Tata Consultancy Services Limited

Q3 FY17 Earnings Conference Call.
January 12, 2017,19:00 hrs IST (9:30 hrs US ET)

Moderator: Good Day Ladies and Gentlemen and Welcome to the TCS Earnings Conference Call. My name is Margreth and I will be the moderator for today's 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, you may signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you and over to you sir.

Kedar Shirali: Thank you, Margreth. Good Evening and Welcome, everyone. My apologies for the late start to this call. As many of you would be aware, it has been a very eventful evening with some momentous developments. We will talk about that a little later on in this call.

For now, we will proceed with the primary purpose of this call which is to discuss TCS' Financial Results for the Third Quarter of Fiscal Year 2017 ending December 31, 2016.

This call is being webcast through our website and an archive including the transcript will be available on our website for the duration of this quarter. The Financial Statements, Quarterly Fact Sheet and Press Releases are also available on our website and have been e-mailed out to those on our mailing list.

Our leadership team is present on this call to discuss our results: Mr. N. Chandrasekaran will be joining us a little later on in this call. For now, we will begin the call with Mr. Rajesh Gopinathan.

Rajesh Gopinathan: Good Morning, Good Afternoon and Good Evening to all of you. Wish you all a very happy new year.

Kedar Shirali: Ajoy Mukherjee, Head of Global Human Resources

Ajoy Mukherjee: Hi! Everyone, this is Ajoy.

Kedar Shirali: Rajesh will give a brief overview of the company's performance followed by the Q&A Session. Chandra will be joining us midway through the call and give a little more color.

As you are aware, we do not provide any specific revenue or earnings guidance and anything said on this call which reflects our outlook for the future or which could be considered 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 also emailed out to those on our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar. Looking back at this quarter gone by, it is a bit hard to believe that we have been through so many tumultuous events -- not to mention what Kedar said we just went through today itself ! We will be joined by Chandra in about half an hour's time and we will talk about it in more detail after he is here.

For the time being, let me just take you through how this quarter has panned out and I will take questions from you on the same.

As I mentioned, it has been a quarter where many events that have affected us from a market perspective have unfolded. Through all these headline-grabbing events, our teams across the world have worked really hard with our clients to deliver an excellent December quarter.

We had mentioned in our last call that we would have a better Q3 this year compared to the one last year, and it has turned out pretty much along those lines.

Our constant currency sequential revenue growth is at **2%** and that translates to **1.5%** QoQ growth in rupee terms and **0.3%** QoQ growth in dollar terms. On a year-on-year basis, our revenue growth this quarter was **8.6%** in constant currency terms and for the calendar year despite all the caution and subdued spending in key verticals, we have added incremental revenue of **$1.45** billion in constant currency.

On the Margin front, we continue to hold on to our operating margin with a steady 26% while we have increased our net margin by 30 basis points to 22.8%. We have also crossed $1 billion milestone in Net Income for this quarter.

Going on to segment details, through the first half of the year, we had softness in BFSI and in the last quarter in Retail and in our India geography. In the last call, we had indicated that this appear to be cyclical headwind and had expected that many of these deferred projects are likely to come back in the short to medium term.

I am happy to note that all these segments have performed exceedingly well in December -- BFSI and Retail grew at 2.1% and 1.9% respectively while India grew at 10.3%. As a reminder, all the numbers that I mentioned are constant currency sequential growth rate numbers.

In fact, with the exception of Communications, Media, Life Sciences and Healthcare, and Travel and Hospitality, all our verticals grew at or above the company average.

In Communications and Media, we saw some renewed volatility with softness in UK, Continental Europe and also in Asia Pacific, resulting in a sequential decline of 4.9%.

From a Geography perspective, I already mentioned India growth. Additionally, US grew 2.2%, UK by 1.7%, LATAM by 12.5% -- continuing its volatile but steadily improving performance -- and Middle East and Africa grew by 3.8%.

As I mentioned earlier, softness in Telecom dragged down growth in UK and Europe as well as in Asia Pac. That apart, demand is fine in these geographies.

In terms of our Service Lines, growth was led by Asset Leveraged Solutions, Infrastructure Services and Engineering and Industrial Services. Digital engagements have driven growth this quarter and they have increased traction on our digital platforms.

Speaking of Digital, we continue to win more than a fair share of our customers digital spend. Broadly speaking, demand has been strongest in Cloud Adoption, Big Data Analytics, User Experience and IoT. We are doing exceedingly well in all these areas – thanks to our early investments in building up capabilities and IP.

I will go through a few small examples of digital engagements we won this quarter:

- We are helping a North American investment services firm define an end-to-end strategy for predicting commercial loan performance using machine learning and AI.
- We were selected by an American National Financial Services Corporation to deliver advanced analytics using comprehensive data management framework develop using TCS Big Data methodology.
- A central bank in North America has picked up for an architecture and strategy consulting engagement to define their enterprise data strategy, operating model and execution roadmap.
- We are also implementing an end-to-end data transformation program using Big Data technologies for another leading North American bank.

Overall revenues from Digital engagements made up 16.8% of our revenue this quarter, a growth 6.6% QoQ and 30.2% year-on-year in constant currency.

While Digital revenue growth is the ultimate evidence of our successful pivot into this new technology space, the other indicator is customer recognition and accolades and awards that we have picked up along the way.

In November, we won the coveted “2016 Digital Innovator of the Year” award from GE as part of their Ecosystem Excellence awards, in recognition for the innovation and excellence embodied by TCS Digital Store™, a program that we implemented for them.

It is a suite of over 150 innovative ready-to-use digital solutions, many of them built on Predix that deliver superior customer experience, real-time data analytics and organizational agility across multiple industry segments.

In terms of key deal wins this quarter, we signed 9 large deals which were well distributed across 6 verticals; 3 being in BFSI, 2 in Retail and 1 each in Manufacturing, Utilities, Transportation and Government.

Geography wise, Europe accounted for 5 of these 9 wins, highlighting what we said earlier about continuing strength in that geography. We had 2 wins, each in North America and APAC.

Moving on to client metrics, client addition at the entry level and migration up the revenue bucket have been fairly robust sequentially as well as was same quarter last year. However, two of our $100 million+ clients slipped below the threshold partially due to currency movements in the last 12-months and partially due to reduced spending.

On the people front, our continued investment in our people is showing up in terms of higher motivation levels and higher retention rate. Attrition on an LTM basis came down another 60 basis points QoQ to 11.3% in IT Services which we believe is the best in the industry globally.

During the quarter, we have added 18,362 employees including 2,608 employees outside India on a gross basis, and on a net basis, 6,978 employees, taking up the closing headcount to 3,78,497 employees.

I am also happy that the percentage of women in our workforce touched an all-time high of 34.3% this quarter.

I would like to take up the issue of visa which has been an area of great concern among many of our stakeholders. We know that many of you are worried about the growing protectionism trends and commentary coming out from some of our large markets and recent legislative attempts in the US to make non-migrant visas more expensive and the process more onerous.

We would not like to comment on draft legislation until something is actually signed into law, but on a broad level, I would like to make three points:

- We are today an integral partner of many large enterprises which are facing severe business model challenges in their respective industries. Our scale, capacity and innovative solutions that leverage new technologies is what is helping these organizations accelerate their digital adoption to transform their business, fend off those challenges and safeguard the jobs of tens of thousands of their employees.
- Second, we have been steadily and systematically ramping up our local recruitment efforts cultivating relationships with local universities and running STEM programs for high schools students in the various communities we work in, to address the problem of scarcity of skills at a fundamental and structural levels -- which we believe is the major issue they face there. Although I do not have a formal third-party certification to back this up, based on the numbers that we have compiled and the analysis that we have done, we believe that we have been among the **top net job creators in IT Services** in the United States for the past couple of years including in 2016.
- Third, these investments in local recruitment in our major markets have allowed us to reduce our dependence on work visa significantly and to make our business model more resilient. As we have mentioned earlier in call, we applied for a significantly lesser

number of visas, in fact, a third what we had applied for in the prior year and we have been able to actually execute our business model adding 75% fewer visas than what we were used to adding incrementally in a year.

Having said that, let me correct the misperception on the potential cost impact of some of these proposed restrictions. As we have discussed individually with many of you, many of the estimates of differentiation in salaries are quite exaggerated and probably influenced by propaganda depicting expats on non-immigrant visas in the US as cheap, underpaid labor.

This is not only untrue but it also does tremendous disservice to the top-rated employers like us and to our customers and to the US Department of Labor which has been an effective watchdog in preventing any wage imbalances.

At TCS onsite wages for a given role adjusted for experience levels and location choices are benchmarked against prevailing wages in that location. Average wages of expats on work visas and that of our local employees are highly converged and differences are largely attributable to the differences in average age and experience levels of the two groups of employees.

We have traditionally hired local employees in more senior capacities in those markets whereas the technical side -- again going back to the scarcity of the skill set available in that local market – have typically been filled by supply from outside.

To conclude, it has been a quarter which has historically been a seasonally weak one and we have had good all-round performance with growth bouncing back in almost all segments effected in the earlier part of this year and we have had a good margin performance and robust cash conversion.

Looking forward, there is a sense of buoyancy in customer sentiment, particularly in the BFSI sector, and we look forward to positioning ourselves to participate in whatever growth we see in the US and any other markets.

In continuation of our normal sequence, I will take this opportunity to quickly read through the boilerplate financial details for those of you who are used to taking notes on that, so let me go through the headline numbers once again:

Our revenue grew 2% QoQ and 8.6% YoY on constant currency basis. In INR terms the cross-currency impact was 0.5% negative resulting in a reported revenue of ₹ 297.35 billion which is a sequential growth of 1.5% and year-on-year growth of 8.7%.

In USD terms, cross-currency impact was much higher at (-1.7%) resulting in reported revenue of $4.387 billion which is QoQ growth of 0.3% and YoY growth of 5.8%.

The constant currency growth of 2% is made up of volume growth of 1% and constant currency realization improvement of 1% in this quarter.

On the operating margin the improved realization and some benefit from the cross-currency movements allowed us to hold our EBIT margin flat QoQ at 26% within our preferred range.

On the net income side, net margin in the third quarter has expanded 30 basis points to 22.8%. Our effective tax rate in this quarter was 23.6%.

Finally, coming to an area of great interest both to me, and to all of you I am sure, is cash flows. We have spoken about how our decentralized and power decision-making structure has aided our margin resilient. The same structure of our business units taking ownership of holistic financial performance has kicked in this quarter with strong collections across the board.

Our Accounts Receivable DSO improved by 5-days coming down from 80-days to 75-days in dollar terms, which is the lowest in the last 5-

years. This resulted in net cash flow from operations of ₹79.5 billion which is 26.8% of Revenue and 117.4% of Net Income.

Free cash flow was at ₹75.5 billion, crossing the billion dollar milestone on a quarterly basis for the first time in our history. Invested funds as of December 31st stood at ₹431.7 billion.

I am happy to say that the board has recommended an interim dividend of ₹6.50 per share at a payout ratio of 22.7% for the quarter.

With that, we open the line to questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: Just on this on your opening comments, Rajesh, couple of questions on the visa issue. One is you mentioned in this TV interview about aligning subcontractor visa and local employee costs. Did you mean that they all are at par now, was there something else? The second part of the question is while the risk from the policy perspective maybe low, is there a risk that customer behavior changes just given the amount of adverse noise that any outsourcing is creating right now in the US.

Rajesh Gopinathan: I will address it and then let Ajoy to talk about it. What we have done is that we have gone through a fairly extensive review of our portfolio choices in terms of where the different sources of labor are coming from and we looked at what the kind of skill sets, what is the cost per resource, what is the optimum use which we can do. We have also looked at how we can significantly enhance on-campus hiring of local recruits.

As I said, our earlier model of local requirement was to hire at the higher end of the spectrum rather than at the entry level. We are relooking at that, we are trying to optimize our delivery models to be able to utilize resources across the spectrum better and overall trying to align it so that we do not have different categories of employees at different stratified levels of cost. Instead, we want a more holistic mix which reflects the age and experience bracket. So that is what we said about the aligning side -- it is more of how do we align the portfolio and move it to a more homogeneous mix rather than a stratified mix.

The second question that you had was about customer concerns. This is a market where we have been present for the longest duration and many of these customer relationships date back to more than 25-odd years. So the customer organizations understand us as very responsible and long-standing professional firm. That, in fact, colors their own approach to this whole issue and we are working through the potential risks that we see in the horizon jointly with customers and seeing how best we can addresses their requirements.

There is, of course, concern among the newer customers, but given the large reference base that we have, especially in this market, we have a fairly high level of credibility and our local teams are well capable of addressing these concerns.

Ajoy Mukherjee: From a talent pool point of view, what you said is absolutely right. We have been looking at hiring at various levels and primarily also providing talent development opportunities to people that we are hiring, for example, in US at entry level from various schools and various colleges. Our Digital delivery platform is making it much simpler, much easier and that is helping us balance the onsite workforce with more of locals.

At the same time, we have also been reviewing our dependence on contractors and limiting it to where it is absolutely required and only for certain skills. Overall, we are trying to see how to make our delivery model less dependent on visas and sub-contractors and that includes using both near shore and offshore, so we can manage and be on top of the developments in the US.

Anantha Narayan: Can we then conclude that hypothetically if there was some minimum wage that was imposed and visa fees went up, that 26-28% target band would still hold?

Rajesh Gopinathan: Anantha, our intent is to maintain our profitability within the stated band. We will react to this once the contours of any such legislation are known. We believe that we have multiple structural ways that could address some of the cost pressures that come on, but we will be able to objectively comment on it once we have a better idea about what the full contours of the proposed legislation are.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Rajesh can you elaborate on the comments you made initially on client sentiment changing in BFSI, how is this changing, do you expect spending on budget to improve or are you seeing them being a bit more optimistic on the budget itself?

Rajesh Gopinathan: We are seeing increased traction in terms of people talking about projects. I think it is early yet for us to start commenting on whether there are budget hikes and whether the budgets will flow through. But definitely, the amount of interest and discussion about larger projects and longer-term demand is picking up. The commentary was more a reflection of that, rather than a direct commentary about the budgets for same.

Ankur Rudra: Secondly, you did elaborate a bit on the work force rebalancing that happened earlier in FY17, I know I am guessing you have obviously been able to realign a bit this year and that gives you a sense of the feasibility of a different supply structure. But given our historical understanding that there is a scarcity of talent in the US, how scalable from a medium-term perspective would be your new model in terms of hiring more locals at lower levels?

Ajoy Mukherjee: Our intent is to be best-in-class and to be industry-best in being able to do it. Structural challenges would be common to everyone but we believe that we will be relatively better-positioned compared to anybody, irrespective of the origins of those competitors.

So that is the intent and it is an ongoing change that we are trying to execute and we are quite confident about the progress that we are making.

Ankur Rudra: Last quarter you did say H2 should be better, thanks to some deal push outs in India and Retail. From your commentary should I assume that most of the recovery on the Retail deal slippages have also come through given the strong numbers we saw this quarter?

Rajesh Gopinathan: We are relatively confident about Retail going into Q4 and again as I said it will be better for us to comment about it further down, towards February. But from what we have seen, we have had a decent quarter in December and the momentum should continue into Q4 also.

Moderator: Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Just a couple of questions on the onsite hiring. I think you alluded to increased onsite hiring from campus universities. You think going forward, if you take the next say 3-5-years, you can pretty much build an onsite pyramid much like we have had a pyramid structure supporting the employee base in India over the years. Is that what you are looking at?

Ajoy Mukherjee: Basically, the hiring that we are doing is at different levels and yes, it is more and more hiring at the entry level and as I talked about our Digital platform for creating programs in many part of the globe. That definitely is helping us, is going to help us.

Viju George: So just to sort of cut that a little bit further, Ajoy, is there a percentage that you can share with us something very approximate just to understand how much of the incoming local workforce in the US maybe over the last 2-3-years and maybe going forward, might be actually done at the very junior levels could be 60%, 70%, bulk of it?

Ajoy Mukherjee: At this stage, it will be difficult to comment on that as to what the percentages would be and we have to ensure that we do make our deliveries as per our customers' requirements. I would like to leave it at that, Viju. I am not going to get into the percentages of the pyramid and things like that.

Viju George: Rajesh, I think you also mentioned that there is some momentum that continues over into Q4. Is that largely led by Financial Services or is this a little bit more broad based? The second follow-up to that is that India obviously saw a bit of a spike in this quarter, might be a one-off, I do not know. So therefore, would you think that there could be other geographies that sort of compensate for the strength in case there is not a follow-through in Q4?

Rajesh Gopinathan: As we have always said, geographies like India, Latin America are volatile by nature and that will continue to be the case as we look forward. Q4 especially is a difficult quarter to call in India. Given that, we expect it to be good but it depends a lot towards the last month.

But if you look at numbers across almost all verticals, whether it is BFSI, Retail or other verticals also, we are seeing fairly widespread demand and strong momentum and therefore the hope is that the momentum continues through and we were able to build on it.

Viju George: I think in your opening remarks, you also mentioned buoyancy in Financial Services. What you are saying is you are seeing buoyancy elsewhere beyond Financial Services, just wanted to get that right?

Rajesh Gopinathan: That is right.

Moderator: Thank you. I now hand the conference back to the management.

Kedar Shirali: We now have Mr. Chandrasekaran in the room. So over to you, Chandra.

N. Chandrasekaran: Hello! Everybody. Sorry for being little late; with the announcement this evening, I got caught up a little bit and I got delayed.

A Very Happy New Year to all of you. This is the first time we are talking in 2017. I hope 2017 is going to be a great year in all aspects of life for all of us.

Coming specifically to Q3, I think the commentary has already been made. It has been excellent quarter. It is always good to get confidence in weak quarters, and at least in constant currency it will help us to push the exit rate for the year slightly better.

Going forward -- I am sure Rajesh would have spoken and Ajoy would have spoken -- generally, we do not have any of the negative sentiments we had around Diligenta or any other specific businesses that were pulling down our growth. So I think we are in, I would say, a positive momentum at this point in time.

We truly believe that the industry provides enormous opportunities both in terms of consolidation in the traditional business that will drive automation through either robotic process automation in BPO or cognitive automation through tools like ignio™ and on the other side, the Digital space we are expanding very significantly. It is no longer about doing one-off engagements or engagements on analytics, on mobility and so on. Digital is a transformation of every company into an agile, DevOps, continuous integration thinking [organization], not only at the technology level, but at the business level. Unless and otherwise that combination happens, we are not fully leveraging the power of Digital. That has been recognized by CEOs today, so the conversation is now happening at CEO level, and not just at the CIO level.

Every company sees this opportunity in three forms – one is to make the company data-driven and thereby providing an opportunity to be real-time, and at the next level, use that data to be able to do real-time analytics using machine learning, find some patterns and then respond at the third level with the right experience of the consumer, for the user, for the customer or supplier, where many of the technologies like BOTS come into play.

I think this is a very unique time and inflectional point in the industry. TCS has worked very hard over the last 4-5-years. I must say that we were one of the earliest companies to spot Digital as a trend and have built enormous capability internally, great learning platform, great set of tools, great methodologies.

Sometimes, I have been criticized for not doing acquisitions. I would reiterate that we have not passed on any opportunity. We have always evaluated every opportunity on its merits and have gone about building the capability in a way that it will keep the company going to great heights in the years to come.

I am very confident that TCS will get into high growth and I am very bullish myself about 2017 and even beyond, but we have to wait for one more quarter, because in three months so many things have changed. As one CEO asked me, how would you consult to handle three black swan events in one quarter? That is the kind of situation we are dealing with! So we will definitely give you more commentary going forward.

You may have heard that Tata Sons has appointed me as the Chairman. I take over the role formally on the 21st of February.

I am happy to tell you that TCS has finalized and announced just now, the succession to me. We have announced a CEO and a President and Chief Operating Officer. I am happy to tell you that TCS has tremendous leadership; we almost have two people for every single position in the top management roles, whether it is BFS, or in Insurance, or in Retail or in any of the service lines or any of the markets and we all work together and bring the collective abilities in front of the customer.

I have been very privileged to lead this company and I could not have done what I have done without this terrific team. We know each other, we are friends, we cover for each other. All of you have seen many of us in action and I also want to thank all of you for the tremendous support and for being respectful -- there have been great quarters, there have been difficult ones, and you have been courteous to me. I have to thank you for the way we have interacted with each other and your push, your deep questioning at times maybe irritating, but I can tell you and vouch for that fact that every single time that you have pushed us, it has only helped us to think and perform better. I have become a much more mature and better human being in this whole process, so I want to thank you. I know it is a little bit of a philosophical speech in an earnings call, but I thought I need to mention this because this is the last time I will be on this call.

TCS has nominated Rajesh Gopinathan as the Chief Executive Officer and Managing Director, and NG Subramaniam who is the President of Financial Solutions as the President and Chief Operating Officer. Both of them will join the TCS board. This will happen the day I step down as CEO and MD in TCS and move to Tata Sons.

I want to tell you, you know Rajesh as a finance person, but I want to tell you he is one of the rare combinations of business and finance. Just to give you a little bit of background: Rajesh started working with me around 2001, when I was growing the e-business as a practice in TCS, which grew from zero to $500 million in those days in five years. Rajesh was one of the Pre-Sales Solution Consultants based out of West Coast and he did a terrific job and he impressed me at that time a lot. So when I moved to Mumbai and took over as Executive Vice President or General Manager, Operations… I do not remember what the exact title was, around 2004, I called Rajesh to join me in my office. People did not know that was the Strategy Office -- we did not call it that. So I was pretty much the Strategy Office, managing the operations along with Rajesh and he has had a great view of the business [since back then]. He has analyzed every part of the business and every company in those days and then continued in that role for a long time.

Then, when I got to restructure the company in 2007, I created a role called 'Business Finance' and I put Rajesh in-charge of that; he was with the business and he brought that knowledge that he had built in the businesses. Then we felt that the role should move to the Finance and that way he will get exposure to the Finance function, though he has an MBA Finance.

In 2009, when I took over as the CEO, I moved him to the Finance function where he received a tremendous amount of mentoring and coaching by Maha. And since then, you all know him when he was designated as the CFO.

The reason I say all of this is that here is a person who has had a vast experience in business side and finance side and more importantly has an end-to-end perspective of the business, not only in terms of operations and numbers, but also in terms of what are the strategic options at hand. So I am very confident he will lead TCS to greater heights.

A word about NGS. NGS has an extraordinary set of credentials. He started in TCS in 1982. He has pretty much done every piece of the business area that a software person should do. Started as a programmer and he has been progressing across the technology ladders and then moved on to sales. He was heading our operations in Europe at one point in time. He was managing the Financial Services business for a long time. He was responsible for building many of our strategic relationships, whether it is Deutsche Bank or American Express. He enjoys an extreme level of confidence from customers for his thought leadership. I must say that he is probably one of the best professionals who can talk authoritatively on financial technology. Then he set up the TCS products business and he built Quartz Capital Markets [*Note: part of TCS Bancs suite today*]. He understands the business side from capital markets to retail banking to insurance to many different areas. As the general manager of a delivery unit, he has managed the relationships in other sectors. We moved him to develop the pure products business. Although it is smaller in size than the bigger portfolio that he was handling, we felt it was strategically important for the company.

So these two gentlemen together as a combination bring business, technology, strategic thinking, operational rigor, client relationships and thought leadership that we need to run TCS. And they will be ably supported by the colleagues whose names I am not going to individually mention, but each of who is CEO-material, who can run large multi-billion-dollar companies and that is what they are doing today.

So I just want to tell you that we have a great future from a market perspective. We have made all the investments, we have chosen a great team to succeed me in this place, but I am going to be available… I will be continuing on the board and eventually will take over as the Chairman [of TCS]. That is what has been discussed by the Board today.

The press release should have been out by now, so please join me in congratulating Rajesh and NGS and the entire team at TCS. They are all here and look forward to working with you to create more shareholder value. Thank you so much. If you have any questions, I can take them now.

Moderator: Thank you. We will go back to the question-and-answer session round now. The next question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Coming back to Financial Services, there are concerns that some of the upsides that we could potentially see from improved demand environment in banking could be kind of muted because banks could actually be worried about protectionism impacting other stuff. Do you see that as a concern when you speak to your clients? Do you think that the large headline projects then be pushed out till clarity emerges on this issue?

N. Chandrasekaran: I do not think so, Diviya. I feel that the Financial Services industry will do very well. As I said in the last analyst call, from a need perspective, they have already done years of optimization. Now they are investing in growth and that is translating into a huge opportunity. The client wins, and the deal wins we announced and the deal pipeline we have, clearly indicate your theory is not true.

Diviya Nagarajan: Rajesh, I know it is very-very early days, but by when can we expect to hear from you on your vision and roadmap for TCS for the years to come?

Rajesh Gopinathan: I assure you that my mission and roadmap are exactly what you have heard from me over the last couple of years. The important thing is that -- as we have discussed before, and all of you know I have worked very closely with Chandra -- we have been pretty much on the same page on almost every issue.

More importantly, the TCS structure that we have spoken about many times is a very deep at the unit level. There is a lot of continuity in the leadership team and pretty much strategy is built at that level also. So we are not expecting any major changes in TCS. We know what we are up to, we know the direction that we are going in and we intend to continue that with renewed vigor and energy.

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

Sandeep Agarwal: So on the business side only one question from my side. Chandra and Rajesh, I understand you mentioned the pipeline which you are seeing. I am not asking about outlook, but I am just trying to understand in the past we have seen a very clear correlation between growth improvement in US and particularly in the BFSI, and everyone is talking about some improvement there. So are you seeing some early signs of that or something of that sort, is that given your confidence or is it just purely deal pipeline which is giving the confidence?

Rajesh Gopinathan: It is a combination of both. As I said, we had spoken about it last time -- that we are expecting a bounce back on BFSI and it is as much a call on the continuation of that demand environment. As I said in the early part of the call, we are seeing increased dialogue with our BFSI customers where they are speaking about their plans and their intentions going forward. We will have to wait and see how this translates into budgets and actual spending. But given overall environment and positivity, we hope that we will actually get to see this translating into greater demand for our services.

Sandeep Agarwal: What is driving the weakness in the ADM part -- it is the third quarter in a row that we are seeing some weakness, so can you please explain something on that side?

Rajesh Gopinathan: To a lot of extent, this is expected as you know. Our business is a series of contracts and projects that over time, run out and get replaced. As the focus on Digital increases in many of the customers, the incremental work that comes around is more and more on the Digital side. So these are two sides of the same coin. We expect to see this rotation out of what we call ADM today and what we are calling Digital tomorrow to continue. Over time, as Digital becomes more broadened, we will relook at how we categorize it and break it down into further sub-segments, and that would then become the new set of services that we speak about. So this is nothing unexpected or dramatic. It is a process of churn that is currently on. And we expect it to continue well into the medium-term.

Sandeep Agarwal: So then is this basically churn getting distributed under other verticals or it is under particular one or two vertical, because the issue is that when we see the revenues, you definitely mentioned Digital revenue separately at 16.1% and 13.7% in prior quarters, but that is not yet part of other verticals, so how does it cut across this distribution reach… is it across verticals or is it into one particular or two particular verticals, how you are seeing that?

Rajesh Gopinathan: Vertical-wise, we had given you a flavor of how Digital adoption is distributed by vertical and obviously there are verticals which are clearly way ahead, like Media or Retail, and Manufacturing and others are on the lower end of that tail.

From a service line perspective, it is a more heterogeneous split. It is appearing in various places, and as I said, it is a difficult one to actually map one-on-one. What we intend to do is that over time, as the size increases, to break this up so that you have a better visibility of the subcomponents inside it. But as of now, it is getting distributed inside those horizontals.

Moderator: Thank you. The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.

Parag Gupta: Just two questions from my side: Firstly, you talked about some softness in Communications primarily in Europe and UK, and also Healthcare in the US. So if you could just give us a sense of are these specific to clients that you are working with or do you see this across the entire segment itself? The second question that I had is we have talked a lot of about visas in the call today and those comments are really appreciated. Could you also give us some sense on what do you think about the border tax adjustment that has also been talked about, while I understand it is more for manufacturing, but do you think that the risk about services delivered from outside the US, could those also fall under the purview of border tax and how does that alter your business model?

N. Chandrasekaran: I will answer both questions. On the first one, both are TCS-specific and both were one-off -- both the Telecom in Europe as well as the Healthcare in the US. Both were one-off. We do not expect repetition of that, so it is not a broader industry issue or even for TCS it is not a continuing issue.

With regard to visas, I would sincerely request you one thing. We give a margin band of 26-28%. The reason so many questions from about and so many thematic articles being written about visas and costs, etc., is all about what is the headwind and what is the opportunity. I think the margin target of 26-28% has multiple parameters – employee cost is one of them and in which visas are one of them.

The visa situation essentially has two components – one is the quantum of visas and the second one is the cost per resource. We have a strategic approach to deal with the quantum of visas which was explained to you earlier. We have a strategic approach to handle the cost per resource. We have a target of what should be the cost per resource. This along with other cost structures are taken into account in our margin band of 26-28%. It is a stated intent of the company to remain in that band. As I said last time, we would not want to be dangerously close to the lower band and that is where we are and we hope that we can traverse upwards.

This is not to say that the headwinds will not come, but every time there is a headwind of one of the parameters that goes into the spread sheet, we cannot get panicked and we cannot say it is going to be 300 bps or 500 bps impact and so on and so forth. At the end of the day, this margin parameter is a function of several cost structures and each one having a specific target which is influenced by many parameters -- on the one hand, automation, on the other hand, location, pyramid, type of pricing you get…. so many parameters that go in and we are carefully building this out. That is the flexibility which the team needs so that the team can deliver that margin band.

As I always said, the philosophy has been to go for growth but not at the cost of margin. We believe that compromising on either one of those, thinking that the other one will come, will result in us end up losing both. That is the philosophy and I request you to look at it like that, because microscopic detail on one parameter will dangerously get your spreadsheet wrong, from our perspective.

With that, I want to give my closing comments. I think the business coverage has been given in detail by Rajesh and Ajoy. I would just say that we believe that the industry is poised for good growth, but I know that all of you have not having made what is good meaning – will we return to double digit growth rate, will we return to mid-teens? Without giving any guidance and without giving any specific timeline, the opportunity is enormous to digital transformation and we look forward to doing well in the coming quarter so that we can exit the year well and have a strong base for FY18.

We will be working closely with our teams to develop a strong insight into the nature of spending so we should be able to give you more color and some qualitative commentary on how better the growth can be in the April call.

With those words, I just want to thank you once again and look forward to working with you in some form, to produce better returns for the market. Thank you so much.

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

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