



Tata Consultancy Services Limited

Q3 FY20 Earnings Conference Call. January 17, 2020, 17:30 hrs IST (7:00 hrs US ET)

Moderator:

Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you and over to you, sir.

Kedar Shirali:

Thank you, Margreth. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Third Quarter of Fiscal Year 2020 ending December 31st 2019. This call is being webcast through our website, and an archive, including the transcript will be available on the site for the duration of this quarter. The financial statements, quarterly fact sheet and press releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr. Rajesh Gopinathan -- Chief Executive Officer and Managing Director; Mr. N.G. Subramaniam ("NGS") - Chief Operating Officer; Mr. V. Ramakrishnan -- Chief Financial Officer; and Mr. Milind Lakkad -- Global Head, Human Resources.

Rajesh and Ramki 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 risks that the company faces. We have outlined these risks in the second slide of the quarterly fact sheet available on our website, and emailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar. The December quarter is a seasonally weak quarter for us. We saw the sectoral trends of the first half of the year continue to play out in Q3 with a revenue growth of 6.8% year-on-year in constant currency and 6.7% in rupee terms and 6.4% in dollar terms.

We focused on execution this quarter as we have spoken about the weak demand environment at the start of the quarter also. Expanding our operating margin to 25%, while continuing to support all our investments for future growth has been the key highlight of our performance this quarter. Our net margin was 20.4%.

I will ask Ramki to go over the financial numbers and segmental performance and I will step in again later to talk about the demand trends that we are seeing. Over to you, Ramki.

V Ramakrishnan: Thank you, Rajesh. Let me first go through the headline numbers. In the third quarter of FY 20, our revenues grew 6.8% YoY on a constant currency basis. Reported revenue in INR was ₹398.54 billion which is Y-on-Y growth of 6.7%. In USD terms, revenue was \$5.586 billion which is Y-on-Y growth of 6.4%.

Let me now go over the segmental performance during the quarter. As a reminder, all the growth numbers are year-on-year and in constant currency terms. In BFSI, as Rajesh mentioned, trends from the first half of the year continued into Q3. Demand trends were mixed. We continue to see tightening of spend among the large banks in North America and UK. Furloughs in some of these accounts further affected growth this quarter. On the other hand, we did well in Europe. And our Insurance sub-vertical continues to grow well. Growth during the quarter overall was 5.3% in BFSI.

The Retail sector, this is traditionally a subdued quarter in terms of technology investments. Growth in Q3 was 5.1%. Life Sciences and Healthcare had a very strong quarter with growth accelerating to 17.1%. Our strong domain knowledge, intellectual property and ability to bring to bear the power of digital technologies across the entire value chain in both these domains have won us many transformational engagements. Communications and Media continue to do well, growing 9.5%. Demand drivers have mainly been digital investments in Analytics and customer experience. Manufacturing grew 9.2% this quarter while Technology and Services was at 3.3%.

Geography wise, Europe continued to outperform, growing by 15.9%. UK on the other hand decelerated sharply to 7.5% due to Brexit anxieties. The BFSI and Retail headwinds also caused North America to decelerate further to 4.1%. Among the emerging markets, MEA stood out with 10.8% growth. India, Latin America and Asia Pacific all grew in a tight range around 6%.

Coming to Products and Platforms, they performed well in Q3. Ignio™, our cognitive automation software had 10 new wins and 7 go lives. It has become the center piece of the new operating model that many customers are adopting to make their IT operations lighter and more responsive and their technology stacks more resilient. With its ability to diagnose and resolve system failures autonomously, ignio's imbuing technology stacks with a self-healing capability, and reducing the business impact of outages. This is particularly appreciated by Retailers who dread any system outages during their all-important holiday shopping season.

ignio's channel partner program is also progressing well, with 2 new partners onboarded this quarter, bringing the total number to 6.

TCS' BaNCS, our flagship product suite in the Financial Services domain had 6 new wins and 8 go-lives in Q3. It is worth noting that 2 of the wins are for the new asset servicing platform that we launched recently. The other 4 wins are in the areas of core banking, securities trading and securities processing.

The Quartz Blockchain Solution had one new win in Q3. It entails building a blockchain-based system for a leading stock exchange to facilitate real time reporting of trade status to multiple participants within its ecosystem including other exchanges, depositories, custodians and brokers. We also launched the Quartz DevKit in Q3 to accelerate enterprise adoption of blockchain technology. The DevKit abstracts out the complexity of blockchain programming and provide enterprises with a low code means to quickly and easily build Blockchain-based applications on popular platforms like Hyperledger Fabric, Ethereum and R3 Corda. We had 2 wins for the DevKit in Q3.

In the Algo Retailing space, we had one win each for Optumera™ and OmniStore™.

In Life Sciences, our award-winning Advanced Drug Development suite had one new win in Q3, this time for the Regulatory Insights Platform to help the

customer provide high quality and faster responses to regulators' queries on product submission. Lastly, our HOBBS SaaS platform for communication service providers had 3 new wins and 2 go-lives.

Coming to client metrics, as you are aware, the numbers we report every quarter provide insights into our customer centric business model that continually broadens and deepens our customer relationships, driving a constant movement of customers up the revenue bucket.

In Q3, we had very good client additions across all the revenue buckets. We added 2 more clients in the \$100 million+ band bringing the total to 47; 3 more clients in the \$50 million+ band bringing the total to 102; 21 clients in the \$20 million+ band taking the total to 232; 25 clients in the \$10 million+ band bringing the total to 395; 38 clients in \$5 million+ band and 57 clients in the \$1 million+ band, taking the total to 1053.

Let me go over the other financial highlights: Our focus this quarter was on execution. By working on utilization and other operating levers and with some support from currency, we have been able to expand our operating margin by 1% sequentially to 25%. Net income margin was 20.4%. Effective tax rate for the quarter was 22.9%. Our accounts receivable was at 68-days DSO in dollar terms. Net cash flow from operations was ₹94.51 billion which is 116% of our net income. Free cash flow was ₹87.34 billion. Invested funds as at 31st December stood at ₹431.36 billion. This quarter the board has recommended an interim dividend of ₹5 per share taking the total dividend year to date at ₹55. This translates into over ₹240 billion returned to shareholders in the first 9 months of this year.

Moving onto the people front, after the highest ever additions in Q2, our hiring moderated in Q3. Our total headcount now stands at 446,675. It is a young, vibrant and diverse workforce with representation from 146 nationalities and with women making up 36.2% of the base.

You might recall that in a departure from the past, we had front-loaded our fresher program this year, onboarding all 30,000 freshers selected through the TCS' National Qualifier Test in the first half of this year itself, and significantly compressing their initial training duration. This was an unprecedented achievement in itself.

I am happy to report a further achievement. Our resource management team have successfully deployed 93% of these trainees on projects in Q3, setting a new benchmark in scale and speed of deployment. We will continue to expand the base with more freshers in the medium-term to re-engineer cost structure and hasten our return to our preferred operating margin.

At the same time, we continue to invest heavily in upskilling the middle levels and empowering individuals at all levels to pursue learning and development paths that are best aligned to their career aspirations. As of 31st December, we have trained over 327,000 employees on emerging technologies and over 404,000 employees on agile methodologies.

Additionally, we are creating fast-track career options to attract as well as retain the best and brightest digital talent. The opportunities to learn, collaborate and grow; the vibrant workplace we have created, and progressive HR policies have all made TCS a global benchmark in talent retention. LTM attrition in IT Services in Q3 was 12.2%.

I turn it over to Rajesh for his commentary on the demand drivers and other trends.

Rajesh Gopinathan: Thank you, Ramki. Our decelerating growth trajectory this year means that our growth for the full year will be lower than the 11.4% revenue growth that we had in FY19; however, we view this deceleration in BFSI and Retail as a short-term phenomenon and continued to see strong secular demand for our services in the medium and long-term.

Let me provide you a little more of color on what we are seeing in these areas. First coming to BFSI, we have been closely monitoring the banking and Financial Services vertical from the time we first started noticing some tightening of spend at the start of this financial year. Let me share with you some of the trends that began then and which have continued over the last 3 quarters.

From the time, we started reporting our order book value. We have had very strong deal closures across BFSI. The deals have been well distributed across the verticals and geographies, and new deals are ramping up on time and delivering expected revenue. This quarter, we closed \$1.8 billion in BFSI TCV which brings the total TCV in the first 3 quarters of this year to \$6 billion in BFSI. We have also been winning new customers across all the sub-

verticals and across geographies. Year to date, we have added 20 new logos in BFSI.

In terms of sub verticals, our Insurance business has been growing very well across all regions throughout these 3 quarters. After some initial softness, BFS in Continental Europe has recovered quite strongly and in the current quarter, grown double digits on a year-on-year basis powered by transformational deals that we are winning.

Similarly, our BFS revenues in Australia and other regional markets are also growing well, and so are revenues from smaller banks and market infrastructure providers in North America.

So the headwinds continue to be from a few of the large banks across North America and UK. We have responded to their need to optimize their run-the-business spend by transforming their operations with our Machine First™ Delivery Model and large scale automation. This is delivering tremendous value to these customers in line with our “less is more” philosophy and helping us gain wallet share. However in the short term, the resultant deflation is pulling down our growth in BFSI.

Stepping back a little, I am happy to share with you that over the 7 quarter period starting Q1 FY19, our market share in BFSI, which is all organic, has grown materially vis-à-vis our global peers. We have expanded by close to 200 percentage points in terms of relative market share when you look at the top 5-6 providers in this space. That is something which gives us a lot of confidence in our relative competitiveness and our positioning in terms of participating in the demand going forward in this vertical.

Our market leadership is being validated in qualitative terms also. In Q3, we were featured in 9 competitive assessments by industry analyst firms, covering areas such as applications and digital services, capital market operations, financial crime, compliance, life and pensions insurance, property and casualty insurance etc. In all 9 assessments, we were ranked a leader. In 5 out of the 9, we were ranked as absolute number one.

So overall, from a deal closure perspective, sheer volume of new deal closures, our ability to win new customers, our ability to both defend and expand our market share and our relative competitiveness as assessed by third parties – in all of these areas, our leadership in BFSI continues. And that

is where I believe that we are well positioned in this industry to participate in the turnaround that is likely as we look forward into the medium and long term.

Similarly, when we look at the Retail vertical, we are growing very strongly in UK and in Europe. Within the space of Retail, sub-verticals like CPG, consumer products, and travel, transportation, hospitality etc. are growing extremely well. Headwinds are coming from once again large Retailers in the US, some of which is going through financial stress. We are confident that these will bottom out soon if they have not already done so. As I mentioned earlier, we are confident in our secular growth trajectory.

The confidence comes from 3 sources; the structural changes in the manner in which these enterprises across multiple industries consume technology today. Secondly, the resultant expansion of our addressable market and lastly, our own preparedness to participate in that fast expanding opportunity. We have spoken about this in the past and this is the space that we are extremely focused on and quite confident about.

Customers are seeing us as strategic partners for their growth and transformation initiatives, engaging us to design bespoke multi-technology solutions leveraging our contextual knowledge and deep digital expertise to tailor it to their unique business context and IT landscape. These solutions help them reimagine their business models, innovate faster or pursue new revenue lines or engage better with their customers.

This is also showing up in the sheer volume and quality of transformational deals that we have been signing over the last couple of years. In the past, I have spoken of how our investments in reskilling the workforce, in Agile workspaces, research and innovation, our unmatched portfolio of intellectual property and innovation centers, as well as our contextual knowledge and ability to stitch together capabilities from across TCS have helped us win these deals.

I want to spend a couple of minutes to dwell on that last point in more detail. Partnering a customer in a large transformation begins with identifying an opportunity in the customer's business landscape and then coming up with a solution blueprint by orchestrating all the relevant components from across different parts of TCS. Then, comes the actual execution. This entails program managing multiple distributed teams across the world using a

location independent agile model, while addressing the change management needs of the customer organization. All this is done by the very accomplished teams within the Consulting and Service Integration unit that we setup a few years ago. Senior transformation experts from this unit work closely with our account teams in establishing strong executive connects with the customer CXOs and using their strategic analysis and problem solving capabilities to design impactful solutions. By engaging with heads of corporate functions and lines of business, we are broadening and deepening our customer relationships and expanding the funding pool in which we participate.

This quarter, we estimate that out of the total order book, deals worth nearly \$1 billion resulted from our full stakeholder engagement strategy.

In addition to playing a key role in the larger transformation deals that are often initiated by the account teams and domain experts from within the industry vertical, the consulting unit also has primed several showcase transformational engagements of its own and backed by a full slate of transformational services catering to a very functional need within the corporate landscape. This unit is focused on issues like M&A, digital strategy or enterprise agility and one of some of the largest integration and divestiture engagements. We have been publishing this and you can see more details of it in the key highlight section of our fact sheet and earnings press release.

Overall, what sets us apart is the manner in which we have tightly integrated this unit into our presales and delivery organization and continuously invested in it in an organic way so that it has been built ground up, allowing the right mix of domain functional and technical expertise to be brought to bear at the right time in the service delivery value chain.

Second, in keeping with our heritage, we are very value driven, relentlessly engineering client benefit from the very first discussion, so customers can clearly see the financial impact of our work. Every proposal, increasingly sole-sourced, is based on a shared value hypothesis that governs all aspects of the engagement. With this model, we believe we are very well positioned to capture more than our current share of growth and transformation, and to use this as a lever for growth in the years to come.

For now, we had a good set of wins from a seasonally weak quarter. The overall order book for the quarter as I mentioned earlier was at about 6 billion. Of this, North America accounted for \$3.3 billion. BFSI was at \$1.8

billion while the Retail order book was \$860 million. Our deal pipeline continues to be very strong and very nicely distributed by vertical and geographical market.

With that, I would like to open the line for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agrawal from Edelweiss. Please go ahead.

Sandip Agrawal: Rajesh, you amply explained everything in detail. On the little bit of deceleration, we are seeing in the BFS and Retail, just wanted to know: are you seeing some kind of softness in the order book in the BFS space, although you mentioned \$1.8 billion? Do you think that order book is growing as fast as the order books of other vertical or segment? and is this primarily Regarding whatever shortage is there is currently in the growth, will you assign most of it to the deflation of cost or more efficiency with which we are delivering services to the client? Because, if that is the case, then obviously the client will finally have more money to spend at least in the future and that eventually will come to the person who has definitely saved it for them. So will it be fair assumption on that part?

Rajesh Gopinathan: Absolutely Sandip. In fact, that is the very thesis on which we are betting on. So I mentioned this in the press conference earlier that I do not think that aggregate budgets are shrinking. A few years back, there was much more aggressive shrinkage of budget in the BFSI space. Now, we are not seeing that as a trend, but there is significant focus on getting more bang for the buck and to significantly increase the output for the money that is being spent. That is the space that we are very aggressively participating in. We are engaged in leveraging a full plethora of technology both from our Machine First™ Delivery Model framework, MFDM™ solutions that we have, automation as well as using areas like Digital Twin and taking some of these concepts to spaces like trade settlement etc. to significantly see how can the throughput of trade settlement process be improved or how can defects be detected earlier on in the process, so that can be fixed and the yield rates improved. So there is a full spectrum of participation that we see., We believe that strategically that is the right thing to do, though it has its own impact from a short-term perspective. I think actually the order book continues to be quite strong for the end of the year. We are still only in the second year of publishing these numbers, so we will have to wait to see the seasonality, but

intuitively, order peaking happens somewhere at the end of second quarter and beginning of the third quarter. So within that context, I think we are quite happy with the overall order book that we see.

The total order book in BFSI for the 3 quarters of FY 20 is at about \$6 billion which is in line with our overall expectation of the order to revenue ratio. So net-net, I think we're quite happy with where we are and I think the proof of it is in the relative market share part which shows our relative competitiveness also on our participation.

Sandip Agrawal: That is very helpful. Just one small piece. Rajesh, will it be fair to assume that these pockets of disappointment are, at least in the BFS space, at the fag end of the pain and probably maybe in one quarter or maximum 2 quarters we will start seeing some kind of recovery? Or you would not like to assign any timeline to it?

Rajesh Gopinathan: It's difficult to assign timelines. For example, something like the weakness that we have seen in UK, we reasonably feel that in a few quarters it should improve because it is coming from a specific event, whereas some others are facing deeper structural challenges. So it is very difficult to be able to make a call on how this will play out. Overall, looking at the vibrancy in the sector and the fact that there is an intention to invest even in a budget-constrained situation, it is not about reducing the money, it is about increasing the output. I think that is a positive stance and therefore that gives us hope for a turnaround and even stronger demand environment in the medium term.

Moderator: Thank you. The next question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Rajesh, the comments both in the media interview and earlier on the call felt more optimistic than what we have heard in the last 2 quarters. What would you attribute this optimism to? Is it mainly coming from probably a greater order flow from new larger or new smaller banks? Or are you seeing both in BFSI and Retail your larger accounts kind of bottoming out?

Rajesh Gopinathan: It's a combination of both because, definitely, the nature of deal wins – if you look at it, these are all quite transformative. Both in BFSI as well as in Retail, significant numbers of new projects are being launched and good work being initiated. So there is that, as well as new customer acquisition in terms of new logo wins as well as large program wins. So all of this you see. I think we are

also reconciling ourselves to the twin impact of this focus on significantly enhanced productivity on the existing book of business. I believe the technology exists and I think we have a better understanding of how to make it work. Earlier, only the concept was there. Now, we have a better understanding of how to make it work. So that will play out. But that has a finite trajectory and therefore, the overall growth will be the focus area.

And the other verticals like Life Sciences, CMI (Communications, Media, Information Providers), Healthcare etc., these are areas where significant growth momentum is continuing. So that is where the overall confidence is coming from.

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

Diviya Nagarajan: Just a clarification on your earlier commentary around Banking and Retail. I am trying to kind of square the optimism in the medium term to some of the comments you made around productivity and how long that could go on? How did that really play in the next 3 to 4 quarters? Are you saying that in the near term this is likely to give some pressure, and but in the medium term, it is going to pick up? Or are you already beginning to see some activity levels pick up in the early part of January?

Rajesh Gopinathan: More of the former, Diviya. We believe that there will be a pickup in the medium term and in the near term, it is more the nature of the demand that is coming. Like I said, the projects that we are talking about, they are more predicated on an optimistic scenario rather than a pessimistic view of the world. So it is not just about cost cutting, it is about greater efficiency which is, I believe a space that we are quite comfortable with. So as long as the intent is greater leverage of tech, we believe that we are relatively much more competitive, and our suite of integrated services and our domain expertise will stand us in good stead in terms of continuing to gain market share in this environment.

Diviya Nagarajan: Fair enough. I think in the last quarter I know we have stopped reporting the digital number. But there was a bit of a slowdown that you highlighted, specifically in sectors like Retail which slowed down the digital growth as well. Could you qualitatively tell us how that has trended in Q3? Has there been further slowdown in the digital momentum or has that recovered after the lull that we had at the last quarter?

Rajesh Gopinathan: I don't have that number, but let me go back to the last quarter. See, we have not said about slowdown in digital. What we had said is that, some of the product wins that we were expecting did not materialize and there was some slowdown in that. That was the commentary that was given last time of Retail.

Digital, per se, as I said, it is becoming difficult to differentiate between what is digital and what is existing, and that boundary has become a very nebulous boundary. That is why we are discontinuing reporting from this quarter onwards. Logically, if you ask, most of the projects that we have announced today would all qualify under the flag of digital. But how this gets reported and how that boundary gets defined, I think it is a non-value adding exercise now and results in more stress than value. Therefore we are discontinuing it.

The whole idea of calling it out early was to give credibility to our relevance in this space. There was, a few years ago, skepticism whether this is going to suddenly result in us missing the growth momentum and not being able to participate in where the new technology is going. All kinds of commentary along those lines was there. So we started sharing those numbers to address those concerns. I think we are well passed that point now, and therefore see no further value in sharing this.

Diviya Nagarajan: Sorry, a last quick question. Anything to call out on involuntary attrition this quarter? Your headcount dropped around 4000?

Rajesh Gopinathan: We don't typically break it up this way. We look at attrition on an integrated way, and any form of it whether voluntary or involuntary is something that we are not very happy with. As you know that we have a very strong focus on investing and growing our own talent, and we don't look at attrition as a management tool. So we approach attrition as a single number, and are quite focused on managing it within acceptable limits.

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

Pankaj Kapoor: Rajesh, on the comments that you made around sole-sourced deal wins, if I heard you right, you mentioned about a billion dollar of order book this quarter was from such deals. So if you can clarify that if I heard it right? And if possible if you can put it in context like how would have been the number be for the 9 month of this year and how does it compare, say with FY19?

Rajesh Gopinathan: I don't have the numbers off hand. But let me clarify that while we are uniquely positioned in that, I didn't necessarily mean it being sole sourced. What we said is that the integrated nature of these deals and our ability to stitch it together that is the kind of deal wins that we are talking of, where both consulting as well as implementation is tightly integrated. Some of them are single sourced, but not all of them are, not even a majority of them is sole sourced. I don't have an offhand immediate comparison of that.

Pankaj Kapoor: And in these single source deals, is there any pattern like are they more for platform or managed services or for example in terms of vertical, is there any kind of a pattern to such deals?

Rajesh Gopinathan: Again, on the consulting side, it was not about single sourcing and there are no fixed patterns to it. When the problem is defined in an integrated manner, I think the competitor set narrows down significantly and there are very few players who have that kind of a capability.

When it comes to platforms on the other hand, that is an even more specialized area. So there many of the times while the initial conversation might have wider set of participation, very early on in the deal cycle, the competitor set narrows down dramatically and quite frequently it comes down to a single vendor discussion. But these are two different things – the consulting led one and the platform led one, two different scenarios.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: This new logo wins in BFSI, can you provide more color on the nature of the deal and type of clients that we are engaging with and are these project based engagement or transformational deals? And whom are we replacing in these deals?

Rajesh Gopinathan: Many of these are typically fairly specialized and – I wouldn't call them startups – but relatively newer organizations or newer organizations that have achieved scale in recent times. The deals are of all natures. Some of them are operating model based deals where they are had a more fragmented operating model because many of them have grown through incremental acquisition. There is a fair amount of opportunity to just clean this up and to migrate them to a pure play, ground-up built clean set of operating processes and systems. They are transformative to the companies involved, but not

necessarily significantly different from what we would have done in any other such engagements. The nature of these engagements is characterized by full portfolio leverage, so that you can actually draw a combination of some amount of consulting, design, development where required and operations. They are getting an end-to-end solution. I think that is what characterizes it most and the nature of that end-to-end opportunity. Given the size of it, they typically tend to choose one strategic partner and stay with them rather than spread it out among multiple vendors. So that would be the way I would characterize these.

Shashi Bhushan: So, if my understanding is right, the way you explained were these fintech companies that has grown in size over the last half a decade, is my assessment, right? Or these are some of the smaller bank that has grown inorganically, the traditional smaller banks?

Rajesh Gopinathan: All kinds of participants in that. As I said, it is characterized by the fact that the universal bank portfolio is getting fragmented and many specialist best of breed for individual product categories are emerging and some of them are of the nature of fintechs, some of them are in the nature of smaller players who are choosing to specialize in one area and gaining scale in it. Some of them have even come through divestitures of existing areas like mortgage processing of some large banks which got divested and have become standalone businesses. So all forms of lineage exist.

Shashi Bhushan: And in the Retail CPG vertical, we did reasonably well in this quarter. Did I hear you right that the growth was driven by CPG or was there Retail deal ramp up as well and how sustainable is this growth momentum?

Rajesh Gopinathan: Retail has grown in Europe and UK and other sub verticals like CPG, Travel, Hospitality, etc., have also grown strongly. In all of these areas, I believe that the growth visibility is quite strong, and therefore the momentum should be sustainable.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal Securities. Please go ahead.

Sudheer Guntupalli: What are the headwinds and tailwinds on margins we expect going forward both in the near term and long term?

V Ramakrishnan: This is Ramki here. In terms of headwind, I think the only one would be currency. I think from the benefits, one of the areas definitely which we are

looking at is to expand the base of the pyramid to sort of moderate the intake at the middle level and expand more at the freshers. So this on an ongoing basis will help not only to keep it very refreshed but also help with the margins. Other than that, I think higher growth from where we are, will also be a significant benefit. So I think these are some of the areas which we are looking at.

Sudheer Guntupalli: Sure sir. So earlier we used to talk about an aspirational margin band of 26% to 28%. So any update on that front? I mean, I am not asking for any specific year but in general.

V Ramakrishnan: From an aspirational perspective, we are not moving away from that. We have also said that structurally we believe that what we are doing can put us into that range, but it has to fire on different cylinders. So growth is one and also the currency – not just as benefit, but currency depreciation is intrinsic to our model. So these are two factors. I also talked about some of the other areas from an employee cost perspective, some of the actions which we are taking will also help.

Sudheer Guntupalli: Sure sir. And just one clarification, so will there be any potential need to move our employees between UK and EU or vice versa based on how Brexit is going to shape up. If yes, any meaningful one-off impact on cost that we expect?

V Ramakrishnan: We will have to wait and watch how this all pans out, because even if by end of this month if there is one step, we believe that it will take till end of this calendar year for things to be clear on the Brexit front. So we will have to wait and watch.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura. Please go ahead.

Rishit Parikh: So two questions from my side, right, from one from a utilization perspective. So while you guys don't report actual utilization levels but given that you guys have invested in bringing the trainees to the billability level a little more quickly, how should we think about the utilization levels from a qualitative perspective? So that is one, and second from a BFSI perspective. So headwinds are largely what I recognize this from the large bank side. When do we sort of expect that to bottom out? Is it in the next couple of quarters phenomenon or is it going to be a little more longer than that? Thank you.

Rajesh Gopinathan: Utilization is by nature volatile, given the business strategy that we are employing. So it would be fair for you to assume that when we accelerate our employee addition, in those quarters utilizations will be lower and in quarters where we are actually leveraging that investment, utilization will sequentially improve. I believe that at the scale and size that we are operating, a lever like this is an ongoing thing rather than something that to be commented upon on a Q-on-Q basis. So in line with our decision not to share that, I don't think any further discussion is warranted. On BFSI, over to you, NGS.

NGS: This is NGS here. Overall, on the BFSI front, the order book that we have is good. We are participating in all the key opportunities driven by market changes. Also, as I mentioned some time back, we are actively participating in disrupting ourselves – I will put it this way – because we feel that is the right thing to do. To create the right Machine First Delivery approach, to everything that we do specifically for large banks where we have to actively work with them to see whether tech can eat ops or how ops can further be optimized and improved upon, right?

So overall as Rajesh articulated earlier, over the last 3-4 quarters, we have actually gained market share while we are on the pursuit of disrupting ourselves. Why disrupt ourselves when it is actually going to result in a reduction in our revenue? Over my industry experience, what I have seen is that whatever goes out comes back many times over.

So from my perspective, I think BFSI is continuing to be positive. As Rajesh earlier articulated, the aggregate budgets really are not shrinking. And we are happy that we are participating in our customers' growth, transformation, efficiency, innovation – in all four aspects of what they are doing. As long as we continue to gain market share and continue to remain as the largest financial technology services provider, I think we are happy.

Rishit Parikh: Fair enough. And just one last follow-up, right. From a geo perspective, right, I mean are there any areas that our presence is sort of low, let us some of the markets in APAC, maybe China and Japan and what are we doing to invest there? In Europe are there any sort of key pockets where we want to invest and grow in size?

NGS: I think there are no specific strategies per se. In all these growth markets, whether it is Japan, China, or Eastern Europe, we have put together a strategy around how we service our global customers in these locations. How

do we continue to be relevant to our global customers in accelerating ourselves and to be of international action and support. Wherever they want us to serve, we would like to serve them – especially the large global Fortune 1000 kind of customers, we will do that.

Our Eastern European Delivery Center, Hungary is an important lever in our strategy and that continues to grow, continues to be more relevant. We provide services supporting close to about 30 plus languages out of Hungary. Extremely proud of the team that is there in Hungary. Whether we should go beyond Hungary to open up development centers in other geographies is something that we are continuously monitoring. But at this point in time we feel that Hungary is good enough for us and it satisfies all our demands in terms of these opportunities.

Other growth markets Japan continues to do well. Latin America this quarter has done exceedingly well. In Latin America, we have a local team and I think we have best of capabilities in Latin America, whether it is Colombia, whether it is Peru, whether it is Brazil, whether it is Chile or Mexico, I think in all these markets we continue to grow, continue to add local capabilities, continue to add customers. So overall I think our strategy for new growth market as we call it is very good. ASEAN and overall APAC, we expect that it will grow in the coming years.

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

Madhu Babu: So Life Sciences has been showing a very strong growth over the last few quarters. Could you explain how the platform we have developed here has helped us leverage in this growth and would it be enough to become a sizeable vertical on the next 2 years perspective?

Rajesh Gopinathan: Growth has come from our differentiated positioning and participation across the full spectrum of this industry. I think when you look at the global top 10 pharma majors, we are very strongly present across almost all of them. A part of it is also coming from our investments in the product portfolio and the platform that we have developed, but that is not the sole reason for the performance. It also comes from a combination of domain capabilities that we have built which is also deployed in our operations in areas like drug discovery and other KPO areas that we are participating in. So it is a very integrated full services strategy that is at play and it is already sizeable

portion of our business, with more than 8% of our revenue, in fact 8.3% or 8.4% of our revenue, coming from this vertical in this quarter and it is the fastest growing vertical. So we are very confident and optimistic about the Life Sciences space.

Madhu Babu: And second one we have talked about adding more channel partners for ignio. So would we do a similar strategy for the other platforms which we have and maybe carve out much bigger product ambition for the company overall?

Rajesh Gopinathan: We are constantly analyzing what is right approach for any of these products or platforms and engaging with the full ecosystem out there. So you can reasonably assume that we will do that. But there is no one cookie-cutter kind of a strategy for all products or platform groups.

Madhu Babu: Sir, just one, are there any Indian service providers who are all the channel partners for ignio? Let us say any midsize vendor of India who is promoting ignio or even a larger vendor?

Rajesh Gopinathan: I am going to tell you that you can watch that space on the Digitate webpage where they keep announcing their new partners. And why not? I am sure there will be a few... there will soon be a few.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: Rajesh, just wanted to understand in terms of the cycle about where are we in terms of the new operating model which we are foreseeing especially in the banking and financial services? Is it been across many large clients or it has just started? Where are we in that cycle as a whole?

Rajesh Gopinathan: Definitely a lot of work is happening across multiple customers, but each of them is at a different level. Mostly, it is still project led and specific area-led, rather than as an integrated transformation. However, in verticals like Retail, there are many more enterprise-wide operating model transformation engagements that are currently ongoing. The appetite, willingness and the speed of execution of this transformation are a lot more visible in the Retail space. But I think it is inevitable in BFSI, and moving in that same direction.

Sandeep Shah: Okay. So this Machine First Delivery Model, can we say that it is in the initial part especially looking at our legacy or annuity business where the implementation has just started in that fashion?

Rajesh Gopinathan: Yes. You could say that. But I want to clarify that it is not just about Machine First. The operating model transformation also leverages location independent agile as a methodology. It integrates platforms and more end-to-end scope-based management. It also entails areas especially in areas like Retail where as I said where we have done enterprise wide transformation of product centric organization and design. So all of these levers are at play.

NGS: If I can add there, NGS here. I think the life cycle overall, first of all you know, the first point is of the adopted agile, I think most of them, they are on an agile journey and they are achieving reasonable maturity, adopting location independent agile and other techniques. Cloud, I think all of them have a huge cloud strategy and building architectures and systems which are in a modern cloud native architecture, that is I think is very much there. Third is the automation lever. The automation is, they have all come to realize that productivity is one, but innovation is surpassing productivity. I think that is the life cycle that they are at. And when you see innovation is surpassing productivity, there are many levers that come into play. That is one of the reasons when we say that everything that we do, willy-nilly, involves a digital technology today, right? So in that innovation surpassing productivity life cycle, Machine First is absolutely relevant and we are actively disrupting the portfolio that we have. It is not just run. Run and change becomes one, right? It is our ability to get to a stage where I am in a position to make changes and deliver code into production multiple times a day. Do I get there? When do I get there? For example, some Retailers are in a position to do that today. BFSI, they are actively working towards getting there. And I think that is the way that we should see it and in that whole journey as I mentioned, we are very happy with our participation with all these banks who are trying to convert themselves into technology firms, if you will. And by technology firms, they are trying to emulate actively behave like a Retailer on one side and integrating Fintechs and creating ecosystems in this whole process, right? And that is where our Machine First led strategy, Business 4.0, business pillars all of that come in handy and we are happy that we are gaining market share in this whole aspect.

- Sandeep Shah:** Okay. Just on the wallet share commentary, when we have said from 1Q of FY19 to 3Q FY20, it is improved by 200 bps. So it is fair to say it will be equal in banking capital markets as well as insurance?
- Rajesh Gopinathan:** It is across the BFSI segment that we report. I think all peers report BFSI as a one single segment.
- Sandeep Shah:** Okay. So even in banking capital markets, we can say that there is a wallet share improvement which has happened.
- Rajesh Gopinathan:** I can't break it up by individual sub segments because we don't have the market data at a sub-segment level. So at the integrated BFSI level, we are quite confident. But beyond that, we don't have the data to tell you.
- Sandeep Shah:** Okay. And just few things, last time Rajesh you said in the Q2 conference call that the visibility for H2 is bleak. With the Q3 results out, any change in that outlook?
- Rajesh Gopinathan:** No. Q4 continues to be soft, so that will keep H2 soft.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda. Please go ahead.
- Ruchi Burde:** I have two questions. The first one is regarding the hiring process, feels like at TCS the fresher hiring process has undergone a significant transformation this financial year. Could you please summarize for us what is this transformation and how fresher hiring would shape up in the coming years after this transformation?
- Milind Lakkad:** Yeah. This is Milind. See we have on boarded 30,000 people in the first two quarters of this financial year. 93% of these people are now on the job. It is an extremely agile model for us where people started learning even before they come and join, and they become productive very quickly. It has worked very well for us and we continue to use this model in the coming year.
- In the coming year, we already have offered close to 39,000 offers and we will look into how do we deploy these people in the coming years and will decide it in about a month or so. So the model is working well, and we will continue to refine this as we go along.

- Ruchi Burde:** Follow up on this, do you think would it increase the skewness of the fresher on boarding or you think now this equip TCS to do just in time hiring as and when the demand shapes up?
- Milind Lakkad:** Yes, I think the second part, the answer is yes. We are able to hire people quickly. The people who did not qualify the test, we actually know what are their gaps, we connect with them, we build a community with them, bridge the gaps that they have and then bring them in again. So it definitely increases our speed to get them on board. That is one, and more importantly we also strengthen our middle level, so that we can continue to bring in more and more people at the bottom.
- Ruchi Burde:** Understood. The second question that I had was on the core transformation opportunity that you guys have talked sometime in the past. Can you update as what are the client conversations on the core transformation opportunities?
- NGS:** I think core transformation continues to be there. The overall application, modernization itself is a journey that is linked to 2-3 things. If customers are looking at cloud, then willy-nilly, that drives their core systems transformation, right? Today, I think that is one of the main drivers. And as they move applications to the cloud, there are 3 or 4 important things that come out as architecture levers. Number one is APIs and micro services. Number two is what kind of partnerships and alliances that they would like to do so that they are in a position to move from vertical integration to horizontal collaboration and create ecosystems. The third one is clearly, the level of analytics and automation that they would like to build. So that willy-nilly defines what we call as the cloud native modern core systems architecture. Such an architecture means that people don't really put everything as a core, it is just a system of records. And the bulk of the processing, analytics and value adding processes take place outside of the core, right? I think that works well. We have proven in many a situation that such architectures are highly scaling and highly performing and highly relevant to improve or increase your own organizational capabilities and be more relevant to your customers.
- Ruchi Burde:** Understood. Do you see more of such conversations coming to the table or do you think clients are going slow on this given the geopolitical tensions that you deeply mentioned?

NGS: No, absolutely I think there are many such opportunities. I think the overall positioning in terms of our capabilities is extremely relevant. If you really look at it, one is that our existing customer portfolio – we have the best of client relationships, best of execution track record when it comes to the question of implementing such large scale transformation projects, and we have the most complete set of offerings and huge international action and support as required for the large customers.

In the press conference, Rajesh articulated about the largest transformation deal that we won in the Retail segment for Walgreens where we are completely transforming their pharma portfolio systems, using a modern cloud architecture as I outlined sometime back. Overall, we see that such growth and transformation opportunities are there and it will continue to grow and we do hope that the significant share of our revenue will eventually come from such core transformation projects.

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

Rajesh Gopinathan: Thank you. So to sum up, we are quite happy about our performance in the quarter considering the overall operating environment.

The market steadily is moving into a space which demands integrated solutioning capability and a full suite of capabilities and services to address the technology transformation agenda that customers have. This agenda has multiple dimensions. There is both the optimization and cost transformation agenda, and also as NGS said, it doesn't stop there. But innovation trumps efficiency any day and we are looking at significant amount of innovation leverage to help them use that change to actually transform themselves into some kind of a new age capability. That requires a unique blend of capability which is the sweet spot that we have been investing into many years now and which has been our focus in creating an organically developed highly integrated solution set spanning consulting to products to platforms to full scale solutioning and keeping all of it together in a very highly integrated solution delivery package.

So I believe the demand is steadily converging into that kind of a service capability which positions us strongly to continuously gain market share in this expanding market. The environment and challenges being faced by our customers are real, and we see ourselves as equal partners to them in their

journey and will continue to stay invested irrespective of the short term nature of the point that they are in, in their individual transformation agenda.

But overall we believe that in the longer term, we see ourselves being even more relevant to our customers and participating even more aggressively in the unfolding opportunity. So with that, thank you once again for joining us and wish you all a great year ahead. Thank you.

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

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