the industry also, Apurva.

Apurva Prasad: Okay. And my other question for Samir, on the operational front, what are some of the near-term levers that you have, especially when operating leverage impact is lower due to softer growth?

Samir Seksaria: Sure. We will continue to use levers like utilization. I have called out that utilization still has scope for further improvement and it continues to have. Productivity and realization become the other levers. And some of our discretionary spend is now at a critical mass, where we can start looking at optimizing them as well. So, these would be the primary levers.

Apurva Prasad: Thank you.

Moderator: Thank you. We have a next question from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

Mukul Garg: Thank you. A couple of questions from my side. Krithi, first on the nature of pauses which you guys have started seeing. What are you hearing from your clients in terms of what are the signs they are looking for which can make them change their view on these pauses or kind of pushouts? Is this something which people will still have patience for some time before they start pulling back their tech spending or do you think the uncertainty being where it is, if things don't worsen materially, the demand can come back on a shorter notice?

K Krithivasan: So, Mukul, as you also mentioned, it is a near-term uncertainty which is causing the clients to re-look at the programs and pause them wherever they think the

ROI is not strong or is going to take longer time. And once the uncertainty is lifted, and they have clarity on more long-term outlook in terms of where there will be growth or what they should be doing, we would see a certain class of projects, either cost optimization or transformation projects picking up momentum.

But obviously, we cannot say when the uncertainty will be cleared. So, I would believe that till the uncertainty exists, there would be a cautionary approach towards investments.

Mukul Garg: Sure. Krithi, one question on the Gen AI. Obviously, you spoke a lot about it, but how should we realistically expect to see the impact of all the work you are doing from a two to three-year window? Is this something which will help you accelerate your revenue growth or should we see this more as a defensive move which will help you defend your revenues because there is a bit of a deflationary nature to the Gen AI deployment? Or is this something which will play out more on the talent side and structurally moderate the pace of people addition?

N G Subramaniam: Mukul, this is NGS here. I think all of the things that you said will play out. You need to be looking at all these dimensions. But I think what is interesting for us is the fact that it can deliver things faster and the whole time-to-market element could be completely redefined. Newer benchmarks could emerge in terms of predictability of the overall software, quality, processes, everything can improve.

Will it mean that we will need less people? It is something that we will have to evaluate. But in all the technology adoptions in the past that we have seen, it has only increased the volume of work and thereby actually we needed more expertise and more hands to do the heavy lifting that people really look for.

So from that perspective, it is a very interesting technology. And a lot of evaluations are going on at the enterprise level. And the other thing is that, look, the whole cost model of it, how much is it going to cost me to embrace Generative AI? How are people going to price it? It is a very interesting proposition that everybody is looking at.

Currently, every token is getting priced. So how much is it going to cost me to embrace Generative AI in my overarching things that I want to accomplish across technology and operation is also something that will be taken and played out.

So I see a lot of opportunities for us in structuring our own way of delivery, our own improvement to the value propositions that we can offer embedding Generative AI. But overall, it's going to be very interesting to see how industries are going to embrace it and given their own experience on cloud and the angst around how the cloud cost itself in terms of consumption cost is emerging.

Mukul Garg: Sure. Thanks a lot for taking the question and best of luck for the remainder of the year.

Moderator: Thank you. We have our next question from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi. Good evening. Thanks for taking my question. Just an extension of the generative AI discussion, we were having just now. So while you definitely talked a lot about the demand opportunity for the customers, I understand, you are also running multiple projects internally as well, to assess AI augmented processes, how they are going to save cost or productivity for you. Can you share some of the details on that? And is that a possibility that, our own productivity benefits within TCS could start to prove much ahead of the revenue opportunity from generative AI comes through, eventually?

N G Subramaniam: Rakesh, this is NGS again. It's difficult to call out some of this, but sufficient to say that, we have multiple teams, in almost every vertical that we have, who are working on pilots and internal projects. We are also working on how to craft the methodologies and toolkits to be meaningful to our clients, using this technology. All this is going on.

And as we called out earlier, there are at least about 50 projects that we are executing. Some are small, some are large. And one of the nice things to see is , if a particular organization has an ability to predict one or two parameters, that can be focused upon using this technology, that will create maximum business impact for them.

I mentioned about, for example, if someone can predict, if the technology can predict let us say, the container price three quarters down the line, then it could be a boon for the shipping industry. So, it is a problem such as that, and how do you improve or increase the yield per acre of agricultural commodities, right?

Some of these things and specifically matching with the climate technologies or climate parameters that one has, which will have their own predictive features, will all contribute to inter-disciplinary nature of the solutions that we need to deliver. So, there is a lot of work going on in the industry and within the research and innovation team of TCS. A couple of quarters down the line, maybe we will be able to give you more color.

Kumar Rakesh: Thanks a lot, NGS, for that. Definitely quite exciting use cases there. Samir, during media interaction, you talked about clawing back some of the margin in the coming quarters. So, how do you see the trajectory of the claw-back? Will it be similar to what we saw last year or there are higher tailwinds or headwinds this year as we move in the coming quarters?

Samir Seksaria: So, in a typical year for us, we take the biggest headwind, which is the increment up front. We then typically claw back the margins through the rest of the year. With the current macro uncertainties, it would be difficult to estimate how exactly the margin recovery will play out quarter on quarter. But our focus would be to incrementally get closer to our aspirational band, improving our margins through each of the quarters and exit at a higher rate at the end of the year.

Kumar Rakesh: Got it. Thank you, Samir.

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 question. I have a few. Firstly, let us know if the understanding is correct. You entered 1Q with softness owing to events that played out in the month of March, especially in the US on banking side. And then you built momentum through the quarter to deliver what you delivered. Is it fair to say that you are entering the next quarter 2Q with slightly better momentum and better visibility than you did in the last quarter?

K Krithivasan: Gaurav, that is very difficult to say. I do not want to venture into saying something like we have better visibility, better momentum at this time. I would say, it has been very similar to what we saw in March. I wish, I can could say that, we are in a much better place, but I do not want to give that optimism at this time.

Gaurav Rateria: All right. Second question. Around two very strong quarters of TCV, now based on the deal ramp schedule, does this provide you with greater visibility of second half versus first half?

K Krithivasan: No. Our second half would depend on what happens in Q2 and how the momentum further builds over that. So, I do not believe that we are ready to call that second half is going to be better than first half. It is too early at this time.

Gaurav Rateria: All right. Last question. Any particular investments on the consulting side to leverage the demand that you think from generative AI projects? As you talked about that, a lot of organizations want to go to the consulting mode and not look at necessarily on a silo basis. And also investments on the delivery side, which could help you to benefit from this technology? Thank you.

K Krithivasan: Gaurav, as we mentioned, we are approaching it from multiple angles. We are building our in-house capability in Gen AI. We have our R&I team that is working on developing patents and very unique capabilities. We are leveraging our contextual masters, because we want to marry the technology capability with the domain capability delivery services.

We are striking partnerships with all the hyperscalers. Coming to training, we are committed to train 100,000 of our associates to be capable of leveraging this technology. So, all these are investments. In terms of any other investment, we also constantly look for new partnerships and other kinds of investment. As something comes up, we will definitely go forward and make those investments.

But, at this time, our investments are more in terms of ensuring our associates and our contextual masters and domain experts work together, to think of the right use cases and the right solutions for our customers.

Gaurav Rateria: Thank you.

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

Ravi Menon: My question is about fresher hiring. So was there any fresher hiring this quarter or was the recruitment mostly lateral to backfill that ?

K Krithivasan: No. We continue to hire freshers and we'll hire this quarter as well and that will continue.

Ravi Menon: My next question is on last quarter's increase in onsite costs and whether that was due to new project starts. Have we continued to see new projects start this quarter and that got offset by some pressure on the book of existing business? Or we didn't really see any new project starts and cater it, that's why we kind of ended flat quarter-on-quarter on CC terms?

Samir Seksaria: We saw new project starts with deal wins continuing to ramp up. We also had onsite movements happening incrementally in this quarter as well. And the net impact on revenue is due to the uncertainty on the existing projects or customers pausing their spend.

Ravi Menon: Let me ask one more follow-up from me on this deferral of contracts. Is this due to this whole change in model to Agile versus Waterfall? Is that causing people to be able to take this pause versus earlier you would really have for any deliverable, there would be months probably still to go. So you couldn't really halt everything mid-flight and now it makes it a lot easier to put these pauses?

K Krithivasan: Not necessarily. I don't think I want to attach the reason to any methodology. It is more related to customers' business outlook, However, in Agile engagements we execute smaller chunks of work at a time so to that extent, you can say that it is easier for customers to defer the next phase of work. Otherwise, it has little to do with the project delivery methodology.

Ravi Menon: Thanks and best of luck.

Moderator: Thank you. We have our next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Yes. Thanks for the opportunity. Firstly on the regional market side, we have seen that, one-third of the contribution on a TTM basis has come from this segment, where the profitability is lower by 400 bps versus company average. And some of the large deals in India market that we know like BSNL and GM probably may not have higher margins. So you think this segment growth, faster growth would put further pressure on profitability in the coming period?

N G Subramaniam: It is something that we will have to work on. But, these are fundamentally large programs, large system integration opportunities. And if you really look at the overall deals that we have signed, one is that the $10.2 billion TCV does not include the BSNL deal, number one. Number two is that the platform deals, it has the potential to improve margins, if we execute it well and we deliver it on time and stick to the model in which, we want to continue to charge the customer on a SaaS basis, the opportunity is there to grow well.

And it is also based on certain things like price based on policy or claim that we settled and so on. So it has the potential to create a pricing structure which will increase our margins as opposed to only diluting the margin in some of these cases. But traditionally, if you take large system integration projects where we end up delivering some amount of hardware, yes, there the margin maybe less than the company average margin.

But overall, you have to see these as large opportunities for long-term value creation with those customers. So it is a combination that we will have to look for. On a net-net basis, our approach is to take some of these projects, execute well and see that it adds to the overall capability creation and value creation, which is consistent with our philosophy.

Samir Seksaria: Just one more thing to add, Rahul. We don't publish regional market profitability separately. If you are looking at segmental results, they are based on industry verticals.

Rahul Jain: Right. And M&A, if you look at this one growth strategy that we have not leveraged much historically Do you see now is a good time to use either to build capability, let's say around Gen AI or maybe scale up opportunities from captive transaction as many corporations are looking for resource optimizations?

K Krithivasan: Rahul, our approach does not change. We have always looked at M&A if we have to augment some capability that we didn't have internally, and if we thought that by acquiring a company, we'll be able to further expand our services to a larger set of our customers. So we keep looking at it.

Whenever we find there's a good opportunity, big or small, we would go for it. But our overall strategy doesn't change, whether it's Gen AI or the whole cloud. Whenever there is an opportunity, we go for it. It has to meet our criteria and threshold.

Rahul Jain: Right. Appreciate the color. Thank you.

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

Vibhor Singhal: Yes. Hi. Thanks for taking my question. Krithi, just one question from my side on the two segments that we have seen quite contrasting performance in the past few quarters. So manufacturing has held up quite well for us. And not just for us, for all the companies across the industry. It's been quite stable in terms of growth. Even in this quarter, we almost have double digit growth on a Y-on-Y basis.

So what is keeping this spend up in the manufacturing segment? And are we not facing the kind of delays that we are facing in, let's say, BFSI or other verticals, in the manufacturing segment? And do you think that manufacturing might continue to remain stable in the coming quarters as well?

And a similar kind of opinion about retail. So in retail, we had seen a lot of weakness in the past couple of quarters. And again, not just for us, for the entire industry. Are there any signs of that segment bottoming out? If not today, maybe in a couple of quarters' time? Just a little bit color on these two verticals?

K Krithivasan: I would say manufacturing is doing well because of the low base and the delayed pickup in demand and growth compared to other industries. And as the supply chain situation also eases slowly, customers are able to see the growth. Today you see the demand is still high for many of the automakers. I think that's probably driving it. And again, I won't be able to say how long this will last because it will eventually be a function of the overall economy.

On Retail, our view is, or what we see, the essential retail is doing well. But if it is luxury or fashion or other specialty retail, we find that there is a softness in demand in such sub-segments of the industry. So that's a broad color that we can provide you on these two verticals.

Vibhor Singhal: Got it. And on the manufacturing part, just a follow-up. Is it only the auto part of the manufacturing segment appearing stable at this point of time and looking to continue to spend? Or are the other sub-verticals in manufacturing also kind of stable?

K Krithivasan: No, we don't provide that detailed color. I think, excepting one, quite a few of the sub-verticals are doing well. And our outlook may not even apply for the overall industry, as we also have significant market share gain in this segment, which is also driving our growth.

Vibhor Singhal: Got it. Great. Thanks a lot for taking my questions. I wish you all the best.

Moderator: Thank you. We have our next question from the line of Ankur Rudra from JP Morgan. Please go ahead.

Ankur Rudra: Hi. Thank you for taking my questions. Just the first question, a bit on the demand, maybe one more time. Krithi, of course, you've seen over your long time at TCS several demand cycles over the last 30 plus years. Is it possible to compare the current client behavior to any of the prior periods, such as perhaps post dotcom or GFC or taper tantrum or anything? Or is it completely novel? That's question number one.

K Krithivasan: I don't know if I can compare with any other cycle in the past. Every cycle has its own nuances. I would say today the way to look at the environment, there is an uncertainty because of which customers are reviewing or assessing the ongoing programs. At the same time, there is so much they realize that they have to do because there is so much of technology debt within each one of those industries.

And unless they carry out those transformative programs, they'll have a competitive disadvantage. So these two things are at play. So that's the reason, we keep saying that while the TCV is high, we do see softness in the short-term revenue.

I don't know whether, we can compare or again, I'm not sure what is the value you get in comparing also, Ankur. Like today, the reality is, long term, this technology spend has to happen. Short term, the customers are navigating the uncertainty there.

Ankur Rudra: Okay. I was just looking for if there is any historical path we can compare with. But fair enough. Thank you for the comment. Maybe moving to the Generative AI side of the discussion. Thank you for all the color today. I'm just curious if you think Gen AI would be a needle mover on revenues either for this year or the next. And if it is showing up in contract discussions at all, maybe as a source of price aggression in cost takeout deals?

N G Subramaniam: I don't know. It is not showing that much as being a differentiated feature in our contract discussions. But, you know, everybody is curious about its value. And if you really look at, the investments that large enterprises are making as they move to a cloud native architecture, there is an intelligence layer in the overall architecture.

Given the power of Generative AI or its potential, there have been efforts from everybody to see whether the architecture that has been put in place is consistent with the capabilities or potential offered by Generative AI, whether such architecture need to be tweaked. So that is the kind of discussion we are having.

There is always a question around, to explain, how much of this Generative AI capability needs to be developed at the enterprise level in-house and keep the knowledge and the learnings in-house and how much of it can go outside for its larger public cost is a debate. And that's consistent with the debate that people used to have earlier in terms of private cloud versus public cloud.

So all these discussions, I think, you know, will happen for the next at least a few quarters. Then there will be, a meaningful conditional, unconditional model that will emerge. That will get embraced by the larger enterprises is what I see, as evolving. It's purely my personal view.

Ankur Rudra: I appreciate that. One last question on contract profitability. How is that progressing? I realize that, gross margins have continued to take a hit, probably due to wage hikes this time. But if you look at the full year in FY'24, I know you expect margins to be clawed back. But do you think there is any chance that margins on a full year basis might actually not expand in FY'24 or might even decline despite the supply easing up?

Samir Seksaria: Ankur, all our efforts collectively will be towards improving margins. But right now, given the current macro, it's difficult to give a color in terms of how it would end up exactly. Rest assured all efforts are going towards improving the margins.

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

K Krithivasan: Thank you, operator. We have started the fiscal year with a string of marquee wins, a robust order book, and revenue growth of **12.6%** in rupee terms and **7%** in constant currency terms.

We see strong interest in Generative AI among clients. While we are helping them explore use cases with proof of concepts and pilot, we also launched an advisory offering to help clients create a holistic vision, strategy, and plan for enterprise-wide adoption of Generative AI.

We are also upskilling our employees at scale. We plan to create a talent pool of over 100,000 Generative AI trained associates.

Our operating margin in Q1 was at **23.2%** following our annual salary increases. Our net margin was at **18.6%**.

On the people side, we will be honoring all the job offers we have made but remain focused on utilizing the capacity we have already built up. Our LTM attrition in IT services fell further to **17.8%**, and we should be back in our normal industry-leading range in the second half of this year.

With that, we wrap up our call today. Thank you all for joining us. 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 call. Thank you for joining us and you may now disconnect your lines.

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