Tata Consultancy Services Limited

Q4 FY17 Earnings Conference Call.
April 18, 2017,19:00 hrs IST (9:30 hrs US ET)

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

Kedar Shirali: Thank you, Margreth. Good Evening and Welcome everyone. Thank you for joining us today to discuss TCS Financial Results for Fourth Quarter and Full Year of Fiscal Year 2017 ending March 31, 2017. 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 new leadership team is present on this call to discuss our results today we have:

Mr. Rajesh Gopinathan --- Chief Executive Officer and Managing Director

Rajesh Gopinathan: Good evening everyone.

Kedar Shirali: Mr. N.G. Subramaniam ('NGS') -- Chief Operating Officer.

N.G. Subramaniam: Hi everyone.

Kedar Shirali: Mr. V. Ramakrishnan ("Ramki') -- Chief Financial Officer.

V. Ramakrishnan: Hello Everyone.

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

Ajoy Mukherjee: Hi Everyone.

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

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

Rajesh Gopinathan: Thank you, Kedar. Good Morning, Good Afternoon and Good Evening to all of you wherever you are. We have wrapped up a turbulent year marked by political and business uncertainties with a fairly good sequential volume growth of 1.7% in a seasonally weak quarter.

Our constant currency revenue growth was 1% QoQ. Our operating margins during the quarter reported was 25.7% and net margin was 22.3%, the same as in Q4 of the prior year.

Our full year volume growth in FY17 was 8.5% while constant currency revenue growth was 8.3%, an incremental revenue addition of $1.4 Bn in constant currency terms.

In reported terms, full year revenue growth was 8.6% in INR and 6.2% in USD terms. Full year gross margin was 43.3% and operating margin was 25.7%, a shade below our preferred range of 26-28%. Net margin held steady at 22.3%.

We have been saying for a while now that our overall pricing and realization has been stable despite volatility in quarterly realizations. I

am happy to say that in FY17, our full year constant currency realization was flattish, with a slight decline of 20 basis points compared to the prior year.

This hopefully sets to rest some amount of the persistent commentary about commoditization of services and the fears of a structural pricing decline. We have been saying that such commentary takes a very narrow view of some of the service lines and does not take a portfolio view of the aggregated business, and how pricing strength comes from newer services and price reduction in old services is typically par in our industry.

I strongly believe that customers will continue to value our services as long as we invest in new capabilities, stay relevant at a time of technology change, build innovative solutions and consistently deliver high quality work. To do this, we need to stay customer-focused and keep looking for better ways to deliver superior outcomes. That can happen only when at a fundamental, individual level, we have a sense of identity and take pride in the work that we do.

So overall, I am reiterating our commentary on a stable realization regime and that our participation in new services and our ability to churn the portfolio is a constant source of strength in our overall realization. In fact, if you look back over the last five years, we have seen a fairly consistent realization regime across that period of time. So it is not just about one year, but even over a 5-year-period, we have seen that.

A strong proof point of the value that customers see in engaging with us is the resilient and enduring nature of the relationships we have built with them, marked by steady expansion of our participation in their spending year-after-year. It can be seen in our client metrics which shows the number of customers we have in each revenue bucket. Comparing the latest metrics with prior periods, we see steady and strong progression of customers into higher revenue buckets on a quarterly as well as a full year basis.

During the quarter, we added one more client in the $100 Mn+ revenue band, 4 in the $50 Mn+ band and 10 in the $10 Mn+ band.

For the full year, we added 11 more clients in the $50 Mn+, 17 more in the $20 Mn+ and 30 more in the $5 Mn+ band and we have 35 clients more in $100 Mn+ band down by 2 from last year for reasons covered in our prior earnings calls.

Looking at it from a segment perspective, during the quarter, we saw continued volatility and underperformance in BFSI and Retail, similar to what we saw in the first half of the year.

Excluding those two, the other six verticals collectively grew 3.4% QoQ, led by Communications and Media which had a strong quarter, growing at 7.4% QoQ; Hi Tech was up 5.2% and this is the third straight quarter where we have had good growth; Travel and Hospitality was up 3.6% QoQ and Life Sciences and Health Care was up 3.1% QoQ. Manufacturing and ERU verticals also performed above company average.

As a reminder, the growth figures mentioned are all in constant currency terms.

The BFSI revenue growth during the quarter was flattish, down 0.4% sequentially. It was mainly due to a one-off project that got completed last quarter in North America, resulting in a revenue gap this quarter, impacting the segments involved, that is BFSI and North America.

The Retail revenue declined 3% sequentially in Q4 on account of reduced spending by a few large clients and it also reflects sector-wide weakness in the United States and Europe.

Full year revenue growth trends were along similar lines. BFSI, Retail and Hi Tech underperformed relative to the company average, while all other verticals grew in double digits. It is worth mentioning that Communications, Media and Information vertical which is up 10.5% in FY'17 has performed better than the company average for the first time

in six years. Similarly, in Hi Tech as I said, we are seeing strong trajectory with the last three quarters being positive, and we expect a fairly good momentum to continue into next year.

Geography wise growth during the quarter was led by India which was up 9.3% QoQ. Continental Europe also had a strong quarter, up 7.1% QoQ and UK grew 4.1% QoQ. Middle East and APAC also grew above company average. North America declined in Q4 and I already mentioned that it was dragged down by the one-off from the BFSI segment. Latin America continues to be volatile and had a soft quarter.

On a full year basis, all geographies showed growth; Continental Europe, India, Latin America, Middle East and Africa all grew in double digits while other geographies grew between 6%-7%.

From a services perspective, we had good growth in Q4 in ADM, EIS and BPS.

On a full year, with the exception of ADM and Asset Leveraged Solutions, all our service lines grew above company average with EIS and ITIS growing at 17% and 16% respectively.

I am also happy to report that our Enterprise Solutions and Consulting business crossed $3 Bn in annual revenue while our BPS business crossed the $2 Bn milestone this year.

From the perspective of service line, there is one aspect that I want to talk about. Our service line reporting conventions date back to more than two decades and we are increasingly realizing that this is slightly out of sync with the way services are currently getting consumed or the way customers are engaging with us.

A large part of our revenue today comes from integrated solution offerings where we orchestrate the delivery of multiple service lines to accomplish a certain business outcome. More so as people move more and more towards Agile models, the same team designs, builds, tests, deploys and then keeps repeating that cycle for the life time of the

system which blurs the distinction between activity-based service definitions. In such complex scenarios, it becomes difficult for us to try and split the revenues and attribute them to individual service lines for the sake of conforming to a historical reporting model.

We are now internally working on a reporting model that is more aligned to today's digital world and its current purchasing behavior. We will share with you more in terms of how this plays out in our reporting format during the course of the year.

Coming to Digital, strong adoption continues across industry verticals. Over 55% of our clients engage with us today on Digital Services and that percentage is higher among the larger clients. In BFSI, for example, we participated in the Digital spending of *every one* of our Top 25 clients.

Revenue from Digital engagements made up to 17.9% of our Q4 revenues, growth of 7.6% QoQ and 22.7% YoY.

For the full year, Digital revenues made up 16.7% of revenue, growth of 28.8% over the prior year with Digital contributing $3 Bn of annual revenues.

A key differentiator that has helped TCS gain market share in our customers' Digital spending has been our proactive investments in research and innovation (R&I).

A significant part of our innovation effort this year has been focused on harnessing the power of AI and Automation. The AI offering developed by our R&I teams which found deployment this year include conversational systems, natural language processing systems, the TCS IoT platform, Robotics, Image Processing Capabilities, Crowd Sourcing, etc.

We have created a dedicated BFS Block Chain Center of Excellence for piloting and co-trials with our customers. NGS will talk later about our Block Chain platform that has been integrated into our TCS BaNCS

product. Similarly, we have created a collaborative design space to explore and experiment and engage in the Insurance side. Our COIN[1] partnership continues to grow covering 150 partnerships, 2000 plus partners, 27 academia partnerships etc.

So we are staying very active in both digital and innovation in a more generalized sense and that is continuing to feed through in our participation in various emerging service areas.

That brings us to our approach to IP and the various cloud platforms that we have spoken about in the past.

Among them, iON Assessment continues to grow, and as of March 31st more than 84 Mn candidates have been assessed on iON and the platform made its first foray outside India in FY'17.

Our HR platform CHROMA which enables next-generation employee experience was adopted by 4 new clients this year including 1 in Q4.

Similarly, our Accounts Payable platform continues to gain traction. During the course of this year the platform was used to process more than 20 Mn invoices.

ignio™, the world's first neural automation system for IT Operations in Enterprises, continues to do well in the market. Using its context aware intelligence and expanding body of knowledge, *ignio*™ is easily managing the complexity of very heterogeneous dynamic IT environments in large Fortune 500 Corporations and delivering on its promise of both productivity as well as experience and quality of experience. In FY'17, *ignio*™ won 17 new clients including 4 in Q4. We now have filed 71 patents around *ignio*™.

Similarly, other industry specific platforms such as Optumera in the Retail space, our Advanced Drug Development product in Life Sciences

[1] Co Innovation Network

and HOBS in Telecom continue to see good traction among our customers.

Coming finally to BaNCS, our flagship product in the BFSI space, it had a good year with 22 new customers in FY'17. Over 1.3 Bn accounts – this is an interesting data point, representing 15% of the world's population – are serviced using TCS BaNCS today. The TCS BaNCS Insurance platform services close to 20 Mn life annuity and pensions policies and 135 Mn property policies.

I want to congratulate the BaNCS team for amazing work they did last month in helping State Bank of India successfully pull off the integration of five of their associate banks and the Bharat Mahila Bank in one single shot.

From an IT perspective, that involved the migration of product and customer data from six core banking platforms onto the SBI's TCS BaNCS platform. The final merger was accomplished in a tight 48-hour window over the weekend after March 31st, before the bank opened for business in the new fiscal year.

Post-merger, the TCS BaNCS instance at SBI supports 550 Mn+ customers and 725 Mn+ accounts, with 180 Mn+ transactions per day – staggering numbers unmatched by any other core banking platform anywhere in the world.

From our people metrics perspective, our investments in reskilling, the movement to Agile, DevOps and the work done by HR teams, have all resulted in a significant improvement in employee retention. Given the scale of digital work we do across different industry verticals and using different technologies holistically, it is clear that for engineers who want to be part of exciting digital engagements which make a difference to our customers, TCS continues to be the most preferred place to be.

Attrition on an LTM basis in IT Services came down 80 basis points QoQ to 10.5% setting an industry benchmark yet again.

We continue to focus on improving productivity through various avenues of non-linear growth, including increased use of automation. This will result in progressively fewer numbers of employees to revenue related to the business growth.

Compared to 90,000 gross hires we did in FY'16, we added about 79,000 employees on gross basis this year in FY'17 and on net basis, 33,380 employees ending the year with 387,000 employees. Our local hiring programs in various geographies are progressing well. In FY'17, we recruited over 11,500 employees outside India, including some engineering campuses and the top-10 business schools in the US.

Given the changing nature of skills needed in the world of Agile and DevOps, we are systemically using innovative, gamified ways like hackathons and contests to pick up top notch talent in increasing numbers.

We had spoken in Jan about certain buoyancy in customer sentiment. While it did not translate into immediate growth acceleration in Q4, I am very happy with both our deal wins during the quarter and the deal flow in our pipeline.

In Q4, we signed 9 large deals which were well distributed across 5 verticals, with 3 in BFSI, 2 each in Life Sciences and Utilities and 1 each in CPG and TTH. From a geographical perspective, North America accounted for 4 of those 9 deals. Of the remaining, we had 2 each in Europe and APAC, with 1 in the UK.

Over the last two months, NGS and I have gone around meeting with our key customers. We visited more than 75 key customers across the world and had very productive conversations with them. A common theme that has emerged from those conversations is that every customer today has a transformational agenda and an increased investment in Digital technologies. Our client connect and clients' respect for TCS continue to be quite high and we are well placed to expand our participation in these initiatives.

When we look at demand from a vertical industry perspective, of the three verticals that underperformed this year -- BFSI, Hi Tech and Retail -- BFSI and Hi Tech look well placed to improve their performance next year.

I already spoke of Hi Tech's improving trajectory over the last three quarters. Similarly, in BFSI, the deal pipeline is quite good. We have a few large deals in insurance and a large number of smaller, fast moving deals in BFS. We expect spending to continue on improving customer experience, APIfication, automation, simplification, cloud adoption and compliance.

Coming to Retail where we have had a muted year, the industry continues to go through structural problems and we expect to see weakness continue there for the next few quarters, and we need to watch that space closely.

With all other verticals, we expect continued growth.

Looking at other parts of the portfolio, which had faced challenges in recent times, we expect Insurance and Diligenta to bounce back this year, and Japan also, we think is likely to flat line and have slight growth compared to the degrowth that we experienced last year. Latin America and India are likely to be volatile, but we expect them to grow at or above the company average.

Our products and platforms are also continuing to do well as I have spoken about earlier.

Lastly, I am happy to announce that the board has approved a dividend policy, which formally states what we have been doing in practice since our initial public offering. As you know, we have been meeting our capital requirements through internal accruals and distributing surplus cash to our shareholders in a disciplined manner through three interim dividends and one final dividend every year and a special dividend every couple of years.

In the formal policy, we have reiterated our continued commitment to our shareholder-friendly capital allocation policy and stated that after meeting internal cash requirements and maintaining reasonable balance and readiness for strategic investments, we will endeavor to continue to return a significant part of the excess to shareholders.

An interesting data point is that if we consider over the last 6 years, we have on an average, distributed 80% of our Free Cash Flow less our investment in acquisitions over that period of time. While year-on-year it has been varying, and this year, we expect it to be in the range of 108%, the average over 6 years -- at 79% or 80% -- is probably industry leading.

With that, I will turn this over to Ramki to take us through the rest of the Financials.

V. Ramakrishnan: Yes. Thank you, Rajesh. Let me first go over the headline numbers; in the fourth quarter, our revenues grew 1% QoQ on a constant currency basis. In INR terms, we had a negative cross-currency impact of 1.3%, resulting in reported revenue of ₹296.42 Bn which is a sequential decline of 0.3% and YoY growth of 4.2%. In USD terms, there was a cross-currency benefit of 0.5% resulting in reported revenue of $4.452 Bn which is QoQ growth of 1.5% and YoY growth of 5.8%.

The constant-currency growth of 1% is made up of volume growth of 1.7%, constant currency realization impact of -0.7%.

Our full year revenue for FY’17 was ₹1.18 Trillion, that is YoY growth of 8.6%. In US dollar terms, our revenue of $17.576 Bn translates into an annual growth of 6.2%. We added incremental revenue of $1.4 Bn on a constant currency basis.

Our constant currency revenue growth for the year is 8.3% which is made up of a volume growth of 8.5% and constant currency realization was flattish at -0.2% YoY.

Operating margin for the quarter was down 0.3% QoQ to 25.7% on account of currency movements during the quarter.

For the full year too, our EBIT margin was 25.7%, down 0.8% YoY largely driven by higher employee cost.

Net income margin in the fourth quarter as well as for the full year was at 22.3% which is down 0.5% on a QoQ basis and flat on a YoY basis. Effective tax rate for the quarter was 23.2% and for the full year 23.6%.

Our accounts receivable was at 73 days DSO in dollar terms down 2 days QoQ. Net cash from operations during the quarter was ₹74.5 Bn, which is 25.1% of revenue or 113% of net income.

For the full year, Net Cash from Operations amounted to ₹270 Bn, that is 22.9% of revenue or 103% of net income. Free cash flow in FY2017 was ₹250.4 Bn, growth of 17% YoY.

After paying out ₹109.7 Bn in dividend during the year, our invested funds as of March 31st was ₹484.3 Bn.

The board has recommended a final dividend of ₹27.5 per share, bringing the total for the year to ₹47 per share which is a payout ratio of 42.4%.

You must be aware by now that our postal ballot for the ₹160 Bn share buyback program has received overwhelming approval from the shareholders and further steps in this regard are progressing well.

With that, we can open the line for questions.

Moderator: Thank you. The first question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: Rajesh, my first question was on the Financial Services segment. For a few months now, we have heard some fairly positive comments from US as well as from some of your peer companies, but some are not

translating that into numbers yet. So my question was, what is holding it back and do we have any visibility of a turnaround anytime soon?

Rajesh Gopinathan: Anantha, we met many of our large BFS clients over the course of the last 2 months and the way to characterize it is that there is a lot of small projects and we see a lot of small project momentum in the pipeline. We are also seeing increasing size of digital projects where they are looking at core transformation to better position themselves for digital, and we are seeing project sizes in the range of $10 million plus whereas earlier project sizes were smaller.

But the overriding impression that we worked out with was while there is a sense of positivity and everyone is positioned for the growth that they are expecting, but many of the things that are expected have not yet played out, though there is an expectation that it will come through, whether it be the rate reductions or it be the regulatory stance that they are expecting or the increased spending in other sectors that could lead to a further enhancement on the credit growth side. So many such things have not yet fully played out, though there is an expectation that it is only a matter of time, and probably that is what is resulting in a relative delay in the spending pattern.

Almost no client gave us any negative commentary or any step back from that program. The program realizations are not quite materializing at the speed that we thought they would.

We continue to remain well positioned. We are participating fairly well in whatever is currently there and all indications are that it is a matter of time rather than a reversal in these expectations.

Anantha Narayan: My final question was either to you or Ramki. Your new dividend policy has actually fallen short of spelling out percentage of free cash or net profit or something like that. So is there a number that you have in mind, and if not, is there at least an expectation that the payout will be more uniform rather than the lumpiness that we have seen in the past year?

Rajesh Gopinathan: From a number perspective, Anantha, as I said, if you look at the average over the last six years, it is close to 80% and that is as a percentage of the free cash flow, net of acquisitions. Directionally, I do not think we are likely to go lower than that.

The second part of the question which is on the cadence, that is an issue that the board has been debating for some period of time and both whether that cadence needs to be changed and also whether a more formal number needs to be stated. As and when the board decides on that, we will communicate it.

But from an investor perspective, I would say that you should expect us to continue to deliver along the lines that we have done in the past, if not better as we go forward.

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

Ankur Rudra: First, a couple of questions related on demand in the fourth quarter, Rajesh. So your fourth quarter sequential growth appears to be lower than we have seen in the last 4 years on a sequential basis. So were there any specific unanticipated challenges that led to the softness this time? Again related to that, your commentary on BFSI and Retail in the September quarter and in the December quarter was that you perceive both to be cyclical. But at least on Retail, you appear to be saying it is a bit more direct, it is a bit more structural. So on banking, what may lead you to reassess for it to be more structural than cyclical?

Rajesh Gopinathan: As you correctly said for the last few quarters we have been commenting on both these sectors; BFS positive commentary is based on the feedback that we are getting from our customers and coming from the largest market. As I said, we are also seeing that in the pipeline in terms of deal momentum, it is only a question of how these materialize and how they coalesce into larger funds. And we are seeing that the deal size is also increasing. So on BFS it is a widespread one. Plus this current quarter's numbers were impacted by a project closure in Q3 and the impact of that into Q4 because the backfill did not happen.

So we continue to remain quite confident on BFS and expect improvement coming from next quarter itself.

Specifically, in the Insurance sector, we are seeing a fair number of large deals in the pipeline coming from the Life and Pension and the platform-based deals which also gives us confidence on the Diligenta side where there are two-three large deals that are looking good and maturing well.

So on BFSI, we continue to remain positive based on the pipeline and visibility that we have.

Retail, when we had first commented about it, it was a one-off and which had caught us by surprise, but it has been systematically going down. We are seeing some amount of financial stress in some of our customers and the ongoing structural issues in the sector is creating its own issues. So the cautionary note on Retail is more about how the sector is playing out and we are more giving a heads-up saying that we will see how it develops during the course of the year before we can comment about a strong recovery there. So this is the listing in terms of these two sectors.

Ankur Rudra: Just moving on to the margin guidance for the full year, just want to clarify, 26% to 28% that you have maintained, is that on constant currencies? Or are they on the current currencies? If that is so, what margin levers gives you the confidence that given the challenges we face from currencies, site immigration perhaps in the UK, Australia and less visa-dependent strategy in the US, you will be able to take it up to that?

Rajesh Gopinathan: So it is on a constant year-on-year currency basis, and as we have always maintained very short-term or immediate currency volatilities will bleed through into the margins which has happened in this quarter also. From a lever perspective, as we see improvement in some of the underperforming erstwhile units that we spoke about, whether it is Diligenta, Japan, etc., that is one of the big levers.

We see continuing growth and size and critical mass in Digital that has an improving margin profile as we add size there. Overall it is also predicated in some amount of better demand environment and better revenue performance. So combination of all of it and continuing productivity improvement as we see that playing through. All of these will give us the levers that we need to operate on to bring our margins back into our stated range.

Ankur Rudra: Your hiring has remained quite solid at about 9.5% for the full year and it is actually ahead of your constant currency revenue growth this year compared to the last few years despite, I am guessing, the benefits you have been getting from automation. So are you perhaps investing ahead of future growth? If so, where does that confidence come from?

Rajesh Gopinathan: Partially as you said - we have been pushing ahead, and to some extent, we are also directionally reducing it as we go into this year and we will be sequentially lowering our guidance, till we will see a better improvement on the business side.

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

Diviya Nagarajan: Just a little bit of clarity on your commentary around BFSI. From what I understand you commented that deal momentum in the pipeline is still predicated on an improved outlook for the rest of the year. Does that imply that versus our earlier commentary during the quarter there has been a change in the pace of deal close versus your earlier expectation?

Rajesh Gopinathan: In BFSI, no, actually the commentary has not changed significantly, as I said, there is a one-off in terms of what happened in this quarter compared to last quarter, but overall our deal commentary has been similar, we actually have better confidence right now than where we were six months back both on Insurance as well as on the BFS side and it is a similar commentary only.

Diviya Nagarajan: So my understanding was that more deal momentum that you have seen has been fairly consistent since the beginning of this calendar, you are not seeing any deterioration or slowdown versus your earlier expectations?

Rajesh Gopinathan: Yes, that is a right characterization. Again as I said, in actual one-on-one meetings with our customers also, their overall positive attitude does not seem to have changed. Everyone is seeing it as a timing delay rather than as a directional range.

Diviya Nagarajan: Going back to the margin question, the currency has already moved by about 3% to 3.5% YoY. But could you just give us some color on what are the levers that you have that you can pull to get back to those 26% to 28% range in fiscal '18?

Rajesh Gopinathan: As I said, it is a combination of mix of revenues and as the revenue growth continues to come from newer services and as we start scaling up those services we expect incremental margin benefit coming from there. We have expectations from driving better productivity, as I said, we expect to be throttling back on our net additions during the course of this year as we drive that productivity there. And then some of the underperforming segments we expect to see them do better year-on-year, I spoke about Diligenta and some of the other geographies which have had muted performance during the course of last year, we expect more positive momentum there. So each of them in their own way, we expect them to add to the margin defense.

The currency per se the current immediate volatility that we are seeing needs to be watched as to where it is but frankly this one has caught us a bit by surprise because nobody expected this kind of directional movement. We will wait and see how this plays out and how does it impact us through the course of the year.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: I have one question which is largely for a long term strategy and I am not asking for any kind of number or outlook. If you see Digital is now 16%-17%, which is growing at a very fast pace and some other segments are also doing well. Given the current scenario and seeing some kind of recovery in the US, and you already mentioned that you are seeing some positivity on the BFSI front, what is your sense on when will the inflection point come when the losses which are happening in like this time it happened in Retail or some other losses, which are happening, will get compensated and we will at least see double-digit kind of growth? Again, this is just from a long-term perspective I am trying to understand or you think that you know it is very hard to set a timeline by when the traditional business which is getting impacted, probably will bottom out or something of that sort?

Rajesh Gopinathan: Sandip, it is difficult to set a timeline, as we said, it is a 60% of the portfolio doing well, and by numbers, 40% of it is being weak or muted and that is a reflection of where the overall economy itself has been that we are seeing volatility and not necessarily unidirectional growth. So partially it is going to depend on how overall market plays out.

I can only say that our participation is quite high in the growth areas but our ability to actually call where the volatility is likely to come from is quite limited.

So if you look at it purely from a portfolio perspective, if we leave out our BFS and Retail, actually even on a QoQ basis all other verticals together moved about 3.8%. So we are seeing kind of strong outperformance in certain areas, weakness in certain areas but very difficult to give you a timeline as to when we will see more uniform growth.

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

Sandeep Shah: Rajesh, I think one of the commentary in the media interview we had was incrementally you are positive for FY'2018. So now entering into FY'2018, the headwinds like Diligenta, Japan to some extent has been

reversing including LATAM as well. So do you believe that the 8.3% constant currency growth which we had in FY'17, directionally could be better in FY'18? I am not asking for any number, but does your comment of incrementally positive indicate that?

Rajesh Gopinathan: That is too close to giving guidance. As I said, it is better to look at a segment-by-segment and we have given you our commentary on the segments that were relatively underperforming but on the ones that are doing well at this stage we do not see any sense in terms of that there could be weakness there.

Communications which we called out saying that we are seeing the first double-digit growth in about 5-6-years, of course, that needs watching. It might be a bit volatile but directionally that also seems to be good. So I do not want to venture as to at an aggregate what will it be but segment-by-segment I think we have given you a fair amount of visibility.

Sandeep Shah: Second, in terms of clients' decision-making, is there any change versus what it used to be around three months back in terms of positive or negative?

Rajesh Gopinathan: If you look over the last six months or so, typically we expect accelerated deal closures during the first quarter of the year and that has not necessarily played out. As I said in our one-on-one meetings with clients', they are not indicating any reversal in their expectations, it is more a timing issue. But the December quarter is anyway not a period of great decision making. So the expectation was that Jan-Feb-March will be the period, and that has not fully materialized which we have tried to get into in our one-on-one meetings. We have over the course of the last two months, met a fair amount of customers, more than say 80 between me and NGS and we are getting almost consistent commentary from all of them. They have a strong investment agenda and they have an equally strong productivity or operational challenge agenda but they are quite positive in their outlook in terms of where they want to invest and specifically in BFS North America, the sense of positive expectation continues.

But many of the things that were expected have not yet played out, either on the regulatory side or on the capital markets side. So nobody is having a negative view, they are all positioned positively but waiting for actions to happen before the investments start rolling in.

Sandeep Shah: Qualitatively for FY'17, I think on the EBIT margin as well in constant currency, we are at the lower end of our targeted range of 26-28% while entering into FY'2018 there are some headwinds largely coming through visa regulatory related changes which most of the companies are making and that may ask for some investment as a whole. So directionally with that, plus the currency which though we are giving directionally largely in constant currency you believe that managing margin maybe slightly more difficult and we need to do some extra stuff which we have not tried earlier and what would be those for managing the margins in FY'2018?

Rajesh Gopinathan: One thing I want to reiterate that our 26-28% is not a guidance and it is more sharing with you what our internal targets are. So that is an important aspect that you need to keep in mind in all our commentary. From a target setting perspective, we think that this is still an achievable band and for the various levers that I spoke about earlier we are looking at it.

Some of the headwinds that you mentioned about current visa situation that we see, we are mitigating strategies in place which we hope to execute on to be able to take care of some of the incremental cost. Currency is always a wild card and especially volatile currency environments would play out in whichever form that they would, difficult for us to call on that.

But based on where we are, we are maintaining our internal target and sharing that transparently with you. This is not a guidance, this is the target that we are currently operating with internally and of course we have a reasonable confidence on that which is why we are keeping that as a doable target, but it is a stretch target, no doubt about it, but it is something that we think that we can execute.

Sandeep Shah: Just a clarification; what we are saying is going forward our dividend distribution we would try to be close to around 80% of FCF (Free Cash Flow) after any acquisition if we plan, going forward?

Rajesh Gopinathan: I did not say that, in fact, I am not authorized, it is a decision of the Board. What I shared with you is that over the last six years our average distribution has been 80% and directionally we do not see any reason to step away from it.

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

Pankaj Kapoor: Rajesh, I was just wondering that if you look at your Top 15 or Top 20 of your accounts, in the last couple of years, have we been able to increase our wallet share of their total IT spend or you think that we have largely been able to just maintain it and maybe companies like the global consulting firms or even boutique firms they have been able to chip up because of the digital spend share going up?

Rajesh Gopinathan: Pankaj, we believe that we are among the largest global consulting firms. So that is something that we need to be on the same page on because I do not think a lot of the commentary makes sense. In our large customers, we have steadily increased share. I do not think there are many places where we have lost share.

Boutique firms, smaller firms in any given new era of technology, typically have a larger participation and as project sizes increase and as the project starts hitting the core systems, our relative competitiveness keeps on increasing. This is the natural progression in a technology adoption cycle and that plays out all the time. It has played out over the last few years and continues to play out. But our relative competitiveness from a large player perspective continues to increase as we look forward.

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

Ashwin Mehta: Just had one question in terms of wage hikes. Have you decided on the quantum of wage hikes for offshore and onsite and do you think it will be a normal cycle or there is a possibility of some spreading out of the wage hikes?

Ajoy Mukherjee: From wage hike point of view, I think it is going to be the normal cycle. For offshore employees, we have already said that increments that we are planning to give at this point in time is somewhere between mid to high single digits. I am not in a position to give you exact average across whole company because the increments are for various bands, for various skill sets and things like that. So it will be in that range.

As far as onsite is concerned, for overseas employees, it will be similar in the range of 2%-5% kind of an average, again, there are various factors that come in, which comes to countries and the skills, the units and business, budgets and plans that they have in place.

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

Ashish Chopra: Rajesh, you did mention about among the better-performing segments, about communications, that while you will be keeping a watch, it continues to do well for now. Just wanted to know your outlook on some of the other high-performing segments, where the commentary or the underlying vertical otherwise have not been that great. There has been pretty much cautious commentary around Healthcare by peers. And also what do you think about manufacturing and even E&U which had quite a standout performance?

Rajesh Gopinathan: On Healthcare, we probably have the most diversified portfolio and it is that strength and diversity that is really giving us the support as we continue to participate globally across all markets and across all streams in Healthcare including Pharma and Life Sciences and Healthcare per se. When we look at our pipeline and our participation, I think this performance is likely to continue into next year also. So we are quite confident about what we see in the Life Sciences and Healthcare space.

Energy Resources and Utilities, again, while it is a small base, we are seeing strong pipeline and strong participation. But given its small base, volatility if not unexpected, however, the offtake and the pipeline continues to be strong, a year before it was on a growing trajectory, last year it has done well and we see the trajectory strengthening as we go into next year.

Manufacturing, again, is more complex to call because it is a much larger spread, and as of now we are still quite positive about it.

From a service line perspective, Engineering Services actually delivered 17% YoY growth for the full year, and that actually has a lot of play on new product development, which is actually a good indication of what the downstream possibilities are. But it is a very wide industry - so very difficult to give a more generalized kind of comment about it, but we see a decent growth in that side also.

Similarly, Travel and Hospitality, that also has a good pipeline and we expect continued growth, in fact, strong growth in that segment also next year.

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

Ravi Menon: Had two questions here; first about the Retail vertical. You had a decline in Q2 but recovered well in Q3 which is a seasonally weak quarter for Retail. So I was really surprised to see another decline this quarter. Should we consider Q2 and Q4 as two separate client specific issues in Retail?

Rajesh Gopinathan: I would not entirely put it down to client-specific issues. As I said, I think while of course everything comes down to client-specific issues, but this is more structural in the industry and we are seeing financial stress building up in some of our clients which is likely to have impact on it as we go through the year. So if everything goes well, maybe we will not, but we want to be cautious about it because we see this industry going through its own pain as it repositions itself. The good news is that in all

of our customers, we are strongly participating in their digital spend. So Retail has been a forefront of adoption of digital and we have very strong participation in it. But aggregate spend itself is shrinking, and that is where the caution comes from.

Ravi Menon: Second question is about the fresh graduate trainee hiring. I thought you had 45,000 campus offers for FY'17 if I recall correctly and overall net hiring is still pretty high at 33,500. So is this due to high conversion offers or did you do a lot more off-campus hiring this year? It would be great if you could share what is the campus offer number for next year?

Ajoy Mukherjee: From a trainee hiring point of view, it is about 45,000 offers that we had given last year and then on top of that 39,000 is overall trainees which is not only engineering but it also includes our BPS services plus the kind of hiring that we do for our Ignite program where we have B.Scs., M.Scs. basically. So all that inclusive. So total we had 39,000 trainees joining us. Our conversion rate was very similar to what we had earlier. Initially towards the beginning of the year, conversion rate was pretty high. But by that time the whole year ended and the whole batching was done, the final conversion rate was very similar to what we had in the prior year. So that is as far as the total number was concerned.

As we go forward, I think instead of focusing on one specific number, I think let us look at the overall direction that we have set is that gross hiring as we did last year was 90k, which has come down to 78k and going forward we have said directionally it is going to come down and the total net intake also will be lower than what we have done this year. Now, the distribution between campus versus management versus chartered accountants versus B.Sc, M.Sc, there are too many variables at this stage. So I would not like to get into that discussion in this short period, maybe at some other point in time we can take that up. So I think let us leave it at a point that overall net is going to be lower than what we have done this year, and that is the directionally stated kind of plan that we have at this point in time.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, my question was basically on the overall growth rate for FY'17. So if I look at the vertical wise growth, excluding let us say Hi Tech which is a very small segment for us, there are only two verticals of significant importance which have demonstrated lower than company average growth, that is BFSI and Retail. So would it be correct to attribute that this lower than company average growth or probably the weakness to the fact that these two segments have more of B2C companies than B2B companies? And we were anyways expecting the adoption of digital technologies like analytics or cloud to actually start from B2C companies. So would it be correct to say that maybe because these two segments are actually adopting digital technologies much faster where we and other companies might not be getting that much amount of market share, that is why we are doing badly in the segments and other segments which are more B2B will probably catch up later with a similar kind of structural decline or would it be just too oversimplifying this entire numbers?

Rajesh Gopinathan: Not just oversimplifying, it is completely wrong one. So let me share some data points on it. Look at BFS over the last five years and compare our growth during this period where BFS has gone through a significant amount of transformation both in terms of adoption of digital as well as front office transformation and dealing with regulatory changes compared to some large comparable site peers or larger peers that we had. Our gap used to be in the range of on a quarterly basis about $1.5 billion on QoQ basis, now this gap has reduced to zero.

So on an incremental basis, our win rate has been far superior of any other comparable peer or peers that are much larger than us. So in an industry that is going through massive amount of transformation, investing significantly in digital, going through front office transformation, dealing with regulatory change, we have been able to actually increase our market share significantly.

Similarly, in Retail, while we publish our numbers, these larger competitors do not break out the numbers on a Retail side but from what we know and in the markets that we participate in we believe that we

have probably the highest market share compared to any of the others. In certain markets like UK we probably have a monopolistic status compared to the larger players. So it is a very wrong characterization that you have come about.

Vibhor Singhal: My question was not that we were losing market share to the large players or even global MNCs but maybe to the new technology startups or boutique companies which you have mentioned that they do gain market share in the earliest technology adoption cycle?

Rajesh Gopinathan: I do not think it is a question of market share per se but rather more in terms of like I said about retail. The aggregate spend is what is going down rather than existing market share. Our participation in our customers continues to be very strong.

Vibhor Singhal: But nothing to do with the B2B or B2C nature of the business as such, right?

Rajesh Gopinathan: Right, I would not say that at all.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of TCS, that concludes this conference call for today. 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.