Tata Consultancy Services Limited

Q2 FY11 Earnings Conference Call.
October 21st, 2010, 20:00 hrs IST (10:30 hrs US ET)

Moderator Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. Please note that for the duration of this presentation, all participants' lines will be in the listen-only mode. This conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing '*' and then'0' on their touchtone telephone.

At this time I would like to turn the conference over to Mr. Kedar Shirali, Director, Investor Relations at TCS. Thank you and over to you, Mr. Shirali.

Kedar Shirali Thank you, Melissa. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' financial results for the second quarter of fiscal year 2011 that ended September 30, 2010. This call is being webcast through our website and an archive, including the transcript, will be available on the site for the duration of this quarter. The financial statements, results presentation and press releases are also available on our website.

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

N. Chandrasekaran Hello, good morning, good afternoon and good evening, everyone.

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

S. Mahalingam Hello.

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

Phiroz Vandrevala Good day, everybody.

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

Ajoy Mukherjee Hello.

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

N. Chandrasekaran Thank you, Kedar. Hello, friends. It is a pleasure to connect with all of you to share the highlights of our Q2 results. In summary, it has been a very satisfying quarter and a quarter in which we achieved several milestones.

This is the first quarter where we crossed $2 billion in revenue and more importantly, our incremental revenue for the quarter is $210 million. In an environment which has been uncertain, not only were we able to see the demand recovery, but were also able to capture the demand and execute flawlessly. Volumes have grown about 11.2% -- again, a very very credible number.

In terms of the US market, our revenues exceeded $1 billion this quarter. All our verticals or industry segments have grown by double digits during the quarter and all our key markets namely the Americas, Europe, India and Asia Pacific have registered double-digit growth. So, it has been a very well spread out performance.

Then, in terms of operating margins, we have done very well improving operating margin by 86 basis points, and delivering growth at the operating margin level as well as the net margin level higher than the revenue level. On a year-on-year basis, the growth has been 25% in the revenue line and about 32% on the net profit line.

To talk about the deals, the pipeline has been very good and well-rounded. We closed eight large deals; two in Banking, two in Retail, one each in Insurance, Life Sciences, Government and Media sectors. In terms of markets, half of those deals came from the US and the remaining deals came each from different markets.

In terms of services, again, it has been an excellent quarter because most of our services have grown double-digit or near double-digit. Infrastructure Services has seen excellent demand and a great growth. Enterprise Solutions, which signals the recovery of the discretionary spend, has grown excellently, more than the company growth rate.

In terms of employees, again, our HR team has done a fantastic job of recruiting the highest ever gross additions: 19,293 employees. And even on a net basis, it is the highest ever addition.

Our pipeline looks very robust and barring the macro uncertainty that prevails, which we have to be watchful about, we are very positive and bullish about the demand environment and preparing ourselves for the future.

Those will be my initial comments. Now, I will turn it over to Maha and then later on, we can take questions.

S. Mahalingam Thanks, Chandra. Here are the headline numbers once again. We posted revenues of Rs. 92.864 billion which is a growth of 13% Q-on-Q and 24.9% year-on-year. In constant currency, the sequential growth was 11%. In dollar terms, the reported revenue is $2.004 billion which is sequential growth of 11.7% and Y-on-Y growth of 30.3%.

The break-up of quarterly revenue growth in INR terms is as follows:

Volume growth: +11.2%, Exchange: +205 basis points, Pricing: - 26 basis points, Total: + 13%.

From a margin perspective, we had a significant headwind in the September quarter from the promotions given in July. On the other hand, we benefited from a quarter-on-quarter currency movement, higher utilization and greater operational leverage arising out of our continued cost management in the face of good topline growth and therefore, we were able to expand the operating margins by 86 basis points quarter-on-quarter, to 28%.

The impact of different levers on the operating margin is as follows: Currency: +103 basis points, Impact of promotions and the additional variable payout: -166 basis points, Rate / productivity improvement: + 95 basis points. SG&A efficiencies: +54 basis points. So totally, +86 basis points.

Other income was lower this quarter due to a net foreign exchange loss of Rs. 537 million and the reduced cash balance after last year's special and other dividend payouts. Our effective tax rate was 18.95% giving us a net income of Rs 21,065 million, that is, a net margin of 22.68%, a 23 basis points expansion Q-on-Q.

Lastly, our DSO for the quarter was 78 days. Invested funds stood at Rs. 71.7 billion.

To conclude, we have had an excellent quarter, posting double-digit sequential growth even in a difficult global economic environment. Importantly, we showed that with customer focus, disciplined selling, full services capability and good execution, it is possible to achieve such high growth without compromising on profitability, or for that matter, cash flows. And this is what industry leadership is all about.

With that we can open the line for questions.

Moderator Thank you sir. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. The first question is from the line of Joseph Foresi from Janney Montgomery Scott. Please go ahead.

Joseph Foresi Hi gentlemen and congratulations on some nice results here. My first question is just on demand. Maybe you could just describe towards what is going on, a little bit more detail. Is this a catch-up? I mean obviously, the hiring numbers lead us to believe that you are expecting demand to be strong for a couple quarters going forward. What are you seeing in the environment right now and just what is driving the growth and the strength of it?

N. Chandrasekaran I don't think that it is pent-up demand. The way I would like to describe is that number one, we have made investments in different markets and different industries. All of them are picking up momentum and that is driving growth at one level.

And then, in our large customer segment, there are two things that we are seeing. One, every business is extremely focused on becoming efficient, which means consolidation of multiple ERPs; if they are having multiple core banking systems, they're moving to a single instance; or if they had done a lot of acquisitions in the past, wanting to bring it all together; or in the infrastructure space, if they had too many data centers, if they had too many servers, virtualization, consolidation – a kind of transformation initiative. So a number of things that actually are all related to bringing in efficiencies. Everyone is focused on that.

The second trend is every business definitely wants to grow. And every business we talk to in our customer segment has got a growth agenda. It is called by different names – some are focused on getting customer insights, some are focused on introducing new products faster, some are achieving growth through geographic expansion. So there is an initiative, there is a focus and all of this is resulting in kicking off of new projects and new initiatives. So we are seeing opportunities on both sides.

We have had a preliminary set of discussions with some our customers and while the full budget cycle is not complete, and we will have more data towards the end of the quarter, on a very small sample of dialogue that I have had, I think we are going to see an increase in spending next fiscal year.

Joseph Foresi Okay. And then just secondly, building on that, I guess with attrition rates tweaking up and the rupee appreciating here… the positive side is obviously, demand is very strong. What would be your primary concern heading into next year? Is it the labor supply, is it the movement in currency? What are you monitoring just make sure that things stay good as they are.

N. Chandrasekaran Three or four things. One is that definitely attrition is something we would like to see brought down and we are at about 14%. While from a statistics point of view, we probably have the lowest attrition in industry, but it is still a pretty large number and when we translate it into absolute numbers, it is pretty large. So, we are really kicking off a number of initiatives on employee engagement and we are focused on bringing it down. That is one area really of concern.

The second area is definitely currency and that is definitely a headwind. We were comfortable at Rs 46 to a dollar, and it has come down already. So that is an area we will continue to watch.

The third thing is we have been able to capture the demand very nicely and our teams have done a superb job of execution. The recruitment, fulfillment, kicking off of the projects, and executing those projects, all of this has worked together very nicely. As we scale, we need to continue to bring that engine to be agile, we are already demonstrating lot of agility, but to sustain the agility, what other tools that we can deploy, how we can really bring the organization to work together to capture the demand – that is something that we have to definitely watch out.

And fourth is the regulatory measures that are being talked about in different parts of the world, in the US in particular, and probably in some other markets; what kind of changes will come. And again we need to be watching that space and do things to adapt ourselves and make changes to our business model as we go along. So, these are probably the three or four things that we need to watch out for.

Joseph Foresi One last quick question. Europe did very well. Have you seen a full recovery there or is that the late cycle? Thank you.

N. Chandrasekaran I don't think there is anything called a full recovery. You know, that bit about "being watchful of the macroeconomic environment" is going to be repeated probably for the foreseeable future. We have said it in the past and we are going to keep saying it for the next several quarters, because it is not going to be a quick recovery.

But having said that, I think the demand side is very, very good and the pipeline is very strong and we are very positive here. And Europe, in particular, if I have to comment I think it has been slow, it lags behind the US, I think it will continue to lag behind.

Joseph Foresi Okay. Thank you.

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

Moshe Katri Hey, thanks. Congratulations on a very strong quarter. Chandra, can you talk a bit about some of the underlying drivers for the demand for some of the larger verticals at TCS? And then also maybe you can talk a bit about the pricing dynamics and whether we are going to start seeing any improvements in pricing down the road? Thanks.

N. Chandrasekaran I think as I said we have seen the recovery coming over the last few quarters steadily. And we saw the recovery in the financial services and that leading the growth. And last quarter, where we delivered very good numbers, we said that the growth is more well-rounded. But I think this quarter is probably the real perfect quarter in terms of well-rounded growth, because every single industry segment has grown double-digit. The broad themes in what I explained earlier – we are seeing both the efficiency related and discretionary related spend.

You talk about Financial Services industry, it will be like getting a single customer view, getting customer insights, whereas if I talk about Manufacturing industry, it will be more about getting a single instance ERP or doing a transformation by bringing ERP systems and the shop floor systems together. And if I look at Retail, there are a lot of optimization initiatives – inventory optimization, pricing optimization, mark down pricing, sourcing optimization… there are a number of things that retailers are doing and then a lot of interest in getting consumer insights and how to use the latest technology like social networking. Those things have not kicked in yet, but those are things that the retailers are talking about.

Also, there is a broad interest in getting optimization on infrastructure. Whether it is consolidating data centers, whether it is optimizing servers, virtualization, and that is across industries primarily, in Retail, Manufacturing, Hi-tech industries. If you take Life Sciences and Banking there is a lot of compliance. There is ICD 10 compliance in Healthcare, there is Basel related compliance, there are number of compliance related initiatives in Banking and Healthcare companies.

So, I think the broad theme is efficiency and initiatives of growth. But when you go down to the industry and the individual segments, how it pans out is different. And I gave you some examples. Hopefully, that clarifies.

In terms of pricing environment, I had mentioned in the last call that we will probably see a pricing uptick, end of this fiscal. The reason for that is we were seeing the demand environment improving and growth coming back and certainly, the volume growth this quarter has been more than what we would have anticipated about four, five months ago. And so the recovery has been pretty strong and when that happens, I think you should definitely see an uptick in pricing. All of it may not reflect in the immediate quarter, even if the pricing uptick comes in end of the fiscal, it is not going to reflect in Q1 pricing, it will have a lag effect but I'm pretty positive that it is going to be around that time, that we are going to see some pricing uptick.

Moshe Katri Just a final question for Maha. You are exiting this quarter with another record margin level. Can you talk a bit about some of the levers that are still in the model and obviously, the biggest risk here continues to be currency. Maybe you can go over some of the traditional lever points that you mentioned in the past and give us a good feel of that?

S. Mahalingam From a revenue perspective the levers that we have are the volume, which is being delivered. The pricing, as Chandra said, is not factored in internal calculation anywhere. Of course the productivity improvement is something that we have pushed quite a lot in this quarter it has manifested itself through the utilization. And we will continue to monitor that fairly carefully. Exchange is another factor which has worked in our favour in this quarter. But of course, as we go to the next quarter currently, rupee is at an appreciated state, so there will be some issues with regard to that.

So if I take the revenue drivers that I talked about, obviously, the business momentum is reasonable – I am not saying that this can be repeated and so on, but there is a reasonably momentum. So, that will hopefully be able to give us some sort of advantage.

On the cost side, we have always emphasized, we do not want to cut down costs, which will hurt us, and therefore, we are not doing anything with regard to that. But certainly the cost structure that we have, could support this kind of revenue as well as hopefully somewhat higher and therefore cost management to deliver higher revenue would always be our priority as we go along. These are essentially the cost drivers. Currency headwinds are something that we need to worry about at this point in time, but other than that I think we are reasonably all right from a cost management perspective.

Moshe Katri Thanks, Maha.

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

Ashwin Mehta Hi sir, congratulations on a good set of numbers. Two questions: one is in terms of our cash flow from operations. For the first half of this year, they seem to be lower than the first half of last year in absolute terms, despite our EBIT margins actually showing a 35% jump. If you can just highlight what were the reasons for that?

S. Mahalingam The pattern is not a very disturbing one, mainly because as far as accounts receivable is concerned, it has remained at the same level. We are dealing with higher accounts payable at this point in time and therefore you see that aberration, but the manner in which we monitor this area is to ensure that our collection come as close to the billing as possible in a quarter. And therefore, the accounts receivable is kept at a manageable level and we have been able to do that even with the growth perspective. So, this is the answer that I can give you because when you compare the first half of last year and the first half of this year there are some differences and as I said, this is something that is not a disturbing phenomenon.

Ashwin Mehta Okay. And secondly, in terms of rentals in the cost of revenue, that seems to have fallen off pretty sharply from almost Rs 146 Crores to almost near Rs 79 crores. What has been the reason for that?

S. Mahalingam That is from the rationalization that has taken place in this quarter but that is not going to persist going forward. It will go back to a somewhat higher level.

N. Chandrasekaran It is a factor of multiple things also. Also that which projects move out of the rented facility which goes into owned facility, etc., there are a number of factors there.

Ashwin Mehta Okay. I just notice that for the last three quarters it has been in the Rs 140 Crores range and it has fallen off to near Rs 80 Crores in this quarter.

S. Mahalingam As I said, it will increase beyond what is currently showed in this quarter and this is not a sustainable one.

Ashwin Mehta Okay. Thanks a lot and congrats again for a good quarter.

Moderator Thank you. The next question is from the line of Edward Caso from Wells Fargo. Please go ahead.

Edward Caso Thank you for taking my call. Could you help us understand your exposure to the United Kingdom market, particularly, the British government?

N. Chandrasekaran The total UK revenue as a percent of the overall revenue is about 15.3%. We have about three or four contracts in the government sector. One of them is a large contract, all the others are not so large. All those projects are going on intact and there is no restraining of those projects.

Edward Caso Can you talk a little bit about how you would respond if legislation appears in the United States to move towards a sort of 50/50 model where half your US-based workforce would have to be Americans?

N. Chandrasekaran See, this whole 50/50 bill, we need to see what final form it takes, ok? No point in conjecturing what is going to be the final form of the bill. All I can tell you is that we are aware of the bill and we are following it very closely. What form and shape it is going to take is something that we need to watch, and based on that we can share at that point in time. It is very difficult to conjecture at this point in time.

Edward Caso Last question. Have you seen vendor consolidation over the last two or three years? And are you benefiting from that or are you seeing your client starting to expand their roster of vendors again?

N. Chandrasekaran We are continuing to see vendor consolidation and we are a significant beneficiary.

Edward Caso Congratulations.

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

Mitali Ghosh Thank you and congratulations on a brilliant quarter. Just wanted to understand the demand trends a little bit more. We have already discussed it on the call, but two things. One is in terms of the pace of addition to the pipeline. Would you say that that has accelerated throughout the quarter? And secondly, are there any trends to look at in terms of whether there is more demand for integrated deals? And between existing and new customers, any kind of trends?

N. Chandrasekaran Mitali, thank you. In terms of the demand pipeline, I would not say it is accelerating throughout the quarter; all I would say is that it has come to pre-crisis speed. It is very normal and deals are coming, customers are wanting to close the deals and then move forward, ramp up, etc., all those things are happening as we used to do before. That is the comment I would make. Then with regard to – what was your second question?

Mitali Ghosh Integrated deals and any trends between…

N. Chandrasekaran Deals are coming from existing customers as well as new customers. It is fairly distributed. And in smaller companies, we are seeing integrated deals. And in larger companies we are seeing specific service-based deals.

Mitali Ghosh Right. And secondly, in terms of the sort of longer-term growth going forward, it has always been an issue with the industry whether this kind of linear growth is sustainable – maybe you could just call out some of the investments that you are perhaps making and how the business models might change over the next few years?

N. Chandrasekaran I want to make two points, Mitali without sounding too optimistic or guiding you to be extremely bullish. Two points. I think on the current base that we have, to do a volume growth of 11.2% is itself extremely difficult, credible, you can say whatever word you want to say, because it is a large base but we have been able to do that. So to that extent, I think as long as you are focused and you are able to work the engine in a very cohesive manner and a collaborative manner, I think we see opportunities for growth.

In terms of the future, the non-linear initiatives have to kick in. We are investing heavily in intellectual property. You are fully aware of the kind of investments we have made in the banking sector. We have the deepest as well as the broadest portfolio of offerings and intellectual property in the banking space. We have made similar investments in the Insurance space, including the cloud model for Life and Pensions. We are making selective investments in Retail, selective investments in the Government space and in the Healthcare space. Across the board, we are making investments in building intellectual property.

We are building BPO platforms and all of them are operational and we have pilot customers and customers are happy, the model is working, we just need to scale and it takes time, because it is a business model change for the customer. It is not something that the customer is already doing with somebody and then taking it out or he is doing it himself and you are taking that over. This is a business model change. Whenever there is a business model change for the customer then it takes time.

The third one is our cloud offering in the small and medium segment which we are about to launch in a big way in India. So we are making all those investments. We are making investments in mobility significantly, in predictive analytics, in supply chain, and then we've started creating tools in the social networking and social media space. So, these are all the areas we are making investments.

Mitali Ghosh Okay, thanks. And just finally a quick question to Maha on a couple of housekeeping things. One is in terms of the hedge position, if you could update us where that stands. And any guidance for tax rate this year and next year? And the CapEx spend you are looking at?

S. Mahalingam As far as the hedge position is concerned, we have very little at this moment in time. It is more of the order of about $500 million or so, and this is really on the receivable side. We have not taken any fresh hedges on the revenue side.

We will see how situation works. While we have sounded very cautious as far as the exchange rate is concerned, it is all driven by what has happened in the last couple of weeks. Once the extent of inflows of the recent past get over, we might even go back to slightly depreciated rupee and therefore we do not really have any hedges that we have taken as far as the revenues are concerned.

As far as the tax rate is concerned, I made a small error when I said it was 18.9%, it is actually 17.3% - that is the effective tax rate that we have. And this year as I had said earlier, it is going to be somewhere between 18% and 19%; we think it will play out in that fashion. We have had tax rate of 17.30% last quarter, so it is somewhere in that range.

And next year we will see how that turns out because many of the STP units come off and we will have to see what kind of issues that arise out of any of the budget provisions. What is the third…?

Mitali Ghosh CapEx.

S. Mahalingam CapEx, we are on course. We have talked about Rs 2,200 Crores as far as this year is concerned – we are on course for that.

Mitali Ghosh Okay. Thank you very much.

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

Vihang Naik Hi, I just had one question. Over two years we have seen our employee base, which is greater than three years in experience, go from 52% to 61%. What is your view on this? And does this remain a significant lever for margins going ahead?

N. Chandrasekaran We would ideally like to increase the bottom of the pyramid. I do not know whether it is a significant lever, but it is a lever. And it will be a gradual one. We will not do something overnight which is detrimental to delivery.

Ajoy Mukherjee You should also see that 61% of three-plus years experience workforce from the point of view of our employee retention. The significant number of trainees that we had, and that we added a couple of years ago, who are three plus years of experience at this point in time, reflects the retention schemes that we have.

Vihang Naik Over the same period, we have rationalized SG&A very well and excluding depreciation, it is around 16.7% of revenues. How do we see this going ahead? Will you be able to manage with a constant absolute level SG&A at these levels?

S. Mahalingam We have talked about our cost management program, the direction. See, the thing is, what we can do is to essentially make sure that the percentages are controlled. In certain areas like travel, software for internal use as well as communication there will be a certain addition that takes place in the cost. And in the other areas, we are trying to make sure that it does not really go up, because the cost structure is already fairly well-defined and we should be able to maintain at this level.

So, certainly, you have seen that in the recent past we have kept the absolute amount around to same level but as I said, there are some costs which will go up but equally we will be applying cost management to control the other costs.

Vihang Naik Okay, great. Congrats on an excellent quarter once again. Thanks.

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

Nitin Padmanabhan Yeah, hi, thank you. Congratulations on a great quarter. I think it is difficult to hazard a guess in terms of how much incremental revenues you can add in a quarter. My question is with regard to your earlier statement about being a significant beneficiary from vendor consolidation. My sense is that…so much growth coming in and we basically surprising every quarter…how significant has vendor consolidation been in the overall scheme of things? If you could just give some sort of color on that…

N. Chandrasekaran I cannot give you a percentage, Nitin. I cannot say that the vendor consolidation has driven the growth. That is definitely not the point I am making. All I want to say is that whenever in our accounts we have seen vendor consolidation, we have been on the winning side. That is the only point I was making, because our presence in our accounts are pretty deep and that helped us and that generally has been excellent.

I think the fundamental things, that is execution and delivery, has been rock solid and that is what is the foundation on which we build everything else and we will continue to focus. That is why whether it is a pyramid, whether it is utilization… a lot of questions about utilization: are you pushing up the utilization to improve the margins? Answer is no. When we say 83.8% is the utilization, it is not that we are keeping the utilization very high to improve the margin. It is primarily to capture the demand and also to execute the project start. When there is such a surge in demand, when we are adding a lot of trainees, you got to make sure that you put enough experienced people so that the project teams are formed and execute very well. So it is more driven by that particular behavior and obviously it does help on the margin side, etc., So I do not see the utilization getting overheated or anything like that. I think the short answer to your question is that it is not vendor consolidation that has driven all the growth.

Nitin Padmanabhan And in terms of incremental deals that are out there, in terms of the pipeline, are what you would have seen a quarter back and what you are seeing today significantly better?

N. Chandrasekaran I do not want to say it is significant or anything, but it is better.

Nitin Padmanabhan It is better?

N. Chandrasekaran Yes.

Nitin Padmanabhan Sure. And just one last question. With regard to attrition, would you be of the view that at some point you would probably have to give a second round of hikes, would that be a possibility?

Ajoy Mukherjee No. At this stage we are not considering that as far as this year is concerned. Our model is that we pay based on the company's performance through a variable scheme and that is what we use and as you know, this quarter we have announced 150%, that is 50% additional, as far as the particular quarter is concerned.

And in the last quarter we had given 100% and in Q4, we had actually given 125%. And last year in three quarters we had given additional variable, 50%, 50% and 25%. So that is the model that we are using at this point in time.

N. Chandrasekaran Our payment is based on the company performance and while we have committed it is 100% that we will continue to increase and based on how well we do.

Nitin Padmanabhan Sure, fair enough. Thank you.

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

Sandeep Shah Yes, sir. Just a question on the pricing – with the discretionary demand coming back and growth seen across verticals, maybe existing client pricing, as you have commented, may kick in from the later half of the FY11, but are new clients already coming at a higher than the company average?

N. Chandrasekaran While I tend to say yes, the amount of revenue from new clients is far significantly lower for it to make any meaningful impact.

Sandeep Shah Okay. But the acceptance of higher rates by new clients is now not a struggle?

N. Chandrasekaran Yeah.

Sandeep Shah Okay. And just on the discretionary spend, would you like to define how it has been different in US versus Europe?

N. Chandrasekaran Most of our growth and revenues are coming from US, as compared to Europe. And UK is about 15.3% and Continental Europe is about 9.1% of the overall revenue. And I would say that Europe lags behind the US.

Sandeep Shah Okay. And Maha, in terms of pricing, this quarter the offshore shift is not so high. And we have a discretionary spend on the services, which are also growing, and we have a cross-currency. But the pricing we have said has been almost like 0.26% down. What is the reason for the same?

S. Mahalingam Yeah, like I said, pricing is going to be constant.

N. Chandrasekaran Can I add one line on that?

S. Mahalingam Yeah.

N. Chandrasekaran Sandeep, I would say that one of the factors which I have been extremely happy with is the fact that we have been able to maintain our offshore leverage in a high growth environment. When you see this kind of a growth, to maintain offshore leverage at the high level is itself credible, because there is a lot of pressure to stop projects, and we have stopped a lot of projects and we have created the onsite transitions, etc. To that extent we have had to move some of the existing contracts offshore to maintain the overall offshore leverage. So, improvement on this kind of volume growth is probably a little bit unrealistic. And pricing has largely been flat. I do not think there has been any drop or anything. I would view the pricing as pretty much flat.

Sandeep Shah Okay. Thanks.

Moderator Thank you. The next question is from the line of Anurag Purohit from Alchemy. Please go ahead.

Anurag Purohit Good evening, gentlemen, and congratulations on a very good quarter. Most of my questions have been answered, but if you could throw some light on how the demand for TCS e-Serve is shaping up, especially because last few quarters have been very good for the company.

N. Chandrasekaran TCS e-Serve continues to do well and they have got good number of clients and the ramp up is happening. So we are quite bullish about our Financial Services BPO offering.

Anurag Purohit In terms of beyond Citigroup, has there been any significant client addition in terms of size?

N. Chandrasekaran See, there have been a good number of clients outside the Citigroup, in fact the growth is coming from a number of clients outside the Citigroup.

Anurag Purohit Sure. And one final thing, on a data point perspective, this is second quarter that bad debt provisioning has declined. Do you think that further G&A leverage from this respect is still available?

S. Mahalingam No, no, these are all specific events that take place during a quarter and so on. So certainly it is not appropriate to take this as a sustainable one.

Anurag Purohit Sure. Thank you and all the best.

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

Rahul Jain Yeah, congrats on a good set of numbers. I just need to understand with the kind of strong business traction we are witnessing in the last few quarters, how do we see it the current momentum different from the what we used to see a couple of years back?

N. Chandrasekaran Cannot give any color on that. Cannot give any specific color on that.

Rahul Jain Okay. And just another one. As we have been noticing that we have been scaling quite well on Gartner's international retail core banking space and there has been a very strong improved positioning over the years. Can you throw some more light as we are seeing good deal wins in the European market in that space?

N. Chandrasekaran Yeah, I think our banking product i.e. Bancs has done exceedingly well, both in terms of the analyst rankings and also real deal wins and delivery. We are seeing tremendous traction, not only for the core banking but also for products like market infrastructure, custody products, securities, payment solution and insurance products. We are seeing very good traction and I think we are very positive about the business opportunity for Bancs.

Rahul Jain Okay. That is it from my side. Thanks a lot.

Moderator Thank you. The next question is from the line of Srivatsan from Spark Capital. Please go ahead

Srivatsan Hi, just wanted to understand if contract restructuring wherein incumbent MNC players have been there displaced has a big role in the kind of deal wins you have been having in the last two quarters. If we could just look at TPI data, it suggests that a lot of the incumbents are losing, especially on deals that they held historically and Indian vendors seem to be winning. Is that a trend you are seeing big in the market?

N. Chandrasekaran See, I think I cannot specifically comment on that because somebody like TPI will have more data, so I will also depend on the third-party analyst reports. We are there in the deals we are there, but there are many companies with many customers so we do not have a holistic perspective. So we also depend on the third-party data for that. So I would go by the third-party research reports. We look at multiple reports, but they are in a better position to comment on that than I.

Srivatsan But in terms of TCS deal wins, is there a fair share of restructured deals that you are winning?

N. Chandrasekaran Yes.

Srivatsan Okay. Sure. Thanks a lot.

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

Ashish Chopra Yes, good evening, sir. Sir, just had the one question in terms of the margins. As you said, currency would be a major headwind. Assuming that the currency stays in the band of 44 to 44.5 in the coming quarters, how is our broad outlook on the margins as compared to the margins made in this quarter?

S. Mahalingam I would not be able to give you the specific answer to that but certainly margin will reduce. Beyond that, the extent of reduction and so on, we expect for that every percentage point, it will be somewhere around 40 basis points impact…some of those calculations are still valid.

Ashish Chopra Okay, sir. That is it from me. Thanks.

Moderator Thank you. The next question is from the line of Sandeep Aggarwal from Antique Stock Broking. Please go ahead.

Sandeep Aggarwal Hello sir, good evening. Congrats on a very good quarter, excellent quarter. Sir, I have just one question on the India revenues and also, I am seeing that India and Europe are outperforming all other geographies, particularly India is doing significantly well, and particularly the cloud thing coming into that. What is your view on that? I want to just have some more clarity on that side.

N. Chandrasekaran India business has done well this quarter. But in the past, several times I have talked about India business where our challenge is primarily the volatility, wherein we have seen growth in one quarter, then, drop in the next quarter etc,.

In the last few quarters, to some extent we have seen a steady growth. And I would like to wait for a few more quarters before I can say that we have got the business model by which it is going to be consistently growing.

And in terms of cloud, I think it is early days. We have launched our offerings but it's very early days and the revenue number you are seeing is not from cloud offerings. That is something that we will have to wait for some more time.

Sandeep Aggarwal Thank you.

Moderator Thank you. The next question is from the line of Dipen Kapadia from Proactive Universal Group. Please go ahead.

Dipen Kapadia Congratulations on the quarter. Geography wise is you are expanding in China. What role does China play in the long run? And how much difference would it make to our margins?

N. Chandrasekaran See, we are very small in China both by revenue and by headcount. It is too small today for it to make any difference. I think it is going to be quite a long time before we can talk about material impact on a quarterly revenue basis or on a margin basis. But at this point in time, all I would say is that we are keen that we grow there faster, much-much faster than what we are doing now and we have a long way to go. So, I do not think that we should worry about it now.

Dipen Kapadia Okay. One more point is do we feel that utilization and margin have peaked or do we see some more betterment coming in from the next quarters?

N. Chandrasekaran On the utilization like I said, as long as there is a very strong demand, the pressure on utilization will always be there. We have gone up to 83.8% of utilization in spite of the addition of 19,293 people gross. So, that is because when there is a strong demand environment our utilization will always go up. There is no deliberate effort to push it to 85 or 86 or anything like that. We will be recruiting and we are trying to be efficient, but we are not trying to push it. On the margin front, I think

Maha has made all the comments and we are not able to comment at this point in time.

Dipen Kapadia Okay. Thanks a lot.

Moderator Thank you. Ladies and gentlemen, due to time constraints, we will take one last question from the line of Pranav Tendulkar from Brics Securities. Please go ahead.

Pranav Tendulkar Sir, I wanted to ask about SG&A details, SG&A cost. The bad debt provisions have been decreasing from Q1 FY11 and Q2 FY11 from Q4FY10. Any reasons for that?

S. Mahalingam We follow a very clear policy in terms of collecting and so there is no pattern or there is nothing unusual about it.

Pranav Tendulkar Okay. So will this be reversing in the coming quarters?

S. Mahalingam Essentially, it is a question of whether we overprovided earlier to take it out now. No, of course, if you see the pattern we have been providing and so on and we make always attempt to collect even after we make the provision because it follows a certain principle.

Pranav Tendulkar Okay. Thank you.

Moderator Thank you. I would now like to hand the floor back to Mr. Kedar Shirali and the management for closing comments. Please go ahead sir.

N. Chandrasekaran Thank you. In summary, I would like to thank all of you for the confidence in TCS and also for listening to us today in this call. The results have been very very good from our point of view, and we see the demand environment picking up quite strong. We are getting all our engines aligned to capture the demand and to respond to the market situation. Those are the final comments I would like to say and thank you very much.

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

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