



TATA CONSULTANCY SERVICES

Tata Consultancy Services Limited

Q4 FY14 Earnings Conference Call.

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Moderator:

Ladies and Gentlemen, Good Day and Welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you and over to you Sir.

Kedar Shirali:

Thanks Inba. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the Fourth Quarter and Full Year of Fiscal Year 2014 that ended March 31, 2014. The 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, fact sheet, and press releases are also available on our website. Our leadership team is present on this call to discuss our results – we have with us today Mr. N. Chandrasekaran – Chief Executive Officer and Managing Director; Mr. Rajesh Gopinathan – Chief Financial Officer; Mr. Phiroz A. Vandrevalla – Director; and Mr. Ajoy Mukherjee – Head of Global Human Resources.

Chandra and Rajesh will give a brief overview of the company's performance followed by a Q&A session. As you aware we do not provide revenue or earnings guidance, and anything said on this call which reflects our outlook for the future or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the 'Fact Sheet' available on our website and e-mailed

out to those on our mailing list. With that I would like to turn the call over to Chandra.

N. Chandrasekaran: Thank you, Kedar. Good day to all of you. We have ended our Fiscal FY14 and Q4 with good results and also with a good momentum. Let me give you some commentary both on the quarter as well as on the year, then about FY15.

For the quarter, we delivered volume growth of 2.6% which resulted in a dollar growth as well as a constant currency growth of 1.9%. In Rupee terms, we had the cross currency impact and delivered revenue growth of 1.2%.

The margins were healthy at 29.1% at the operating level, and the net margin was very good at 24.6%. The customer metrics are pretty solid. And overall, the performance has been in line with our expectations.

If we look at the areas, the growth has come from BFS, Life Sciences, Hi-Tech, Energy & Utilities, Media and Travel & Hospitality. Manufacturing has dragged primarily because of India where the tempo has been weak, and Retail has been soft in this quarter.

From a market perspective, the growth has been led by Europe, followed by Asia Pacific, and then UK and North America. India has been more or less flattish.

From a services perspective, all the key service lines have been more or less at the company growth level.

From an annual perspective, it has been a good year; in rupee terms we have delivered a 30% growth which is 17.3% growth in constant currency terms and 16.2% growth in dollar terms. Volume growth was 17.4%.

Operating margins as we finish the year we are at 29.1%, which is the best we have been at as we leave the year. Our net profit is at a healthy 23.8%.

The customer metrics have been exemplary from our point of view; we have added seven customers in the \$100 million+ band during the year, and 62 customers in the \$1 million+ band. In all the other revenue bands too, the additions have been pretty healthy.

We continue to execute well on our strategy, whether it is in terms of expanding our footprint in new markets or in terms of making the right investments and going after opportunities in the digital space or in terms of deepening our relationships with customers and being relevant to them. I think on the ground, we are executing exceedingly well.

From employee dimension, we have crossed the 300,000 employee mark; we have ended the year at 300,464 people. Through the year, we added over 61,000 people, which is higher than what we originally projected at the beginning of the year. The attrition level continues to be extremely healthy; a little over 11% overall and below 11% in the IT Services space. So, overall, we are pretty happy with where we are on all dimensions: be it the customers, be it the industries, be it the services or be it our own associates.

Now, I would like to say a few words about FY15. I have said during the last few months that TCS expects FY15 to be a better year than FY14. I would like to share the basis, in general, when we give such commentary, because we do not give guidance.

We base it on five important aspects: The first, what we hear from the clients on the ground in our client segment. The second is what our order book looks like, what have been our deal wins and what ramp ups we expect. The third is the quality of the pipeline that we are currently pursuing, both in terms of the size of the deals, and the quality of the engagements. Fourth is, our view of the discretionary spend. In the current environment what is the discretionary spend, especially in the important sector of digital, which I have articulated on multiple occasions. And finally, our ability to execute: from a technology perspective, domain perspective, market perspective, and talent perspective. So these are the five aspects that I take into

account. And I would like to reaffirm that from our perspective, FY15 is going to be a stronger year than FY14.

With those words, I would like to pass it on to Rajesh to give you some more details.

Rajesh Gopinathan: Thank you, Chandra. I will quickly take you through the headline numbers, and then we will open it to questions.

Our fourth quarter revenue was Rs. 215.511 billion representing a growth of 1.2% QoQ in INR terms, and 31.2% YoY. Revenue in dollar terms was \$3.503 billion which is a sequential growth of 1.9% and a year-on-year growth of 15.2%.

In constant currency, our revenue growth was 1.9% QoQ, made up of a volume growth of +2.59%, an onsite shift of +0.14%, and constant currency realization of (-0.81%). An appreciating currency had an impact of (-0.71%), giving the reported INR revenue growth of 1.2%.

Our full year revenue for FY14 was Rs.818.094 billion, a YoY growth of 29.9%. In US dollar terms our annual revenue was \$13.442 billion, which was a growth of 16.2%.

Our constant currency revenue growth is 17.3%, which can be broken up into volume growth of 17.39%, constant currency realization growth of 0.77%, and an offshore shift of (-0.89%). The depreciating rupee added an additional 12.61% to the revenue line bringing the reported INR revenue growth to 29.9%.

At the operating margin level, our operating margin declined 60 basis points quarter-on-quarter to 29.15%. Continuing reinvestment and the realization dip were the primary causes of that. For the full year we had an EBIT margin of 29.1% which was up 210 basis points year-on-year.

Net Income margin in the fourth quarter expanded by 25 bps to 24.58%, aided by a slightly lower effective tax rate of 23.4% and higher Other Income. For the full year Net Income margin expanded

by 129 basis points year-on-year to 23.37% aided by EBIT margin expansion and higher Other Income, notwithstanding the higher Effective Tax Rate of 23.9%.

Our Account Receivables stood at 82 DSO in dollar terms, flat year-on-year. Cash flow from operations for the fourth quarter was Rs.44.6 billion, which is 84.2% of net income. Our invested funds as of March 31st were at Rs 221.34 billion.

The Board has recommended a final dividend of Rs.20, bringing the total for the year to Rs.32, which is a payout ratio of almost 40% on the parent company net profit.

I would like to take this opportunity also to reemphasize that starting from this year we have shifted to the IFRS 9 reporting standard which has an implication in terms of how we report our Other Income.

We had put out a detailed note on this on our website in the 'Investor Relations' section and it has also been notified to the stock exchanges. The impact has primarily come in the Other Income line in the previous period. We had restated the previous three years' numbers for that. So, you need to look at the numbers sequentially with that in mind.

The primary reason for this was that IFRS 9 is a standard that was released late last calendar year. It becomes mandatory two years from now. We have adopted it early on a continuing basis in terms of aligning ourselves to the emerging standards. It is primarily designed to reduce the quarter-on-quarter volatility in our reported Other Income and the impact of hedging positions on that.

With that I open the call to questions.

Moderator:

Thank you very much Sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Nitin Mohta of Macquarie, please go ahead.

Nitin Mohta:

I had two questions; firstly, Continental Europe has been a great success story for TCS; revenues in this geography have almost doubled in the last three years. So, when you look out, what is the next geography you think could be a big growth frontier for TCS, and what are the initiatives that the company is taking to reap that potential?

N. Chandrasekaran: Firstly, we have looked at the Continental Europe as five key markets: Nordics, Benelux, Germany, France, and then the Rest of the markets, namely Switzerland, Spain and so on.

Our focus has been to build our business to a critical mass in each one of these markets and we have been diligently doing it. I think we have developed a certain size and scale in each one of these markets, but we have a huge opportunity in each of these spaces. We believe that Continental Europe, because we have attained a certain critical mass and size, that should from here on enable us to grow significantly. So we do not want to take our eyes off the ball.

Then the next market that we have been always saying is... In Asia, we said Japan is a critical market for us. We will definitely be focusing on that. We have been focusing on it for the last couple of years because that market has a huge potential. The size of the market is large.

The same thing I can say about Latin America, because we have built a solid base in Latin America; we have got credible clients in this market. So we need to scale up these relationships. In Latin America, our \$1 million+ clients are nicely migrating to \$5 million+, and \$5 million+ clients are nicely showing signs of migrating to \$10 million+ and \$20 million+ and so on. That is the TCS full services strategy and the client focus and we will continue to execute on our core strategy in these markets.

Nitin Mohta:

The second one was on the strong wage hike; it is almost after a three-year gap that we have seen a double-digit increase on the offshore wages. Just wanted to understand the moving parts over

here. How much of it is dictated by your visibility on growth for FY15 vis-à-vis a need to keep attrition under check given that some of your peers are suffering from skill mismatch to ramp up their projects?

N. Chandrasekaran: I think there is no one single factor that causes this. The way we look at it is that we have done incredibly well, not only in revenue terms and profit terms, and margin terms. We have done incredibly well and the employees have played a very important part, so it is important to reward them.

Definitely, I think we are also going to reward it in such a way that high performers will get more than 10%. Ajoy mentioned it in the press conference that it can go as high as 14% and above. And people who are falling below the average will get slightly lesser than 10%.

Two factors that you said are important too. We need to make sure that we retain talent, and also we see a good growth momentum as I have said in the call. So, I think we have taken into account all the factors and we have announced a good hike here, and also in the overseas markets we have announced very healthy hikes.

Moderator: The next question is from Diviya Nagarajan of UBS, please go ahead.

Diviya Nagarajan: My question is on pricing. At least two of your competitors, both India and international have talked about some kind of pricing pressure in the market. What are your comments on that – is that something that we should worry about in terms of pricing for this fiscal?

N. Chandrasekaran: Diviya, we do not see that. Even if you see the overall pricing for the last year, or look at the last 6-7 quarters sequentially, it just goes up in a couple of quarters, comes down in a couple of quarters. When you look at pricing and realization together, the last six quarters, it is up three times, down three times, and overall last year has been marginal plus on a LTM basis. So we do not see negativity in pricing, though we are not factoring a huge uptick at this stage.

But I am a firm believer, based on all the data points that I have, that digital is a pretty significant thing. It is not small. We call it 'Digital Re-imagination'. It is an enterprise-wide service, which will impact business processes and even business models in a way. It is a new system integration, without any of the assets that were involved. So I think it is very important area of growth, and as we build scale, pricing power in that service will definitely be there. So that is the way I look at pricing, but currently, the quick answer for you is that we are not seeing a downturn in pricing.

Diviya Nagarajan: Some of your key segments – Application Development & Maintenance, Infra, BPO seemed to have kind of had a bit of a sluggish quarter. What should we expect in terms of trends going forward into the next fiscal?

N. Chandrasekaran: Diviya, Q3 and Q4 have been soft quarters. Even though the overall growth has been good, but there is not much of a difference between the different service lines. But, as you go into the future, I think all these lines will do well.

The beauty is that we announced nine deals this quarter. If you look at those nine deals, we have done one deal in each of the verticals. One in Life Sciences, one in Manufacturing, one in Banking, one in Media, one in Travel, one in Utilities, one in Insurance, one in Retail, and one in Hi-Tech. So, we are nicely building out all our industry segments, and we are also seeing lots of opportunities whether it is Assurance, Infrastructure, or BPO.

The number of digital wins has been extremely good, but the digital wins will need to scale. So I think you should look at it as very broad based. You should not try to think that it is going to be driven by one particular service unit or one particular industry. That is the way I would offer my comments.

Moderator: Our next question is from Mitali Ghosh of Bank of America, Merrill Lynch, please go ahead.

Mitali Ghosh: Mr. Chandra, could you discuss how the spending environment has changed since the beginning of the year in terms of the discretionary spend outlook, ramp up of projects, addition to pipeline, and decision cycles, please?

N. Chandrasekaran: Mitali, I have not changed my commentary; I would like to stick to the commentary that I have given in the last few months. We believe that discretionary spend is picking up momentum; customers are budgeting discretionary spend.

The only thing is that some ramp up delays have happened, primarily because as the customers are beginning to spend on digital, they are also parallelly building out their own organizations to be able to support these projects. For example, what you find in many customers is that they are also hiring a Chief Digital Officer, a Chief Big Data Architect. So those things are also causing some delays, but we are not seeing negativity in terms of discretionary spend.

The way I look at the space, these three important areas – ‘**Simplification**,’ which involves a huge amount of transformation in terms of the technology footprint, sometimes it is infrastructure globally, sometimes it is shared services, sometimes it is application or rationalization, so simplification is a major theme. The second theme is ‘**Digital Re-imagination**’ as we call it, which is a component of all these five different elements. In some places it is Omni-channel or multi-channel front-end; sometimes it is spending a huge amount of money in data, so there are various types of engagements depending upon the customer situation. And the third thing is ‘**Governance**,’ which includes risk, regulatory, security related work. So, in all these three areas, there is a lot of engagement. That is the way I look at it. So I have not seen a shift in trend.

Mitali Ghosh: So would you then say that decision cycles have perhaps elongated a little bit for these discretionary initiatives?

N. Chandrasekaran: Decision cycles are not elongating. The ramp ups in some cases have delayed a little bit, but they are more tactical. It is not a trend I would say.

Mitali Ghosh: Just in terms of the deal wins this quarter Vs last quarter, I notice that in the analyst handout the large deal wins seemed to have moved up, and also you have shared a large number of digital wins that you have had during the quarter. So would you say that overall the deal wins have been better this quarter?

N. Chandrasekaran: Yes, deal wins have been very good. The reason that I also share some of the digital wins is to just to corroborate the point that I am making. Normally we share about 7, 8, 10 cases, and this time we also made an effort to share a few more, especially in the digital space, to corroborate and also to give you color of the type of things that are happening on the ground. Overall our deal wins have been extremely good this quarter.

Mitali Ghosh: How fast do you expect these deal wins to convert to revenues – should we expect a lot of conversion in for instance first quarter coming through or do you think it is long ramp up kind of deals?

N. Chandrasekaran: I do expect that things will translate as we speak and I am not expecting any delays.

Mitali Ghosh: If I could just ask a couple of data points from Rajesh; one is on the gross margins, there seems to be a jump in the 'Other Expenses' category and similarly a decline in the SG&A Other Expenses' category. Is there any reclassification or is there any one-off? And secondly, just wanted to know the FOREX gain number for this quarter and the hedge position?

Rajesh Gopinathan: There is a bit of all of that. There is some amount of reclassification between External Consultants and Other Expenses, and also between line items at the year-end for some of our foreign subsidiaries. So, there is some of that, some project expenses sitting there.

In terms of forex gain, we had Rs.204 crores this quarter. Hedge position as of March 31st, we had about \$3 billion - \$2 billion in receivables and a billion in revenue, and it has gone up to, as of now we are at about \$1.6 billion odd on the revenue and \$2 billion on receivables. The financial statements will show \$3 Bn, which is the position as of March 31st.

Moderator: Thank you. Our next question is from Sandeep Agarwal of Edelweiss, please go ahead.

Sandeep Agarwal: A couple of questions; one, if you see the BFSI sector as you also mentioned is showing some signs of recovery and discretionary spend is also recovering and digital obviously is helping although the base is small. So in spite of all these things coming together... and I know you have been saying that FY15 will be a better year, but in my view will it be a lot of optimism if I would say that if these things are coming together, FY15 should be a lot better than FY14 or it is just better than FY14? The thing which I am trying to understand here is that has the base effect started playing or is it impacting the real number in terms of growth because these are the three key components which have been driving our industry growth, and if this three are coming together again along with digital add-on, then obviously the number should have been much more optimistic or the commentary should be much more optimistic?

N. Chandrasekaran: Sandeep, I have given you an optimistic commentary already. So why you do not wait till first quarter?

Moderator: Thank you. Our next question is from Ravi Menon of Centrum Broking, please go ahead.

Ravi Menon: I would like to get a flavor of what sort of clients that you get in the newer markets – are these MNCs with whom you already have a relationship in the US or UK or are these completely new clients?

N. Chandrasekaran: I think in every market we focus on getting clients belonging to that market in addition to MNCs. So when we talk about these markets, we are talking about national champions, if you will.

Ravi Menon: Is there any public sector, particularly in Europe and Latin America that you are targeting?

N. Chandrasekaran: Nothing in a systematic way. There are opportunities. And when that opportunity comes, we do due diligence, we try to qualify. If it meets our criteria in terms of our ability to execute, then we take those projects. If we have concerns about our ability to execute for a variety of reasons, then probably we will not.

Ravi Menon: Within BPOs what are the kind of new services that you see clients looking at? And in Engineering and Industrial service, get just a flavor of the kind of engagements that you see that are ramping up?

N. Chandrasekaran: I think our BPO is mostly domain BPO and process BPO, and also we are now increasing our business in the platform-based models, some are based on our intellectual properties, some are on third-party intellectual property. So this is the mix that we are seeing.

And in terms of Engineering Services, I think we are expanding into various segments, not only in Manufacturing, Utilities, Pharma companies, Consumer Product companies, right across the board, the variety of services, sometimes it is in the plants, sometimes it is in terms of new product introductions, sometimes it is in terms of product life cycle management, sometimes in terms of design, in the asset management area.

TCS has a huge expertise in terms of domain. When you talk about utilities, a lot of it is about the asset management framework. When we talk about aerospace or automotive, then it could be embedded electronics or power train, or design of the doors, or whatever. In aeronautical engineering, it could be design of the wings, wiring.. it could be a huge amount of expertise based on the industry domain knowledge we have.

Moderator: Thank you. Our next question is from Moshe Katri of Cowen. Please go ahead.

Moshe Katri: I want to focus for a second on the Retail vertical, which continues to be relatively weak. Your large competitor expects this to continue to be weak I guess in Fiscal Year 2015. Maybe we can get some color from TCS on that?

N. Chandrasekaran: From our point of view, we see lots of opportunities in Retail, we have studied, looked at it, met with clients, and we are not seeing any one-off issues with any specific clients. The Retail sector spends a lot in terms of Digital Re-imagining, and also we have opportunities in terms of infrastructure optimization and in the BPS area.

The portfolio of offerings that we have in the Retail domain - revamping their supply chain or merchandising systems, or in terms of optimizing the investments they have had, or migrating to a digital world through multichannel / Omni channel infrastructure... so we see lots of opportunities. Our current engagements with clients, the deal wins and the pipeline we have give us the confidence that we will do very well in Retail.

Moshe Katri: Just a follow-up since you mentioned the pipeline; can you kind of give us color on the quality of the deal pipeline in terms of size, maybe regions, what is driving it; and then the nature of the work for the next 6-12 months?

N. Chandrasekaran: We do not give specific numbers, but our deal wins have been very-very good. The number of deals we are chasing, the size of the pipeline in all the key markets is much higher than we used to have. So I think the trend is good, it is very healthy, and the type of engagements is a mix that falls into the three categories we have already outlined.

Having said that I have always said that India is slow, India is soft. Nobody has asked about that, and I think I wanted to add that to Sandeep, when he asked the question about 'momentum,' I think we

have clearly said that India is soft, and we expect it to be soft for another two quarters. That is all I can say.

Moderator: Thank you. Our next question is from Ashwin Mehta of Nomura Securities, please go ahead.

Ashwin Mehta: Chandra, can you give us an idea in terms of the strength of H1 Vs H2 in FY15 – do you see a similar seasonality as in the similar pattern as in FY14? The reason why I am asking this question is that you probably need 4-5% sequential growth to beat your FY14 growth number, so just wanted to get a sense in terms of confidence on H1 Vs H2.

N. Chandrasekaran: At this point, we think it is going to be a normal year. It is not going to be back-ended. It is going to be the normal seasonality - the first two quarters will be better than the subsequent two quarters. That is the way we look at the year as we go into the year.

Ashwin Mehta: In terms of the wage hikes that we have given out, which are slightly higher than anticipated, what is the kind of margin impacts that you see in 1Q, and what levers are you likely to use going forward to mitigate these impacts to be in your guidance range of 26-28%?

Rajesh Gopinathan: The margin impact of wage hike, we will detail it out in the next quarter's earnings announcement. Broadly, if you go back to our historical impact, on a proportionate basis, it should be line. We have always been announcing wage hikes starting April 1st, so from a seasonality perspective also it is pretty much in line with what we have been doing. The normal levers will apply and we will try to recoup some of this by leveraging growth during the subsequent quarters, but Q1 will carry an impact due to wages.

Ashwin Mehta: In terms of Hi-Tech, you in your TV interview had mentioned that this is also one of the growth drivers for the next year. What exactly are we seeing here because one of your competitors did mention that to be an area of problem?

N. Chandrasekaran: It is based on the pipeline we have. Even this quarter if you see, the growth has been starting with BFS, then Life Sciences and Hi-Tech. As we look at the future, we do think that apart from BFS, Retail and Life Sciences, Hi-Tech will also do very well. This is based on our client segments and what we do.

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

Sandeep Shah: Chandra, just in terms of Digital, what we understand is it looks like client has moved from a pilot phase to a spending phase. But, is it fair to say that now they are moving beyond a spending phase where the sizes of the projects can go up and there could be transformational projects which can be awarded maybe for a type of data architecture changes?

N. Chandrasekaran: One cannot just generalize that it is going to happen in across the customer renewals, but that is the direction in which it is going. There are large scale projects, especially on the Data side that are coming up. I have said earlier that this will scale up as we go into the future because this is a big opportunity.

Sandeep Shah: So in terms of your comment last quarter about the sizes are in a few million dollars, so this is increasing now on a Q-on-Q basis?

N. Chandrasekaran: I do not know if I can say Q-on-Q basis, but it is increasing as we go into FY15.

Sandeep Shah: Whether the typical nature of these kinds of projects is largely discretionary because what we understand it could be a short cycle projects, so if it is largely....?

N. Chandrasekaran: All of these projects are discretionary in nature.

Sandeep Shah: So here the pattern of growth could be slightly volatile because each time the project is completed, you have to add more projects not only to replace those, but it could be to grow over and above that?

N. Chandrasekaran: The way the companies are looking at is that it would be a major program, there will be many projects. So you would not be working one project at a time, you will be working on a collection of projects to be able to deliver a program.

Sandeep Shah: Secondly, when I look into our gross addition guidance, it is 55,000 of which the freshers are 25,000. So, it looks like the pattern is now depending more in terms of a lateral not only for you, but also for the peers. And versus that, if I look into our wage inflation for 10% for India as a whole when I think our attrition is one of the lowest and supply side concerns are not too much on a fresher side. So what has led us to give a 10% wage hike this year when most of the other things are not changing other than the improving demand on the lateral side?

N. Chandrasekaran: I think we have done well and we have to reward employees. So, it is just not only a factor of whether we can live with 8%. It is also a fact that the company has done incredibly well and profits have been very good, margins have been very good, and also we see the growth opportunity. We have a satisfied work force and we want to have an energetic work force, and we want to reward them and keep them energetic.

So, I think a number of factors go into making this decision. I think it is a good hike, maybe a little bit on the higher side, but I think the employees deserve it.

Sandeep Shah: Rajesh, in terms of promotion cycle will continue to remain in the second quarter?

Ajoy Mukherjee: Yes, that is our normal process. There is no change. In the second quarter, we do the promotions. We will continue with that.

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

Mukul Garg: I have two questions for Chandra. First, you mentioned that you see Japan as a huge potential area, and historically, we have struggled to grow in that region. So, can you help us understand what are the steps being taken to capture that significant potential in Japan?

N. Chandrasekaran: We have to see everything in perspective. Originally, a lot of our business used to come from the US, then we increased in UK, then we focused on Latin America, then on Europe. Market-by-market, we are building out. And when we were a billion dollar company it was very hard. Overall, as a company with a billion dollars in revenue, of which 600-700 million are coming from US and the remaining 200-300 million are coming from different markets, you do not have the scale to be able to say that we are growing in all markets. So, now I think the company has the scale, size, the kind of offerings, investment capacity. So, given all that, we keep looking at each of these markets.

We have said that Europe is very important and we will look for targets in Europe, we will look for targets in US. So, we do both - organic investment as well as try and look for inorganic opportunity and we will continue to do that.

Japan is one such market which has traditionally been, we can say tough. And it is also a fact that we had no scale there. Today TCS has overall scale to be able to spend more time and so we are building out clients in Japan, organically at this point in time. At the same time when there is an opportunity, we will definitely take inorganic options. That is the way to look at it. It is true for Japan, it is true for Germany.

Mukul Garg: So any time scale when revenues from Japan become material for TCS?

N. Chandrasekaran: I cannot give you a time scale, I am hoping sooner than later.

Mukul Garg: On digital, a lot of your commentary is talking about good spending on digital from clients. So again, at what scale should we expect TCS to start giving some quantitative comments on digital revenues? Will there be a specific revenue base that now we have digital revenues of

about \$200 million so we will start breaking it out, how should we see it?

N. Chandrasekaran: We recognize the need, but we will think about that.

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

Ashish Chopra: Sir, I just wanted to get a perspective on the supply side for digital technologies. Would you consider that to be a key challenge as of today? And what exactly is it that you would need to do differently just in terms of maybe the mix of laterals versus freshers or in terms of onsite/offshore, just some color on that?

N. Chandrasekaran: We have been investing in these technologies in terms of capability building, competencies and talent for the last two years at least. We set up a digital collaboration center in Silicon Valley that formally opened in January 2012. Before that we had been operating without a center, but we had hired a lot of people actually, lot of designers, architects, people with front-end skills. So we have done that and we have been creating centers of excellence in all over delivery centers. We have trained a lot of people and we have got our pyramid. We looked at the pyramid, and we looked at talent that is required, processes, internal tools that are required, foundation software that is required which we have to build. So we have made all those investments.

So when we say digital is an opportunity and we are going to capture that, it is not about waiting for a specific project and try to find people, I think we have looked at holistically. That is why we look at it as an umbrella of Digital Re-imagination. We think business models, business processes, products and services, channels, workplace, all of these things will undergo changes in the client organizations.

So, we look at it holistically and have recruited the talent, built the talent, the foundational software and tools, we looked at everything from a technology perspective as well as an industry perspective:

what does it mean for banking, what does it mean for manufacturing, what does it mean for retail. That is the way we have taken the approach. So, I think while there will always be need for specific skills, I think we have made a lot of those investments already.

Ashish Chopra: So, it would be fair to assume that the constraint to realizing the digital opportunity would not come from the supply side?

N. Chandrasekaran: Broadly, no. There will always be specific needs, and then we will have to do something.

Ashish Chopra: You did mention that Retail is seeing a lot of digital spending and against that this quarter was slightly weaker. Would it be fair to assume that some of the ramp up delays that happened were also more stark in the Retail vertical?

N. Chandrasekaran: Yes.

Moderator: Thank you. The next question is from Keith Bachman of Bank of Montreal. Please go ahead.

Keith Bachman: I want to come back to your comments on FY15 are better. If I look at the sequential growth rate in Q4 of this year versus Q4 of last year, there is a pretty material step-down in terms of sequential growth rate. Was there something specifically in Q4 that you think is not going to be repeated as we look out that gives you confidence that FY15 will in fact be better than FY14?

N. Chandrasekaran: Without getting into specific nitty-gritty financial numbers, last year's Q4 had a good push from India, whereas this year that has really had a negative impact.

Keith Bachman: It is a pretty material step down from 3.1% sequential growth to 1.9%, these are US dollar figures, and your operating income was also down and you are suggesting that is from India and therefore would not be repeated as you look at FY15 Vs FY14?

N. Chandrasekaran: I think overall when we look at the mix, we cannot do like-to-like like that. You have to understand that my spreadsheet has a lot many more cells than your spreadsheets. So, I would not be able to elaborate and explain where I am going to go down, where I am going to go up, but India actually had a significant push in Q4 last year and given where we are in India today we do not think that we are going to go down further. It maybe flattish to growth. How much growth we will wait and see, but we are not going to have another big push down. That is our estimate as of now.

Keith Bachman: Let us take it a different way. If I look at North America, would you also suggest that if you could provide some comment specifically on North America as you look out over the next couple quarters, including the Financial Services sector, which has been an important market for yourselves as well as many of your competitors, if you could just give us a little bit of outlook on the North America growth going to be better as well?

N. Chandrasekaran: Based on our deal wins and pipelines where we are, I think we are going to do very well in North America, whether it is in BFS or in Retail or in any other sector that I mentioned.

Keith Bachman: North America you think be better in FY15 over FY14?

N. Chandrasekaran: I do not want to get into this dialogue, because then I have got to break down every geography, every industry and I am not going to do that. But overall based on all the data points we have, I can tell you that we feel confident that FY15 is going to be better than FY14. But I would not be able to break it up by service line and by industry and that is all information we have shared and I don't want to get there.

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

Viju George: Chandra, I had one question on digital. I believe that digital may be starting off the blocks today. Is that resulting in an increase in client budgets or by and large or are clients sort of managing to fund digital

by optimizing elsewhere. That is part one. Part two is that therefore if you look out at a couple of quarters and assuming that digital grows exponentially from a smaller base, do you think that this might necessitate a push in client budget upwards in case they cannot optimize their spend?

N. Chandrasekaran: It is very hard to take such a uniform approach. Also it is also not appropriate to link everything that you see in a client situation. We also have to accept that in client situations they have organizations, there are people who have started with optimizing the investments in certain area, there are people who are driving growth with certain budgets, and with some clients where the optimization is already at a peak, then there are fresh budgets coming in. There are clients who have got significant pressure to optimize the spend, where there will be a significant push towards simplification initiatives. This is not to say that there will be no digital, there will be some digital in those clients, but there will be some other clients where the digital spend will be significantly higher.

So, it also depends on (a) where the client is in terms of their own operational performance, and (b) what they have already done with their IT landscape. So it is very hard to be able to generalize. That is the answer for first part of your question.

The second part of your question, whether client budgets will go up. The most important thing that I would like to emphasize is that the opportunities that these technologies give are just path-breaking for many companies. So as they evolve in this journey, companies will do different things. So, when they see the returns and they will spend more money.

So it is very hard for me to today say a company which is spending hundred million dollars currently will spend 500 million dollars three quarters from now on, six quarters from now, it is very hard for me to say today. But the important thing is that these technologies offer lots of opportunities and some companies are adopting faster than some other companies, but everyone is adopting somehow.

Moderator: Thank you. The next question is from Pinku Pappan of Nomura. Please go ahead.

Pinku Pappan: I want to understand your thoughts about your pyramid mix as you look out in the future not just for the next one year. Given that your attrition is at a historical low and your dependence on laterals has kind of increased over the years, do you think the pyramid mix will shift to a more sub-optimal level and do you see that as a permanent kind of shift or do you think this will kind of revert going forward?

N. Chandrasekaran: On the lateral question, you also have to understand that the current recruitment environment is soft. One of the reasons that we are going with a number like 25,000 campus offers is that when we want to hire more people at the entry level we are able to attract them off-campus. So when we say that we will do 55,000 or 60,000 hires and 25,000 campus offers, it will be wrong math to say that the remaining 30,000 or 35,000 people will all be laterals with a higher level of seniority. That is the only comment I would make.

We understand the need for the pyramid and certain types of services require different types of pyramid mix, certain other types require most optimized pyramid structure. We also have the importance of utilization, we try for constant focus and so for we seem to be executing well, and we will continue to calibrate and then do that appropriately as we go into the future.

Pinku Pappan: And you still believe you can operate at higher utilization levels because earlier I remember you were telling that you could go even up to 85%?

N. Chandrasekaran: I stick to that statement.

Pinku Pappan: I wanted to get a sense of how big your digital sector is in terms of people, any idea?

N. Chandrasekaran: We have not given out any statistics on digital, and I would like to wait before we make any kind of comment.

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

Diviya Nagarajan: Just a continuation on the digital discussion that we have had. While I understand that there has been some delay in the kind of implementation schedules that you had expected, could you break this down into the verticals that are showing faster adoption of these digital technologies, and within digital, what are the key initiatives or sub-technologies that you are getting greater interest from clients?

N. Chandrasekaran: I think it is a combination of these technologies Diviya. So that is why I gave some examples. If you study the kind of wins we have given that will give you color. There are mobility engagements leveraging Big Data, Cloud and Mobility, Digital Marketing – a combination of these technologies to help digital marketing. So we have to look at that. That is why we gave you some examples from across the board but in general, industries which are more consumer-oriented are adopting faster than B2B industries.

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

Sandeep Shah: Chandra, sorry to stress again on digital. Just I think what we understand on the digital is not only impacting the cost side of the client, but it is also impacting the business and the revenue side of the client. And if you look at the Indian IT has evolved from outsourcing vendor to a consulting vendor while some of the global consulting-led companies evolved from a consulting to an outsourcing vendor. So when a large project comes for a discussion on the digital side, are Indian IT getting preference over the global incumbents who are largely a consulting-led companies?

N. Chandrasekaran: I have always said that I do not see these two classifications. TCS competes with many companies based out of India, based out of US, based out of everywhere and on every one of these opportunities; we get an opportunity to compete. We think we have the skills, and we

have the track record now to be able to make a big impact to our clients.

Sandeep Shah: Rajesh, I think as of December 2013 our hedge position was almost nil, while this quarter we had roughly Rs.200 crores worth of FOREX gain. So is it fair to say that this is largely through hedges taken in the quarter getting matured in the quarter?

Rajesh Gopinathan: The short answer is yes, it is primarily from that, but it also has receivables hedge impact which could have been taken during this period also.

Sandeep Shah: Because I think receivable hedge generally compensates with the translation gain or loss?

Rajesh Gopinathan: You are right that it has a compensatory effect, but we show the positive impact of it on the 'other income.'

Moderator: Thank you. The next question is from Rahul Jain of Dolat Capital. Please go ahead.

Rahul Jain: As you have articulated that what are the five bases of the client confidence which we are seeing, are we seeing any benefit even coming from the fact that some of the global industries like Telecom or Travel, which has relatively lower profitability in past possibly looking better in terms of their profitability which can drive budgets of these companies?

N. Chandrasekaran: Maybe sector specific demands, but the basic five data points that we look at to give you the qualitative commentary that we have to give, the five data points that I have said are important, because they are very specific to TCS. We talk about our order book, we talk about our pipeline, and we talk about what we hear from clients directly. So I would like to keep it at that, rather than start taking industry trends. Then, you know, I will have to make lot of assumptions, lots of projections. While we keep an eye on that, those are not the inputs I would like to take to give you a commentary.

Moderator: Thank you. The next question is from the line of Joseph Foresi of Janney Montgomery. Please go ahead

Joseph Foresi: I was wondering what the key factor is that you are monitoring on the discretionary spending front. Is it the macro or client comfort just so we can get an idea of what you are looking at as you head up the year?

N. Chandrasekaran: To be very honest I would not know, I can guess but with client to client it will vary. So fundamentally I would tend to believe that clients are operating in a certain environment, and in that environment they want to achieve growth, they want to transform their business. They know it is an opportunity, they need to simplify, they need to go online, and they have got to go digital. So I guess that they are working on embracing the technologies to be able to define their future.

Joseph Foresi: Did you see any unexpected weakness outside of India and Retail, which I guess were probably expected? And just for clarification, are you seeing Retail and India pick up?

N. Chandrasekaran: In India, we have said that it is going to be soft; we have basically said that for at least another two quarters we expect it to be soft. We do not expect decline from the current levels. Retail, yes, we expect it to pick up.

Joseph Foresi: On the competition side, maybe you could give us some idea what the competitive landscape looks like in digital. Are you seeing a lot of competitors or are you just competing against a few, and if you could name a few, that would be great?

N. Chandrasekaran: There are many players and we see some of them in many deals, but it varies from industry-to-industry. It also varies from whether it is our existing client or a new client so I think there are so many factors. I would like to stay away from naming anyone, if you permit me.

Moderator: Thank you. Ladies and gentlemen, that was the last question.

N. Chandrasekaran: I would like to thank all of you for joining us on this conference call. As I said we have ended FY '14 well and the overall momentum is good. I indicated several factors that give us confidence regarding FY'15. So we actually entered the New Year, happy with where we are, and the employee base is quite motivated; we have given a good hike, and the pipelines and deal wins look good and we expect a holistic growth in the coming year. Thank you so much and talk to you soon in Q1.

Moderator: Thank you gentlemen of the management and Mr. Shirali. Ladies and gentlemen, on behalf of TCS that concludes this conference call. Thank you for joining us and you may now disconnect your lines, thank you.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of what was said during the call.