



## **Tata Consultancy Services Limited**

**Q3 FY16 Earnings Conference Call.  
January 12, 2016, 19:00 hrs IST (08:30 hrs US ET)**

**Moderator:**

Ladies and Gentlemen, Good Day and Welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 “\*” and then ‘0’ on your touchtone telephone. 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, Inba. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS’ Financial Results for the 3<sup>rd</sup> Quarter of Fiscal Year 2016 ending December 31<sup>st</sup>, 2015. 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 Factsheet 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. N. Chandrasekaran – Chief Executive Officer and Managing Director; Mr. Rajesh Gopinathan – Chief Financial Officer and Mr. Ajoy Mukherjee – Head of Global Human Resources. Chandra and Rajesh will give a brief overview of the company’s performance followed by a Q&A Session.

As you are aware we do not 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 risk that the company faces. We have outlined these risks in the second slide of the quarterly fact sheets available on our website and also which has been e-mailed out to those

who have subscribed to our mailing list. With that I would like to turn the call over to Chandra.

**N. Chandrasekaran:** Thank you, Kedar. First, I would like to wish you all a very happy new year.

Moving on to the Quarter, our Q3 revenues grew by 0.5% on a sequential quarter basis, in constant currency terms, in a seasonally weak quarter that had many headwinds, and our revenue declines in India, Japan and Diligenta continued.

I am happy to note, however, that all our industries and key markets of our business continued to perform well.

Our international revenues grew by 1.1% on a sequential quarter basis in constant currency terms, led by North America at 1.4% and Continental Europe at 2.3%.

Growth across the industry verticals was also quite good, led by Life Sciences and Healthcare which delivered a sequential growth of 4.1% in constant currency (CC) terms. Our other verticals which grew quite well are Manufacturing 2.3%, Hi-Tech 2%, Travel and Hospitality 2.9%, Energy and Utilities 1.6%, Media and Entertainment 2.5%.

Our BFSI vertical had a headwind in the Insurance side and Diligenta also contributed to that drag quite sharply. In spite of that, BFSI as a whole delivered 0.7% growth on a sequential quarter basis.

Retail business typically is soft in Q3 primarily because all our retail clients are focused on operational excellence in the holiday season and no big transformational or discretionary projects are delivered in this quarter. So the Retail business delivered a small 0.3% growth on a sequential basis.

The Retail business also typically brings in a lot of Digital business. But in spite of the holiday season slowdown in the discretionary part of the Retail, our Digital business remained very solid, with a sequential growth of 4% and our Digital revenues constituted 13.7% of the revenue.

From a service line perspective, our Infrastructure, BPS, Engineering and Industrial businesses did quite well.

TCS is also getting a lot of traction for its digital platforms and all our platforms including iON Assessment™, our HR Platform – Croma™, TAP™ (TCS Accounts Payable Digital Platform), our Digital Merchandizing Platform – Optumera™, our platform on Hadoop for data archival and efficiency -- Active Archive™, our Intelligent Urban Exchange™ which is our Smart City platform, our Customer Insights Platform and ignio™, all saw traction with customers during the quarter. And we need to wait for scaling up of these platforms with a number of wins and adoption but there is a broad interest in each of these platforms and we are seeing traction.

Our client metrics have been solid; we added one more client to our \$100 million+ client bank, bringing the total to 34 compared to 25 last year at the same time.

In all other client banks, whether it is \$1 million+ or \$5 million+ or \$10 million+ or \$20 million+, we had significant additions ending the quarter with 838 clients who contributed \$1 million or more in revenues. This number is a significant jump from 764 during the same time last year.

Our deal wins have been very good; we had 9 signings which are of importance. Three were from Banking and one each from Insurance, Manufacturing, Retail, Telecom, Utilities and Travel.

From geography wise, we had three wins in North America, three in Europe, one in UK and two in Latin America.

Our Digital engagement wins have been solid and we have listed some samples in deck for investors.

TCS BaNCS™ also had a good set of wins in the quarter in Asia, South Africa as well as in the European markets. ignio™ had an additional four wins during the quarter. So overall it has been a very good quarter from the demand perspective.

From a margin perspective, I am happy to say in a tough quarter where the growth has been only 0.5% in constant currency terms, our operating margin is comfortably within our preferred range at 26.6% and the Net Income Margin held same as last quarter at 22.3%.

Our employee addition has been robust with gross addition of 22,118 and net addition of 9,071, ending the quarter at 344,691 employees.

Our attrition has come down sharply; our quarterly annualized attrition has come down from 17.3% in Q2 to 15.1% in this quarter, that is a reduction of over 200 basis points.

Our utilization was down as to be expected; it is at 84.9% ex-trainees and 80.9% including trainees.

Our digital training initiative using our digital learning exchange platform has picked up a lot of momentum in the company; we have reported that 30,000 associates had built a lot of new capabilities using the platform last quarter. That stands at 70,000 as of this quarter.

Those are the main comments I would like to share with you, and I would like to now hand over to Rajesh to give a little bit more color on the Financials.

**Rajesh Gopinathan:** Thank you, Chandra. Let me go with the headline numbers once again. Our second quarter revenue of ₹ 273.64 billion represents a growth of 0.7% Q-o-Q and 11.7% Y-o-Y.

Revenue on dollar terms is \$4.145 billion, which is a sequential decline of 0.3% and Y-o-Y growth of 5.5%.

In constant currency terms, our revenue growth is 0.5% Q-o-Q.

In terms of revenue growth buildup, our INR growth of 0.7% Q-o-Q was made up of a volume growth of 0.4%, a constant currency realization impact of positive 0.1% and an exchange rate movement impact of positive 0.2%.

In terms of operating margin, our operating margin this quarter was 26.6%, a Q-on-Q decline of 0.5%. Increased SG&A expenses of 0.6% were mitigated slightly by a currency benefit of 0.1%.

The net income margins stayed flat Q-on-Q at 22.3% on account of higher other income and a lower effective tax rate.

Our accounts receivables stood at 78-days DSO in dollar terms flat Q-on-Q. Operating cash flow stood at 21.5% of revenue and free cash flow was 19.8% of revenue. Invested funds as of December 31<sup>st</sup> was ₹ 277.5 billion.

Lastly, the board has recommended an interim dividend for the quarter of ₹ 5.50.

With that we can open the line for questions.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our first question is from the line of Anantha Narayan of Credit Suisse. Please go ahead.

**Anantha Narayan:** Chandra, my first question was, since we do not have the exact impact of Chennai if you strip out the India decline this year versus the India growth last year same quarter, was the seasonal weakness more or less the same or was it a bit more prominent in this fiscal year?

**N. Chandrasekaran:** If you look at the hit this quarter, we have had multiple factors; we have had a hit – as predicted and as had been commented before – in Diligenta. We also had a hit in Japan. But the India hit was pretty sharp and apart from that, we have had a couple of more hits which is the furloughs and the flood situation.

If you are asking if impact of furloughs was better or worse this year, look at our volume growth. We have more or less the same as last year; 0.4% versus 0.4%. So there may be bit of a difference here or there, but I think we will be splitting hairs in trying to quantify that.

**Anantha Narayan:** So essentially you are saying that the impact of the furloughs was the same this year?

**N. Chandrasekaran:** I am not saying that. I am saying there may be some difference, but it is not a significant number that I want to quantify.

**Anantha Narayan:** Secondly, I guess it is probably a bit early to talk about outlook for next year but just in terms of conversations and what you see on the ground, is this similar to what you saw last year or are there any differences this time around?

**N. Chandrasekaran:** I think to get the full assessment we need some more time, Anantha. But in early indications from the customers, I have not got anything negative. I have not heard any one off-ish spends or anybody dropping budgets or anything like that. I have not heard anyone say that. So at this point in time, we think it is going to be good but we want to wait for a few more weeks till we get all the inputs and consolidate our inputs.

**Moderator:** Thank you. Our next question is from the line of Diviya Nagarajan of UBS. Please go ahead.

**Diviya Nagarajan:** So we continue to see Y-o-Y growth trends kind of continue to come down and especially going into the second half of this fiscal with an already low base for the previous year, my question is when do we see this trend kind of bottoming out and stabilizing? Secondly, what is essentially causing this? We seem to be saying that demand is by and large okay. So is this base catching up? Is this a client transition phase it is going on? Could you also help us understand it has been a fairly secular deceleration that we have seen in the last six, eight quarters so to speak?

**N. Chandrasekaran:** Diviya, I think it is not that we have not had volatility in some business before we have seen volatility in India many times in the past also. But as we had pointed out there were three big areas in which we were having headwinds and that is playing out. I think if you strip those out and see the rest of the business especially from the key markets point of view or from the industry point of view, things are good.

The problem is that these headwinds we have had and we believe that Latin America has come out of the degrowth cycle. I cannot say whether it will continue to grow on the same pace but there will be some volatility in growth rates but I think they have come out of the degrowth cycle.

I do have one more quarter at least in Diligenta of degrowth and then we will have to see Japan picking up momentum. So I think those are the two things that we look for.

And in my opinion, Diligenta will be either flattish or upwards once we exit Q4. Japan I will need some more time to come back.

**Diviya Nagarajan:** Just coming back to the quarter in question, you had put out an earnings release saying that there will be material impact on Chennai. Is the final impact pretty much close to the initial impact and estimates that we had around the time that the press release is put out or have you seen some mitigating factors come in, in the rest of the quarter?

**N. Chandrasekaran:** I think the way to look at this quarter is that it is traditionally a weak quarter and we have had multiple headwinds. Even the hit we have had in India is more than we anticipated because on such a small base it has had a material impact in the overall constant currency growth to the extent of 60 bps, then we had all the other 3-4 things. So I do not want to start to analyze each one of them and then give here number or there, but overall I believe that multiple factors have contributed to an already a weak quarter and it has been a very small growth in constant currency terms of 0.5%.

So from here things should get better; Q4 should be better from where we stand because seasonally it is a better quarter. The rate at which the Q4 will grow, how much it will deliver, will very much depend upon the ramp ups whether it starts early in the quarter or later in the quarter. Those discussions will take place now, even as we speak, because everybody would have come back after their vacation.

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

**Ankur Rudra:** Could you, Chandra, elaborate on what your thoughts are on the demand condition separately on BFS and Insurance excluding the impact of furloughs, do you see the furloughs perhaps indicating a precursor to softening demand on the financial side?

**N. Chandrasekaran:** If you look at our BFSI numbers, BFS is continuing to do well for us whereas Insurance has been muted. In fact, with Diligenta, it is having de-growth for the last few quarters. So with Diligenta de-growth stopping, Insurance also needs to pick up momentum. So we are seeing more softness in the Insurance, not in core BFS.

BFS is continuing to grow and continuing to see lot of traction from customers. So I feel that BFS will do well going forward as well.

**Ankur Rudra:** If I just take it one more step, I think you had mentioned that perhaps last quarter the quarter before that Insurance Services had begun to stabilize. Does that still hold outside of Diligenta?

**N. Chandrasekaran:** Yes.

**Ankur Rudra:** Second part; we continue to hear a lot of noise from competition suggesting there is a lot of aggressive pricing going on. The question one sort of thinks about especially when a bit of secular growth slow down at your end versus peers is are you leaving business on the table because of sort of trying to maintain margins when everybody else is operating at much lower margins?

**N. Chandrasekaran:** No, Ankur. We have proved for multiple years that we can deliver growth with a margin that we continue to hold. I don't think that we are losing because of inflexibility in any form.

Having said that, our focus is to make sure that we pick the right deals. There are deals with some conditions which may not be acceptable sometimes. At other times, the structure of the deal is not acceptable to us because we think that we may not be able to execute those kinds of deals. So those are the risks that play out. It is not any inflexibility.



I and my team are pretty much conscious of the fact that both growth and margin are very important for a good business and we never like to think that we blindly have to sacrifice one for the other. We are not rigid on that front, but having said that, we have got to make sure that we pick the deals in a way that we can execute them.

**Moderator:** Thank you. Our next question is from the line of Sandeep Muthangi of IIFL. Please go ahead.

**Sandeep Muthangi:** I wanted to press a bit further on the pricing situation, Chandra. Are there any verticals or service lines specifically where you think the pricing situation has worsened especially running into the quarter?

**N. Chandrasekaran:** Sandeep, the way to look at it is that there will always be deals where somebody is bidding irrationally. You cannot extrapolate it. There may be reasons why somebody is bidding irrationally. But before it reaches extreme levels of irrationality, he needs to know when to stop. That is true of any negotiation, whether it is in IT Services or anywhere else. While it is okay to be flexible, it is not okay to be irrational.

If such situations happen, then you have to take a call as you deem appropriate for your company. From the pricing pressure point of view, you always get one-off deals like that where these kinds of situations come, but I cannot just say that specifically in this quarter it has gotten worse or anything like that. That is a normal thing, Sandeep.

**Sandeep Muthangi:** I think it is fair to understand from your comments that you are not calling it out as a trend to be a big worry to look out for in the future?

**N. Chandrasekaran:** I agree with that statement.

**Sandeep Muthangi:** Second question is on the Package Implementation business, Chandra. We have had a couple of weak quarters and I am especially referring back to a comment that you made some time ago in last year beginning when you said that this business seems to be having a lot of transformational deals and even the Sales Force business was picking

up, but suddenly after second quarter of last year this business has not been growing much.

**N. Chandrasekaran:** There are still a lot of deals in Salesforce and our business between SAP and Oracle has been doing well. In one quarter, we see some traction in SAP, another quarter we have seen traction in Oracle.

However, our Package Implementation business has multiple product lines apart from SAP, Oracle and Sales Force. There are a number of other products also that we implement. Overall, I think there is going to be a lot of traction in cloud-based package implementation. So it will not be standalone Package Implementation, it will be more Cloud-based... you know what I mean? Salesforce is very close to Cloud-based, but even in other product lines, as long as they are Cloud-based you will see a lot of traction going forward.

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

**Sandeep Agarwal:** Chandra, already this question has been asked multiple times but I still like to dwell a little bit on that. Although 4% on Digital is a very good growth given Retail does not spend so much and other things taken into account, but if you see some of the international players although we do not know their exact organic, inorganic breakup, they have been reporting much higher growth although quarters are not exactly apple-to-apple comparable on a much bigger base, so what is your view -- was this just a seasonal or a quarterly blip in spite of being good, but it could have been much better probably, so do you see that at 13.7% revenue it has reached a number where probably year-over-year growth of 20% or likewise number is what we should expect or you think the number could be much higher... I am not asking for a specific number but I am just asking the direction given the fact that deals are also increasing in size as we are moving ahead, so I guess from very small million dollar deals to I would guess now it is a reasonably better size, so if you can throw some light on that?

**N. Chandrasekaran:** Sandeep, Digital as a business will continue to grow very rapidly to the extent that most of the business we do will become Digital at some point in time.

Currently, we are at 13.7% or whatever. This number will keep going up and at some point in time, we will need a different metric because it is not the metric by which you can continue to measure because everything will become Digital at some point in time. In a very weak quarter like Q3 I think 4% sequential growth in Digital is pretty good. I would always take it.

**Moderator:** Thank you. Our next question is from the line of Sandeep Shah of CIMB. Please go ahead.

**Sandeep Shah:** Chandra, first question is in terms of the growth in the traditional outsourcing. So if you look at the revenue ex of Digital the growth has been decelerating; so last quarter it was close to 2%. this time it is a decline. So apart from the Cloud impact, is there Agile methodology even been applied in some of the annuity business where clients are asking that you just maintain what is core rather than maintaining the whole system architecture, is there any kind of such trends are emerging?

**N. Chandrasekaran:** No, I think the Agile is being adopted big time across the board in all service lines and we have a very big push on Agile. But to answer specifically to your question, it is primarily due to furloughs and the rains impact that you see slowness in this quarter in the traditional business.

**Sandeep Shah:** Secondly, in terms of the Chennai impact though we are not able to quantify but if one has to say that there is an impact even for a project base or discretionary projects which got impacted, is it fair to say that those revenues can be recouped in the 4<sup>th</sup> quarter?

**N. Chandrasekaran:** As I said there are multiple factors; 5-6 of them, I do not want to be splitting each one of them and giving a percentage point and say what can be recouped, what cannot be recouped. Some of it will get recouped depending upon whether they are project-based and whether it will end

in the current quarter, and some of it will not. I would rather not start to try and quantify that and give such minute details.

**Sandeep Shah:** On the Digital I agree that 4% growth in December quarter is good, but it has decelerated from 9% to 10% of the earlier quarter. So the management has anticipated at the start of the quarter or something has gone wrong in the Digital apart from Retail which we have said?

**N. Chandrasekaran:** It is playing out as we envisaged. There has been no surprise there.

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

**Viju George:** Chandra I think in the last quarter you had mentioned that the order book as of the end of that quarter is 30% higher than your prior all-time high order book. I am just trying to figure out how this translates into lift in revenue growth going forward particularly given the buoyancy in the order book?

**N. Chandrasekaran:** The order book is a multi-year order book as you understand and all of those order books have to translate in to ramp ups so it will play out as we go into the future in the subsequent quarters.

**Viju George:** So are you suggesting therefore it need not translate into a lift in the coming 12-months is the way we have to read it because these are multi-year phenomenon?

**N. Chandrasekaran:** All the order book is a multi-year phenomena, because when you do a deal if it is significant, it could be for three years, it could be four years, it could be five years. If it is a project deal, the project deals could be within six months, could be three months, could be one year. So, the entire revenue of the order book will not be realized in 12 months.

**Viju George:** The other question I had was really on Chennai, not to quantify, but I am just looking at this press release of Cognizant that has just come out, and they clearly said that they have largely been able to mitigate the impact because of business continuity planning. So how does this change between vendors, I mean, you clearly call that a material impact

on that, is there something different across various vendors in terms of business continuity planning that is enabling them to mitigate this to various extent?

**N. Chandrasekaran:** I cannot comment about other companies, Viju, but the way it works is that business continuity plan is to be enforced on mission-critical applications where you are keeping the systems live, on an immediate basis.

When you are doing [non-critical] projects or maintenance work or development work across customers in large numbers in a city like Chennai for all our global customers and those employees are not going to come for five days or six days, whatever be the number of days they are affected – some of them may have gone out of city during that time and they may come back only later – that will be caught up subsequently, whenever it has to be caught up.

So the business continuity plan is to ensure that all the mission-critical applications, the support, production, operations of the customers are maintained. That is the way the business works.

**Moderator:** Thank you. The next question is from the line of Manik Taneja of Emkay Global. Please go ahead.

**Manik Taneja:** My question was with regards to the performance in Europe. If you could you give us some sense in terms how you are seeing demand across the different markets in Europe because we would continue to see a moderation even in local currency terms in terms of your performance of the geography?

**N. Chandrasekaran:** Overall I have communicated that the demand environment in Europe or US, etc., remains positive and we are still getting all inputs from the customer budgets. So, I would like to wait for a few more weeks and probably when I next talk to you, I would like to quantify how the year is going to be rather than try to give you region-by-region, country-by-country color right now.

Currently, I have no negative news. What have I heard so far is the things are looking positive; customers are not cutting budgets. But we need to wait and see for the all inputs to come in.

**Manik Taneja:** Second question was for Rajesh. We have seen about 60 bps sequential increase in our SG&A expenses and a significant absolute increase in our employee cost as part of the SG&A line element. If you could give us some sense, is there a one-off cost in that?

**Rajesh Gopinathan:** In fact, all the SG&A increase in percentage into revenue terms have come from the employee cost line item. You would not see it in any other line items.

It pretty much reflects our utilization numbers that you would have seen; utilization has decreased by between 1 to 1.5% depending on with trainee, without trainee and also it has some amount of impact due to the specific events that we spoke about. Non-billable hours get booked under our SG&A head because we carry the bench on SG&A. So that is why the bulk of the cost is in the people cost. There is some amount of one-off and the utilization is also impacted.

**Moderator:** Thank you. The next question is from the line of Ravi Menon of Elara Securities. Please go ahead.

**Ravi Menon:** First thing, Chandra, are you saying decision making happen quick on traditional deals, especially the US, we have been hearing about how traditional deals are making a comeback in the US and the pipeline is looking good, is that something that you see as well?

**N. Chandrasekaran:** I said that the US looks very positive. As for 2016-17, we are still gathering inputs and so far what we have heard is positive and we have not heard anything negative. But we would like to take a few more weeks before we consolidate and make our plans.

**Ravi Menon:** If you could give a little bit of color either vertical wise or like what kind of service it was in India that got affected or whether it is one customer or more than that, that would be great?

**N. Chandrasekaran:** Our India domestic business is small. It is a very fragmented business with multiple customers. So we have had an impact in a very diversified base. It is not from one big project or anything like that. So I cannot give any....

**Ravi Menon:** One final question for Ajoy. How many campus offers are you rolling out for FY17 and how much is the ratio of joiners to offer that you have seen so far over FY16?

**Ajoy Mukherjee:** What we had announced earlier was 45,000 and that is what we will be doing.

**Ravi Menon:** The joiners ratio, would it be the same about 70% to 73% as last year or higher than that that you have seen this year?

**Ajoy Mukherjee:** Yeah, the joining ratio will be somewhere very close to what we have been having earlier, between 70 to 73%.

**Moderator:** Thank you. The next question is from the line of Pankaj Kapoor of JM Financial. Please go ahead.

**Pankaj Kapoor:** Chandra, I had a question on Digital. How are you seeing the client discussions evolving on their Digital spend -- are we seeing the pipeline moving into the larger size engagements and more downstream kind of work or is it still concentrated in the smaller size, shorter duration projects?

**N. Chandrasekaran:** Pankaj, the total size of the Digital engagement is consistently increasing, but the way these engagements get done is that a large chunk of budget is allocated within the company, but across a number of small projects. It won't be like you sign a single large contract which is a big size. Yes, you will have visibility into the budget, but the budget is implemented through multiple projects.

**Pankaj Kapoor:** Second question is on our acquisition strategy. Your peers have been relatively more active inorganically in terms of building their Digital portfolio. So, any thoughts there how you are approaching it and is

valuation the only reason for example, which has been constraining us here?

**N. Chandrasekaran:** It is not a valuation issue. As I said we have made significant investments in Digital. Acquisition is one form of investment. If you look at the Digital Learning Platform, that is a very significant platform and that is constantly being enriched with huge number of Digital Learning Programs then we have launched a lot of Digital Platforms, and all those platforms are getting traction. I already called out a number of them, apart from iON assessment, then we have Croma our HR Platform, our Procurement Platform which is TAP and our Intelligent Urban Exchange Platform, which is Smart City Platform, our Customer Insights Platform, our Digital Merchandising Platform Optumera, and our Digital Neural Automation Platform ignio™.

I think we have put in a lot of effort over the last few years and all these platforms have been launched one by one now, and all of them are getting traction. Even in this quarter we have had wins for each of those platforms. We have started Digital Studios in different parts of the world. So there are significant amount of investments going on.

Acquisition is something that we will keep looking at, but it is not a valuation issue. Sometimes it may be a valuation issue, sometimes it is a fit issue. So whenever we think it is a right thing, we will buy it. We do not have to do something just because we have to do something.

There is absolutely no lack of commitment from us. We fully recognize that Digital is a big opportunity and had called it out earlier than anyone else. We had given initial indications of doing about \$5 Billion over the next few years and we will do significantly better than that. We have the cash, there is no issue. We will keep looking and at the right time, when the right opportunity comes, we will do it.

**Moderator:** Thank you. The next question is from the line of Nitin Padmanabhan of Investec. Please go ahead.



**Nitin Padmanabhan:** Chandra, from India perspective, do you think that the kind of declines that we saw in this quarter, do you expect that to continue going forward or do you expect some sort of bounce back of stabilization going forward? Second thing if you can give some color in terms of what is driving that weakness -- is it government contracts or what is it?

**N. Chandrasekaran:** From an India point of view, it is a one-off. But every now and then, we have had this issue - it is not the first time that it has been volatile. It has been volatile every once in several quarters.

It is not one large contract, it is multiple clients. But this time the impact that we saw is much more than what we have seen before and also what we anticipated. But we do not expect that it will repeat immediately. Hopefully, it does not repeat, but after a few more quarters if it repeats then we will have to watch for it.

**Nitin Padmanabhan:** If you look at Diligenta, it is sort of eaten into growth of BFS quite significantly this quarter. Do you think that kind of significance will continue going forward into the next, because you were talking about the sort of bottoming out sort of at least in the next quarter, do you think that it will accelerate and be a further headwind to BFSI growth?

**N. Chandrasekaran:** I think Diligenta should bottom out by end of Q4. I think after that from sequentially I do not anticipate it being a headwind. In case we are able to win some deals on that platform, then it can even propel growth. But at this point in time, I expect it will bottom out in Q4 and after that, I do not think it will remain as a headwind.

**Nitin Padmanabhan:** But do you expect the extent of the hit that we saw this quarter to continue? What I am trying to understand is, from BFS growth this quarter has been weak primarily because of Diligenta. Do you think that it can be as strong to offset the growth in the rest of BFS going into the next?

**N. Chandrasekaran:** As I said, we will have one more quarter of it.

**Nitin Padmanabhan:** Lastly, our some Package Implementation business. What are the trends there -- is it that because of the shift to the Cloud you are seeing hit in terms of existing projects and there is a churn within that business and that is why the multi-quarter sort of weakness there or do you expect that to continue as a trend for the industry or do you think that at some point you should at least see those cloud implementation actually outpace growth and actually add to be more accretive to growth in that space for you?

**N. Chandrasekaran:** I think the cloud implementations will gain more momentum not only in the SAP, Oracle space also in many other areas, like HR, like Sales, Marketing cloud...In so many other areas, cloud platforms are emerging and that should pick momentum going forward.

**Nitin Padmanabhan:** So that segment that we report as Consulting, SI, and EA do you think that the whole segment can actually start growing once this picks up, is it a reasonable size to really drive growth in that segment?

**N. Chandrasekaran:** Yes, it will pick up growth going forward.

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

**Ankur Rudra:** The question I had was Healthcare was relatively strong this quarter. I was wondering how you are thinking about this going forward given there are a lot of M&A we have seen in this sector, do you think that might slow down?

**N. Chandrasekaran:** Our exposure in the Life Sciences and Healthcare is predominantly Life Sciences. We have a smaller pie in the Healthcare segment and a larger pie in the Life Sciences segment. The Life Sciences, Healthcare business has done extremely well for the past so many quarters; this quarter it has done 4.1% on a sequential basis, but if you take Q2, if you take Q1, if you take any earlier quarter, it has done very well. So I believe that the Life Sciences segment will continue to do very well. We feel that the base on which we are operating in the healthcare segment which is predominantly Payer-based where a lot of mergers have

happened, I think we should continue to do well primarily because it is a smaller pie in the overall portfolio.

**Ankur Rudra:** So, you do not expect any headwind in that side of your portfolio may be because the clients you are present in?

**N. Chandrasekaran:** Yeah.

**Ankur Rudra:** Other thing I wanted to get your thoughts on was, there has been a significant amount of increase in the extent of the immigration rhetoric several bills filed over the last quarter, also there has been a visa fee increase. Do you think over the next 12-months till the elections are out, customers may react to this increase in the noise levels that might impact their near-term vendor choices till this dies down? And also if Rajesh could highlight what is the impact of the visa fee hike given your numbers for margins next year?

**N. Chandrasekaran:** We do not think so. The protectionist tendencies will be there as long as there is unemployment and also election situations and this is something that we factor in – we have to handle it. So it is more important to see what is our delivery model, how do we make it less dependent on visas. Those are the questions that we are working on. But in the near-term, I do not see an impact in the way we are discussing projects with customers.

On the costs, based on what we do currently there will be an impact... upwards of \$25 million on an annual basis and how much it goes to depends on what delivery model we use. That is something that we are going to see.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal of PhillipCapital. Please go ahead.

**Vibhor Singhal:** My question was majorly on the Digital development platforms that we are seeing. So, of late we have seen IBM platforms like Bluemix on which they offer support for application development. So just wanted to get your feedback on basically have you seen some kind of traction or

inquiries from our existing or prospective clients in terms of our capabilities on those platforms? Are these kind of platforms which are gaining traction or currently posing a threat to our traditional IT Services business?

**N. Chandrasekaran:** For cloudification, there are multiple stacks; IBM Bluemix stack is there and then you also have Cloud Foundry and EMC stack, there are multiple options and customers will definitely look at their infrastructure and have a strategy to move to a hybrid cloud which is both private onsite, on-premise as well as off-premise as well as public cloud Infrastructure. That is a big opportunity. On top of that, all the applications have to be migrated.

We have invested significantly in all these partnerships and all the different types of services that we can bring to bear both at the infrastructure layer and the application layer and also in migrating customers to enterprise cloud platforms layer. There are three different plays for us. Both in the partnerships and skill building we have very-very significant investments and all the capabilities we have built.

**Vibhor Singhal:** My question was more on the demand side. Are we seeing significant amount of uptick in the inquiries about these platforms, or is it still early stage?

**N. Chandrasekaran:** These are under discussions with many clients.

**Vibhor Singhal:** Last question is majorly on the competition that we might be facing specifically Analytics and Mobility domain if I can speak about. So are we facing any kind of significant competition from small start-up companies based out of Silicon Valley or maybe large companies like Palantir or maybe Neuviz have they got any standings vis-à-vis the Digital Enterprise Solutions that these guys offer or is it just the noise that we keep hearing about of these guys?

**N. Chandrasekaran:** No, I think the small companies have got a niche and they have got a role to play in customers because it is not that everything can be done

by one company. So small companies focused on specific areas they have got a niche service to offer and they are present in those situations.

**Vibhor Singhal:** What would be their let us say value proposition against us, I mean on what basis do they compete against companies like TCS, Accenture or the big guys, is it because they come from a specialist kind of background there they have niche in that domain or is it on pricing that they also compete with us?

**N. Chandrasekaran:** It is not a question of they competing with us. I think there are specific areas in which the customers want to use them. It is not a price issue or anything and each one of them has got a different capability and they may be present only in that area. From the overall point of view you may think it is a small area because they are starts up and even a half million dollar project can be very significant for them, they have their role to play. I would not see them as a competition. I think in those situations some of them we very strongly collaborate. So it is not that we have to compete with everybody. When we are delivering a large scale Digital Transformation program in specific areas we sometimes partner with these companies and that is the way it will be, that is fine.

**Moderator:** Thank you. The next question is from the line of Hitesh Das of Axis Mutual Fund. Please go ahead.

**Hitesh Das:** So FY16 growth the company has seen some challenges in certain pockets. But would like to know on a medium term three-year perspective, how do you see revenue growth panning out given the size of the company and ongoing technology change we are seeing?

**N. Chandrasekaran:** That is somewhat asking for guidance, I do not give guidance. Having said that I have given enough statements to say that all our industries even in a seasonally weak quarter have shown positive growth to varying degrees. I also told you about the three major headwinds I talked about and the status of those businesses. So I believe that Digital Transformation is leading to many opportunities and I believe that we have a great opportunity in front of us and I want to leave it at that. I won't be able to give you any other comments.

**Moderator:** Thank you. The next question is from the line of Deepesh Mehta of SBI CAP Securities. Please go ahead.

**Deepesh Mehta:** Just want to understand about growth trajectory from the beginning of year. Can you help us understand when the year started and now where we are? We have seen some kind of desperation in overall growth. Some of the factors you already alluded. But if I want to understand from how it was against the expectation when you have started, if you can provide some colors about the year the way pan out for us?

**N. Chandrasekaran:** I have said it multiple times – primarily, the impact happened in three headwinds, we mentioned it between Latin America, Japan and Diligenta. Then during the oil crisis situation, we also said the Energy vertical we are facing headwinds. So those are the three or four things which came as things that we needed to take care of during the year and that is what you have seen. You can see the collective impact of that reflected in our overall growth rate as opposed to last year growth rate. If you look at these numbers and if you factor in, you will see what the impact it has caused as far as the constant currency is concerned. On top of that, for dollar you need to take into account across the cross currency numbers we said. So you can add it up, it is not difficult to see where we are from where we were last fiscal.

**Deepesh Mehta:** Just to get clarity on coming period, some of the factors out of let us say Diligenta Q1 onwards we expect stability, next quarter is the only quarter where we expect it to again pull down the numbers. The remaining three is largely stabilized in terms of performance?

**N. Chandrasekaran:** I said that Latin America is stabilized. I will need to wait to make commentary on Japan yet. The Energy vertical would have bottomed out by the end of the quarter.

**Deepesh Mehta:** Only Japan would be out of this four would be uncertain. Otherwise, all three is likely to be stable going into next year?

**N. Chandrasekaran:** Yeah.

**Moderator:** Thank you. The next question is from the line of Madhu Babu of Centrum. Please go ahead.

**Madhu Babu:** Sir, could you talk more about ignio™ how you are scaling it? Whether automation as such would lead to some leakage in our traditional revenues?

**N. Chandrasekaran:** We have talked about it before. I think ignio™ still needs to get a lot more clients and we need to get many more implementations before we can talk about material revenue growth on that platform.

The good thing is that the customers we signed up, we have been able to go live and it is producing the results, and we are having new deal signings. But at this point in time, we will see that the ignio™ automation will definitely increase the productivity of the revenue per person, but we do not expect at this point in time a huge leakage of revenue.

**Madhu Babu:** In the absence of any major acquisition would we sustainably boost the dividend payout ratio, because cash is again accumulating on the balance sheet and growth has moderated?

**Rajesh Gopinathan:** We have had one of the most disciplined dividend payout ratios in the industry and we will intend to continue on that policy.

**Moderator:** Thank you. The next question is from the line of Ashish Chopra of Motilal Oswal Securities. Please go ahead.

**Ashish Chopra:** Chandra, given the impetus of Digital in the business, just wanted to understand in that case, as far as the order book goes, would the average duration of order book have materially come down? Also on a more general basis, if you could just throw some color on how the duration of the order book have panned out over the last maybe four to six quarters given that now Digital is increasingly getting bigger?

**N. Chandrasekaran:** Still we need to wait to be able to say that the order book realization cycle to shorten. I think we still have a long way to go because most of the large scale deals are very traditional, multi-year deal and it will continue to be so. Whether it is in infrastructure or whether it is in

maintenance production support, those kinds of deals will be multi-year deals and large scale deals. When the order book on the Digital side gets significant momentum, maybe you will have more smaller deals which will be realized faster, but the scale of that has to increase. We are not there yet to call it out.

**Ashish Chopra:** More from a near-term perspective, you did mention that 4Q will be better than the third quarter because of multiple reasons. But also if I look at 4Q of this year versus the previous year, so we do have one direct tailwind or one direct incrementally better opportunity from greater number of volume are different given the time lost in Chennai. So would you expect that maybe marginally or materially better traction versus the 4Q of previous year?

**N. Chandrasekaran:** I would not say that because I do not exactly how you are calculating but you cannot substitute that so many days of lost in Chennai will be replaced with so many days of what. That is not the way it works. I think some of the business that has gone is gone. Some businesses we will recoup in Q4, but not necessarily all the business will come I think.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

**N. Chandrasekaran:** Thank you all for listening. As I said in the beginning of the call, we have had a very steady quarter against all sorts of headwinds in a weak quarter. For me, the takeaway is the international business growth has been very credible at 1.1% on a sequential basis and all our industry segments have shown growth and the key markets -- US and Europe -- have performed very well. We had unexpected, rather significant degrowth in India. But apart from that I think it has been a very steady quarter.

Attrition is a big improvement in the sense that on a quarterly annualized basis we have dropped it by 200+ basis points. That is a very positive outcome. Our utilization level even at this level are very credible and we will continue to improve them. Pricing has been largely stable and our Digital Business growth has been very positive and all our digital



platforms -- many of them have been launched and we should look to scale them up as we move into the future. TCS BaNCS has also done well in terms of the client wins and the client metrics look very positive. So that is where we are as we complete Q3.

For next year, the initial feedback that we have received from customers is quite positive, but I would like to get all the feedback from customers over the next few weeks before we make some sharper comments and give you more color on FY17.

Have a wonderful 2016.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of TCS, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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