Tata Consultancy Services Limited

Q3 FY11 Earnings Conference Call.
Januar 17th, 2011, 20:00 hrs IST (09:30 hrs US ET)

Moderator Ladies and gentlemen good day and welcome to the TCS Earnings Conference Call. Please note that for the duration of this presentation, all participants' lines will be in the listen-only mode. And this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing '*' and then '0' on their touchtone telephone. At this time I would now like to turn the conference over to Mr. Kedar Shirali, Director of Investor Relations at TCS. Thank you and over to you, Mr. Shirali.

Kedar Shirali Thanks, Rochelle. Good evening and welcome everyone. Wish you all a very happy new year. We are here to discuss TCS' financial results for the third quarter of fiscal year 2011 that ended December 31, 2010. 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, results, presentation and press releases are also available on our website.

Our leadership team is present on this call to dsicuss our results. We have with us today Mr. N. Chandrasekaran, Chief Executive Officer and Managing Director.

N. Chandrasekaran Hello, good morning, good afternoon and good evening everyone.

Kedar Shirali Mr. S. Mahalingam, Chief Financial Officer and Executive Director.

S. Mahalingam Hello everyone.

Kedar Shirali Mr. Phiroz Vandrewala, Head of Global Corporate Affairs and Executive Director.

Phiroz Vandrevala Hi everyone.

Kedar Shirali And Mr. Ajoy Mukherjee, Head of Global Human Resources.

Ajoy Mukherjee Hi everyone.

Kedar Shirali Chandra and Maha will give us a brief overview of the company's performance, followed by the Q&A session. As you are aware, we do not provide specific revenue and earnings guidance, anything said on this call which reflects our outlook for the future or which can be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the results presentation that was e-mailed to you earlier this evening and which is also available on our website. With that I would like to turn the call over to Chandra to begin the proceedings.

N. Chandrasekaran Thank you, Kedar. Let me take a few minutes to give you some highlights and the outlook. We have been able to deliver another stellar quarter. The revenues have gone up 4.1% on rupee terms and 7% on dollar terms. If you only look at the international business, it has gone up by 7.8% and volumes are up nicely at 5.7%.

We have been able to deliver an all-round solid performance in the margin. The gross margin has gone up by 26 basis points. The operating level margin is up 7 basis points and the net margin up by 144 basis points. We have seen pricing growth in this quarter of a 118 basis points.

In terms of the markets, the major markets have led the growth. US, UK and Continental Europe and Asia-Pacific have done exceedingly well. India and Latin America have shown decline, primarily because the mix we have in these markets is still not fully annuity-based. They have a lot of discretionary portion as well. And in the December quarter, the projects wind-downs have happened and then we have not seen growth in these two markets.

In terms of the industry, all the industries have shown growth. Even Telecom, which has shown a sequential decline, if you exclude the India business in telecom it has shown growth. So, all the industries have delivered good growth. If you look at the industries which are smaller, they have shown double-digit growth. Industries like Hi-Tech, Media, Travel and Hospitality and Utilities, those industries have shown a higher level of growth.

In terms of services, we have seen excellent growth in our Asset Leveraged Solutions business, Infrastructure Support business, BPO business and Assurance Services business.

The deal closures have been solid and they have come in different sizes, across verticals and across markets.

Overall, what we see in the environment is while the macro continues to be very dynamic, both from efficiency point of view as well as from a transformation or a growth point of view, customers are continuing to spend and the behavior is different in different markets and the priorities are different with different customers.

But across the board, we are seeing good opportunity and we think the outlook is good and we have also gone ahead with an excellent hiring this quarter – over 20,000 people gross addition, over 12,000 people net addition and the original target of 50,000 people for the year has already been exceeded this quarter. We think we will add another 12,000 to 15,000 people in Q4.

From a spend point of view, for most customers the situation will be either at the current spend level or there will be increase in their spending. I do expect an uptick in the discretionary spend, going by what we see currently.

Those are my initial comments and I will now hand it over to Maha for his detailed comments, then we will take on the questions.

S. Mahalingam Thanks Chandra. Chandra has already walked you through some of the numbers. We have a robust above average volume growth of 5.7% accompanied by constant currency pricing improvement of 1.2%. The strengthening rupee led to an exchange impact of (-1.7%) and increase offshore leverage led to an impact of (-1.1%) in revenue. Adding these, you get a 4.1% INR sequential growth.

With growth momentum picking up, expenses associated with revenue generation such as travel and communication continue to go up as expected. We also continue to invest in building capacity to handle the large numbers. In addition, we had to contend with the strengthening rupee. The realized rate in INR against Dollar and GBP were 2.7% and 1.7% less this quarter over the Q2 rates. Despite such formidable headwinds, we were still able to expand the EBIT margin by 7 bps to 28.08% through improved pricing, offshore shift and continued containment of cost in other areas which are not growth-linked.

The impact of different levers of the operating margin is as follows: Currency (-112) basis points, impact of offshore shift (+23) basis points, rate, productivity and other SG&A efficiencies 97 basis points, giving a total EBIT margin of 28.08%.

Other income is higher this quarter due to a net foreign exchange gain of Rs. 521 million as against a loss last quarter and higher interest income from invested cash.

Our effective tax rate was 18.6% giving us a net income of Rs 23.302 billion, that is a net margin of 24.12%, a 144 basis points expansion Q-on-Q.

Lastly, our DSO for the quarter was 80 days. Invested funds stood at Rs. 85.7 billion.

So, in conclusion, the continued growth momentum we saw in Q3 is evidence of a broadly diversified growth engine that is running smoothly, consistently delivering us strong, high-quality volume quarter-after-quarter. Likewise, our ability to hold the EBIT margin at what we think is ideal level for TCS, reflects the sustainability of our costs at a structural level.

With this we can open it up for questions.

Moderator Thank you very much. Our first question is from the line of Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Joseph Foresi Hi, my first question is: One of your competitors talked about a lack of budget flush at the end of the year, but demand trends being strong heading into 2011. Did you experience something similar to that? Maybe you could just talk a little bit about that commentary towards the end of this year?

N. Chandrasekaran I think if you look at our Q3 performance, we have basically continued the momentum. I won't say that there is any specific budget flush – there is no indication of a one-off, flush-related growth in any specific account or industry or market. So I think the momentum has been good. As I said, whether it is a market where there is an economic uncertainty or not, initiatives for using technology both from an efficiency point of view or from a growth point of view is something that we are witnessing and that is driving opportunities. We are able to capture that opportunity because our business model is very attractive.

Joseph Foresi Maybe you could just, I think the America slowed a little bit, maybe application development work slowed a little bit, do you expect that to reaccelerate heading into next year once the budgets are set or how should we think about the trends in those two businesses?

N. Chandrasekaran Currently, I don't expect a drag in any of those areas, whether it is Americas or Application Development. I think both are in line and they are doing well. And as I said the overall momentum is good.

Joseph Foresi And then just finally, we saw pricing increase. Is that a trend you are expecting to continue heading into next year? How quickly are people accepting price increases and do you expect that to continue through '11?

N. Chandrasekaran No, we will be cautious on the pricing increase, because the macro environment is still a bit dynamic. So I won't take a call on the pricing uptick. Definitely, it will be stable with an upward bias is the commentary I would give. But I won't put a target on pricing increase at this point.

Joseph Foresi Okay. Thank you.

Moderator Thank you Mr. Foresi. Our next question is from the line of Vihang Naik of MF Global. Please go ahead.

Vihang Naik Hi, congrats on a very good quarter. IMS has basically contributed on an average about 20% to your incremental revenues over the past four quarters despite having just a 10% revenue contribution. I'm just curious about what are you exactly doing right in this vertical and doing better than your competitors?

N. Chandrasekaran Hopefully, we are doing many things right in many verticals and many services and not only in IMS. This is a young business, it has been growing rapidly. I think we have a very strong capability and offerings and more importantly, proof-points.

We created this for the international market only in late 2003-04. It has already crossed an annual run-rate of about $700 million and we are continuing to see robust opportunities. We are able to take on larger contracts and execute on them. I think it is a huge opportunity in terms of the space because of the size of the infrastructure contracts involved.

So I expect the growth momentum in infrastructure services to continue in the coming quarters. And also, frankly, we have had some excellent deal wins where the revenues have not yet ramped. They will be coming in the next fiscal.

Vihang Naik Okay. And just secondly, can you give us some outlook about – some things that you are seeing in BFSI especially for the regulatory and compliance areas, do you really expect some kind of a huge spending in those areas and also how M&A spend is shaping up?

N. Chandrasekaran In BFSI, we were involved in the integration projects in some of the major accounts. Those integration projects have been completed. But then we have been able to sustain the growth through either compliance-related work or work related to new technologies in high-end analytics for customer insights, cross-selling, upselling, those kind of initiatives, or re-platforming initiatives where core systems are being replaced. So, we are seeing a good momentum. In fact, if you look at our Asset Leveraged Solutions business, that is the products business, BaNCS has delivered 23% growth this quarter on a sequential basis. So I think the momentum in BFSI is good. Outlook, from all I can see, is very good.

Vihang Naik Yeah, thanks, that is it from my side.

Moderator Thank you Mr. Naik. Our next question is from the line of Sandeep Shah of RBS. Please go ahead.

Sandeep Shah In terms of the ADM, if you look at the percentage contribution, earlier around 6-7 quarters back, it was higher than today's contribution by almost 400-500 basis points. So any trend one should read regarding this though the other services have increased significantly?

N. Chandrasekaran Sandeep, ADM was the first service-line which gave almost 100% of our revenues, and as we keep introducing new verticals, as a percentage of revenue it will continue to keep going down. What is important is we are continuing to grow in ADM. In some quarters, the sequential growth rate is high, in some other quarters, it is low single digit, but the point is that ADM continues to grow. In ADM, we also see a lot of discretionary spend. So as discretionary spend picks up, transformation projects will also come in ADM. So I do not see any negative message to be taken from ADM growth at all.

Sandeep Shah Okay. And as deal renewals come up, your comments in terms of which service lines, where the largest renewals are happening?

N. Chandrasekaran I think the ADM is happening, Infrastructure is happening, BPO is happening, all those areas.

Sandeep Shah Okay, thanks.

Moderator Thank you Mr. Shah. Our next question is from the line of Bhavin Shah of Equirus. Please go ahead.

Bhavin Shah Thanks. An excellent quarter. My first question is related to your BaNCS product – any initiatives around North American geography for that product we can talk about?

N. Chandrasekaran See, BaNCS is an integrated platform, with lots of capabilities and we have installations for BaNCS in North America already, not in the core banking area, but in many of the other areas like Securities, Custody and so on. We continue to pursue opportunities for all the segments of BaNCS whether it is core banking, whether it is payments, securities, treasury or cash management or custody or market infrastructure. We have a number of opportunities and we expect to grow the North American base for BaNCS.

Bhavin Shah And do you feel that some of the new reasons sort of regulatory changes creates that opportunity sort of, makes it more easier for you to grab that opportunity than before?

N. Chandrasekaran See, BaNCS is a very mature product with state-of-the-art technology. You may have seen during the quarter we announced go-live of a very large core-banking installation which went through very successfully. BaNCS is rated as the leader by many analysts' reports that came out this year. So, whether it is regulatory or compliance related or transformation-related because some of the institutions are looking to replace the core or the heart of their operations because they want to get more customer insights on an integrated platform, etc, it opens up a lot of opportunities for BaNCS.

Also, we are seeing a lot of traction for the Insurance solution in BaNCS. There also we have won a few deals and we are competing in few more deals.

Bhavin Shah Okay. And looking at next year, do you feel that you and industry would be more prepared for growth as a result maybe more campus hiring and also maybe less of lateral movements and hence lower wage inflation? Is that reasonable conclusion?

N. Chandrasekaran I think we are hiring a lot already. We have not only hired about 20,000 people this quarter and for next year we have already made more than 23,000 offers. Ajoy has got the exact number. So, our recruitment pipeline is pretty strong. And I really cannot comment on the wage inflation yet. I think we are still working out all the details on what is going to be the increment. As we do well, we will also look at what kind of a payout we have to make.

Bhavin Shah Just one last question from me. I think for the Indian market, in the SME segment, you have some sort of pilots going on in a cloud sort of offering. Can you talk a little bit about that and do you see that as something that is very meaningful in future or is it to early..?

N. Chandrasekaran We will not do something if it is not meaningful. We think it is strategically very important and it is going to be meaningful in size and scale, that is why we are pursuing that. We are very happy with all the pilots, we have crossed 100 customers and we will do a formal launch in Q4.

Bhavin Shah Okay, thank you.

Moderator Thank you Mr. Shah. Our next question is from the line of Shrivathsan Ramachandran of Spark Capital. Please go ahead.

S Ramachandran Hi. I just wanted to get some insight into your pricing move. Was it more driven by a mix-change or is it more on a like-to-like basis?

N. Chandrasekaran It is a like-to-like improvement.

S Ramachandran And is it more driven by new deals or renewals or is it old? Just wanted to know on what kind of deals we got price improvements?

N. Chandrasekaran I think it is a combination. Some of the renewals and some of the new contracts that we have signed are coming up in scale, because pricing takes a while and when new contracts scale up, you see the improvement.

S Ramachandran On BPO business we had a superb Q3, just wanted to know because as a year BPO slightly been slower than IT services, how do you see the BPO outlook for a calendar year '11 or maybe FY12 at this point of time given that BPO at times tends to lag traditional application development?

N. Chandrasekaran In BPO we look at two parts. On the verticalized BPO, we are seeing traction in Retail, Pharma, and Travel apart from Banking and BFSI. On the platform side, all the platforms that we have created have gone live and we need to scale them. We have started getting successes, they are contributing to revenue albeit in very small way and we expect the ramp-ups to start coming in, next fiscal year. So I hope we do well in BPO.

S Ramachandran Thanks a lot.

Moderator Thank you Mr. Ramachandran. Our next question is from the line of Kuldeep Kaul of Motilal Oswal Securities Limited. Please go ahead.

Kuldeep Kaul Thanks for taking my question. If I look at your data over the last two years, when I look at specific vertical and services line exposure, Manufacturing plus Hi-Tech used to be around 17% plus of revenues couple of years ago and now it is down to around 12% of your revenues. At the same time, Package Implementation and Consulting used to be 23% of revenues and it is now down to 17%. So as far as Package Implementation, Consulting is concerned, TCS used to be a bigger player than Infosys two to three years ago, whereas today, Infosys is a bigger player. So I just want to understand the dynamics whether it is any loss of competitive positioning within PI that is leading to the decline of Manufacturing as a proportion of the mix or is it specific client exposure within Manufacturing, Hi-tech which is consequently leading to a decline in package implementation, consulting mix?

N. Chandrasekaran No, actually, if you look at Manufacturing, during the downturn, we had a huge hit. Of our Manufacturing revenue, we had a significant exposure to the Auto sector when the whole industry tanked. At that time, we came down very sharply on manufacturing. Now, all I can say is that the last three quarters we are continuing to maintain the manufacturing share of the overall revenues whereas if you take Hi-Tech it is continuing to get better every quarter and we had excellent deal wins as well. So I think from here it will grow. It is just that we had a very sharp decline in manufacturing during the crisis. So I would not read anything more than that. We were involved in many large scale transformation projects. All of those got halted at that time. And if you go back to the December 2007 then March 2008 period and then the subsequent quarters, we continuously came down every quarter in Manufacturing. So, I think we are regaining that growth at this point. So I would not complain.

Kuldeep Kaul Okay. So you would expect the growth in each of these, the Manufacturing, Hi-tech vertical as well as Package Implementation Consulting to at least be similar as a proportion of the mix or ideally be growing as a proportion of the mix from hereon?

N. Chandrasekaran Yeah, that is what I am looking forward to.

Kuldeep Kaul Okay. Thanks for that. And second question I have is when I look at your cashflow statement for the nine months period even though the profit after tax has increased from Rs. 49 billion to Rs. 63 billion, the cashflow from operating activities is actually down for nine months 2009 to nine months 2010, from Rs 57 billion to around Rs 53 billion. Can you just give some color around what is going on there?

S. Mahalingam This is a question that has been answered even in the last quarter when we looked at the six months figure. See, basically, what has happened is there are a few things: one is the extent of efficiency that we have in terms of cash collection and so on came in last year where there was a significant drop in the number of Days' Outstanding and therefore the cash collection became far better. The second one is that we also have to take into account the extent of dividends that we have paid in July this year which included a special dividend, so there was a cash outflow. The third one is that there has been a growth. This growth has demanded higher working capital. So, these are the three factors which have really impacted cashflow and therefore when you do an analysis over a longer period, you would find that there is a fair amount of efficiency in it. There is nothing to worry about here.

Kuldeep Kaul Okay. Thanks very much for that. And third is this quarter again we had write-back of bad debt provisions. Is that going to remain like that for few quarters or is it going to revert back to …..

S. Mahalingam [Laughing] We can do that, which will lessen our efforts. See, bad debt provisioning goes through a very detailed process in terms of the write-backs and so on and obviously this is not something that you either plan for nor can you hope to have it happen quarter-after-quarter. It is just how it turns out to be.

Kuldeep Kaul Okay. Thanks very much guys. Bye-bye.

Moderator Thank you Mr. Kaul. Our next question is from the line of Edward Caso of Wells Fargo. Please go ahead.

Edward Caso Good evening. Thank you for taking my question. I was interested in trend in the tax rate, 18% or so now. I have seen others, seems like the new level is sort of settling out in the mid-20s, is that sort of a level or is there something special in your tax structure that will keep you below that level?

S. Mahalingam In India, we have had two provisions; one was in terms of what is called the 10A which is the Software Technology Parks and the other one is SEZ, which is 10AA. In 10A, there is a ten-year sunset rule and after that some of the units get out. So, in our case, [in anticipation of the STPI sunset] we have consciously planned from 2006 onwards that new businesses get into the SEZ facilities. Probably, we have done a better job planning that, as compared to many of the competitors. But you will notice that our tax-rate has also moved up from 15% to 18% and that has really happened because of units moving out of STPI. And as far as next year is concerned, we have said that we will be somewhere around 23% in terms of tax rate.

Edward Caso Thank you. My other question is on your view on local hiring, non-Indian hiring in the US and in Europe in particular and what the implications are, how you are doing on that front, what impacts that might have to your cost structure and so forth? Thank you.

N. Chandrasekaran I think we are continuing to recruit in the US and UK and we will accelerate that. But I think the way our business model is structured we should be able to take care of that because when we depute people from India, there is a significant cost and by hiring people locally I do not think that it is going to pose a significant problem.

Edward Caso Thank you.

Moderator Thank you Mr. Caso. Our next question is from the line of Anurag Purohit of Alchemy. Please go ahead.

Anurag Purohit Good evening to the management and thanks for taking my question. I have a question regarding the lateral recruitment which has been very strong since last three quarters in particular, much above the historical range. Is this a strategy in terms of expanding the employee pyramid in terms of span of control or it is something which is becoming a normal in terms of incoming incremental projects that are coming to system?

Ajoy Mukherjee Overall, from a planning point of view we would have liked to have more of trainees but as the demand picked up and there was strong growth and we had to fulfill the requirements, we had to go for laterals because the entire project cannot be staffed with the trainees. So that is the reason we had to hire laterals. It has been about 54:46 kind of ratio in favor of laterals at this point in time, but going forward that will come down and it will be more in favor of trainees rather than laterals, maybe around 52:48.

Anurag Purohit Sure. Essentially that would mean that FY12 would be a very strong in terms of fresher addition if I am not wrong, so are you seeing any kind of supply side issues when you are going to campus because as an industry whole fresher recruitment is expected to be strong in FY12, if you could highlight what kind of fresher salaries that you are offering for FY12 and what kind of overall numbers you are looking for?

Ajoy Mukherjee As far as FY12 salaries are concerned, it remains the same as what we have been doing so far. There is no change in the campuses. And as far as campus offers are concerned, we are planning to give around 37,000 offers and out of that 23,692 have already been given out at 171 institutes. We still have a few institutes to go, and we will complete our campus recruitments by mid-February to February-end.

Anurag Purohit And finally, one last book-keeping question. In the balance sheet, this quarter, Other Non-current Assets have witnessed a significant jump. Any particular reason for that?

S. Mahalingam No. There are no specific issues in Other Non-Current Assets.

Anurag Purohit Okay, thanks and all the best.

Moderator Thank you Mr. Purohit. Our next question is from the line of Nitin Padmanabhan of Indiabulls Securities. Please go ahead.

Nitin Padmanabhan Hi, thanks for taking my question. I think we had highlighted – I think a quarter back or a couple of quarters back saying that by fourth quarter of 2012 we should have 10% of incremental revenue from Cloud-based offerings. Where are we on that today and how is it going forward?

N. Chandrasekaran Yeah, we are on track for that.

Nitin Padmanabhan Any sense you could give us in terms of what percent of the incremental it is today?

N. Chandrasekaran [Laughing] Why don't we wait for next four quarters?

Nitin Padmanabhan Sure. And another thing was with regard to pricing per se. Just wanted to understand with asset leverage solutions basically adding $17-odd million incrementally this quarter, would it not that have had some sort of a positive impact from a pricing perspective?

N. Chandrasekaran Yes and no. If you look at the overall 118 basis points increase, I do not think there is a pricing increase that has come in a lop-sided manner.

Nitin Padmanabhan So would it be fair to assume that most of these are from scale-ups of non-top ten clients where lot of scale-up has happened and what basically at higher rates?

N. Chandrasekaran I would say that it is a combination of three things. Contract renewals with existing clients, there are a few and some contracts that we closed in the earlier quarters that have gained scale and the third one is some services like the Product business.

Nitin Padmanabhan Right. And just one final question. What would be the yield on cash that we are getting right now and is there a scope for improvement going forward considering that overall rates are going up?

S. Mahalingam On an annualized basis, it is 6.5%. Whether it will go up? Yes. Basically, it is a question of putting it into a lot of these higher yielding ones, after taking into account the complete security, we don't invest in equity and all that kind of thing. So, with this kind of interest patterns that we see in India, there could be a slight movement upwards.

Nitin Padmanabhan Sure, perfect, thank you and all the best.

Moderator Thank you Mr. Padmanabhan. Our next question is from the line of Anthony Miller of Techmarket View. Please go ahead.

Anthony Miller Yes, earlier in the call, you alluded to the fact that growth in India and Latin America was really quite weak. In fact, when I looked at the numbers it looked like Latin America in particular had quite a big hit, something like 15% down sequentially in dollar terms. And I just like to understand why that was. Was that one particular marketplace in Latin America or even one particular client?

N. Chandrasekaran No, actually, we have seen decline in revenues both in India and Latin America because in both these markets, we have higher portion of discretionary projects and those projects came to an end and we have not been able to get the follow-on projects. The quarter being a December quarter, there was not enough discretionary project based revenues and that is a phenomenon both in India and in Latin America. Secondly, in India we had an exceptionally good quarter last quarter where we grew almost 20% Q-on-Q, so given that we have taken a hit in sequential growth rates due to the normalization. But they will start growing from here next quarter.

Anthony Miller Thank you. And my second question just a data one. Can you give us the constant currency growth rates, please for the total business and then for US and for Europe?

S. Mahalingam For US and Europe it is 6.4% and the constant currency overall growth rate is close to 6%.

Anthony Miller Okay, thanks very much.

Moderator Thank you Mr. Miller. Our next question is from the line of Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain Yeah, congrats. My question is pertaining to the telecom vertical where it is sort of a laggard compared to the other verticals. What is our sense in terms of the spending in the segment in various geographies? Is any spend happening on the upgradation or setting up of new infrastructure?

N. Chandrasekaran See, the reason for sequential decline in Telecom this quarter is because we had some discretionary projects in India that came to an end, that has resulted in the overall vertical showing sequential degrowth. On a sequential basis, the international Telecom business has grown. We see opportunities in the telco sector both in terms of upgrades and also in terms of people adopting technologies like 3G. That said, growth in Telecom will be lower than the other sectors. That is based on our pipeline.

Rahul Jain Okay. And just one more thing, as we are seeing good growth in the solution or the banking product segment, what is your perspective on the segment considering even peers are doing well in the space?

N. Chandrasekaran As I said earlier in the call we see good opportunities in the BFSI sector at this point.

Rahul Jain Okay. That is it from my side. Thanks a lot.

Moderator Thank you Mr. Jain. Our next question is from the line of Subhashini Gurumurthy of Ambit Capital. Please go ahead.

S Gurumurthy Hi, thanks for taking my question. My question is pertaining to the utilization levels. It is great that we have been able to maintain utilization despite the strong growth, but are we comfortable with the current rates or do we think they have peaked out at these levels?

Ajoy Mukherjee Utilization level excluding trainees we have been able to retain at 83.8%. Can we do better than that? The possibility is always there, but at the same time, as we said in the last quarter, we are trying to improve our hiring so that we can create sufficient bandwidth and capacity.

S Gurumurthy So in that case, should we see utilization structurally at higher levels, in the sense above 80% for the full year for FY '12?

Ajoy Mukherjee We still have to do our FY12 planning, but overall, yes, we would like to maintain our utilization levels at a high level.

S Gurumurthy Sure. And just a question pertaining to Other Income. It has actually doubled if we exclude the forex gains. It's actually doubled versus the last quarter. So any reason behind that?

S. Mahalingam No, actually, this quarter we have had a gain of about Rs 521 Million as against loss last quarter and therefore the swing have been quite substantial, about Rs 1.06 Billion or so.

S Gurumurthy Yeah, I am talking about the dividend income, excluding forex.

S. Mahalingam You are talking about the dividend income?

S Gurumurthy Yeah.

S. Mahalingam You see the problem that happens in the July-September quarter is that we have a lot of dividend outflows and therefore, the amount of money that is kept in liquid funds in order effect those is higher and therefore the yield, a little lower. Now, this quarter, we have had a much better yield.

S Gurumurthy Sure, sure. And just one last question. What are the trends we are seeing on the vendor consolidation front? Are we still seeing incremental benefits from vendor consolidation or are you seeing this trend tapering off?

N. Chandrasekaran No, we continue to see opportunities due to vendor consolidation.

S Gurumurthy Sure. Thanks a lot. That is all from my side.

Moderator Thank you Ms. Gurumurthy. Our next question is from the line of Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta My question is in relation about our assurance services offering from last couple of quarters it is showing good growth. So, what we are offering in that specific service line? And second I want to ask about attrition. What kind of trend we have seen in the last two quarters specifically?

N. Chandrasekaran Assurance is an area where we see significant opportunities. We are continuing to grow. The reason is that our offering in the assurance space is very verticalized, so we are focused on developing assurance offerings for each industry and that is getting a lot of traction from the customers and we are also using technologies like cloud in assurance. And in terms of attrition, I think Ajoy will be able to answer.

Ajoy Mukherjee In attrition, LTM basis, we are at 14.4%, slightly over what we were in last quarter but if I look at it from an absolute attrition point of view, the total number of people that we lost this quarter is down by 13% as compared to last quarter, so we have lost 13% less people in this particular quarter.

Dipesh Mehta Okay. So can you give us quarterly annualized number for current quarter?

Ajoy Mukherjee Which one?

Dipesh Mehta Quarterly annualized…

Ajoy Mukherjee You have all the numbers – the gross addition and the net addition, from there you will be able to compute it.

Dipen Mehta Thanks.

Moderator Thank you. Our next question is from the line of Madhu Babu of Systematix Shares & Stocks. Please go ahead.

Madhu Babu Yes, sir. Sir, which are the service lines which will grow higher in the company average over the next two years?

N. Chandrasekaran That amounts to guidance I feel. I cannot really point out, but as I said, services like Infrastructure, Assurance, even BPO, all these things and products are all doing well. So I cannot give you more specific to you.

Madhu Babu Sir, considering that infrastructure management, one of the competitors I have seen has a lower margin because of ramping up that service line. Do we take employees on our payroll? How are the margins in the IMS deals?

N. Chandrasekaran See, our business model is asset-light. Our business model also focuses on Remote Infrastructure Management. So given that we do not take costs on our books or assets on our books in the way we deliver, in any contract, we will be able to deliver the right margins in Infrastructure. That is our take.

Ajoy Mukherjee Most of the people are employees and we do use business associates just like any other business when it is needed.

N. Chandrasekaran They are our employees.

Madhu Babu Okay sir. And last question, sir, APAC has been seeing strong growth. Which are the geographies which are seeing stronger traction in the APAC region?

N. Chandrasekaran Australia is showing a lot of traction and we are working on other focus markets like Japan, China and Singapore, so those are the key markets we look at in Asia.

Madhu Babu Okay, sir, thanks.

Moderator Thank you Mr. Babu. Our next question is from the line of Sandeep Agarwal of Antique Stockbroking. Please go ahead.

Sandeep Agarwal Yeah sir, congratulations on a very good set of numbers. Just wanted to have a little more detail on the product that is BaNCS. Just wanted to have more clarity on that, how it is doing, what is the kind of contribution it gave during this quarter?

N. Chandrasekaran See, the BaNCS business is doing very well. As I said, BaNCS is an integrated suite of offerings making up a broad portfolio – core banking, payments, securities, custody, brokerage, market infrastructure, depository settlement, systems and insurance offerings. And we are seeing a significant traction for all those offerings and it is continuing to do better. This quarter it has contributed 4% of the company revenues compared to the previous quarter, where it contributed 3.4%.

Sandeep Agarwal Okay sir. One more question on the utilization levels. Do you perceive that this kind of utilization levels can be maintained going forward? And will we be able to bring down attrition level further?

N. Chandrasekaran If we are able to get the demand, yes, definitely.

Sandeep Agarwal And sir, on attrition?

N. Chandrasekaran Yeah, attrition is something that we have to constantly work on, it is a top priority for the company, continuing to focus on people retention is a major initiative. Every manager is actively working on it. We can state our intent, but it is very difficult to say, but we hope that the attrition levels will continue to decline.

Sandeep Agarwal Okay. Thanks a lot, sir.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Amay Mourya of IndiaNivesh Securities. Please go ahead.

Amay Mourya Hello, sir. Congratulations for a good set of numbers. My question is relating to geography. India and APAC have seen a decline in this particular quarter, any specific reason for this?

N. Chandrasekaran No, APAC has not seen a decline. Only India has seen the decline and Latin America has declined. As we said earlier in the call it is primarily due to the mix of discretionary projects and annuity projects. These two markets have higher portion of discretionary compared to other markets and December quarter is always a difficult quarter for getting discretionary income. So, these are the reasons.

Amay Mourya Okay. And secondly, sir, just wanted to know what is the gross additions for this quarter was?

N. Chandrasekaran 20,219.

Amay Mourya Okay, thank you, sir.

Moderator Thank you Mr. Mourya. Our next question is from the line of Mitali Ghosh of Merrill Lynch. Please go ahead.

Mitali Ghosh Hi, good evening. Congrats on a good set of numbers. I dropped out somewhere in the middle of the call, so I apologize and if it has been asked. I just wanted to understand what the large deal pipeline is looking like and how many large deals were closed this quarter? And also the budgeting trend that you are seeing, so should we be expecting a strong March quarter or directionally, how should we expect the March quarter to be?

N. Chandrasekaran Thanks, Mitali. I think the large deal pipeline looks good. We closed about nine deals this quarter across markets and verticals. And pipeline is quite healthy. And from a spend point of view what we are hearing from customers is that it should be at the current levels with an uptick with some customers. So, there will be an increase in spending with some customers and it looks good.

Mitali Ghosh Thanks. And just in terms of these nine deals that you closed, any trend in terms of market or vertical or service line?

N. Chandrasekaran No, it is very broad-based and across market and industry.

Mitali Ghosh Okay. Secondly, just on the telecom space, you mentioned you have seen a growth sequentially in the international telecom area. Any sense of what kind of quantum you are talking about?

N. Chandrasekaran Obviously, it is a lower single digit growth in the international market. Growth in Telecom is continuing to be below the company average and that trend will probably continue into the coming couple of quarters at least.

Mitali Ghosh Right. And just two quick questions: one is in terms of the pricing, what is the trend like in terms of offshore pricing and onsite pricing? I know you have given the combined increase of 1.18%, but any color in terms of offshore/onsite?

N. Chandrasekaran We don't give the breakup between onsite and offshore pricing. Overall, what I said is that pricing will remain stable with an upward bias. With the macro-environment being what it is, it's very difficult to put a number on the pricing increase, but we have done well in seeing a 118 basis points improvement in pricing. That is all I would like to say.

Mitali Ghosh Sure. Just lastly, just very quickly, Maha, what is the hedging provision right now?

S. Mahalingam We have not taken much of hedges as of 31st of December. Subsequently, as far as the coming quarter is concerned, we have done close to about USD 225 million, but that's very little.

Mitali Ghosh: This is with respect to revenue in March quarter?

S. Mahalingam This is with respect to revenue of March quarter, that is right.

Mitali Ghosh Okay. Thank you very much.

Moderator Thank you Ms. Ghosh. Our next question is from the line of Pratik Gandhi of IDBI Capital. Please go ahead.

Pratik Gandhi Hi, thank you for taking my question. Maha, just wanted to understand, I think on the SG&A front, we have seen a couple of line items like Rent, Travel and also the Recruitment and Training cost going up significantly in this quarter, by close to around 50% on rent side and around 25%and 17% on the other two items. So, is it a quarter specific phenomena or probably it will be normalized during next quarter?

S. Mahalingam See, on Rent we had clarified last quarter that we had a dip last quarter because of certain arrangements that we had made and that was a one-off. This quarter, we are back to the same kind of trajectory as we used to have before that.

As far as Travel is concerned, it has certainly gone up. As I said in my initial statement, we try to ensure that our cost-cutting does not imply killing any of the growth parameters, so we have continued to spend on revenue-generating activities.

So, some of these costs that you are talking about are those which are either normalizing because we had some benefit last quarter, or those which are growth-linked, where we continue to incur costs rather than apply any growth-stifling cost reduction measures.

Pratik Gandhi Right. Maha, but I was talking about the SG&A rather than the cost of revenue, where I think the rent cost has gone up by close to 56%.

S. Mahalingam In the SG&A too, we had certain benefits last quarter through restructuring. That was not restricted to only Cost of Revenue.

Pratik Gandhi Okay. And secondly, any indication on the tax rate for FY'13?

S. Mahalingam For FY13, we expect the tax rate to be closer to 25%, which is in line with the direct tax code.

Pratik Gandhi Okay. Thank you so much.

Moderator Thank you Mr. Gandhi. Our next question is from the line of Hardik Shah of KR Choksey. Please go ahead.

Hardik Shah Gentlemen, congratulations on good set of numbers. Sir, can you tell me how many percentage of our clients have closed their budget for calendar '011?

N. Chandrasekaran I mean I cannot give you a percentage, but a majority of them have closed and I think the budgeting cycle for clients is back to normal. So a majority of them are closed but I am not going to put a percentage.

Hardik Shah And sir, like do we expect any delay in the signing cycle? Because in the normal budget cycle, we start signing in the first quarter of calendar year?

N. Chandrasekaran I think the discretionary project spending will begin to happen towards the end of the first quarter. Even though budget is finalized, by the time it is allocated to people and they convert into projects, etc., it takes a couple of months. So the discretionary spend will actually happen only in March.

Hardik Shah Sir, final question, in case of clients who have closed their budgets, are you seeing any increase in discretionary spend or are you expecting the flat spending in discretionary areas?

N. Chandrasekaran I think the discretionary spend will be better in 2011 compared to 2010.

Hardik Shah Okay, sir, thank you, thanks very much.

Moderator Thank you Mr. Shah. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to the management to add closing comments.

N. Chandrasekaran Thank you everyone for joining the call. Overall, I would say that we have had yet another good quarter. And all the operating parameters are looking good. And from the deal closures and the deal pipeline, the outlook looks healthy. And with that I wish you all a very, very Happy New Year. See you next time.

Moderator Thank you very much members of the management team and Mr. Shirali. Ladies and gentlemen, with that we conclude this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

[Note: This transcript has been edited for improved readability]