Tata Consultancy Services Limited

Q4 FY11 Earnings Conference Call.
April 21st, 2011, 17:00 hrs IST (07:30 hrs US ET)

Moderator Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. Please note that for the duration of this presentation, all participant lines will be in the listen-only mode. This conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. I would now like to turn the conference over to Mr. Kedar Shirali, Director of Investor Relations at TCS. Thank you and over to you, Mr. Shirali.

Kedar Shirali Thank you, Rochelle. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' financial results for the Fourth Quarter and Full Year that ended March 31st, 2011. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of the quarter. The financial statements, result presentation and press releases are also available on our website.

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

N Chandrasekaran Hello, everyone.

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

S Mahalingam Good morning, good afternoon, good evening.

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

Phiroz Vandrevala Hi, everyone.

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

Ajoy Mukherjee Hello everyone.

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

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

N Chandrasekaran Hello, everyone and thank you, Kedar. I'm very happy to address all of you today. We've had another excellent quarter and a great year. In terms of growth this quarter, we have delivered 5.1% sequential growth, but if you look at the international revenues alone, it's about 5.5%. Volume growth is also higher than the 2.9% reported -- it's around 3.3% if you look at the international volumes alone. The India market has grown 1% by volume.

In terms of the different segments by geographies and services, it is again a well-rounded performance. The noteworthy points are: we're seeing signs of recovery in Continental Europe which delivered close to 12% sequential growth on a reported basis and more than 7% sequential growth on a constant currency basis. Asia-Pacific once again delivered an exceptional growth, close to 10% Q-on-Q, and US continues to do well, growing about 4.8% on a Q-on-Q basis.

From an industry perspective, Banking and Financial Services continues to do well, but a number of other sectors have delivered upper single-digit growth and couple of them has even shown double-digit growth.

We have delivered double-digit growth in Hi-Tech, Travel & Hospitality and Energy & Utilities. Manufacturing has delivered over 9% growth, Retail & Distribution: 7% growth; and BFSI under 4% growth. So there has been a significant growth across verticals. Telecom has declined, but we're seeing signs of recovery. It will grow from here but in the near-term, perform below the company average growth rate.

Coming to the services, the most significant thing to notice is the double-digit sequential growth that we had in Enterprise Solutions, which kind of indicates the growth in the discretionary spend and the projects coming thereof.

From a customer metrics point of view, across the customer revenue bands, if you look at the pyramid, we have had excellent client additions, whether it's a 1 million bracket or a 5 million bracket or a 10 million bracket or a 20 million bracket and so on. It has been very nice to see a significant number of additions at the bottom end of the customer revenue band pyramid.

In terms of the operational metrics, we had a 130 basis point drop in utilization. And that is due to the large number of trainees coming into the system, and also Q4 being a seasonally weak quarter. But we have been able to maintain our EBIT margin at 28.02% despite this drop in utilization.

Overall, looking forward, the deal pipeline is very robust. I would say that the total number of deals that we are chasing, the total value of deals that we are chasing, and the qualified pipeline that we have, all of them are much better than at the same time last year, and they have been getting incrementally better quarter after quarter.

We have had a constant currency pricing uptick of 80 basis points this quarter, which is in line with some of our predictions earlier. This follows the constant currency pricing uptick of 118 basis points we had in Q3.

Going forward we continue to expect some pricing improvement in the next fiscal year, because customers are not only focused on cost, they are increasingly focusing on value, which should drive significant number of projects due discretionary spend in the coming year. Also, new technology adoption, whether it is mobility, whether it is cloud, whether it is social media or analytics, those things will come into play.

We'll see mainly volume led growth, but there will be some pricing improvement. We are not seeing any specific issues in any of the market or the industries that we operate in.

Those are my initial comments and I'll pass it on to Maha to give some more color, then we'll be happy to take questions.

S Mahalingam Thank you, Chandra. You have already noted the improvement in the revenue sequentially, as well as annually, both in rupee terms and dollar terms. Let me now give you some additional detail.

Starting with the revenue analytics, we had a volume growth of 2.9%, and the constant currency pricing improvement of 0.8%. Currency had a positive impact of 1.3% and onsite shift contributed 0.1%. Adding these up, you'll get that 5.1% INR sequential revenue growth for the quarter.

For the full year, we have had a growth of 24.3% year-on-year, and I would like to emphasize that on a constant currency basis, it has been 28.5% growth. Revenue analytics for the annual growth rate are: volume growth was 29.65%, exchange impact was minus 4.2%, pricing was a minus 0.3% and effort mix was minus 0.85%, so totally 24.3%.

As far as the Operating Margin is concerned, we had a 58 basis point benefit from currency in Q4 and this helped us mitigate the negative impact of onsite shift from higher SG&A. So, our operating margin remained flat at 28.02%.

For the full year, despite adverse currency movement, our EBIT margin expanded by 134 basis points to 27.8%. There was a 215 bps negative impact from currency, but this was offset by 252 bps gain from SG&A efficiencies, 39 bps gain from offshore shift and 58 basis points from productivity improvement. Adding all these four figures, you get the full year margin expansion of 134 bps.

Moving on to net income, we had an effective tax rate in Q4 of 20.8% which was partly offset by higher Other Income, so Net Income Margin came down by just 47 basis points sequentially to 23.7%.

For the whole year, the EBIT margin expansion and higher Other Income led to a 33 basis points year-on-year expansion of our Net Income Margin to 23.3%. This, despite a higher effective tax rate of 19.4% this year compared to 14.9% in FY'10.

Earning per share in FY'11 was INR44.36 which is a 26% year-on-year growth. In dollar terms EPS was $0.97 which is 31.1% higher than the previous year.

We have also announced the final dividend of INR 8 bringing the total for the year to INR 14, which works out to a payout ratio of 36.7%.

Our DSO stayed flat at 80 and invested funds stood at INR 93.6 billion.

So, in conclusion, despite all kind of economic uncertainties, from the threat of a double-dip recession in the US to sovereign defaults in Europe, FY 2011 turned out to be a year of strong demand. We are very happy we foresaw this an year ago and created sufficient capacity in advance which helped us exploit the demand surge.

Another source of much satisfaction is that the cost management exercise we started during the downturn evolved into something much more substantive over the year.

On the one hand we were able to optimize and stabilize our cost structure to enhance operational efficiency and to meet the organization's strategic imperatives. On the other hand, we were able to ensure sustainability by building an institutional framework for decentralizing the control process. This is what helped us expand our operating margin and hold it in a very narrow band through the year, despite all the headwinds.

All in all, we begin the new fiscal year from a comfortable perch with good demand and a sustainable margin structure that will deliver yet another year of profitable growth. With that we can open the line for questions.

Moderator Thank you very much. The first question is from the line of Moshe Katri of Cowen & Company. Please go ahead.

Moshe Katri Chandra, I'm looking at the some of the revenue metrics. It seems that U.K. was a bit weak for the quarter. Infrastructure was also a bit weak for the quarter, maybe you can comment on that. And then how should we think about margins considering the fact that we are looking at record utilization rate levels, keeping in mind that utilization rates will decline in next few quarters and then you do have some headwinds coming in from FX and wage inflation. Thanks.

N Chandrasekaran I think from the revenue contribution point of view, yes, it has been a soft quarter for UK but we think it will get better going forward. There is nothing is structurally wrong, there are no client-specific issues, as far as UK is concerned. I think that is just one-off from a demand point of view. It should get better from here and do well in FY12.

From an Infrastructures Services point of view, this has been one of the fastest growing services for us and it will continue to be so. We have signed a number of deals, very large deals, transformational deals and we are in the process of executing them. In India our revenue is down. There is a portion of Infrastructure revenues that comes from India. That assignment got over last quarter and that resulted in a dip this quarter. Otherwise, Infrastructure Services is doing extremely well, in terms of the pipeline, the order book and the what we are currently transitioning or executing. It's doing very, very well. So there is no cause of concern.

From the point of view of margins, I would like to point out that the operating margin that we are exiting with is one of the best ever we have done. On a quarterly basis, we are almost at our all-time high at 28.02%. If you look at margins on an annual basis, again, this is the best margin that we have exited a financial year. There has been a lot of discipline in how we approached the business. We have overcome wage increases, promotion costs increases, currency headwinds – all those things we have very deftly handled, all through the year.

And you are absolutely right, there are headwinds coming in terms of wage increase. We have given a substantial wage increase of 12% to 14% and there will be promotion costs and there will be possible currency-related challenges.

From levers perspective, we have utilization. We used to say we are comfortable at 78% to 80% utilization excluding trainees. That will no longer be the case. I think we are pretty comfortable operating between 82% and 84%. And that's the level at which we'll operate. I don't see a reason for a significant drop in utilization excluding trainees. As for Utilization including trainees, that will depend on the inflow. We have already come down this quarter, next quarter there will not be much of trainee additions, they will come in only in the second quarter. So, I expect Q1 utilization to go up from here. Anyway, utilization will be a lever that we will definitely deploy.

Another lever is growth. That is very, very critical. If growth comes, that will definitely help.

And we are going to work on pricing. Having said that, I don't want to indicate that there'll be a significant increase in pricing, but the demand environment currently indicates there'll be pricing increase. And so we're going to work on that.

In summary, there will be a growth lever. There will be a utilization lever. And there will be a pricing lever and of course we will continue to look at optimizing cost on the SG&A. It has gone up slightly this quarter. We are investing in huge new infrastructures, but we'll continue to look at trying to optimize this. Those will be my comments on margin.

Moshe Katri Thanks for the color.

Moderator Thank you, Mr. Katri. Our next question is from the line of Balaji Prasad of Goldman Sachs. Please go ahead.

Balaji Prasad Thank you. Congratulations on your continuing great run. I had two questions. Firstly, with two of your large Indian peers in the middle of management changes, business restructuring, how has this altered the competitive landscape in your favor? Are you not seeing them in RFP, the bidding process, where you'd normally have seen them or are you getting any market-share over here?

N Chandrasekaran I don't think I will comment on that. I don't think there is a competitive advantage or anything of that kind. From our point of view, I would say that we have a structure that we put in place, which is firing all cylinders and that's why you have seen a well rounded growth across verticals and across markets. We have got a good platform. Our full services strategy is really getting traction. So there is a good demand environment, we are firing all cylinders, but I'm not looking at this as something that's a one-off that will last for just another quarter or two because of a particular situation elsewhere.

Balaji Prasad Okay. Great. So if we understand correctly, it's not the market share that you're grabbing, but the general burgeoning demand environment?

N Chandrasekaran See, there will always be a combination. But the point is that we are on a path which we have put in place couple of years ago and we're going on that path and we're seeing lot of traction. The teams are all delivering results and we're seeing opportunities and we want to increase the velocity and fire on all cylinders – as simple as that.

Balaji Prasad Great. Thank you. My second question is on pricing – just wanted to get your views on how much of the pricing increase was related to

COLA adjustment or competitive differentiation or just a resurging demand scenario?

N Chandrasekaran It will be a combination. COLA will always be a factor. When we have no demand, COLA doesn't hold any water. When we have good demand, COLA becomes relevant, also the differentiation in the type of engagements and increasing wage costs in a demand environment. So I definitely see enough reasons for a pricing uptick. But I would caution anyone from factoring in a pricing growth immediately in the subsequent quarters. We've had two quarters where there is gradual increase and it'll take some more time, but we'll be trying to see what happens.

Balaji Prasad Fair and that's helpful. Thank you and good luck for the team.

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

Diviya Nagarajan Hi, congrats for the quarter. Just a couple of questions. I heard your comments on CNBC and if I'm not mistaken, you guided for about 60,000 headcount addition this year, is that correct?

Ajoy Mukherjee Yes, total head count addition will be around 60,000.

Diviya Nagarajan I'm just trying to reconcile that with Chandra's statements of growth and outlook because this year, we have added almost 70,000 people.

N Chandrasekaran And all the 70,000 people are not yet billable.

Diviya Nagarajan Right.

N Chandrasekaran Many of them are on the bench.

Diviya Nagarajan Got that, got that. Even if I assume some utilization improvement, we're probably looking at volume growth being in the high teens or maybe close to 19, 20%... is that a fair assumption to make? Or do you think that as the year progresses, you could actually look at hiring more people if needed?

N Chandrasekaran Diviya, we don't give guidance. So we can't tell you how much will be the growth, but all we can say is that the qualified pipeline today is better than last year, and we have hired 70,000 as a opposed to a target of 50,000. Some of those people are on the bench and going through training and we will look to increase utilization. And we have already made 37,000 offers in the colleges. We expect at least 25,000 people coming in from those 37,000 offers and the remaining will be lateral hires through the year. Currently our estimate is 60,000.

Diviya Nagarajan Got that, got that.

N Chandrasekaran And then we are going to be focusing on non-linear, as well. That's a priority, though it will not show significant revenue numbers this year. We are definitely giving it top priority.

Diviya Nagarajan Thanks. Could you give us also sense of what is happening within your BFSI sector? Is there any divergence in trends between what you've observed in the Banking Capital Markets and on the Insurance side?

N Chandrasekaran Can you repeat the question, Divya?

Diviya Nagarajan Within the Banking Financial Services and Insurance vertical, is there any divergence in growth trend this quarter for Capital Markets vis-à-vis the other part of the business maybe Insurance or other parts of the vertical?

N Chandrasekaran In Q4, Insurance grew less than BFS.

Diviya Nagarajan Right, got that. And lastly, Ajoy, will the promotion cost be over and above the wage hikes that you've guided for in this year? What would be the impact of that on margins?

Ajoy Mukherjee No. The 12% to 14% that I have spoken about includes the promotion cost.

Divya Nagarajan Got that. Thanks and all the best for the next year thanks.

Ajoy Mukherjee Thank you.

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

Viju George Hi. Congratulations to the management team on yet another fine quarter. My question relates to the comment made by Chandra earlier that utilization under steady state ex-trainees can now move between 82% and 84%. That's quite interesting, because we thought that running at more than 80% in successive quarters might be a bit difficult. Can you just take us through how that has changed from the past and why do you think this might be sustainable? Thank you.

N Chandrasekaran Viju, there are two points. First is that this is our intent - I'm not saying that we'll *always* be able to run between 82 and 84%. The goal is to run in that range. ,

Second, we are already close to 200,000 employees. The size has to count. With 200,000 employees, if you run at 82% that gives a lot of room still. That's the basic point. In fact if you look at last year, all through from Q1, Q2, Q3, Q4, we have always been between 82% and 84%. We had 82.6, 83.8, 83.8 and 82.4. So that's a very credible range that we have been able to manage. So if you're going to add more people, the expectation is that we should try and do that.

Viju George Sure. Thank you. All the best.

Moderator Thank you, Mr. George. Our next question is from the line of Srivathsan Ramachandran of Spark Capital. Please go ahead.

Srivathsan R Yeah. Maha, I just wanted to get an update on the open hedge book of $1.9 billion. I wanted to know the effective rates we run and what kind of tenure those hedges would have?

S Mahalingam These are all of a short tenure of about three months or so, and the effective rate is around 45.

Srivathsan R My next question is on the BPO business. We'd initially set a target of $3 billion by 2015-16, just wanted to know how is it doing. And what's happening in Diligenta, especially given that now we have taken a couple of clients live on the new platform, what kind of traction are we getting? Are we on track to maybe take it to some other countries outside of UK?

N Chandrasekaran Yeah. BPO business is doing well. We are already almost a $1 billion, a little less than a $1 billion on an annual basis. We're on a growth trajectory in BPO and it is maintaining its share more or less in the overall revenue of TCS. So BPO business is doing well. From a Diligenta point of view, Phiroz can you add?

Phiroz Vandrevala Basically, we're on track. We've had a good year -- we had a year as per plan. Traction in the UK market remains significantly high and thereby confident of growth in the period coming ahead.

In respect of going to other markets, the current thinking is to actually leverage the BaNCS platform rather than repeat the Diligenta model and in-source large of numbers of people. But we are keeping our eyes and ears open. Some opportunities especially in Europe are presenting themselves and we are in the process of evaluating whether we should do a platform positioning or go back and see whether we want to do a Diligenta type of thing.

Srivathsan R Thank you. Thanks a lot.

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

Sandeep Shah Yes, sir. Congrats on a good quarter. In terms of pricing, we talked of a 80 bps constant currency pricing improvement. Is it largely coming through a service mix change because this time we had a discretionary services growing faster or is some bit of COLA adjustment also being reflected in this?

N Chandrasekaran It is a combination. Service mix certainly has played a role and also some of the contracts that we renewed are getting into effect.

Sandeep Shah Okay. And Chandra, you spoke about most of the margin headwinds and tailwinds and your comments are positive in terms of the growth going forward. So in that scenario, do you expect to maintain EBIT margin at 28%?

N Chandrasekaran We don't give guidance, but our intent is to grow the business with a margin focus.

Sandeep Shah Okay.

S Mahalingam Sandeep, I had been talking about 27%. This year, obviously, we have done exceedingly well. And I've also said we'll have an ideal margin structure, so I think we'll leave it at that.

N Chandrasekaran You should expect a margin decline in Q1 with the kind of headwinds we have, but then you should also know that we're going to be driving the business with a clear focus on profits as well.

Sandeep Shah Okay, okay. And sir, earlier on CNBC you spoke about some bit of organizational change which can enable a faster decision marking. Can you throw more light on exactly what was the purpose, is it to become more aggressive in the market? Or is there any change in the demand trends?

N Chandrasekaran I did not say anything about organizational change. Yesterday, when I was at a function, there was a question to which I responded that the organizational structure we put in place two years ago has really delivered results for us. It has brought in agility, it has brought in well-rounded growth across industry and markets. And as the organization evolves, there will always be incremental changes. That was a broad comment and I did not speak of any specific change.

Sandeep Shah Okay, thanks.

Moderator Thank you, Mr. Shah. Our next question is from the line of Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta Thanks for taking my question. Chandra, this is more regarding a comment you made about couple of quarters ago about 10% to incremental revenues coming from cloud services. You also launched the SMB product. I wanted to understand from a three-year perspective, if you can tell us how you plan to scale this product up. And what are your thoughts on that?

N Chandrasekaran We said that the 10% of our incremental revenues in Q4 of FY12 will come from nonlinear initiatives. And we are sticking to that.

We have multi-dimensional strategy for non-linear growth. We are driving the products business, the second one is the BPO cloud or process cloud as we call it, or Platform BPO and the third one is iON. All the three are significant areas of focus for TCS, especially this fiscal year. We definitely want to deliver that 10% of incremental revenues, but actually it is not important whether it is 10% or 8% or 15%. The important thing is to put them on a trajectory from where there they will grow at a faster rate than the rest of the company for a sustainable period of time. And that's the focus and that's what we want to achieve.

And I can't really tell you how much it will be three years from now. I hope it is very material. We are definitely working on numbers and we are putting in significant effort. The incremental revenue from the non-linear business has to be material when you look at a 3 year horizon.

Nitin Mohta Sure. Thanks. Any feedback from clients in early stages about these initiatives, that would be very helpful?

N Chandrasekaran Currently, it's all positive. Lot of interest, lots of positive feedback, but I'd like proof points. I'd like really to see a significant number of clients, for example, in iON we want to see 1,000 clients operating and expressing extremely high level of satisfaction on everything about iON. Also we want to see the financial model which we originally constructed being proven. I hope to share some specific data at the end of FY12 fiscal.

Nitin Mohta Sure. Thank you.

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

Mitali Ghosh Yes. Thanks and congratulations to the team. First, I want to understand whether you went into the quarter expecting the kind of volume growth that you saw in this quarter or was it perhaps a little softer than what you expected.

N Chandrasekaran From the beginning of the quarter, we always expected the volume growth to be between 3% and 4%. And our international business has delivered that. It's just the India business has gone down or has been very, very marginal this quarter to some extent and that brought down the volume growth number to below 3%. And I think we have done very well in how we were able to manage margins. If you see the line items, we have made improvements in gross margin and that's very credible.

Mitali Ghosh Right. Were there any delays in ramp up in the international side? And have all those projects started now so should one expect that any delays that you saw clearly behind us now?

N Chandrasekaran I don't want to say delays, what I want to say is that all the discretionary projects that get finalized and spend approved, don't start on the first of January. That's the nature of Q4 and that's why many times Q4 is referred to as seasonally weak quarter. Things take a while to kick off in some markets, it's January 10 in some markets, it's January end elsewhere. Those kind of things happen in this quarter. But there was no delay or deliberate postponement of projects because of a particular situation with any client or in any market.

Mitali Ghosh Okay. Secondly, on pricing, I wanted to understand the blended pricing increase of 80 bps. I'm just trying to understand how much of it is due to onsite shift and how much of it is pure pricing?

N Chandrasekaran Mitali, we never share that, right.

Kedar Shirali She's asking if the pricing increase is because of onsite shift. Mitali, when we report pricing movement, we strip out the impact of onsite shift.

Mitali Ghosh Okay. So this is pure pricing.

Kedar Shirali Yeah, it's pure pricing.

Mitali Ghosh Okay. Thanks, that's helpful. And in terms of the outlook, I had two questions. One is, if you could give some color around the large deals that you have signed this quarter and the kind of pipeline you have. And secondly, last year has been quite a phenomenal year for spending by BFSI. So what is the trend this year and will BFSI grow above company average?

N Chandrasekaran There are a couple of comments I want to make. In terms of deals, we signed seven large deals during the quarter, one of which is in BFS. The remaining came from across multiple verticals: one in Retail, one in Healthcare, one in Hi-Tech, two in Manufacturing and one in Public Services. So there are seven large deals we signed and again they came from across markets. US dominated, with four deals. The other three deals came, one from each of the different markets.

In terms of the pipeline, as I said, the total pipeline and the qualified pipeline that we have today is definitely much better than what we had last year. Also what we have seen every quarter is that it's getting better and better. We are chasing more than 20 deals which are very material, quite large in size and they are full services deals. They are across verticals and across markets, and are both on the efficiency side and also on the discretionary spend side. What was the second question you had?

Mitali Ghosh On BFS, if that will grow at above company average.

N Chandrasekaran See, the point I want to make is that if you take US and BFS as the two distinct segments where we have a significant presence, one from a geography perspective and one from an industry perspective, both are growing. We're significantly present, but are nowhere near saturation. They is a lot of upside and a lot of headroom to grow for us.

The second point I make is that, having said that, the dependency on them is not increasing because there are certain businesses, whether it is from market perspective or from an industry perspective, which are growing and we're putting tremendous emphasis and focus on these other markets and other industries. So they will continue to grow, but they will not make us more dependent on them than ever before or anything like that. I hope I am able to give you what you want.

Mitali Ghosh Right. No, I think that's very helpful and finally I can just ask two quick questions, one is, I didn't get the hiring number correctly, was it 50,000 or 60,000?

N Chandrasekaran 60.

Mitali Ghosh 60, okay. And just Ajoy a quick question on the fresher to lateral hiring mix, what it was last year and what you're perhaps targeting this year?

Ajoy Mukherjee Last year, in India the mix was about 56-44 and this year going forward, what we're planning is closer to 50-50 at this point in time.

Mitali Ghosh Okay. The 56 was laterals last year?

Ajoy Mukherjee Right.

Mitali Ghosh Okay. Thank you and wish you the best.

Moderator Thank you Ms Ghosh. Our next question is from the line of Anthony Miller of TechMarket View. Please go ahead.

Anthony Miller Yes, gentlemen, can I just come back to the organization again. I mean you probably are at 200,000 employees. And its very possible that this time next year we'll be talking about 0.25 million employees, maybe three or four years' time if we can sustain these growth rates, its going to be more than 0.5 of million. So you talk about incremental changes to your organization, but at what point, at what number of employees do you think that incremental won't be enough and you have to undertake another fairly significant reorganization and what sort of shape do you think that might take?

N Chandrasekaran I think there is no point in discussing it in great detail here. But I'll tell you this. We put in a structure two years ago, where we had 23 units and they all have strong leadership teams. And each one of them is capable of managing a $1 billion business. So we have a very strong leadership team in place. And whether we alter it, whether we support it with more bandwidth, etc., is something that we will constantly look at. There is no point in coming up with a theory, because to be very frank and honest when we were 50,000 people we didn't know how we would manage a 100,000-people company. And when we were 100,000 people, we had no clue how we would manage a 200,000-people company. It is just that we have constantly looked at it and we have done the right thing. We have structure with highly empowered teams and the governance mechanisms and controls in place and we are going ahead with it. And we will do the right thing.

Anthony Miller Right, okay. Thank you very much.

Moderator Thank you Mr. Miller. Our next question is from the line of Rishi Maheshwari of Enam AMC. Please go ahead.

Rishi Maheshwari Thanks and congratulations to the management. I was seeking a little more explanation on the utilization remark that you made, you had explained this earlier but a little more commentary on that will be helpful. Is it correct to assume that it's now close to about 200,000 people so we should view the benches in absolute number than utilization percentage, as we have been used to seeing it?

N Chandrasekaran We look at it both ways. Internally we look at it both ways.

Rishi Maheshwari Right. But Chandra is it now more meaningful that probably a 20,000-25,000 bench is more meaningful than having to see about 15% or 20% bench on the total number?

N Chandrasekaran See you can definitely take that view, except that we also have to keep the growth environment in mind.

Rishi Maheshwari So therefore two, three years down the line can we also expect that utilization can go up to 87, 88%?

N Chandrasekaran That is very hypothetical. Why don't we leave it for atleast a couple of years?

Rishi Maheshwari Sure, sure. Anything on your acquisition strategy that you'd like to highlight?

N Chandrasekaran No, except that, you know, we will do things sensibly. If there is an opportunity for us to bring in a new strategic capability in terms of a business model, in terms of an industry or in terms of a geography, we will do that but we will be very sensible about it. And we will not do anything just for the sake of revenues.

Rishi Maheshwari Sure. Okay. Thanks. Congratulations once again.

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

Nitin Padmanabhan Hi, thank you for taking my question. Congrats on a great quarter. We are giving a 12% to 14% salary hike for the next fiscal. Do you find that the overall job market for next year is actually tighter than what we saw in the previous year that is FY'11?

Ajoy Mukherjee From a job market point of view, the kind of talent that we need we are able to get it from the market. But is it getting tighter? Probably, yes.

Nitin Padmanabhan You mentioned going to 343 colleges to pick up freshers from. So is it because of the change in mix to 50:50, or does it have something to do with the overall pool available being a little low?

N Chandrasekaran Nitin, the way to look at it is that at the beginning of a year, we do a plan in terms of how many people we are going to hire. Based on this we decide. Ideally we would like to get 60% of the people from colleges and 40% laterals. Some years it will be even 65:35, some years it will be 55:45. It depends on the current employee pyramid structure we have, and we decide that. But what happens is that during the year, if the growth momentum picks up, then in-between the year all the extra hiring we do, we have to go lateral.

You see last year, we went for a significant amount of lateral hires because the 20,000 people is an upward revision that came during the year. So, if you see a demand environment changing in a positive direction, during the year, we will end up hiring more laterals. This is in addition to obviously the skill sets and the types of engagements, etc.

Nitin Padmanabhan Sure, sure. Just one more, you mentioned that we are chasing 20 deals which are very material in terms of size. Have the TCVs of the deals that we have been chasing increased in size versus what we would have seen at the same time last year?

N Chandrasekaran It's not a factor of last year to this year. It's a factor of the company's scale today and the recognition for the company today that we are invited to larger deals. I just don't want to say that it is because of last year market situation and this year market situation. Today, we are just definitely...

Nitin Padmanabhan It could be larger than what was seen earlier.

N Chandrasekaran Yeah, could be, yes.

Nitin Padmanabhan Fair enough. Thank you so much.

Moderator Thank you Mr. Padmanabhan. Our next question is from the line of Jeff Rossetti of Janney Montgomery Scott. Please go ahead.

Jeff Rossetti Yes, it's Jeff Rosetti for Joe Foresi. Just wanted to ask if you could talk about your onsite hiring plans and how it differs from last year? Thank you.

Ajoy Mukherjee Onsite, we will be hiring and the numbers will be very similar to what we have done last year and the focus would be in US, Latin America and these countries.

Jeff Rossetti So no specific number that you can provide?

Ajoy Mukherjee No, not yet.

Jeff Rossetti Thank you.

Moderator Thank you Mr. Rossetti. Our next question is from the line of Ankur Rudra of Ambit. Please go ahead.

Ankur Rudra Hi. Thanks for taking my question. Congratulation on a strong quarter. Just one thing on the discretionary spending you mentioned it's been strong obviously reflects in the enterprise solution being very strong. I wanted to understand in that context the weakness in Consulting and also Products?

N Chandrasekaran I think for Products, Q4 is a seasonal issue and we had a great Q3. And you are not going to see a tremendous consistency but the point is that it has done reasonably well. And we are seeing excellent pipeline. Traction is very, very good. But if you really look at the annual level from FY'10 to FY'11 the products business has grown 43% on dollar terms. That is against a 29% dollar term growth for the company, I think that's pretty significant. And the pipeline is pretty strong and the size of the deals are going up and we are getting opportunities across our portfolio whether it's retail banking or investment banking or capital markets, insurance, market infrastructure, global custody. If you see the research reports and we're pretty much top the chart in every analyst report for our various Financial Services products. I think that business is on a very, very solid platform for growth.

Ankur Rudra And then just on the consulting in discretionary spending sir are you seeing specifically those projects lengthening out into larger engagements compared to what you saw in FY'11 earlier part of FY'11.

N Chandrasekaran If you see Global Consulting, while it has gone down in Q4 on a year-on-year has done on a dollar term basis 47%. Yes, it's very small in size, but still 47% growth is very credible. We are getting lots of opportunities but we are not growing the Consulting business just from a revenue perspective. Our Consulting business is tightly integrated with TCS' core business. And what we really want to do is to leverage the thought leadership, all the intellectual property we have, the process knowledge we have and round it up with a strong program management and change management and deliver value to customers.

From a financial perspective, there are two or three impacts it will make. Definitely for the work we do in Consulting, the billing rates are significantly higher. The second thing it does is it can position us early in the game in many of the transformational engagements and we have seen that and there are enough examples of success. But by no means are we in an optimal situation, where we would like to be. So it is some more work to do, but it is on the right track and there is a lot of traction.

Ankur Rudra Just one last question, could you comment a bit more on the health of the telecom vertical in terms of the demand? Thanks.

N Chandrasekaran See the Telecom vertical on year-on-year basis has grown 23%. It is lower than the company average of 29%. But 23% for a vertical where we have had lot of weakness is not bad. So we are expecting the Telecom vertical to grow. But at least in the first two quarters, I expect the Telecom vertical to grow at a rate lower than the company average, but I am pretty sure that it is going to deliver quarter-on-quarter growth.

Ankur Rudra Any changes to the kind of opportunities you're seeing in telecom, which is driving probably this slowdown and then possibly growth towards the end of the year?

N Chandrasekaran Nothing I can pick up. We keep studying it, but nothing specific that I can pick up as a pattern and tell you.

Ankur Rudra All right. Thanks a lot and best of luck.

Moderator Thank you Mr. Rudra. Our next question is from the line of Rachael Stormonth of NelsonHall. Please go ahead.

Rachael Stormonth Congratulations on a sterling quarter, and finish of the year. Very impressed with the growth gained in the new service lines and verticals and in most geographies. Could you elaborate please on the performance in Latin America this later quarter and really for the year? Obviously, your constant currency in year-on-year growth rate this quarter and can you just give us some clarification on the business plan please?

N Chandrasekaran I think I have said it in the past whenever we grow in new markets we need to get a certain size to deliver consistency in terms of growth rates. In Latin America, we have attained overall some size - we are over $300 million in revenues within that market. But we are present in multiple countries. In some countries we have achieved a size and the business mix between annuity revenues and discretionary projects where we can expect to grow consistently. Still there are countries in the region where we are heavily dependant on discretionary projects. And so we see volatility in the Latin American revenues. In this quarter, we pretty much had a growth of about 3.5% in constant currency terms in Latin America.

Rachael Stormonth Thank you, and looking ahead, I mean, will the strategy in Latin America continue to be as it was, or are we looking for any inorganic growth in Latin America?

N Chandrasekaran No, we're looking at organic growth. I explained to you in one of the calls earlier, we have some excellent clients in the region. In addition to global and US-based customers whom we serve in that market, we have developed strong relationships with some of the regional local champions or national champions. We have such clients in Brazil, in Mexico, in Colombia, in Chile, and those clients are partnering with us and we're slowly but steadily growing in those accounts. So our strategy is to grow from here organically, I expect both the revenues and margins to go up in the region.

Rachael Stormonth Thank you.

Moderator Thank you, Ms. Stormonth. Our next question is from the line of Subhashini Gurumurthy of Ambit Capital. Please go ahead.

Subhashini G Hi, Most of my questions have been answered, but Chandra, when you mentioned about pricing increase being a margin lever in FY '12, are you seeing it coming from exchange or did you mention about like-to-like price increases?

N Chandrasekaran I'm hoping for like-to-like, I can't commit on it, but I'm hoping for like-to-like.

Subhashini G Sure. And second, would you like to comment on the decline in the $100 million client base?

N Chandrasekaran See, there are always a few clients who are on a cusp, in the 90 to 100 million range. One such client, who was marginally above $100 M has gone slightly below, and that's not a Q4 impact, it's more of a Q1 impact i.e. last year Q4 to Q1 there was decline. So even though there is an increase in Q4, since it is compiled on a LTM basis, you are seeing a decline in the $100M clients from 9 to 8.

But there is absolutely no cause for concern on specific clients. Client metrics are pretty good. I would also like to point out that all the four quarters this year we have had an incremental revenue of 100 million plus.

Subhashini G Sure, sure. Thanks a lot. That's all from my side.

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

Dipesh Mehta In terms of demand, whether we're seeing any divergence in US and Europe and rest of the world? And in general what kind of demand we're seeing from different geographies? That is the first question. Second about just to understand what kind of growth we expect because NASSCOM has guided around 16 to 18 for industry, so your comment about where we would be? And last is about client, our top ten client is showing some kind of relative lower performance compare to company average, so if any specific comment to make?

N Chandrasekaran From a market perspective, the US is definitely doing better than Europe. And while Europe has picked up momentum, I expect the US to grow faster. There are a lot more opportunities. Cost reduction cycle etc are leading to higher growth in the US. Other markets are also growing, Asia-Pacific is growing – almost 10% this quarter. Other markets like the Middle East, Africa are growing. LATAM will grow from here, so that's the color on that.

I don't think there should be any concern in terms of any specific client. As I said, on a large base, there will always be volatility between our top 5 clients, our top 10 clients, but in absolute terms all of them are growing, that's more important.

And in terms of the FY'12 growth, see, we don't give guidance, but we have always been ahead of the NASSCOM estimates.

Dipesh Mehta Okay. Thanks. And so lastly is about US because some of the players they have suggested they are seeing some kind of softness in US. So I just want to understand whether we are seeing the same thing or not?

N Chandrasekaran We are not seeing any softness.

Dipesh Mehta Thanks.

Moderator Thank you, Mr. Mehta. Our next question is from the line of Ganesh Duvvuri of Edelweiss Securities. Please go ahead.

Kunal Sangoi Yeah. Hi, this is Kunal here. My question is you had earlier mentioned that Life Sciences and Healthcare you see particularly good traction. Could you talk about what kind of opportunities are emanating from this particular sector and what would be the service lines that you see here?

N Chandrasekaran From a Life Sciences perspective, it is full services. We see lots of opportunities in the IT services, good opportunities in BPO. We work with a good number of the top 10 Pharma companies. We work with them in all kinds of areas: in drug discovery, safety, clinical data, statistical analysis etc. We are helping them in programs to bring drugs to market faster.

We are doing a significant number of Engineering Services work, where we are helping them design products and transplants, we do lot of KPO work, IT services; we're also doing Infrastructure work in terms of consolidation, virtualization, etc., Assurance services. Pharma companies are leveraging us on a well-rounded basis. We do a lot of compliance work. There are a lot of regulatory changes coming in the US, ICD-10 and so on and this kind of work is also picking up momentum.

Kunal Sangoi Right. So, by and large, over the last two to three quarters, have you seen the size of deals and also the willingness to offshore to Indian players increasing substantially?

N Chandrasekaran I don't think there was any problem in willingness to increase to offshore players from our Pharma clients, but we have achieved quite a bit of traction and definitely the KPO work has gained momentum also.

Kunal Sangoi Sure. Thanks a lot.

Moderator Thank you, Mr. Sangoi. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. N. Chandrasekaran to add closing comments. Please go ahead, sir.

N Chandrasekaran Thank you. I think in summary we have had an excellent quarter to round off a very good FY 11. We're coming off the last four quarters with incremental revenues of a $100 million plus in every quarter. So there is a good growth momentum and our pipelines look healthy and the number of deals that we're chasing looks good. The customer pyramid in terms of revenue bands looks very good.

In terms of margins, as I said earlier, we're exiting at the best margin levels we have ever exited a financial year. And we're conscious of the macro-environment and we're conscious of the headwinds that are in front of us in terms of wage increases, in terms of the currency, etc., but we're preparing for a good year ahead. You can see it in the number of associates that we have recruited and the guidance we have given for the recruitment next year. Thank you for your support. Have a nice day.

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