Tata Consultancy Services Limited

Q4 & Year Ended 31st March 2025 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 Ms. Nehal Shah from the Investor Relations team at TCS. Thank you, and over to you.

Nehal Shah: 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 2025 that ended March 31, 2025. 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: Hi, good evening.

Nehal Shah: Mr. Samir Seksaria, Chief Financial Officer.

Samir Seksaria: Hello, everyone.

Nehal Shah: And Mr. Milind Lakkad, Chief HR Officer.

Milind Lakkad: Hi, everyone.

Nehal Shah: 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 this risk in the second slide of the quarterly fact sheet available on our website and email 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, Nehal. Good day, everyone. I'm pleased to announce that we are concluding **FY '25** by surpassing the **$30 billion** revenue milestone. We have achieved this while maintaining industry-leading margins, exceptional return ratios and a strong balance sheet. It is very gratifying to see that most of our leadership team has been part of TCS' extraordinary journey, growing **14 times** in the last two decades. We extend our heartfelt gratitude to all our current and former employees, partners, customers and other stakeholders who have supported us over the past **57 years.**

Our financial year 2025 revenue grew by **4.2%** in constant currency. Our operating margin for the year came in at **24.3%.** Our net margin was at **19%**.

Coming to our more recent performance, our Q4 revenues grew **2.5%** on a constant currency basis. All major markets grew sequentially. Our record Q4 TCV of **$12.2 billion** demonstrates our ability to gain market share. **North America TCV** reached an all-time high of **$6.8 billion**. **BFSI TCV** was **$4 billion**, and **Consumer Business Group** contributed **$1.7 billion**. This impressive performance stands out in the absence of mega deals.

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

Samir Seksaria: Thank you, Krithi. Good day, everyone.

I will start with the full year's numbers and then proceed to the quarterly commentary.

For the full year, our revenue was **$30.2 billion**, a **year-on-year growth** of **4.2%** in constant currency. The revenue growth is **3.8%** in dollar terms and **6%** in rupee terms.

Our FY '25 operating margin was at **24.3%,** a decline of **30** basis points over the prior year. During the year, we had a **200-basis point** headwind resulting from annual wage increases and other tactical interventions for our associates such as promotions. These merit-based interventions were part of our ongoing efforts to invest in our people and ensure their growth and satisfaction within the company. We had a further **130 basis points** headwind from continuing investments in infrastructure and capability building. To mitigate these headwinds, we focused on improving utilization, productivity and realization. Additionally, we received an **80-basis point** support from the currency.

Net margins for **FY '25** were **19%** and our EPS grew **5.1%** year-on-year.

Our effective tax rate for the year was **25.3%.**

The Board has recommended a final dividend of **₹30 per share**, bringing our total dividend for the year to **₹126 per share**.

Coming to **Q4**, for the quarter ending 31st March '25, our revenue increased by **2.5%** year-on-year in constant currency terms, reaching **₹64,479 crores**, that translates to a growth of **5.3%** in rupee terms and our dollar revenues were at **$7.47 billion**, **Y-o-Y growth** of **1.4%.** Our Q4 operating margin stood at **24.2%,** reflecting a sequential decline of **30 basis points**.

During the quarter, we incurred **100 basis points** headwind due to tactical interventions. Additionally, we incurred a further **60 basis points** headwind from strategic marketing and purpose-driven initiatives. We managed to mitigate some of these headwinds by improving our operating leverage and optimizing our revenue mix. Furthermore, currency movements provided **40-basis point** support.

Net margins in **Q4** were **19%.**

Our accounts receivable stood at **71 days** DSO in dollar terms for **Q4 and** were down three days sequentially.

Our cash conversion this quarter continues to be strong. Net cash from operations was **$1.78 billion**, which is **125%** of net income.

Free cash flows were **$1.48 billion,** and invested funds at the end of the period stood at **$5.53 billion**.

Let me walk you through our **segmental performance**. Note that all growth numbers are on a year-on-year basis in constant currency, unless mentioned.

In **Q4**, BFSI grew **2.5%** while the consumer business group declined **0.2%.** Life Sciences & Healthcare declined **5.6%;** Manufacturing declined **2.9%;** whereas Technology & Services grew **1.1%;** Communication & Media declined **9.8%;** ERU, which is Energy, Resources & Utilities grew **4.6%;** and Regional Markets grew **22.5%.**

Moving on to geographies. Amongst major markets, Europe grew **1.4%,** U.K. grew **1.2%,** whereas North America declined **1.9%.**

All growth markets continued their strong performance this quarter also. Middle East and Africa grew **13.2%,** LatAm grew **4.3%** and Asia Pacific grew **6.4%,** while India had a growth of **33%**.

I'm now going to talk about a few of our industry-leading portfolio of products & platforms. Our expanding suite is doing well in the marketplace.

- **ignio™**, our cognitive automation software suite saw **30** new deal wins and **11** go-lives.
  - **ignio™** has introduced *Code Accelerator,* an advanced GenAI powered tool designed to automate code generation and transformation, significantly reducing time to value for customers. This feature has already been deployed across more than **80%** of our SaaS customers, boosting productivity by **150%**. *Code Accelerator* has played a key role in driving faster product adoption by delivering first-time right use cases. Additionally, **ignio™** is leveraging GenAI capabilities to expedite the migration of its on-premises customers to SaaS, by

seamlessly transforming their code to be compatible with the latest platform, making them future ready.

- **TCS BaNCS™**, our flagship product for financial services, continued its leadership with **4** wins and **4** go-lives during the quarter.
  - The primary drivers for core transformation in the banking sector, driving strong demand for our products, include data harmonization, real-time analytics, compliance and monitoring and unified customer experience.
  - Banks and credit unions worldwide are increasingly adopting public cloud technologies, which offer cost efficiencies, AI tools, zero trust architecture and robust security. The shift to cloud native technologies and micro services architecture is facilitating easier migration and enhancing legacy systems.

- **TCS BFSI** Product & Platforms saw **3 wins** and **3 go-lives** during the quarter.
- **TCS Quartz™**, our innovation-led platform, leveraging blockchain and AI, had **2 wins** and **1 go-live** this quarter.
- **TCS iON™**, our platform for digital assessment, digital marking, exam administration and learning hub, had **35** new **wins** and took **75+ platform capabilities live**.
  - Our assessment platform administered in-center exams for over **21 million candidates** and remote assessments for more than **82,000 candidates**.
  - **State governments** in India are investing in building digital platforms for skill development to ensure inclusivity of the youth in the last mile and allocating annual budgets for **youth skilling** linked with employability.
  - Moreover, universities in India are looking for end-to-end automation platforms to make their online degree programs, user-friendly and scalable. These key trends should drive growth for the **iON platform**.
- **TCS OmniStore™**, our AI-powered Universal commerce suite, had **2 deal wins** and **3 go-lives** during the quarter.
  - A leading American healthcare company selected TCS AI-powered unified commerce platform, TCS **OmniStore™** to modernize customer journeys. TCS has deployed the end-to-end next-gen omnichannel Point-of-Sale solutions in **25 stores** across four states as part of a planned nationwide rollout across more than **9,000 locations**. The Composable architecture with distributed Cloud and Edge ensures full resiliency while maintaining centralized control and monitoring. The intuitive user interface leverages Vision AI and interactive

display, enabling personalized and gamified checkout experiences and training free transactions. The self-filling solution, which integrates seamlessly with legacy hardware ensures seamless uninterrupted service, greater agility and speed to market. This will significantly improve operational efficiency and compliance, reduce checkout times by over **20%**, revolutionalize the colleague and customer engagement and enable innovation at checkout.

- **TCS Optumera™**, our AI-powered retail merchandising suite, had **1** win and went live for **1** client.
- **TCS TwinX™**, our digital twin solution had **3 wins** and **1 go live**.
- In Life Sciences**, our TCS ADD™ platform** continues to win an increased focus on leveraging AI in the life sciences industry.
    - Pharma companies are especially investing in AI use cases to improve trial productivity to enhance diagnosis of diseases and informed decision-making, reduced time for drug research & development and to design personalized treatments.
    - **TCS ADD™** is actively working within **GenAI PoCs** across Literature Search and Insights, Patient Insights, Safety Case Processing and Medical Monitoring. Our offerings continue to enable digital ecosystem for patient-centric clinical trials, leveraging AI for data flow across the clinical value chain.
- **TCS HOBS™**, our suite of products for communication service providers, had **3** wins and **1** go live this quarter.
- **MasterCraft™ and Jile™** had **27 deal wins in Q4**.

Coming to the Client metrics, our transformational work for customers is expanding our share of our wallets and leading to broader and deeper engagements. In **FY 25**, we had **64** clients in the $**100 million-plus** revenue band, an increase of 2 over the previous year.

With that, I'll hand it over now to Milind.

Milind Lakkad: Thank you, Samir. Good day, everyone. Our workforce at the end of FY '25 was **607,979**. We continue to enjoy pride of place as the employer of choice by prioritizing a culture of professional and personal growth, well-being and purpose-driven engagement. Our LTM attrition was stable at **13.3%.**

During the year, we strengthened our talent pipeline through strategic investment in skill development. Our campus hiring program is progressing as planned, and we are gearing up to onboard an increased number of campus hires in FY '26**.**

Our investments in organic talent development are yielding phenomenal learning outcomes. As a leader in both **'Skilling for AI'** and **'Skilling with AI,'** TCS offers a robust ecosystem of learning, including role-specific courses, cloud-based lab environments, learning zones with **hyperscalers** and **gamified hackathons**. We have established a scaled training ecosystem, including the **AI experience zone**, **Fresco playgrounds** and **AI Symposium.**

TCS is **ranked #1** in AI and data certifications across three **Hyperscalers** and **GitHub**. The use of TCS' own AI/GenAI tool by employees ramping up with GenAI coaches, tutors, simulations, algorithms, etcetera. The associates have clocked **56 million** learning hours and acquired **5.2 million** competencies in FY '25**.**

We achieved a significant milestone this quarter by earning our first ever Enterprise-Wide Top Employer Certification from the **Top Employers Institute**. This milestone builds on TCS' achievement as a Global Top Employer for 2025, making an unbroken record of receiving this distinction over a decade. We have recently been ranked by **LinkedIn** as a **Top company to work for in India**, receiving this recognition for the fifth year in a row.

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

K Krithivasan: Thank you, Milind. I'm pleased with the performance this quarter in a challenging global macroeconomic environment. All Major Markets grew sequentially, and we are proud to successfully deliver a Nation-building transformation engagement in our Growth Markets. We also saw a second consecutive quarter of very strong TCV, which consisted of a good mix of large, medium and small deals, which augurs well for future revenue visibility.

We are seeing TCV improvement across markets as clients prioritize initiatives around technology modernization, cost optimization, vendor consolidation, operating model transformation, risk and compliance. We have all been witnessing an increased level of uncertainty in the global economic and geopolitical landscape in the last few weeks, marking a shift from our commentary in January.

We have seen instances of delays in decision-making and discretionary spending has come under heightened scrutiny and pressure recently. We remain close to our customers to understand how these changes are impacting them directly or indirectly.

To be successful in this environment, businesses must find a way to quickly adapt, anticipate change and transform not only to mitigate potential disruption but possibly even turn it into a strategic advantage. This transformation is not a one-time event, it's an ongoing evolution that drives perpetual adoption across every facet of business from responsive supply chain and rapid product development to future-ready workforces. In short, perpetual change must be met with perpetual adaptability. A technology-led approach can turn these transformation goals into achievable realities. We are well positioned with our clients to help them transform their businesses for perpetual adaptability and to reinvest for future-proofing their business models for the long term.

Let me now give some specific color on our performance during the quarter and outlook for few verticals:

- **BFSI** clients continue to focus on initiatives led by tech modernization, cost optimization, vendor consolidation and regulatory spend. Banking and financial institutions are proactively addressing tech obsolescence via legacy modernization efforts, examples being core platform upgrades in payment operations and improved lending experience.
  - Data and AI initiatives are seeing significant adoption for driving operational efficiencies and improving customer experience.
  - Resilience and availability are being prioritized through cloud adoption and cybersecurity practices.
  - In the **Insurance sector** in the US, we saw instances of delayed decision making.

- The **Consumer Business Group** saw heightened caution and delays in discretionary projects, especially in the US. This was driven by the significant drop in consumer sentiment in February, which preceded changes in global trade and tariffs creating a domino effect on retail CPG and TTH industries. However, prioritizing cost saving and defensive technology-debt reduction and modernization initiatives, especially on the interface digital core. There is fair interest in the adoption of next-gen technology such as AI, GenAI and IoT via relatively small projects.

- I'll now share an example of how we helped a greenfield transformation to **S/4 HANA**, consolidating multiple **ERP systems** and harmonizing process across the group. A leading European rail company partnered with TCS to drive enterprise-wide transformation. TCS leverages its deep domain and ERP expertise to simplify, harmonize and integrate over **200 disjointed systems** and business processes across five major divisions. TCS implemented a unified and scalable digital foundation in a hybrid architecture, comprising of a greenfield implementation of a leading ERP digital core, a business technology platform and a suite of cloud-based SaaS solutions. The transformation focused on improving process consistency, data quality, operational stability, efficiency through automation, decision support and financial reporting. The platform is implemented in four languages, supporting operations across multiple geographies and diverse user groups. This has improved vehicle maintenance quality, enabled cross-divisional lifecycle view of assets and real estate portfolios, delivered cost savings in fleet control room operations, construction projects, real estate management and procurement, besides driving increased punctuality, safety, and comfort for customers. This strategic initiative has strengthened the client's digital backbone and laid the foundation for future ready operations.

- In the **technology, software and services industry**, we saw modest growth through the quarter. Client IT budgets have remained flat, reflecting cautious optimism, amid geopolitical uncertainties and fluctuating inflation. Enterprises are now funding incremental technology upgrades through savings generated from optimization and rationalization efforts. Technology companies are leveraging GenAI to boost efficiency and experience across the value chain and also to optimize the software development life cycle. For **a leading services company**, TCS has redefined the software development life cycle by embedding GenAI-driven quality engineering across the organization. TCS established a centralized Test Center of Excellence, integrating automation and GenAI across **150 plus** critical applications developed with multiple tech stacks, powering over **500** release cycles annually. This COE elevated quality engineering from a traditional function to a catalyst for business growth, continuously improving time-to-market product quality and ensuring an exceptional end-customer experience. This transformation also led to a **50%** reduction in overall manual effort, the elimination of manual testing, expanded test coverage and improved consistency, significantly enhancing overall product quality.

- In **Life Sciences & Healthcare**, the client-specific challenges called out by us earlier are largely behind us. In Life Sciences, clients are significantly reducing operational costs and creating delivery models that align with our business goals, creating opportunities for vendor consolidation.

- In **Healthcare**, spending is seen in initiatives, including tech-led business transformation, cost optimization, strengthening of cybersecurity, vendor consolidation and scaling GenAI. However, in healthcare, deals are taking longer to close. Customers are moving cautiously and prioritizing critical business initiatives. Growth programs are being either postponed or timelines are being reassessed.

- In Q4, we continued to see softness in **Manufacturing**. Auto industry is facing uncertainties due to EV downturn and turbulence in the ICE market with the burgeoning inventories. Auto OEMs are experiencing pressure, and we are seeing weak demand and cuts in discretionary spending. The aerospace industry is seeing a surge in demand for new planes and engines but are struggling in the near term due to supply chain disruptions. In North America, momentum is building for cost optimization initiatives as part of renewals, vendor consolidation and automation, including GenAI. Cybersecurity and technical debt reduction initiatives are also gaining focus and momentum.

- For a leading luxury automobile OEM, TCS helped improve user experience by enhancing the ecosystem and vehicle architecture and making it future proof to cater to changing customer demands. TCS designed a high-performance system with high density, high-speed data communication with efficient power dissipating thermal management.

- The **Communications, Media and Information vertical** continues to encounter industry-specific challenges and discretionary spend continues to remain under pressure. However, we saw growth improve this quarter led by demand from vendor consolidation, technology-led productivity improvements programs. As businesses look to scale and secure their digital infrastructure in response to growing customer demands for individualized content and services, there is a noticeable movement towards cloud services and cybersecurity.

- The **Energy Resources and Utilities vertical** continues to grow well. We have a strong pipeline of opportunities from both existing and potential clients. Key factors contributing to this strength include investments in advanced technologies such as AI/GenAI, data analytics, and energy storage to enhance operational efficiency and reliability. There is a shift towards cleaner energy sources that will generate new markets and opportunities for energy companies.

- We continue to see traction in **Growth Markets**. Currently, we have a very strong deal pipeline, broad-based and robust TCV growth. Led by a largely positive macroeconomic outlook, we expect to continue the momentum into the next fiscal. Key themes driving demand is public sector spend in these markets, on improving citizen experiences and implementing technologies that ensure social responsibility and cyber resilience, with an emphasis on hyper personalization and environmental commitments. We are working on nation-building transformation projects in these markets.

  Moving on to service practices, in Q4, **AI/GenAI, Data and Cloud, IoT. DE** and Enterprise Solutions drove strong client engagements and growth. Our pipeline of AI/GenAI engagements is higher than the last few quarters, and we saw a significant increase in deal wins across “AI for IT” and “AI for Business.”

  In FY '25, there was a noticeable shift in the cloud market with significant growth in sovereign cloud requirements, AI infrastructure investments and accelerated legacy modernization. These trends are driven by privacy, real-time inference needs, and the demand for technological currency.

  Data modernization has paved the way for more AI/GenAI in business activities. There is an increasing demand for cross-industry GenAI use cases in the areas of contracts management, sales campaign content creation, customer servicing, tech support, smart data insights, and talk-to-data, targeting higher productivity and better experiences.

  The propensity to roll out more GenAI use cases to production is increasing, and the organizational barriers witnessed earlier are diminishing. There is evident maturity in the request for GenAI pilots with a sharper focus on business outcomes rather than mere experimentation. The demand for app and data migration-modernization to the cloud is also increasing, driven by the need for simplification and responsiveness to dynamic business demands across various sectors.

  We also see an uptake of cloud FinOps and Center of Excellence services to enhance cost efficiency and service maturity.

  - To give an example, TCS has been selected by **South African state benefit scheme**, **Road Accident Fund** to drive the **cloud migration journey** for improved operational resilience and better customer experience. Driven by the vision to provide equitable and sustainable compensation system for motor vehicle accident victims, RAF partnered with TCS to realize its cloud-first strategy. As part of the engagement, TCS migrated RAF’s core infrastructure, business applications and workloads to the public cloud, ensuring increased capacity utilization and effective oversight of business-critical activities. The shift to cloud has not only helped RAF gain competitive advantage but also enabled a robust claim process and increased value delivery. TCS has also ensured skill transfer to our RAF employees, empowering them to make the maximum use of the scalable, automated, and seamless cloud environment.

Our strategy on AI and data is focused on three clear levers. Relevance, scale and trust. First, we are investing deeply in industry-specific AI and data solutions - because clients don't want generic tools. They want outcomes tailored to their business. Second, we are building scale through strategic partnerships and a unified platform approach. And third, we are emphasizing Responsible AI and data governance. We are confident of improving our market share from being the partner of choice for our customers. Let me share a few examples of recent deal wins in AI and GenAI.

- A large utility company in North America needs to manually inspect vegetation around its infrastructure. The scale is **5,000 plus** circuits, **50,000+ circuit miles,** and more than **1.6 million** individual trees. TCS has been chosen to build **AI/ML model** based on data across LiDAR, satellite imagery, weather patterns, vegetation characteristics, wildfire incidents, etcetera. These models aim to improve pre trim inspection, trim prescriptions, budgeting, forecasting and yearly risk prediction (eg. of wildfire hazard) helping utilities and communities manage vegetation and reduce hazards.

- A **European Energy and Digital Services Company** has chosen TCS as a partner to launch the first AI factory for digital acceleration. It aims to build resilience through scalable AI solutions for Energy, Industrial and Digital Transition by leveraging TCS' innovation framework PACE. A few of the AI solutions include:
  - AI assistant for faster audits of client energy consumption data, enabling high-quality decarbonization scenarios.
  - AI assistant for fire and safety field engineers to access multilingual fire safety protection standards from thousands of documents.
  - AI assistant to review contracts and provide risk-related recommendations
  - Voice Assistant for service risk transformation.

- TCS has designed a unified supply chain insight solution powered by Agentic AI for U.S. biopharma. It enhances the ability of the control tower function within this supply chain with self-service access to holistic insights from multiple sources. These sources span across structured, unstructured datasets, and news articles.

- Our success is evident in our strong performance in analyst surveys in **FY '25**, securing **43 leadership positions** across AI, Data, and Cloud, of which **3** were in data, **31** in cloud, and **9 were in AI.**

To conclude, our expertise in AI and digital innovation, coupled with the unmatched knowledge of customer context and global scale makes us a pillar of support for our customers in this environment of macroeconomic uncertainty. We remain committed to staying close to our customers and helping them achieve their core priorities, with TCS's comprehensive portfolio of offerings, best-in-class capabilities, innovation and thought leadership.

Thank you. We can now open the line for questions.

Moderator: We'll take our first question from the line of Yogesh Aggarwal from HSBC Securities. Please go ahead.

Yogesh Aggarwal: Thank you. Hi, everyone. So just a couple of questions. Firstly, Samir at the media conference, you mentioned some tactical investments, which is why the margins were a bit weak this quarter. Can you elaborate a little bit?

Samir Seksaria: I meant tactical interventions, which had a sequential margin impact of 100 basis points. And those are primarily promotions, which were effective 1st of January.

Yogesh Aggarwal: Okay. So just wondering, Samir, what drove it because the quarter growth was still slow, and you guys are not even certain about the wage hikes for next year when will they come into effect. So, what was the trigger behind these promotions which weren't planned earlier?

Samir Seksaria: It is not that promotions were not planned earlier. It is in its normal course. We were probably one of the only companies who gave a full cycle of increment also, starting at the beginning of the year. And these are not something which were unplanned.

Yogesh Aggarwal: Okay. Krithi, it's hard to be optimistic in the current environment. But usually in the past, after every crisis, there has been a tailwind for the IT industry as clients invest in various newer areas. So, in your conversations, once dust settles down on the tariff tantrums, do you think there are any new areas which could open up for the industry at least for the next one to two years?

K Krithivasan: Medium to long term, Yogesh, I definitely believe there will be in two ways. One is AI/ GenAI is gaining a lot of traction and momentum. And currently, while the immediate focus in many places has been on how we apply it on AI for IT, AI for Business is picking up a lot of traction. Like people are trying to see what are the use cases in the entire value chain, where they can deploy AI to improve customer experience, speed or whatever.

So I definitely believe that will gain even more traction. The second is, as we've been calling out, many organizations, the technology debt continues to be very high. So, tech transformation in many forms, like moving into cloud, moving out of legacy infrastructure, all of them will also gain steam, once people have more visibility and certainty on the medium to long-term. So, I would call out for these specific areas of growth potential.

Yogesh Aggarwal: Thank you.

Moderator: Thank you. We'll take our next question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Hi, Krithi. Thanks for the opportunity. Just a couple of questions. Firstly, you are still talking about the expectation of FY '26 being better than FY '25. This is despite the **8%** decline in the full year bookings and some macro deterioration which we called out over the last four to five weeks. So, what is giving you this confidence? And are you betting on a major improvement in macro side going forward for this equation of FY '26 to be better than FY '25?

K Krithivasan: So, Sudheer, we have had two quarters of good TCV. And that's what one most important factor giving us confidence. And two is our belief. We can go wrong or believe that this uncertainty will be short-lived. And some clarity will emerge, and our clients will start investing towards more technology transformation programs or adopting technology. So, this is essentially based on client conversations we are having. And we believe some of the pauses we saw are more temporary.

Sudheer Guntupalli: Fair enough, sir. And the second question is the order booking this quarter has been very strong on a sequential basis. And you're saying there is no mega deal within this. Any color on how the mix between renewals and new deals would have played out vis-à-vis December quarter? If there are any major shift towards new or towards renewals?

K Krithivasan: No, Sudheer, we've not been giving exact split. But in terms of percentage, there is no major change between renewal and new. And similarly, I can give another data point like between cost optimization programs as well as discretionary programs also, there has not been a major change compared to last quarter.

Sudheer Guntupalli: Fair enough, sir. Thank you so much. All the very best.

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

Ravi Menon: Thank you for the opportunity. You talked about how last quarter, I think that the deal durations are a little lower, and that means that the TCV will convert to revenue faster. So, should we think about the FY '25 deal wins in that context that although it's nearly 8% lower year-on-year because the durations are lower, still the ACV number is higher?

K Krithivasan: Ravi, if I remember right, we talked about the deal cycles being shorter. They're shortening in Q3. We did not say the deal durations are shrinking. And the deal cycles continue to remain where it was at Q3 level. We did not say in Q3, the deal duration has shrunk.

Ravi Menon: Thank you. So, the promotion cycle seems to be something that's unusual and I think that along with the wage hike deferrals seems to be conflicting signals. Could you explain a bit about that thinking? I mean, were these promotions that should have ideally been done last April and didn't happen, so it's almost a delay? How should we think about it?

Milind Lakkad: Yes. So, these promotions were planned and that's why they were carried out. The wage hikes are for FY '26. And that is why, basically, that is the reason why we are basically looking at the way there is uncertainty in the environment.

Once clarity emerges and then we will decide, when do we carry out these wage hikes.

Ravi Menon: Thank you. And one last follow-up from me, if I may. Did you do a lot of higher- and lateral hires this quarter? Would that also be part of the reason why employee costs are up?

Milind Lakkad: Our campus hires are going as per plan. Our lateral hires come in every quarter, depending on the business situation. That is how we have been operating all along.

Ravi Menon: Okay. Thank you.

Moderator: Thank you. Next question is from the line of Ankur Rudra from JPMorgan. Please go ahead.

Ankur Rudra: Hi. Thank you. Just to start with, can you clarify your comment about fiscal '26 better than fiscal '25? Is that for the whole business or is that only for the international business?

K Krithivasan: Ankur, it is for international business. We believe, FY'26 will be stronger than FY'25. But there is also an expectation that once the uncertainty settles on, there is an opportunity for us to deliver as a whole business also because we are constantly looking to replace the headwind. I think you guys are all worried about how the BSNL revenue is going to be replaced. We are also constantly looking at opportunities to replace this revenue domestically and internationally also.

Ankur Rudra: Okay. Thank you for the clarification. I just wanted to ask a bit about the wage increase. I think you've answered it in multiple ways, but just a clarification. In the last cycle, when were such promotions given? Is it along with the wage hike? Is it somewhere else? Is it sort of -- are you anniversarying such promotions?

Milind Lakkad: See, we have been giving promotions every year as per the cycle every quarter. And that is what we have been following. And we have done two cycles of promotions, as per the plan, and that has happened this year. So there's -- this is done as per the plan for FY '25. There are absolutely no delays in this.

Ankur Rudra: Okay. Understood. So historically, this may be the same time, maybe it's more visible this time versus the other periods?

K Krithivasan: Ankur, promotions depending on the grade happen throughout the year, almost every quarter. In July and January, we give more promotions because at that time the senior grades are addressed. For junior grades, the promotions happen almost every quarter.

Ankur Rudra: Okay, understood. Thank you. Just a question on the AI side. You mentioned AI for IT and AI for Business. On the AI for IT side, is there any kind of deflation you see in your existing order book if you start to infuse AI proactively in existing projects? That's part one.

And part two on AI for business, is this a net new opportunity in case innovation is really being funded by savings on the legacy side like you were mentioning in your prepared remarks?

K Krithivasan: So, Ankur, on the first one, AI for IT, I won't try to call it deflation. We try to deploy AI in every project we do. And particularly, if there is AI for IT, because of AI if there is a productivity gain, we will try to share those gains with our customers. So, in that sense, that will be what we did with $100 if we are able to do with $95 or $90.

And if I'm going to share a realize a benefit, we will share the same with the customer. And on AI for business, most of it would be net new because these are programs not done before at all.

Ankur Rudra: But I understood from your comment that this was being -- I mean, at a budget level, it has been funded by saving on the legacy side.

Ankur Rudra: I think on the budget side you mentioned that customers are funding AI innovation by saving cost saving initiatives. So, is that what you meant?

K Krithivasan: That also happens. When there is a cost optimization, when customers have to do a new program, not all the funding will come from a new increase in spending. Some funding will come from savings on the existing program, which can come from AI for IT, if it saves something that can go towards funding a new AI for Business Programs.

So, when I said AI for Business is net new, those programs are net new. Some funding can happen from cost savings that come from AI for IT.

Ankur Rudra: Okay. Understood. Thank you so much and best of luck.

Moderator: Thank you. We'll take our next question from the line of Apurva Prasad from Franklin Templeton. Please go ahead.

Apurva Prasad: Thanks, Krithi, I'm trying to understand the current uncertainty that you mentioned in the business environment. So, the variability of, let's say, 2 percentage points from the beginning of the quarter expectation to where you finally ended. Is that largely a function of how March played out because the decline in the large program would have been fairly anticipated?

K Krithivasan: A good portion of that came from delays that happened in March. But I think from the middle of February, some sectors like CBG because this chatter started, particularly as I called out, when consumer confidence fell, it started falling towards the end of February itself.

So, like we said that some sectors we had some delays and deferrals started happening in late February or third week of February, but a significant part of it is in March.

Apurva Prasad: Okay. And you touched upon this earlier, but how do you see the net impact of AI for Business versus AI for IT playing out currently in the business and then your reckoning over the next few years because it's very clearly deflationary in the current service portfolio and because there seems to be more cost optimization and budgets are flat. So, the net impact between the two over the medium term in your reckoning?

K Krithivasan: Apurva, I can answer for this year. See, for instance, in one of our large deals we won, we demonstrated to our customers how AI for IT can save them significant cost. That resulted in the customer actually giving us a much larger portfolio and resulted in market share gain. For TCS, it proved to be a net incremental in revenue, not deflationary.

So just because AI for IT can bring in productivity doesn't mean it has to be – reducing our overall revenue. It can help us with market share gain. And we do see instances. Currently, even otherwise also, we are not seeing instances where AI for IT is creating deflationary situation, and after including AI for Business, we see net-net positive at this time.

K Krithivasan: But Apurva, just keep in mind like all these projects, we are not talking about huge material number at this time on these AI, we are doing a lot of projects, but many of them tend to be medium to small.

Apurva Prasad: Yes, you did indicate the pipeline is higher, but not quantify that, but I'll take that. And this is just finally, for Samir, on margins, if you're indicating that international markets are going to be better, '26 versus '25 and, let's say, lower impact of software license and equipment cost. What are the headwinds that you're seeing for '26 margins?

Samir Seksaria: Right. So I think if the current uncertainty prevails, like in the present circumstances that can lead to lower operating leverage as utilization will be impacted and sudden contraction in demand delays or deferrals can have an impact on margins, so that is one headwind. Secondly, we might not enjoy the margin benefit coming from the currency movement as we have seen in FY '25.

Apurva Prasad: All right. Thank you.

Moderator: Thank you. We'll take 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 a little bit of more color on the overall environment that we are seeing at this point of time. So, at this point of time, is it fair to say that the uncertainty that we are seeing or the delayed decision making that you talked about is actually present across the segments or is it more prevalent in, let's say, verticals which are directly impacted by the tariff implementations like manufacturing or retail? Any color on the vertical-wise conversations that would be really helpful?

K Krithivasan: There is some impact across the board, but there are some sectors more impacted than others. For instance, our consumer business, you're seeing more impact like retail, CPG, airlines, travel hospitality, we see more impact. Similarly, there is an impact in the auto sub segment within manufacturing.

But if you take BFSI, by and large the segment is doing okay. There is some softness in insurance. This is a general color I can give you, Vibhor, in terms of the industry level detail.

Vibhor Singhal: And any color on hi-tech also. I mean we have seen a lot of the hyperscalers and companies talking about softness. Anything on that side?

K Krithivasan: Our hi-tech segment per se is not significantly impacted. But we classify professional services under the overall tech services umbrella. Professional services have some softness.

Vibhor Singhal: Got it. Fair enough. That's really helpful. Samir, you've talked about the headwinds and tailwinds that you're looking at for the margins next year. But as Krithi has mentioned that we are looking for the developed markets at least to grow higher than FY '25. If that situation prevails, should we expect margins in FY '26 to be also better than what FY '25 margins were?

Samir Seksaria: Yes. So overall, our aspiration for revenue growth with profitability and operating margins getting closer to 26% still remains. And I think -- so to your direct question, yes, we should be able to improve margins. And that -- I mean, broad-based revenue growth should bring in efficiencies and better operating leverage. And the levers which we have been banking on still continue to provide some potential tailwind like the ones of pyramid, productivity and realization.

Vibhor Singhal: Got it. That's really helpful. Just one last question, if I may squeeze in. I mean, I know we've talked about our business de-risking ourselves from the dependence on H1B visa and all. But are there any changes to that you see at this point of time that with the strong anti-immigration stand that the government seems to be approaching?

Do we need to make any changes or any kind of different hiring that you envisage over the coming quarters? Or do you think it's going to be business as usual for us on that front?

Milind Lakkad: I think it has been the same, whatever we got the H1B visas last year, our actual ratios are even better this year. And moreover, basically, our model is global. We will continue to hire people globally and historically proven that these H1B visa do not affect our business model.

Vibhor Singhal: Got it. Thank you so much for taking my question. I wish you all the best.

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

Gaurav Rateria: Thanks for taking my question. The first question is with respect to a comment that you made in your press release that over a third of your client engagements use AI, GenAI for accelerated project outcomes and high quality. Just trying to understand, is it referring to the overall projects that you work with your clients in the entire business, one third of your all projects have some or other element of AI from a software engineering perspective? Any color on that will be helpful.

K Krithivasan: See what's happening is, any program that we sign today, there is a request and expectation from the customer that there would be a leverage of AI. It need not necessarily mean that the whole program will be done in AI.

There'll be an expectation that for some aspects of Software Engineering, we'll leverage AI, and through AI, it will be expected to deliver a certain amount of productivity. So, this is a normal course because as more and more ADM projects come up for renewal, or even without coming up for renewal, there will be expectations from customers, we will keep them future-ready by infusing AI. We don't see any -- and the productivity benefits if we realize, we pass it on, our share with the customer.

Gaurav Rateria: Got it. My second question is on your strategy for talent for building AI for Business. Have you seen any change in your mix of hiring, either from campus or laterals which kind of changes the quality versus quantity from a futuristic perspective? And would that also mean that there have been some up-front investments in the P&L, which will accrue to you in terms of greater demand in future?

Milind Lakkad: So, I think if you look at our trainee intake, yes, the percentage of hires we have in digital is 40% compared to 17% last year. So that definitely changes from a standpoint of a mix -- and 50% of our lateral hires are coming in with high-end skills, including AI/GenAI and others as well.

Gaurav Rateria: Okay. And lastly, Krithi, getting into the 1Q, how would you see your visibility for a quarter at least? And how do you compare that to last year when you were getting into 1Q? Is it similar, better, worse? Thank you.

K Krithivasan: I'd say, when we got into Q1 of last year, probably we had more visibility than what we have today. But at the same time, we are entering the quarter with two good quarters of TCV also. As I said, I believe this current uncertainty will be more short lived and more clarity will emerge.

And once that emerges, we'll be very confident of the quarter. So compared to last Q1, I would say we are -- maybe there is more uncertainty. But at the same time, we are entering with a strong TCV and pipeline for the future.

Gaurav Rateria: Thank you and all the best.

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

Kumar Rakesh: Thank you for taking my question. My first question was around margins. So you spoke about that there is a 60 basis point impact on marketing exercises. Is that one-time in nature or will that be recurring going forward? And also, the promotion spending, which you said that is the usual part of your planned program. So, if you can give some understanding what it was like last year during this quarter?

Samir Seksaria: Okay. I'll handle the first one in terms of the 60 basis points. So these were mainly marketing interventions, higher travel, some purpose-driven initiatives or CSR expense. Nothing unusual, you'll have pluses and minuses each quarter. So, it's not very significant to call out as an exceptional or a onetime item. I'll let Milind answer on what the number of promotions were last time.

Milind Lakkad: Our promotion cycle in FY '25 was exactly the same as what we had in FY '24. There is no material difference between the two cycles or between the two years.

Kumar Rakesh: Understood, thanks for that. My second question was on the deal TCV, which has picked up over the last two quarters and that would be one of the areas which could be giving you confidence going into FY '26? But can you give some color on what has changed between from first half to second half. Maybe some color on if what has been the mix, how the deals have changed between these two periods?

K Krithivasan: Yes, to some extent, , TCV tends to be lumpy. I don't want to read too much into something change, okay? But what happened is we were able to close more deals compared to before.

Similarly, in terms of mix also, I don't see a significant mix change between Q3 and Q4, in terms of discretionary versus non-discretionary or renewal vs new. The mix has been, by and large, the same. So there is no major difference. But as I said, there have been more closures in Q3 and Q4, resulting in higher TCV.

Kumar Rakesh: So better execution and possibly better decision-making?

K Krithivasan: I would say, faster and more decision-making, execution continues to be more focused from our teams.

Kumar Rakesh: Understood. Going forward, at least in the first quarter, do you have reasonable confidence that this momentum should continue into next year?

K Krithivasan: So, that's what we see like, TCV is very difficult to predict because it changes based on even the customer delays a decision by a week or two, it can cross over a quarter. So, what we can talk about is our pipeline. Our pipeline continues to be strong at a very high level and so it gives us confidence. As decisions are being made, we will have a strong win rate, and we'll be able to report a good TCV. But it can change. From quarter-to-quarter comparison on TCV, it will be very difficult to make some sense or draw meaningful trends unless there is a huge difference.

Kumar Rakesh: So, on the pipeline side, quarter-on-quarter it has been steady or positive. That's fair to say?

K Krithivasan: It has been steady and slowly increasing.

Kumar Rakesh: Perfect. Thanks a lot.

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

K Krithivasan: Thank you, moderator.

In **FY '25**, our revenue grew by **4.2%** year-on-year in constant currency, with an operating margin of **24.3%** and a net margin of **19%.**

We are pleased with the strong **TCV** of $**12.2 billion in Q4**, with sharp uptick seen across markets and industries.

We are monitoring the global situation very closely. We continue to stay close to our clients and strive to be the partner of relevance at all times. I would like to thank all TCSers for their effort and unwavering dedication to realizing their own and company's potential.

We are looking forward to the promising opportunities that 2025 will bring to us with cautious optimism. With that, we wrap up our call today. Thank you all for joining us.

Moderator: Thank you, members of the management team. 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.