



Tata Consultancy Services Limited

**Q4 FY15 Earnings Conference Call.
April 16, 2015, 19:00 hrs IST (9:30 hrs US ET)**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in 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 '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you and over to you, sir.

Kedar Shirali: Thank you, Inba. Good Evening and Welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the 4th Quarter and Full Year of Fiscal Year 2015 ending March 31st 2015. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter. The Financial Statements, Quarterly 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.

Please note that there is a small change to the format of the call today; Chandra will first give his Opening Remarks, Rajesh will then go over the Financials and after that Chandra will provide business color on those numbers. This will be followed by the Q&A session.

As you are aware we do not provide specific revenue or earnings guidance and anything said on this call which reflects our outlook for the future or which could be concluded as a forward-looking statement must be reviewed in conjunction with the risk that the company faces.

We have outlined these risks in the second slide of the 'Quarterly Fact Sheet' which is available on our website and which has also been mailed out to those who have subscribed to our mailing list.

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

N. Chandrasekaran: Thank you, Kedar. Good Morning, Good Afternoon, Good Evening to all of you. In my opening remarks, before I get to our FY 15 business performance, I wanted to share with you two important announcements:

First, FY 15 marks 10-years since our IPO during which we saw our market cap go up nearly tenfold, from \$8.8 billion to \$80 billion. We wanted to mark this occasion and share the celebration with our stakeholders. Through the year we gave shareholders a special dividend alongside the final dividend of the prior year and three interim dividends representing a total cash payout of ₹17,000 crores or \$2.7 billion US in FY 15.

Now, I am happy to share and announce today that in recognition of the role played by the TCS in this phenomenal value creation journey over the last decade, the board has approved a broad-based employee cash reward program entailing a total payout of ₹2,628 crores or US\$423 million, the charge for which has been taken in this quarter.

The second point I wanted to make: After operating in a near-stealth mode for the last couple of years or more, I wanted to share with you the progress made by TCS' Cloud platforms, consisting of our Assessment Engine, our Financial Inclusion platform and five horizontal platforms covering HR, Financial Accounting, Accounts Payable, Procurement and Analytics. These seven platforms together or platforms which are Software-as-a-Service have made significant progress and crossed an annual run-rate of \$100 Million. These platforms generated \$125 million of revenue in FY 15 at a growth rate of 55% Y-on-Y.

Another important thing I want to share with you is that we are now ready for the formal launch of our new Artificial Intelligence-based IT

and business operation automation platform. We call this entirely new category of platforms Service-as-a-Software, and these will increasingly automate many activities and whose self-learning capabilities will yield productivity gains that will actually improve with time because of its intelligence. We have done several pilots and the pilot clients are extremely delighted with the ability of this platform and we would be launching it in the next few months.

Now, coming to FY 15, looking back, the year began on an optimistic note, but the macroeconomic environment deteriorated thereafter. In that kind of a muddled scenario, we stayed the course, continuing to make the investments that we believe are needed to build a strong platform for longer-term sustainable growth.

We also continue to focus on staying relevant to our clients harnessing newer technologies to help them reach out more clients in more imaginative way to re-imagine their business models and their work places and to become more efficient. Clients have rewarded us for this focus by entrusting us with more work -- and you will see this in the metrics -- resulting in yet another year of solid growth.

On the margins front, despite sharp cross currency movement in the second half of the year, we have maintained the operating margin in our targeted band of 26 to 28% and exiting at 26.9%, while actually expanding the net margin.

Before I give some more commentary on the details by different business segments I think it is appropriate to ask Rajesh to walk you through the Financials and then I will come back.

Rajesh Gopinathan: Thank you, Chandra. Good evening to everyone.

In the Fourth Quarter, our revenues grew by 1.6% QoQ on a constant currency (CC) basis, but strong cross-currency movements resulted in severe impact on the reported figures.

The INR revenue was impacted by (276) bps, resulting in a decline of 1.1% QoQ to ₹ 242.198 Bn, which is a growth of 12.4% YoY.

Cross currency impact on the dollar revenue was (238) basis points. Revenue in dollar terms is \$3.9 billion, a sequential decline of 0.8% and a Y-on-Y growth of 11.4%.

The constant currency growth of 1.6% is made up of a volume growth of +1.42%, a constant currency realization impact of +0.79% and offshore shift impact of (0.6%).

Our full year revenue for FY 15 was ₹ 946.484 billion, a Y-on-Y growth of 15.7%. In US dollar terms, our revenue of \$15.454 Billion translates into an annual growth of 15%. Our constant currency revenue growth for the year is 17%, which is entirely made up of volume growth with constant currency realization and offshore shift remaining flat Y-on-Y. Cross currency movement had an impact of (1.3%) in INR terms and (2%) in USD terms for the full year.

Our Operating Margin for Q4, excluding the employee reward that Chandra spoke about, was 27.2%, an expansion of 0.2% Q-on-Q despite a currency impact of (0.5%).

For the full year we had an EBIT margin of 26.9%, down 224 basis points Y-on-Y reflecting our approach of reinvesting currency gain into the business.

Net income margin in the 4th quarter expanded 2.2% Q-on-Q to 24.4% boosted by hedging gains during the quarter. EPS grew 8.5% Q-on-Q.

For the full year net income margin declined 44 basis points Y-on-Y to 22.9% aided by forex gains and Other Income and a slightly lower effective tax rate of 23.3%. Our Accounts Receivable and DSO was at 78 days in dollar terms, down 2 days Q-on-Q.

Cash flow from operations for the 4th quarter was ₹ 60.71 billion which is 102.8% of net income. For the full year, free cash flow was ₹ 183.3

billion, a growth of 42.6% Y-on-Y. After paying out a dividend of ₹170 billion, our invested funds as of March 31st was ₹ 232.11 billion.

The board has recommended a final dividend of ₹ 24, bringing the total dividend in the year to ₹ 79 which is a payout ratio of 82.6%.

I will request Chandra now to give some color on the quarter and year.

N. Chandrasekaran: Thank you, Rajesh. As you could see we had good growth in FY 15 in reported INR, USD as well as constant currency terms.

Coming to verticals, six of our verticals – Manufacturing, Hi-Tech, Life Sciences and Healthcare, Travel and Hospitality, Energy and Utilities, Media and Entertainment – these sectors grew above 20% Y-on-Y in constant currency terms.

The BFSI sector grew 10.8% for the full year in CC terms, primarily dragged on by the single-digit growth in the Insurance business. Ex Insurance, our BFS business grew 13% in CC terms in FY'15.

Speaking about Insurance, just to be clear, the weakness in the Services business has now bottomed out and the only headwind that remains is the continuing revenue de-growth in Diligenta, which I have spoken about in detail. Excluding Diligenta, the Insurance still grew by 11% during the year.

Telecom reflected sectoral weakness and the resultant volatility showing up in one geography or the other at varying points.

Geography-wise, Continental Europe continued to grow well over 25% in constant currency terms.

From Services perspective, growth was led by Infrastructure followed by Assurance, Enterprise Solutions, Consulting, and Business Process Services. I have spoken about our Cloud platforms earlier in this call which have done extremely well, in addition, the Digital Services continue to be on a strong growth trajectory with a good order book.

On the employee front, we have ended the year with 319,656 employees adding over 67,000 people on a gross basis. Attrition level has reached up a bit to 14.9% overall and to about 13.8% in IT Services domain. Utilization continues to remain high at 85.4% ex-trainees and 81.5% including trainees.

Coming to this Quarter's performance, let me first point out that the sharp cross currency movements in Q4 creates severe optical distortions in INR as well as USD. Just so it does not cloud our view of the business performance, I will stick to only constant currency numbers in my discussion of the current quarter.

To be frank with you, the revenue growth of 1.6% came in below our expectations at the start of the quarter. This is primarily because the Telecom sector volatility and Energy sector weakness turned out to be worse than what we had anticipated.

Telecom declined 6.2% and Energy declined by 4.7% on a Q-on-Q basis. That apart, we had a very credible top line performance for a seasonally weak quarter. The constant currency revenue growth excluding Telecom and Energy for this quarter is 2.7% on a Q-on-Q basis.

BFSI, our largest vertical, grew 2% on a Q-on-Q basis in constant currency terms despite the continuing weakness in Insurance. Retail, Manufacturing, Life Sciences, and Healthcare, all grew above 3% Q-on-Q in constant currency terms.

From a geography perspective, except India, every geography showed growth on a constant currency basis, quite contrary to how it appears in reported terms. North America grew slightly below 1% on Q-on-Q, UK had an outstanding growth of 2.4% Q-on-Q basis despite the drop in Diligenta business, Europe also had a strong growth at 2.5% Q-on-Q, Middle East, Africa and APAC led the pack growing at 6.4% and 4.2% respectively, India was flattish.

Client metrics were very strong; we added 4 clients in the \$100 Mn+ category this quarter bringing the total to 29. The \$1 Mn+ category we added 27 clients bringing the total to 791 clients.

From a deal wins perspective also, the performance has been very-very good across the board. The 9 key wins that we announced this quarter came from across verticals and geographies – 4 of these came from BFSI, 2 in Retail, one each in Telecom, Life Sciences, and Media. From a geography perspective, 3 of them came from North America, 2 in UK, 2 in Europe and 1 each from the other geographies.

So as we exit FY 15 on what appears to be a weak note in reported terms, the underlying core business is actually solid and poised for continued growth for the future.

This is most evident in the exit-rate tailwind which is the annual growth we would enjoy in FY 16 if we simply coasted along Q4 revenue run-rate for next four quarters. On a constant currency basis, this is 4.2% which is quite similar to the one we had at the end of FY 14.

Speaking of the new fiscal year, while we do not give any guidance, I wanted to spend a couple of minutes describing the broad contours of demand that we can make out at present.

Overall, we expect the client budgets to increase modestly in constant currency terms, not very different from what we saw in FY 15. Within that budget, we see these spending trends strengthening further in FY 16:

- Clients across the board are increasing their digital spending so that we will definitely be a bigger theme this year than the last year.
- Other broad themes from FY 15, namely, simplification and government-led initiatives will continue during FY 16.
- They continue to part-fund many of the newer discretionary initiatives through cost savings they had from tighter operations.

From a vertical perspective, looking at the order book and deal pipeline, I expect BFS to perform very well, at or better than the company average in FY 16.

BFSI as a whole will also do better in FY 16. While the Diligenta weakness within the Insurance will continue for few more quarters till we see a turnaround, We believe the Services business have bottomed out and I am optimistic about its performance during FY 16.

We stay positive on all the other verticals namely Retail, Manufacturing, Hi-Tech, Life Sciences, Healthcare, Travel, Hospitality and Media and Entertainment, all of which make up 42% of our revenue. Digital programs have significantly driven up IT Services spending in these verticals and we are participating in a big way in our clients spend.

On the other hand I expect the spending in Telecom and Energy vertical to stay subdued and continue to stay volatile in Telecom in particular.

Geography wise, there is nothing region-specific to call out; however, the geography view is somewhat clouded by the weakness in Telecom and Energy verticals as well as Diligenta from a UK context.

From a Services perspective I expect the momentum to continue in Infrastructure Services, Assurance, Enterprise Solutions, Digital, Consulting and BPS. Digital continues to grow very strongly, likewise I expect our Cloud platforms which I declared as \$125 Mn annual run rate and including the new launches we will be making to show outstanding growth in next year as well.

So all in all, we are well poised to have another year of good growth in FY 16. With those words, I will now end my commentary and take questions.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anantha Narayan of Credit Suisse. Please go ahead.

Anantha Narayan: I have one question to Ajoy. The attrition numbers have obviously been going up so has been the case for the rest of the sector as well. I just wanted to understand, would you attribute all of this just to the sectoral trends or would you attribute some of this also to the unfortunate negative press that you have received over the last few months? And as a follow-up to that, what is the maximum attrition level that you would be comfortable with?

Ajoy Mukherjee: Overall at this point in time, the attrition is high as we have said; it is about 14.9%, and if you look at the last four quarters, it has been gradually going up over a period of time. Primary reason, as I said, it has been because of the sectoral trend, the number of opportunities that are there, and everybody is hiring. In fact, we also hired 67,000 people at this point during this year. "And whether this is the highest attrition ever?" The answer is no, it is not the highest. If you go back in FY-'11-12 every quarter we had more than 14%. Yes, the attrition is high and what is the comfortable range is something that is something that we will have to look at. We have to definitely bring it down and that is what we have factored in when we are looking at the hiring that we are going to do next year.

Whether the negative press and other things that has an impact, the answer is No. I think the employee energy levels and the motivation that we see as we go and meet people, conduct townhalls and everything else is extremely positive. Morale is pretty high and we are pretty confident.

Anantha Narayan: Besides the monetary-related issues, are there any other specific steps that you are taking to get the attrition down once again?

Ajoy Mukherjee: Monetary is one in terms of compensation because compensation also does have an impact and that we have taken care of. But at the same time I think what is important that we talk about is the way we engage with our employees, the way we give them opportunity to learn, the way we give them various opportunities to go into different technologies into different countries, different geographies, so that they can realize their potential.

That is where the engagement and everything else we are continuously doing and we have to continuously improve that as we go forward. So it is the training, it is the learning, it is the opportunities where they can move from one project to other, from one country to other. And these are the things that we have to do.

Additionally, another initiative that we started that is showing pretty good result is Purpose4Life. You might have heard about it. It is a program where we encourage employees to get into volunteering and things like that. These are some things which also gives a different kind of satisfaction to employees and all these initiatives will continue.

Moderator: Thank you. The next question is from the line of Mitali Ghosh of Bank of America. Please go ahead.

Mitali Ghosh: Chandra, you gave a decent amount of color on the FY16 outlook and while I understand that you do not guide, how should we think about the outlook for TCS for next year in comparison to the industry growth as captured by NASSCOM?

N. Chandrasekaran: Mitali, this year because of the situation and because of the specific questions in the mind of the analysts, we went ahead and tried to detail out sector-by-sector and market-by-market outlook.

We have given you enough color to indicate that we will have a strong year next year. And typically we always believe that we will come ahead of the Nasscom estimate.

But, you have to see it with the commentary I repeatedly make. We do not give guidance, we try to give you enough qualitative commentary to explain what we see in the market. The only headwinds I have said are in the Energy sector and we will continue to see decline in Diligenta revenues and volatility in Telecom. There it will jump around. We cannot say that it will be always down or it will be up and down a bit. So we have to be prepared for that.

But, all the other sectors and markets and services and the way we are hiring and the investments we are making in Digital, investments we are making in Cloud platforms (which are beginning to become meaningful from a growth point of view – it has crossed \$100 million annual run rate and it has grown 55%) and we have more launches coming in.... I do expect that those things will also help to mitigate some of the headwinds in the other two areas I talked about. So we look confident.

Mitali Ghosh: On the banking sector, where you mentioned that in BFS you do expect to grow at in line with or above company average. If you could elaborate a bit on the key trends you see there, and also on the Retail sector, which was a little bit volatile this year?

N. Chandrasekaran: No, Retail sector if you look at on a constant currency basis, it has done exceedingly well. On a constant currency basis, the Retail sector this year is over 20%. Those 6 verticals I spelt out, I particularly did that so that you are able to clearly appreciate which sectors are really looking very solid.

In Retail our deal pipeline, our wins, our ramp ups - everything is quite solid. Barring any seasonality which we will point out whenever we see – which is usually the 3rd quarter, but otherwise we believe that the sector is going to do well for us.

The areas are primarily omni-channel, lot of analytics, lot of customer insights, store optimization programs, transformation programs in terms of merchandizing, in terms of cloud from infrastructure point of view. So I think these are all the areas we continue to see traction in the Retail industry segment.

From a Financial Services point of view, definitely, the spend towards Digital and transformation towards Digital in FY 16 will be higher than FY 15 across the industry, but I will definitely mention it for our client segments, because that is the client segment I speak to more often.

Then we have growth in BPS, we see growth in Infrastructure because large scale infrastructure transformation so far has largely happened in

sectors other than BFS. Now, we are beginning to see infrastructure transformation initiatives which are slightly larger in deal size beginning to happen in BFSI segment as well. We are beginning to bid for some of those engagements, we have started winning some of those engagements as well. So I think the spend is going to be in all these areas. Of course, Governance, compliance, which I have always talked about will be another area.

Mitali Ghosh: As you look back, how do you think the deal activity, the pipeline and the business momentum compares with the same time last year?

N. Chandrasekaran: Three points I have made already on constant currency it is very important for you know that the constant currency exit rate is same as last year.

Second point I have said is that the discretionary spend in Digital in FY 16 is likely to be better than FY 15.

Then the overall deal momentum, etc., are quite good.

The volatility in Telecom sector is something that was there last year, it continues to be there. Energy sector was not weak last year, it is weak this year. So to that extent Energy sector poses an additional headwind. Diligenta poses a headwind and Diligenta also posed a headwind last year so that continues. So I think overall we feel the momentum is there as we saw last year.

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

Diviya Nagarajan: Chandra, my question to you is on how you see the NASSCOM guidance for this fiscal, they have guided for 12% to 14% growth. How realistic do you think this number is and how do you think this allows for cross-currency as well as demand softening in some sectors such as Energy, Utilities and other spaces?

N. Chandrasekaran: Diviya, I really cannot comment on NASSCOM guidance because I am not party to that; I retired as Chairman a couple of years ago. So I do

not have access to their workings. TCS does not share any specific numbers with NASSCOM because we do not give guidance. So from a TCS point of view, whatever number they assume, they assume based on all the reports you guys write I think. So it will be very very difficult for me to comment on NASSCOM numbers.

Diviya Nagarajan: A question follow-up to Ajoy, was there a heavier involuntary attrition component this quarter as compared to the other quarters that led to some of the spikes that you saw in attrition or that is all voluntary that led to the spike?

Ajoy Mukherjee: Our Q4 attrition is reported on an LTM basis, so I will comment on the whole year. Involuntary attrition this year has been very similar to what we had last year, somewhere in the range of 1-1.1%.

Involuntary attrition also does not happen in one quarter; normally it is spread over the whole year; there is performance-based, there is project-based hiring and when that project is over people are let go - all that will be counted as involuntary. There is no such spike per se which has caused this.

As I said it is primarily sectoral. Demand in the market is pretty high. Everybody is hiring, we are also hiring. It is that which has caused the attrition going to this level, it has been increasing every quarter if you have noticed. As I said, our goal is to contain the attrition and bring it down.

Diviya Nagarajan: Rajesh, any changes to the hedging policy now that the cross-currency headwinds are much more volatile?

Rajesh Gopinathan: As of now, no immediate changes. As we have said that our hedging has been typically short-to-medium term, and if you look at the overall position typically, we have been carrying about \$3-4 Bn including receivables and revenue. Right now we are slightly lower than \$3 Bn; about \$2.8 - 2.9 Bn and the tenure is also weighed to the shorter end. So at a policy level, no immediate change, but subject to review as the situation progresses.

Moderator: Thank you. The next question is from the line of Sagar Rastogi of Ambit Capital. Please go ahead.

Sagar Rastogi: Could you talk a bit more about this Artificial Intelligence platform that you mentioned – is it any vertical specific? Should I think of it somewhat like IBM has a Watson program, is it something like that? Some color would be great.

N. Chandrasekaran: It is a neuroscience machine learning-based Artificial Intelligence platform. It is a horizontal platform, and can be applied for IT Services as well as BPS and Infrastructure Services in automating many of the tasks and it has got neuroscience-based engine which will continuously learn. So it will continue to get better as it evolves. We have done five pilots and all five pilots have been extremely well received and successful and have clearly given very-very good results. We are already talking to clients and we will be formally launching it. We are putting the whole thing together.

Sagar Rastogi: Is this any different from your Digital re-imagination sort of initiative, which includes SMAC and AI altogether, this will be part of that or this is something you are adding as a separate initiative? You pulled it out separately, so that is why the question.

N. Chandrasekaran: If you look at our whole Digital story, we have been in Digital for more than 5 years and originally we coined the term “Digital Five Forces” and set up a customer collaboration center for Digital in Silicon Valley. We created expertise in AI, Robotics, Mobility and Channels, Cloud, Big Data, Analytics and Social segments and then we brought it all together to create an offering that we called Digital re-imagination.

Digital re-imagination is deeply embedded in each of our units, be it BFS, be it Insurance, be it any vertical including TCS internal IT and the Digital re-imagination is an end-to-end framework by which we help customers think through what the process means the digital world, what workplace means, how shopping happens, how merchandizing happens, how online promotion happens in a store or any one of those

things, in different industries we call a bit different terms because there are industry formats.

Along the way we also recognized Cloud as a big opportunity, using the intellectual property that we developed and we created Cloud platforms. These cloud platforms are Software-as-a-Service platforms, which, as I mentioned, have generated \$125 Mn.

This is the third category. We have been doing both research and building this platform on a neuroscience-based platform for automation. We call it Services-as-a-Software, because it automates services and we will be launching it pretty soon.

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

Ravi Menon: I have a couple of questions: One was, what is the campus offer conversion to hire this year or did you recruit a lot of people off-campus as well?

Ajoy Mukherjee: Campus hires - as far as next year is concerned, we have made 35,000 offers. The conversion rate in FY 15 has been about 70% joining ratio i.e. the offers we make versus how many finally join. That is very similar to the 71% we had last year, so we are in that range. Off campus hires? Yes, we have done in Q4 as well as earlier.

Ravi Menon: Second, there's really strong client movement up the tiers and strong client additions in the \$1 Mn+ and also into the \$100 Mn+ tiers. The hunting is working pretty well. But have you been hurt a little bit by this movement of clients into the \$100 million, so some volume discounts kicking in and so forth?

N. Chandrasekaran: No-no. The only commentary I have is about those two sectors' weakness. Otherwise, we have not seen anything specific that we feel we should call out to you.

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

Ankur Rudra: Chandra, could you comment on the momentum in the North American US business, how is that panning out and are there any headwinds due to weather, etc., that we should expect for the first quarter?

N. Chandrasekaran: Nothing really. I thought about it, I was expecting this question, Ankur. We do not see any headwinds in North America. This quarter has been a very marginal growth on a constant currency basis because the quarter itself is pretty muted and then we have had the hit that we took in Telecom which also come from North America. But other than that, there is nothing else.

Ankur Rudra: Just if I could peel the onion a bit more on the \$100 million client adds, is it possible to call out what services are driving that – is that maybe your new Digital initiatives that you just lost contracts, in Infrastructure you have been very successful at?

N. Chandrasekaran: No. TCS has a full services strategy, so we offer clients the full range whether it's Infrastructure Services or Digital Services. I would say that increasingly, in every client that we work with, we are offering Digital and digital business is picking up; the growth I would not say has come only from Digital but from Digital Infrastructure in some cases, Digital BPS, in some cases it is Enterprise Solutions and something else. So it is a combination of services. But if you see the conversion has been pretty good.

Ankur Rudra: Rajesh, could you comment a bit about what helped the margins trend, this time excluding the one-off? And also you said in your prepared comments that you will be careful in investments in FY16 given the currency volatility, would you elaborate on where you might be cutting back if at all?

Rajesh Gopinathan: On our operating margins in this quarter, on a Q-on-Q basis, we have a realization improvement and offshore shift on the effort side. Both of these are levers that helped us on the margin. In addition, this being a soft quarter, we have been managing our cost accordingly and that is fairly tightly. Nothing spectacular to talk about, just tight management of overall cost structure. So that is the broad margin side of it.

In terms of the investment strategy, it is no different from what we had set for the last couple of years in fact, except that we will calibrate incremental investments on the basis of headroom available. When the rupee had depreciated significantly against the various large currencies and we had seen a margin spike to 29% and 30%, we had initiated a series of outbound investments. We have seen that in France, we have seen that in Japan, and at that time also, we had said that we will be calibrating. So this is more reiteration of what we have said in the past. Incrementally depending on where the currency is, we will take a harder look at some of these opportunities, but we stay fully committed to whatever is on the ground.

Moderator: Thank you. The next question is from Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: I had two questions: Firstly on the demand side, the general theme across the sector this time has been that vendors are less optimistic today versus say in January, also reflected in the cut in Gartner's quarterly update last week. So I was just wondering, other than the detailed comments that Chandra provided us, are there any factors, verticals or trends that we should watch out for which could provide risk to the downside?

N. Chandrasekaran: Nitin, I really cannot call out anything else because this has been put together based on data, the pipeline, the deals we have closed, the current order backlog we have, and the customer interactions that we have had in our client portfolio.

So we will look at all the other macros. For example, we're looking at Energy very carefully, so we do not think Energy will do well. And any other analyst reports or macro indications we have to watch out for, we will – but, for example, everyone kept asking us about Europe, but Europe has delivered a very-very solid set of numbers; it is over 25% CC terms. So you've got to go by our client segment and what we see on the ground.

Nitin Mohta: Second one was for Rajesh. On the margin front, 8% kind of salary hike and cross-currency headwinds going into FY16. So if you could just elaborate a little more in terms of within the cost structure, where would you try to extract margin efficiency to remain in the comfort band, given we are already at 27%?

Rajesh Gopinathan: If you look at overall currency volatility or the expected wage hikes, these are pretty much in line with our normal business expectations. In the European sector there is enhanced volatility, but that is part and parcel of the overall business environment, and we have said that our margin impact from currency volatility is outside of the stated band. So overall the levers to margin remain the same.

Our business is essentially a scale business and we improve margins as we improve scale at any given cut of the business, whether it be at a customer level, whether it be at a service line level, geography level, etc., We have made significant investments over the last few years, and as we scale up in many of these granular businesses, we expect a like-to-like margin improvement in many.

It will appear across the board because it is difficult to classify them as one or the other, but if you achieve scale, we will improve margins across these various businesses. In underperforming businesses, we will be more cautious in how we approach it and use discretionary policies to drive efficiencies where the investments do not seem to be working properly. This is not any different from what anybody else would do. So no rocket science here, pretty much running a tight ship.

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

Viju George: Chandra, just on this Cloud platform that you called out, is it possible for us to get a characterization of the clients who are adopters of these platforms – are these largely some of the smaller clients or do you see some of the Fortune 100 clients also going in for the adoption of such platforms?

N. Chandrasekaran: It is variety of clients and at this stage we will just say that there are seven platforms in all and they are all in the scale-up mode. Clientele is across the board generally, not small clients yet.

Viju George: As we sit today and contrast your position versus one year back, I think you are calling out additional headwinds in the form of Energy and Telecoms which I do not think you called out one year back. Now, as you roll forward to the year, we did have a lot of shocks coming in the course of FY15. So I am just curious to understand, what are the guarantees, if you will, that you have in place to ensure that you can still manage some of the unanticipated shocks that will inevitably come along as we go through the year.

N. Chandrasekaran: Absolutely no guarantees. We have called out these two because we have seen Telecom being volatile. It may well happen that it continues to grow, but the trend seems to be that it is just a little bit of yo-yo, and Energy all of us know, it will be prudent to be very conservative there in our assumptions because where the oil is. But apart from that what headwinds will come, whether a tailwind will come, no idea.

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

Sandeep Shah: The question is in terms of competition not from the Indian players, but from the global MNCs if I just compare with one of your global MNC double your size in terms of revenues and almost similar in terms of your employee size, there growth lag in the outsourcing is almost narrowing versus the Indian peers and at a similar base of employees, they are adding 90,000 employees on a gross basis versus what we are looking is 60,000 employees. Chandra, are you worried that there is some change in the dynamics where the competition from the global peers have gone up significantly because of the change in the demand trends?

N. Chandrasekaran: No, not at all. If you look at our incremental revenue in the last 5-years, I think we continue to outperform. I think we continue to win. Each company, whether it is global... I call all of these companies are global

as far as I am concerned – I do not think that you can bracket companies as Indian companies and global MNCs, all of us are MNCs as well, today with the global footprint and global workforce and global practices and so on and so forth -- and each one has a strategy. So I am not going to be able to comment on that, but I think we are competing well and we are making the right investments, our value proposition is strong, our client metrics are exceptionally good and we will continue to drive that.

We stay very close to customers and we focus on execution all the time and our revenue per person has also significantly improved; in 2009 December, we were 160,000 people for \$6.1 billion of revenue; 2014 December we were 310,000 people; 150,000 people we added but we added \$9 billion of revenue to \$15 billion.

So, if you look at our revenue per person, it has significantly improved over the last 5-years at an expanding margin. So, I think those are the metrics you should look at.

Sandeep Shah: Rajesh, the question is the margin band of 26% to 28% you were saying, it is more at a constant currency. So, is it fair to say that we are comparing with the FY15 constant currency rates when looking into FY16?

Rajesh Gopinathan: What I said is that the idea about giving a band and commenting about it is that in the short term, currency volatility is excluded from that if it is spiking in either direction. If currency were to settle at different levels and if we see that our margin targets are at risk, we will communicate it accordingly. So, that is the idea about saying that. But, otherwise, it is not technically defined on constant currency basis, it is the margin band based on our operating margin that we expect.

Sandeep Shah: Just the book-keeping question in terms of what is the forex gain in this quarter. I think that has led to a significant increase in the other income, though I can pull out from the reporting, but...?

Rajesh Gopinathan: About ₹ 660 crores.

Sandeep Shah: This is versus a similar policy which we are following on a Q-on-Q?

Rajesh Gopinathan: Policy is similar, but please be aware that results might not be.

Sandeep Shah: Why I am asking, Rajesh, is there was a change in the accounting at the end of Q4 FY14 to reduce the volatility in the forex line...?

Rajesh Gopinathan: We did early adoption of the IFRS 9 standard which was not mandatory at that time, we were among the earliest corporates to adopt it. It is a forward-looking and progressive accounting standard and we fully adopted it. Unless the standard changes again, we do not expect any policy change on that.

Moderator: Thank you. The next question is from Surendra Goyal of Citi Group. Please go ahead.

Surendra Goyal: Rajesh, I am following up on margins. What kind of impact do you expect in Q1 due to wage hikes, visa cost, etc.,?

Rajesh Gopinathan: We will talk about Q1 later on in the quarter but as I said, it is in a range which is similar to our past. So, it should be in similar lines to our past period.

Surendra Goyal: Chandra, just one small clarification. I thought you said on TV that TCS will continue to grow ahead of NASSCOM in FY16. Is that correct or did I misunderstand something?

N. Chandrasekaran: TCS has always aspired to grow ahead of NASSCOM every year. We say that every year. I will just remind you to be careful because I am not getting to a number, I am only giving you qualitative comments.

Moderator: Thank you. The next question is from Ashwin Mehta of Nomura Securities. Please go ahead.

Ashwin Mehta: Chandra, you mentioned that discretionary spending will be better in FY16. So which are the verticals or areas that you see where discretionary spends will actually be higher going into the next year?

N. Chandrasekaran: I think it is across the sectors except the two sectors which I singled out.

Ashwin Mehta: You have not seen any impacts in terms of the near-term softness of the macro that we have seen in the US.

N. Chandrasekaran: No.

Ashwin Mehta: Rajesh, in terms of your employee cost in the SG&A line that saw a pretty sharp decline, almost 7% Q-on-Q. What was the reason for that – is it largely due to the S&M translation for European employees or there is something more to it?

Rajesh Gopinathan: It is mostly currency play flowing through only. On utilizations, we do not have significant movement and some of the subsidiary items that we have consolidated but nothing significant.

Ashwin Mehta: So there is no reclassification or anything in there?

Rajesh Gopinathan: No.

Moderator: Thank you. The next question is from Sameer Lumba of Landmark Group. Please go ahead.

Sameer Lumba: Chandra. I think most of the questions have been answered, but just wanted your thoughts on the Digital side because everybody gives different estimates of the opportunity, but do you also believe that the opportunities in front of you is a very large one?

N. Chandrasekaran: Definitely, I believe it is a very large opportunity.

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

Joseph Foresi: I know you said that you are looking at maybe potentially giving us these numbers, but can you quantify the size of Digital and is that margin profile any different than the rest of your business?

N. Chandrasekaran: I am not giving out specific numbers, while the pricing maybe higher, the margin profile remain the same, because investments are also high.

Joseph Foresi: Any idea what that is adding to your growth rate at this point?

N. Chandrasekaran: We are not giving any specific numbers on that.

Joseph Foresi: On the margin front, are you seeing any impact from a pricing perspective? And given the fact that there is commoditization out there, how are you going to continue to maintain this margin profile?

N. Chandrasekaran: We have said that the pricing and realization together we give out numbers, we have been steadily maintaining that our pricing and realization is pretty stable, maybe a quarterly volatility in realization, but otherwise, it has been pretty stable. Even if you look at the whole year on a 17% volume growth we delivered 17% cc growth and the pricing realization is pretty much flat.

We see that it is going to be like that until we get an environment where there is going to be a significant opportunity increased pricing, but we do not see any specific pricing pressure on any of our services.

Joseph Foresi: You mentioned the AI platform and then you talked a little bit about automating services. What is the end goal there? Have you started to automate some of your practices and do you feel like you will be replacing some of the human capital with technology over a longer period of time?

N. Chandrasekaran: This is a platform which will bring automation across services, whether it is IT, Infrastructure or BPS. We have done pilots across the board and the results are good and it is neuroscience-based platform, which is self-learning. So, as it gains more knowledge, it will continue to give better level of productivity. So, we are going to launch it and it has got a great potential and we will see.

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

N. Chandrasekaran: Thank you all for joining the call and this time I have given a lot more color in terms of the business performance as well as in terms of where we are with regard to FY16. But, overall, I would like to say that it has been a very good year where we have been able to grow 17% on a cc

basis and even if you take out the acquisition in Japan it is still 15% cc growth.

Margins have held steady in a tough margin regime and the net profit has been in fact better than last year. Client traction has been very good, the client metrics is rock solid and all our investments are beginning to yield results as far as the cloud platforms are concerned and Digital is a very big opportunity from what I hear from clients, I do believe that the discretionary spend is likely to be higher in a variety of verticals which I outlined.

I also tried to explain why I think BFS will do well and why rest of the sectors are likely to do well barring the two sectors that I called out as volatile and having headwinds. So, I think we are in a pretty good place. We feel very positive and strong about the coming year. Thank you and look forward to talking to you again next quarter.

Moderator:

Thank you. Ladies and Gentlemen, on behalf of TCS, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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