TATA CONSULTANCY SERVICES

Tata Consultancy Services Limited

Q1 FY11 Earnings Conference Call.
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Moderator Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. This is Rochelle, the Chorus Call Conference Operator. Please note that for the duration of this presentation all participants' lines will be in the listen-only mode. And this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by entering '*' and then '0' on your telephones. At this time I would like to turn the conference over to Mr. Kedar Shirali – Director of Investor Relations at TCS. Thank you. And over to you, Mr. Shirali.

Kedar Shirali Thanks Rochelle. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' Financial results for the first quarter of Fiscal Year 2011 that ended June 30th, 2010. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter. The financial statements, results, presentation and press releases are all available on our website. Our leadership team is here today to discuss this quarter's results. We have with us today Mr. N. Chandrasekaran, Chief Executive Officer and Managing Director.

N. Chandrasekaran Hello everyone.

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

S. Mahalingam Hello.

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

Phiroz Vandrevala Hello everybody.

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

Ajoy Mukherjee Hi, everyone.

Kedar Shirali As usual, Chandra and Maha will give us a brief overview of the company's performance and that will be followed by the 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 can be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the results presentation e-mailed to you and which is also available on our web site.

With that, I would like to turn the call over to Chandra to begin the proceedings.

N. Chandrasekaran Thank you Kedar. Good morning, good afternoon, and good evening everyone.

I am very pleased to report that we have had a quarter of all-round outperformance. This is a quarter in which we have delivered a volume growth of over 8.1% and Rupee-terms revenue growth of 6.2% and constant currency revenue growth of 7.3%.

From the historical point of view, in absolute numbers, this has been the best quarter since September 2008 and in terms of constant currency, it is the best quarter since September 2007

This result has come about in a very holistic manner. All our industry segments have done very well. In the past few quarters, we saw the Banking and Financial Services (BFS) segment leading the growth. In this quarter, BFS has done extremely well. However, there are other industry segments who have done very well too and some who have done better than BFS segment. At least 3 industry segments have delivered double-digit growth.

From a geography point of view, the growth has come from all markets in terms of constant currency. Again, we have grown all the geographies; US, Canada, Latin America, Europe – both continental Europe and UK – Middle East, Africa, India and Asia Pacific, all have delivered growth. However, the growth has been led by both US. and Asia Pacific in this quarter.

In terms of the deals that we signed, we signed 10 large deals, all in the non-BFS segments. We had a couple of deals each from Manufacturing and Hi-tech and then a deal each in various segments like Retail, Life sciences & Health care, etc.

At the beginning of the quarter, we knew very clearly that there would be a significant margin headwind from the salary increases that only got compounded by the Euro and the Sterling movement during the quarter, causing another headwind. Our teams, both the business teams and the finance teams have done an incredible job of managing these headwinds and delivering an operating margin of about 27.15%, just 36 basis points below that of the last sequential quarter.

In terms of employees, we hired a significant number of employees this quarter and considering the demand environment, we are going to increase the target from 30,000 gross hires to 40,000 at this point.

As for the Bancs product, it had done extremely well this quarter. 8 of the implementations have gone live and we signed 30 new deals, which is very good.

About the deal pipeline, it is very robust and again, we have a good number of deals in all markets across industry segments. There are atleast 15 important deals going on, one-third of which are coming out of discretionary spend.

From the overall environment point of view, I am very well aware and we as a management team are fully cognizant of the macroeconomic conditions, which are very dynamic at this point in time. But our bottom-up data indicates that the momentum is good, the pipeline is good and we are seeing signs of discretionary spending with the type of deals that we are participating in. So there is this disconnect between the macro situation and the bottom-up data. I would just leave it at that. We remain very positive and we remain closely engaged with our clients and look forward to good coming months.

With those opening remarks, I will pass it on to Maha to provide a little more color on the financials and later on, we will be happy to take any detailed questions.

S. Mahalingam Thanks Chandra. Let me begin by repeating the headline numbers. We posted revenues of Rs. 82.173 billion or Rs 8217 crores which is a growth of 6.2% Q-on-Q and 14% year-on-year. In constant currency, we grew by 7.3% quarter-on-quarter. In dollar terms, there was the cross currency impact of (-86) basis points this quarter resulting in the reported revenue of $1.794 billion, that is a sequential growth of 6.4% and 21.2% on a year-on-year basis.

The breakup of quarterly revenue growth in INR terms: Volume growth is (+8.1%), Exchange impact is (-1.09%), Pricing is (-0.32%), Effort mix, that is the shift from onsite to offshore, is (-0.48%), totaling 6.2%.

Moving on to cost, you might recall from our last quarter's call that we have implemented across the board wage increases that went into effect at the start of this financial year. We were able to mitigate the resulting margin impact almost entirely through a combination of three things:

- Better operational leverage, through holding many of the non-employee at about the same absolute levels. This is what I have been saying.
- The second one is some offshore shift and
- The third one is better collections due to which we could reverse some past provisioning for bad debts.

That is how we were able to hold operating margin more or less steady at 27.15%, even in the quarter with the severest of margin headwinds, suffering only 36 basis points sequential decline that too mainly because of currency volatility.

The impact of different levers of the operating margin is as follows: Currency (-32) basis points, impact of wage hike (-215) basis points, offshore shift (+15) basis points, rate productivity improvement (+57) basis points, SG&A efficiencies (+139) basis points.

Other income was lower this quarter due to a net foreign exchange loss of Rs. 472 million, compared to the gains last quarter. Our tax rate also went up this quarter to 19.1%, giving us a net margin of 22.45%.

Our DSO for the quarter was 77 days. Cash and liquid funds stood at Rs. 95.2 billion.

In summary, we matched the strong market-leading growth we posted this quarter with an equally strong and robust defense that took a steep wage hike and adverse currency movement in its stride. That speaks of the resilience of our financial model and its ability to deliver in bad times and good.

With that, we can open the lines 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 Balaji Prasad of Goldman Sachs. Please go ahead.

Balaji Prasad Hi, good evening gentlemen. Congratulations on a good set of results. My first question was on the UK growth, this has been quite impressive at 5.5% despite the pressure on the pound. Do you see the upcoming renegotiation with PADA and any kind of pullback from BP affecting this and to what extent will it be affected?

N. Chandrasekaran As far as the PADA contract is concerned, I think the government is doing the diligence and we are not at this point in time, aware of any negative decision towards the contract. We are in discussion with the client and the project is going on as per schedule and we have a very good contract. But any decision on PADA contract, I do not think will have a negative impact on our performance.

Balaji Prasad Okay. That is good to know. Also on BP, have you seen any kind of pullback in any kind of projects that you are doing for them that this account could reduce in size?

N. Chandrasekaran No, neither of these relationships is cause of concern from our point of view. But in any case, at this point in time, I do not envisage any negative impact on our performance because of these contracts.

Balaji Prasad Okay that is wonderful. Secondly, give us your collective impressions that you are having when you are discussing pricing with clients globally. How receptive have they been to any kind of pricing increase going forward? What are your thoughts on that?

N. Chandrasekaran I think we have said repeatedly in the last 3-4 months that the pricing environment, as far as we are concerned, is stable. We are looking to maintain the pricing environment in the immediate quarters. There is definitely a demand pick up and so I expect the pricing to go up in the later part of the year.

Balaji Prasad Okay, great. Any insights that you can provide on how this has been quite stable at your end, while your peers are going through some pricing pressure? We have seen recently one of your peers have around 1.5% decline in pricing, any particular insight which you can share with us?

N. Chandrasekaran Not really. I can only speak about us and I think the pricing environment is stable from our point of view and we hope to maintain that in the immediate quarters.

Balaji Prasad Okay, thank you so much for your time. Good luck for the rest of the year.

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

Edward Caso Hi good evening. I was wondering if you could talk a little bit about your Business Process Outsourcing business, particularly now that you gone a little bit more than a year since the Citi acquisition and have you been able to leverage that? Any thoughts on current pace of business and so forth?

N. Chandrasekaran I think the Business Process Outsourcing business is doing well. In fact, post the crisis, the momentum in BPO has picked up even from the financial services clients.

We have been able to leverage the Citi deal and we have won more than 5 clients in the financial services segment, where we are continuing to ramp up. On the last 6-quarter performance, the Citi acquisition per se is ahead of the business plan at this point in time.

Edward Caso Are you seeing any change in the pace of either interest level or contracts actually being signed? Are your sale cycles starting to finally shorten a little bit or is this fear of a double dip extending them again?

N. Chandrasekaran The sale cycle for BPO is always long and it will continue to be long. The BPO sale cycle takes a little bit more time than the IT sales cycle in general and that is the trend we are witnessing. As I said, we are aware of the macro environment and are carefully watching, but we are not seeing any impact of that in our sales cycle or in the delivery cycles or in the ramp-ups.

Edward Caso And the last question revolves around employee attrition which clearly has stepped up for TCS in this quarter, as well as for some of your competitors, and we read about significant poaching as often some of the Tier-2 did not have any bench. We are wondering what steps are you taking to offset that and has the sort of the initial flurry of poaching eased at all or is the poaching still very high?

Ajoy Mukherjee Okay. From attrition point of view, it has gone up to about 13.1% at this point in time compared to last quarter which was at 11.8% and there are a couple of reasons for that. One is the seasonal part; this is the time some of the people leave for higher studies, so usually in Q1, the attrition is higher as compared to the remaining quarters in a financial year. The second one is this is the time when we complete our appraisal process and we also announced our increments. So that led to some amount of attrition and the third one is of course, the industry growth. If there is a growth, it is bound to reflect on the attrition.

Our overall focus is on retention. We have different schemes, different initiatives for retaining our employees, and we have been able to retain our critical talent. We have been able to do that successfully.

And as far as poaching is concerned, we will not go ahead and poach people deliberately from others. It depends on the kind of need that we have and the talent that is available in the market. So it is at that level.

N. Chandrasekaran But having said that, employee retention is a key initiative in the company at this point in time.

Edward Caso Thank you very much.

Moderator Thank you, Mr. Caso. Our next question is from the line of Joseph Foresi of Janney Montgomery Scott. Please go ahead.

Jeff Roseri This is Jeff Roseri calling on behalf of Joseph Foresi. Just wanted to follow up on the question regarding attrition. You mentioned that gross hiring guidance was increased to 40,000 from 30,000. Is there a certain amount attributed to increased attrition and a certain amount attributed to expected growth?

Ajoy Mukherjee The increase in gross hiring plan is primarily driven by the demand growth that we see.

Jeff Roseri Okay, so not too much related to the attrition side. And on Continental Europe, I know you mentioned that there was constant currency growth for all geographies but what is the kind of demand you are seeing within continental Europe and how has that changed in the last month or two?

N. Chandrasekaran Of all markets, Continental Europe had the slowest growth in this quarter. The demand environment in continental Europe is good, but the sale cycle in continental Europe also tends to be a little longer. We expect that it will get better from here. For example in this quarter, we had a constant currency growth of about 1.2% in Continental Europe and we expect things to get better from here.

Jeff Roseri Thank you very much and congratulations on the quarter.

Moderator Thank you, Mr. Foresi. Our next question is from the line of Anthony Miller of TechMarketView. Please go ahead.

Anthony Miller I would just like to clarify more about the Europeans, you just said that the constant currency growth in continental Europe was 1.2%, can you just give what the U.K. constant currency growth was in comparison please?

N. Chandrasekaran 8.1%.

Anthony Miller You said that even though continental Europe is 1.2%, you felt confident that things will get better from here. What is it that gives you that confidence?

N. Chandrasekaran Just based on the conversations we have had with clients on the engagements we are pursuing.

Anthony Miller And just finally, you mentioned that you had a number of Bancs deals, you signed 13 new deals in the quarter. Can you say which geographies those were in and what sort of specific applications they were?

N. Chandrasekaran They are well distributed across the globe and there are 4 or 5 core banking deals, there are deals in the insurance sector and there are deals in the market infrastructure and custody area.

Anthony Miller Okay, thanks very much indeed.

Moderator Thank you, Mr. Miller. Our next question is from the line of Mitali Ghosh of Bank of America Merill Lynch. Please go ahead.

Mitali Ghosh Hi, good evening and congratulations on a great quarter. Chandra, if you could just give us some color on the trends in the banking vertical because in the last few quarters, we have seen strong growth led by merger and integration related work. Just wanted to understand, is that leveling off? Also I thought you mentioned that there were no new BFSI deals in the large deals that you have signed this quarter. So again I am just trying to understand what sort of demand you are seeing there and finally, if you could share what the constant currency growth was for the banking vertical this quarter?

N. Chandrasekaran The constant currency growth rate for banking vertical is 6.5% this quarter. The demand environment continues to be good and it is not that we are not signing banking deals. There are a number of deals we have signed, including Bancs product-related deals.

In terms of pure IT services, we are pursuing a good number of deals in the banking and financial services vertical, and of all the deals that we are pursuing, I would say that banking and financial services has more number of deals than other sectors. So I would say that the outlook for banking and financial service and insurance sector looks good.

Mitali Ghosh Just as a follow up to that, if you could give us some color in terms of what is the kind of demand you are seeing from the banks in terms of nature of projects, now that integration work is probably more or less getting completed?

N. Chandrasekaran We are seeing some transformation deals, deals in the area of compliance, deals in the area of replatforming – that is, changing from legacy to go to a state-of-the-art application. There is interest in terms of analytics and there are also deals coming in the remote infrastructure management space. And then there are deals in the BPO space from the financial services sector. So I think the types of deals vary, Mitali.

Mitali Ghosh Okay, thanks, that is very helpful and overall on the pipeline, you mentioned that discretionary projects are a large chunk. How has that changed over the last 3 months? Has the proportion in the pipeline actually moved up? Also if you could comment on what is the mix in the pipeline from new customers, perhaps first time offshorers, and from existing outsourcing deals coming up for re-bid.

N. Chandrasekaran In terms of the pipeline, definitely the proportion of deals from discretionary spend has gone up. In fact, these last three quarters, until the previous quarter, we have said that most of the deals are nondiscretionary in nature, efficiency-related in nature. But we are now seeing deals coming out of discretionary spend in the pipeline. Clearly that is a positive that I am happy to report this quarter.

Then on existing versus new clients, I think it is a good healthy mix. Most of the deals that I am talking about are either new clients or clients where we have smaller presence and we are having an opportunity to increase the presence, but there are also deals with the existing customers that we are pursuing. I do not know whether I answered all your questions or if you had anything else.

Mitali Ghosh Yes, just one more: is there a large chunk coming from existing deals where you are perhaps gaining share from incumbents?

N. Chandrasekaran Whenever there is a deal that is in the area of efficiency or taking cost out, there will always be incumbents. So in those types of deals, we'll always face incumbents plus new providers, but discretionary spend deals are probably all new projects where we have to compete….

Mitali Ghosh Thanks. Just one last question on pricing, I heard your comments earlier. Just wanted to understand what is the risk of volume discount perhaps kicking in as a result of some of the older renegotiations in the past few quarters?

N. Chandrasekaran Mitali, all I would say is that we believe we can maintain the pricing at the current levels.

Mitali Ghosh Okay that is very helpful. Thank you.

Moderator Thank you Ms. Ghosh. Our next question is from the line of Sandeep Shah of ICICI Securities. Please go ahead.

Sandeep Shah Hi sir, just on the attrition. If we look at this quarter, the percentage of more-than-3-years of experience has moved up by almost 300 basis points. So is it fair to say that we are realizing attrition more towards the less-than-3-year experienced band?

N. Chandrasekaran The way to look at that is also there has been a significant lateral add this quarter and our HR team has done a stupendous job of meeting the volume growth demand by ensuring that we have hired a large number of people and provided the right mix to the engagements. So that to some extent will have a distortion and also in this quarter, traditionally – and I do not have the exact number to give you on the call – we have people who have joined over 1 or 2 years quitting for higher studies and that adds to the attrition. So a portion of what you see is due to that. So these are the two explanations I can give you. If you want more data, you can contact Ajoy later on and he will be happy to share.

Sandeep Shah No, this is helpful. Second, in terms of the new deals which are coming, are they coming at a higher than the company average spending rate?

N. Chandrasekaran Why don't we just leave it at the fact that the pricing is going to be maintained and we are looking at an upward bias at the end of the year.

Sandeep Shah Okay. And Maha, just on the hedging, can you give us some color in terms of the outstanding old covers and any new covers taken for the coming quarter or for the quarter beyond Q2 FY11?

S. Mahalingam There is very little outstanding of the old cover. This quarter we will have something like $75 million of old cover which was taken at, I think, Rs 42.30 that will come back. And then the balance remaining is something like $30 million over a period of time. And then it will all be over. As far as the current hedges are concerned, we took some hedges for Q2 and something more for a little later, but they are all reasonably small. We have outstanding hedge of about $455 million.

Sandeep Shah Okay, any color in terms of the average strike rate for these contracts?

S. Mahalingam For those ones, they are a combination of dollar and euro and so on. As far as the dollar is concerned, the best strike is about Rs 46.33.

Sandeep Shah Okay. Maha, in terms of the margin in the coming quarter, we may have headwind through promotion and there could be a normalization of the provision for doubtful debts. So I am not asking for guidance, but just in terms of your direction of the margin, do you believe it's sustainable in the coming quarter?

S. Mahalingam Right. As I have said, it is our intent. We always said we do not give guidance, but our intent is that it should be around the 27 percent mark. As you have correctly put it, the wage increase comes in two places for us. April to June, we have got the increments and July to September, we have got the promotions and therefore it will kick in. So that is the headwind that we have.

We are also in a growth phase. As Chandra and Ajoy have said, there is a fairly big recruitment program that is going on and therefore there are going to be additional employee costs that are coming in. As you may have noticed, we have also not cut down on some of the sales-related costs and so on. Some of the costs have gone up while other costs we have controlled. So these are there, but in a growth environment, we believe with adequate cost control measures, productivity improvements and so on, we would be able to take on these headwinds.

Sandeep Shah Okay. So we still maintain our internal target of 27% EBIT margin for the full year?

S. Mahalingam No, no guidance at all. I mean, these are all aspirational statements. I just wanted to also add that when I said we will be able to take on, I am not saying that we will be able to take on fully. But you know the direction. In the most critical quarter where we had a 215 basis points issue with wage hike, we have still managed to restrict the decline to 36 basis points.

Sandeep Shah Okay, thanks and congrats once again on a good set of numbers.

Moderator Thank you Mr. Shah. Our next question is from the line of Nitin Padmanaban of India Bulls Securities. Please go ahead.

Nitin Padmanaban Thanks for taking my question. The Telecom vertical seems to have grown pretty well this quarter. What is the trend there and how do you see that going forward?

N. Chandrasekaran Telecom vertical has done well, but you should also note that the Telecom vertical also had the biggest fall over the last few quarters, so it is coming off of that and it has shown good growth. Our pipeline is good, our ramp-ups are good. So I am positive about growth, but I am not going to give you a number.

Nitin Padmanaban And with reference to constant currency for Manufacturing, how does it look?

N. Chandrasekaran Manufacturing on a constant currency basis, delivered close to 4%, 390 basis points growth.

Nitin Padmanaban Thank you.

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

Diviya Nagarajan Hi, congrats on good set of numbers. Just a couple of questions. I think we seem to have seen a good revival in some of your troubled sectors such as Manufacturing and Telecom. What do you think has driven this revival and how sustainable do you think this will be going forward?

N. Chandrasekaran I think, as I have said we are happy that these verticals have come back, but we know the macro situation can affect these verticals, specially Manufacturing. But as we see today the data points we have, we are positive about growth in these verticals. The pipeline is good and we are having good conversations with clients, but these are verticals which are susceptible to the macroeconomic situations. We just need to watch out, but it looks good at this point.

Diviya Nagarajan My second question relates to the strength of this overall recovery. We seemed to have been surprised quarter-after-quarter by the kind of volume growth that large caps such as yours have reported. My question is this should we view this as the beginning of another wave of offshoring where you will continue to gain market share at a much faster pace than expected and if that is happening, where do you think that the new pockets of penetration are opening up for you?

N. Chandrasekaran Why don't we wait for one more quarter at least before commenting on this?

Diviya Nagarajan Thanks and Maha one book-keeping question. Could you split your other income into forex and the others please?

S. Mahalingam Other income, it is about Rs. 47 crores [Rs 472 million] in terms of the losses and the balance is treasury income.

Diviya Nagarajan Thanks and once again a great quarter and all the best.

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

Vihang Naik Congrats on a great quarter. My questions were on the enterprise vertical. What has been the constant currency growth there?

N. Chandrasekaran The Enterprise Solutions constant currency growth is 4%. We separate out Enterprise solution and Business Intelligence but both should actually be looked at together. Business Intelligence constant currency growth is 7.5%, Enterprise Solutions is 4%.

Vihang Naik In last quarter, we had a slight decline in enterprise; in this quarter, it has grown slower than probably other verticals and we said that signs of discretionary pick up are visible. What is our expectation from this particular service line as such?

N. Chandrasekaran Please see what I say in context. From a point where we did not see any discretionary spending, we are seeing signs of discretionary spending and we have to bid these engagements, win these engagements, and then deliver these engagements, then book revenues. So you are not going to see a dramatic shift in the next quarter or so, but the momentum is good. It is going to increase from here.

Vihang Naik Right. That was helpful and secondly on your lateral hires, we've seen in almost two consecutive quarters already, strong lateral addition of more than 5000 employees each quarter. Has our focus on lateral addition increased and if so, what are the demand-led moves that have made us increase our focus on lateral addition as such?

Ajoy Mukherjee If you look at the lateral addition part, yes, normally in Q1 which is the first quarter, the lateral addition is higher because the trainees start joining in towards the end of Q1 or early Q2 onwards. But as far as our overall pyramid is concerned, we are pretty conscious of that and we are going to maintain that pyramid.

Vihang Naik Okay, that is it from me. Thanks.

Moderator Thank you Mr. Naik. Our next question is from the line of Pinku Pappan of Nomura Securities. Please go ahead.

Pinku Pappan Thanks for taking my question and congrats on a great quarter. My question is really on U.K. Which verticals there are you seeing increased momentum or strength?

N. Chandrasekaran I think it is pretty broad based at this point.

Pinku Papan And in terms of discretionary spend again, any particular vertical that you are seeing the spurt or high rate increase in terms of client interest?

N. Chandrasekaran BFSI definitely. 3 or 4 or 5 verticals I can mention. BFSI, Retail and Consumer Goods, and then we have Travel, Utilities. So we are seeing interest starting to pick up in a variety of verticals, although the proportion is small. So we just need to wait for this to pick up momentum.

Pinku Papan You had a good quarter for Infrastructure Services, is this coming from standalone deals or are they part of combined integrated deals?

N. Chandrasekaran Many of our deals are full services deals, but there are also deals which are standalone.

Pinku Papan So in those standalone deals have you actually won shares from some MNC players or is it coming from new players?

N. Chandrasekaran In all the deals, we have won share from MNC players.

PInku Papan Thanks a lot and congrats again.

Moderator Thank you. Our next question is from the line of Radhika Merwin of IFCI. Please go ahead.

Radhika Merwin Hi good evening sir. Congrats on a very good set of numbers. Most of my questions have been answered. I just wanted to get some sense on all the verticals that you spoke about, most of the verticals as you said has grown more than the BFSI verticals, so if I am reading numbers correctly there has been almost a double digit growth in most of the verticals, is that right?

N. Chandrasekaran Double digit growth in most? I would love that situation, but it is not true. I think on actual currency basis, there are 4 verticals which are double digit and on constant currency basis, there are 3 verticals which are double digit and one is very close to the double digit.

Radhika Merwin Okay great. So what is your sense going forward for all these emerging verticals which are being strong right now for you in the Retail and Energy particularly, so does it pertain to a particular sort of service line that you are catering to or to a particular geography that you are looking at right now for all these emerging verticals?.

N. Chandrasekaran See the fact that all this growth is coming broad-based from across verticals clearly indicates that it is not one-off nor is it specific client driven. As long as the overall macro situation does not result in a serious impact, which we are not seeing now, but should something happen then that is the concern we should have, but apart from that I think these are verticals in which we are beginning to see growth and opportunities.

Radhika Merwin Okay, great sir, thank you sir. The rest of my questions have been answered.

Moderator Thank you Ms. Merwin. Our next question is from the line of Harith Shah of Karvy Stock Broking. Please go ahead.

Harith Shah Hi, thanks a lot. All of my questions have been answered. Just one book-keeping question. Your tax rate of course, as expected, has gone up quite steeply during this particular quarter. You would expect it to remain at this level at around 19% for the full year?

S. Mahalingam Yes, we expect it around at this level 18%, 19% .It will be some where around this level.

Harith Shah Any kind of indication of what it is likely to be next year, post-STPI?

S. Mahalingam We have said earlier that it would be around 22%, may be it could be in the range of 22-24%.

Harith Shah And just one clarification. You have said that the pricing had an impact of a (-0.32%) on your revenue growth. Is that correct or is that more?

N. Chandrasekaran (-32) basis points.

Harith Shah In terms of the EBIT, it is (+57) basis points, is that right?

S. Mahalingam Correct.

Harith Shah Okay, thanks a lot and best of luck sir. Thank you.

Moderator Thank you Mr. Shah. Our next question is from the line of Shashi Bhushan of Prabhudas Lilladher. Please go ahead.

Shashi Bhushan Thanks for taking my question. I wanted to ask about the salary hike – the entire effect of salary hike has not been reflected in this quarter. So what is the impact going to be in the next quarter?

S. Mahalingam The entire salary hike has been reflected in the quarter. Why?

Shashi Bhushan The promotions that we have…

Ajoy Mukherjee The promotion cost is the one that has not reflected, but otherwise the wage increase is reflected in the previous quarter.

Shashi Bhushan What would be the impact of promotion?

S. Mahalingam As we have said earlier the wage increments would have an impact of 10% and overall impact is going to be 13% including promotions.

Shashi Bhushan Okay and also we have successfully brought our SG&A over the past one year by around 400 basis points. So are we looking for further rationalizing G&A cost and bringing it down?

S. Mahalingam No, there is no rationalization per se, but there is a lot of cost management that really takes place. We had initially set a target of 19%, we are doing somewhat better than that and we will probably be around this level.

Shashi Bhushan Thanks. That is all from my side and congrats once again for a good quarter.

Moderator Thank you Mr. Shashi Bhushan. Our next question is from the line of Rachael Stormonth of Nelson Hall. Please go ahead.

Rachael Stormonth Thank you sir. Good evening gentlemen and congratulations on a very strong quarter. I have two questions: one is on your utilization rates getting up towards 82.6% excluding trainees. To what extent are you comfortable with this and can you give us any sense of how you see it going forward?

Ajoy Mukherjee Utilization rate if you look at excluding trainees is 82.6% and as we said, the utilization rate is pretty high and we are going to increase our recruitment and that is what we are doing.

We have increased our recruitment target also from 30,000 to 40,000. So that is what is going on and including trainees if you see it is still at 74.8% and usually we like that to be somewhere around, it depends at the time when the trainees come in, they go through training and then they get deployed. So it varies from 72% to 76%, somewhere in that range including trainees.

Rachael Stormonth And coming on the question earlier on about continental Europe and you sound very bullish about the pipeline in continental Europe which you can sustain. Could you give us some sense of it in terms of which type of industries and what services and even what region your current pipeline is from?

N. Chandrasekaran I want to correct that, I want to make sure that I am rightly depicted. I did not sound bullish, I did not sound negative. I was not negative and I said the Continental Europe has the lowest growth rates of all markets at this point in time. We had a 1.2% constant currency growth. From here, I expect to grow further.

We are seeing opportunities in the BFSI segment, in the Manufacturing segment, Utility segment, and Pharmaceutical segment. All these areas, we are definitely seeing opportunities.

As I said, I really cannot comment on the macro situation that is there for all of us to see, but from our floor point of view, discussion point of view, I think it is going to get better from here.

Rachael Stormonth Could you give some indications of the types of services that you are currently in discussion with the clients?

N. Chandrasekaran Typically, IT-related services and some of the new projects in terms of discretionary spend projects.

Rachael Stormonth Okay, thank you very much.

Moderator Thank you Ms. Stormonth. Our next question is from the line of Dinesh Kumar of Aditya Birla. Please go ahead.

Dinesh Kumar Hello, good evening sir. Can you give me the margin breakup which you have said earlier, how much is impacted by salary and how much is impacted by currency and all?

S. Mahalingam The impact of wage hike is (-215) basis points, currency (-32) basis point, offshore shift (+15) basis point, rate productivity improvement (+57) basis points, and SG&A efficiency (+139) basis points.

Dinesh Kumar Okay, thanks a lot. Have a good quarter. Thanks.

Moderator Thank you, Mr. Kumar. Our next question is from the line of Hardik Shah of Asit C Mehta. Please go ahead.

Hardik Shah Good evening sir and congratulations on good set of numbers. Sir what was your visa cost in the first quarter sir?

S. Mahalingam We do not give out the visa costs and so on, but we have accounted for all of that in our figures.

Hardik Shah And there would not be any further visa costs in second quarter sir?

S. Mahalingam The visa costs come in as we apply for visas...

N. Chandrasekaran It is not only US visas it also other markets predominantly.

Hardik Shah And sir, second question. Sir, what was the impact of high number of working days on volume growth in this quarter.

N. Chandrasekaran I think actually, there is no significant impact. That is not the way you should look at it.

Hardik Shah Thanks a lot and best of luck sir.

Moderator Thank you Mr. Shah. Our next question is from the line of Vishal Desai of Centrum Broking. Please go ahead.

Vishal Desai I just have a question with regards to your manufacturing and your retail vertical. We saw degrowth of around 5% from a growth of 3.1% in the previous quarter. I was just wanting to get a fair understanding as to how many of these verticals were probably having clients which were high in exposure to Europe?

N. Chandrasekaran You saw a degrowth where?

Vishal Desai In Manufacturing.

N. Chandrasekaran In Manufacturing there is no degrowth. Manufacturing on a constant currency basis, it has grown 3.9%. Retail and distribution has grown 9.1% on a constant currency basis.

Vishal Desai On constant currency basis, I am talking on a reported basis.

N. Chandrasekaran Reported basis also they have not degrown, Manufacturing has grown 1.2% on a reported basis. Retail has grown 7.1%.

Vishal Desai Okay and going forward, do you see trends of Manufacturing picking up again or are you expecting a flattish growth going forward as well?

N. Chandrasekaran I think as I said, I expect to see growth from here, but some verticals will grow faster, some verticals will grow slower, but I think these verticals we expect to see growth.

Vishal Desai And one more question related to your tax rate. I missed it what you said for FY12? You are expecting the tax rate to be at what percentage?

S. Mahalingam 22 to 24%.

Vishal Desai Alright, that will be all. Thanks gentlemen.

Moderator Thank you Mr. Desai. Our next question is from the line of Nitin Padmanaban of India Bulls Securities. Please go ahead.

Nitin Padmanaban Despite having strong growth, we continued to have some amount of offshore shift. Do you think that's sustainable when growth continues to be strong or we could have some proportion moving onsite going forward?

N. Chandrasekaran We continued to drive the offshore program but we will have to see. We not only do offshore, we call it global shore now because we are also growing in other markets. So that is an initiative, we continue to pursue, but obviously the extent of shift this quarter has been pretty small compared to what we have been able to achieve last year.

Nitin Padmanaban But when we grow at a fast pace, isn't it right that pushing it offshore getting the proportion high would be little difficult?

N. Chandrasekaran The total number you see is not for the new clients, right? When you are growing in some clients onsite, you are growing in some other clients offshore.

Nitin Padmanaban That is sure. Fair enough, thank you.

Moderator Thank you Mr. Padmanaban. Our next question is from the line of Harith Shah of Karvy Stock Broking. Please go ahead.

Harith Shah Thanks for taking my question. Can you give some details about Diligenta. You had said that first million policies were going to go online from April itself. Any kind of details on that front?

Phiroz Vandrevala We will make an announcement next week, we were in the silent period, but you will see an announcement next week.

N. Chandrasekaran Basically, we have gone live on the new platform with 2 million policies, there will be an announcement next week.

Harith Shah Okay, thank you sir.

Moderator Thank you Mr. Shah. Our last question is from the line of Dipesh Mehta of Khandwala Securities. Please go ahead.

Dipesh Mehta Sir I just want some details about the consulting business because this is the one segment which appears to be showing some mutedness. So what kind of demand environment we see for consulting kind of assignments?

N. Chandrasekaran I think consulting seems to be good at this point in time; as the discretionary area picks up, there will be more opportunity, but I think overall, the mood is good in consulting. It is not showing in numbers yet, but I think as the environment picks up from the discretionary spend, I think we will see more opportunities from that.

Dipesh Mehta Any specific vertical or geography where we see stronger demand than other geographies?

N. Chandrasekaran Definitely as I said, Europe in general, U.K. excluded, is lagging behind compared to U.S. and emerging markets, Asia Pacific and other markets in the emerging region will show a good growth.

Dipesh Mehta Thanks.

Moderator Thank you Mr. Mehta. Ladies and gentlemen, with that I hand the conference over to Mr. Kedar Shirali and the management to add closing comments. Please go ahead.

N. Chandrasekaran I want to thank all of you for joining the FY11 Q1 earnings call. To sum up, I would just say that it has been a good quarter and our metrics across the board – on the revenue side, volume side, pricing side, and margin side, are all very satisfactory. I think we have good base for the year.

The customer portfolio has done very well. If you see the mix across the 1 million, 5 million, 10 million, 20 million, and 50 million customers, they are all nicely moving up and we see a healthy pipeline. We are looking good to add additional employee targets that we have.

Overall, we look positive despite the fact that we have a macro environment which is very very dynamic. We will continue to be very watchful as far as the environment is concerned and should there be any cost corrections we need to take we will take. Thank you all. See you next quarter.

Moderator Thank you very much gentlemen on the management team. Ladies and gentlemen, thank you for choosing the Chorus Call Conferencing Facility. Thank you for your participation and you may now disconnect your lines.

[The transcript has been edited for readability]