



Tata Consultancy Services Limited

**Q1 FY17 Earnings Conference Call.
July 14, 2016, 19:00 hrs IST (9:30 hrs US ET)**

Moderator:

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

Kedar Shirali:

Thank you, Karuna. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the First Quarter of Fiscal 2017 ending June 30, 2016. 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 Sheets and Press Releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr. N. Chandrasekaran -- Chief Executive Officer and Managing Director; Mr. Rajesh Gopinathan -- Chief Financial Officer; Mr. Ajoy Mukherjee -- Head of Global Human Resources.

Chandra and Rajesh will give a brief overview of the company's performance followed by a Q&A Session. As you are aware we do not provide specific revenue or earnings guidance and anything said on this call which reflects our outlook for the future or which could be 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 also e-mailed out to those who have subscribed to our mailing list.

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

N. Chandrasekaran: Thank you, Kedar. Good Morning, Good Afternoon and Good Evening to all of you. We have started the Fiscal Year 2017 with a very good US dollar revenue growth of 3.7% on a sequential basis which translates to 8.1% on a year-on-year basis, adding \$155 million of incremental revenues during the quarter – the highest in the last seven quarters.

In rupee terms, the revenue growth was 3% QoQ and 14.2% on a year-on-year basis. The sequential constant currency growth was 3.1%.

Moving on to Margins, we mounted a very good margin defence this quarter, holding the operating margin at 25.1% and the net margin at 21.6%. While Rajesh will detail out the numbers a little bit more later, I would like to talk a little bit about the business.

Growth was well rounded this quarter across segments. As in the past, all growth figures I mention here are in constant currency and represents sequential quarter-on-quarter growth.

Demand was led once again by spending on a couple of themes: efficiency-led initiatives as well as Digital adoption. The latter manifests itself in different ways in different industries, while some themes are turning out to be common across industries.

Take the Internet of Things or IoT as an example. We see enterprises investing in IoT in three distinct and yet similar ways -- Connected Products, Connected Production Systems and Connected Customers.

TCS is working with the leading automotive OEM in building a Connected Customer platform which will provide a uniform customer experience across car families and regions, and also provide new services like Remote Start/Stop, Lock/Unlock Services. In the future, this platform can be expanded to enable advanced driver-assist systems and personalized infotainment.

We are helping a leading air-conditioning company to significantly improve the efficiencies of their chiller systems using the IoT platform that incorporates the TCS Sensor Data Analytics framework.

For a leading retailer, TCS has developed an IoT based perishables-tracking solution that monitors the Quality, Freshness, Location and Shelf Life through its supply-chain, enabling stores to make decisions using realization-time data.

For another leading retailer, TCS has developed a Connected Consumer Solution enabling automated grocery ordering through seamless connectivity with a smart fridge.

So the point I am making is that we are seeing the concept of connectedness play out in multiple dimensions.

Second, Cloud adoption to drive business agility is another common theme we observed across industries such as Manufacturing which grew 3.1% and Energy and Utilities which grew at 7.4%.

In the Communications and Media vertical which grew 7% in this quarter, the theme has been one of front office transformation across Digital Marketing, Customer Journey Management and Channel Transformation.

Enterprise Big Data platforms were a common theme across multiple industries like Life Sciences, Healthcare as well as BFSI. Compliance spent was another factor in BFSI. For example, we have been engaged by a large bank in UK to provide KYC and FATCA Solutions and develop the credit risk architecture for their functional transformation.

If you look at the key wins this quarter, we signed nine large deals which were all very well distributed across seven verticals -- two each in BFSI and Retail and one among other sectors like Manufacturing, Life Sciences, Technology, Travel, etc.,

From a geography perspective, the growth was balanced across regions led by a strong 8.5% sequential growth in India. UK and Europe grew

3.8% and 4.6% on a quarter-on-quarter basis. It is good to note that Europe continues to grow better quarter-after-quarter for the last four quarters.

In terms of key deals signed this quarter, North America accounted for 4 of the 9 wins, we have 2 wins in UK and one in Europe, Asia Pacific and Latin America.

Moving on to our Service Lines, we had a strong growth in Enterprise Solutions which grew 6.7%, Engineering and Industrial Services which grew 7% and Infrastructure Services which grew 5.4%, reflecting the themes that we have been saying in terms of front office transformation in terms of IoT and Cloud playing a big part.

Revenues from the Digital engagements made up 15.9% of our overall revenues, up from 15.5% last quarter.

As you could see from the examples I gave, our investments in frameworks and intellectual property, be it TCS BaNCS or Omni-store or TCS iON, continue to benefit us in multiple domain where customers value the time-to-market advantage and the result and competitive edge the TCS solutions give them.

In June we completed one year since the launch of ignio™, our neural automation platform for IT operations in enterprise. I have been periodically updating you on the ignio™ every quarter - it is gaining good traction in the marketplace, especially with large enterprises and typically, Fortune 500 companies. This quarter also, we closed many deals including four with Fortune 200 Corporations.

A significant milestone we achieved this quarter is ignio™ is now live in production environments and starting to deliver concrete business benefits to five customers.

From a client metric perspective which is the one which I stress on in every quarter, I am quite happy with the footprint. Repeat business from existing customers, expanding the scale and scope of our engagements,

quarter-after-quarter and year-after-year is the ultimate validation of the quality of our services and the value they see in partnering with TCS.

Our client metrics capture the number of clients in each of the revenue bands during the period. Comparing those with the previous periods is a measure of how quickly customers are moving up the revenue bands.

During the quarter, we added 4 clients in the \$50 million+ revenue band, 6 clients in the \$20 million+ revenue band and many more at the \$5 million+ and \$1 million+ band. The progress is even more spectacular when viewed against the same time last year.

Now let me talk about people.

In our April call, I had described the massive skill transformation we are going through, supported by big investments in talent development. At its core is the Digital Learning Platform that empowers employees to define their individual learning paths and acquire new competencies using the high quality content available in any place, any time and over any device.

These investments and increased employee engagements have shown rather dramatic results. Attrition on an LTM basis has come down another 220 bps this quarter to 12.5% in the IT Services space.

During the quarter, we added 17,792 employees on a gross basis and 8,236 employees on a net basis, taking up the closing headcount for the quarter to 362,079 employees.

In conclusion, we had a good start to the fiscal year in a quarter when momentous events were taking place in a very volatile world, with potentially profound consequences on national economies and businesses.

When events like Brexit happen, it is sometimes tempting to draw intuitive linkages between the business performance and larger macroeconomic consequences. We want to watch how Brexit plays out. It will have implications and what kind of implications it has on financial

institutions, whether they are global financial institutions operating in the UK or national financial institutions in the UK or regional ones based in Europe and operating in UK, the implications can differ.

I hope those implications not only present challenges but also some opportunities. We are very closely working with our customers at this point in time. We are unable to be very specific in terms of what kind of implications are. Things looked as if they would not move fast at all, but we have a new PM, which was not anticipated until October. So things can change. We need to watch these developments very-very carefully before we assess what kind of risks it poses to our business growth in the short-to-medium term.

Our approach has been to listen to our customers and work with them even more closely, as we navigate our way through these choppy and unpredictable waters as far as the macro is concerned.

I will leave it at that and now hand it over to Rajesh for him to give more details on the numbers.

Rajesh Gopinathan: Thank you, Chandra. Let me go through the headline numbers once again; in the first quarter of FY 17, our revenues grew 3.1% Q-on-Q on a constant currency basis. In rupee terms, we had a cross currency impact of 10 basis points resulting in a reported revenue of ₹ 293.05 billion which is a sequential growth of 3% and year-on-year growth of 14.2%.

In US dollar terms the cross currency impact was a positive 60 basis points resulting in reported revenue of \$4.362 billion, a growth of 3.7% Q-on-Q and 8.1% Y-on-Y. The constant currency growth of 3.1% had a volume growth of 3.4%.

Moving on to the operating margin, Q1 is the quarter where we take the impact of our annual wage hikes, which had an impact of 200 basis points in our margins. Currency had an impact of 20 basis points. Disciplined cost management and overall business performance

improved margins by 1.2% point resulting in an overall operating margin of 25.1% which is a sequential decline of about 98 basis points.

Net income in the first quarter declined 0.4% and ended at 21.6%.

Our effective tax rate for the quarter was 24%.

Our DSO improved by 1 day to 79 days.

Net cash from operations was ₹ 58.7 billion which is 20% of revenues.

Free cash flow was ₹ 52.6 billion.

Invested funds as of June 30th stood at ₹ 319.4 billion.

The Board has recommended an interim dividend of ₹ 6.50 per share, a payout ratio of 24.3%. With that we open the line to Questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: The only area I guess bit of a concern was Financial Services. Chandra, a couple of questions there: Were the growth rates any different between BFS and Insurance? Secondly, was this just a broader impact of the macro or were there any particular sort of pockets which created this relatively slower growth?

N. Chandrasekaran: Largely macro, Anantha. There has not been much of a difference between BFS and Insurance.

I cannot really point out to specific one-offs from a segment perspective or a geography perspective or line of business perspective. I would broadly put it down to the environment. So we have to watch how it plays out. I feel that it will be good to have clarity in terms of what the implications could be for the different players, because if there is a lack of clarity, then people may tend to hold on to their discretionary projects.

That is something that we got to be careful about. So we are staying very close to customers. That is the commentary I can give you.

Anantha Narayan: When you look at your various segments currently and besides say areas like Diligenta or Japan, are there any pockets which you think can contribute to revenue growth acceleration over the next year or two or will any acceleration if any just be more broader based?

N. Chandrasekaran: The area where we continue to watch is Japan which has been continuing to degrow. Our hope is that it will settle down sometime this year. Apart from that, there is no specific market to say that we have a headwind. But having said that, some markets like Latin America which are flattish this quarter did extremely well in the previous quarter. So I feel that there will be growth market volatility, but I expect them to be positive growth rates and not de-growth.

I hope India also plays out accordingly. So some of these emerging markets or developing markets when they grow high in one quarter, the growth rate may come down from that level in the subsequent quarter. That is the kind of volatility I expect, but I have nothing else to comment from a market perspective.

Anantha Narayan: Any similar comments on the industry segments? Service line I assume Digital will be a big driver.

N. Chandrasekaran: Positive thing for me in this quarter is that while BFSI has grown 1.7%, if you look at majority of the sectors - whether it is Telecom, whether it is Life Sciences, Manufacturing, Utilities, Energy, Travel, they have all posted fantastic growth rates. So we find that those sectors will continue to do well, they have a good momentum. That is the way we look at it. I am also happy from the Services point of view, Infrastructure has already been doing well. On top of that, Enterprise Solutions and Consulting, after several quarters of softness, has also picked up.

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

Ankur Rudra: Chandra, just want to know, if in the quarter did you see any impact on either the pipeline conversion or creation due to the Brexit-related uncertainty before the vote - compared to what you were expecting at the beginning of the quarter, so any surprises... positive or negative?

N. Chandrasekaran: To be very fair, I have not seen an isolated case of a big engagement or anything, but frankly, I must say that I would have liked stronger performance in BFSI.

So definitely some of the growth that should have come, may be in packets, but nothing client-specific, no large deals or large engagements-specific, obviously, has shown in the results. But I have spent enough time in the last 3-4-days to try to see I can draw any correlation between Brexit and type of a customer... a global client or a national client or a regional client. I do not have patterns, and I do not have anything specific to offer. That is why I am just restricting to the comments saying that we have got to watch this and how the BFSI plays out going forward.

Ankur Rudra: One of the potentially surprising things about your result was the very strong performance in UK and Europe versus the somewhat softer performance in the US. Was this a manifestation of the BFSI weakness or are we reading too much into the relative growth rates?

N. Chandrasekaran: At this point in time, it is very difficult to have split; it is no big correlation at this point.

Ankur Rudra: You have been mentioning for the last few quarters that you are proactively altering your business model for lower visa dependence, which I guess makes sense perhaps through local hiring, near shore presence, etc., Can you elaborate on what broadly you are doing and whether we should expect some margin impact of this for the business in the next few years?

N. Chandrasekaran: We have a model by which we are leveraging a) our global delivery centers, b) we are increasing our local hiring significantly. In fact, even

last year we were a top hirer in almost all the markets in which we operate – a very significant amount of hiring.

The third thing is that we are also depending on external contractors. This is the model in which we operate and of course we have offshore leverage and all the other parameters that we use to drive efficiency. We have also focused on attrition management.

So on the one hand, we will change the resource mix and there is a cost implication to that. On the other hand, we are using all the levers that we have to arrive at the right model and attrition control is also a big lever, because that adds to margin.

So we are executing, I would say, with a lot of discipline and that will be required when we go through this model transformation in a smooth way. That is why we have given a margin band of 26-28% and our intent is to try and stay in that band.

Ankur Rudra: Many of your peers have been highlighting the use of automation a lot in their commentary. I was wondering if you could share how many of your large customers, let us say, top-50, top-100 customers, demand the use of automation when renewing deals and do you think this will have any impact on your margins?

N. Chandrasekaran: Ankur, I think it is fair to say that we deploy a significant amount of focus on automation. We do Robotic Process Automation at one level and at another level, go beyond procedural automation and get into Insights-based automation which essentially means that you get responses based on analytics and based on the data, not task-based automation. We have ignio™ for some situations but there are other automation tools that we use.

The reason I did not mention anything about that is it has to become large scale. We do hundreds of engagements across customers. It is not a question of whether the customer has demanded. We are very proactive. We engage with customers on the BPS side, the Infrastructure side and the Application Transformation side. Even in things like cloud

migration, we deploy lot of tools. So we bring a fair amount of automation, but it is not industrial scale yet. That will take time.

So when you see the industrial scale adoption, not only adoption but also the ability to do that at a higher level - not just at the procedural automation level - that is when you will see benefits.

Ankur Rudra: You had shared your revenues from several of your platforms last year this time. If there is any update you can provide?

N. Chandrasekaran: We gave out annual numbers - we have not given sequential numbers at the quarterly rate. So I think it is fair to expect that we will share it once a year or something, because the size of the business is so small that there is no point in giving those numbers on a quarterly basis.

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

Diviya Nagarajan: Two questions here: Your growth has been fairly boosted by Europe and UK in the last couple of quarters and I know it is very early to comment on the implications of the referendum impact, but if you were to look at a scenario where Europe starts slowing down and that impacts revenue, do you think that you have enough levers that you can use to offset that in the key markets especially US, will that happen in this fiscal or do you think that is unlikely to happen in the next three quarters?

N. Chandrasekaran: Diviya, I think it is kind of a question that is very specific on a quarter, but actually you got to see these things from multiple quarters perspective, because when you are looking at annual growth rate it comes from all markets and in fact generally we have been doing well across markets except the 2-3 emerging units even last year. I have given enough commentary on that and enough has been written about, enough questions have been asked about it.

Specifically, to your question, I would not go down the path basically because our growth is fairly broad-based. If you look at the industries, it is fairly broad based and they are across markets. BFSI is something

that we will watch out for, but otherwise if you see other industries, they are fairly broad-based and they are all global businesses and growing in different markets.

Diviya Nagarajan: Rajesh, good to see you reiterate your guidance band from 26% to 28% for margins, but the currencies definitely moved adversely especially if you look at the GBP move. How do we offset this? Could you run us what your key levers are going to be for the medium-term as well as this currency impact?

Rajesh Gopinathan: The currency is a significant headwind and typically what we have said is that in the short-term, extremely volatile currency movements are outside of what we have.

So you need to look at it from the perspective of the trajectory of improvement that we are talking about, primarily from a business perspective and any structural breakdown of any major currency would of course be outside of that kind of a band.

Diviya Nagarajan: So, if the currency moves at the GBP rates that we are today, I would assume that the margin band still holds?

Rajesh Gopinathan: We would need to relook at what the impact is. As Chandra said Brexit is the big unknown at this stage. How it plays out, what its impact will be, both on the demand as well as on the cost side needs to be better understood. Once we have a better feel for it we will give a give color on that. But yes, that is an exceptional event that needs to be treated like that.

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

Sandeep Muthangi: I think the low attrition numbers are phenomenal. This is a time when we are hearing companies struggling to re-skill employees and firing employees, so this is just a phenomenal number. Great job on that. I had two questions: My first question is on the Infrastructure Services. It has been growing pretty strongly and even this quarter the growth is very-

very strong. I just want to get some insight into this; is this more of the market share gains from the old school legacy Infrastructure Services guys, premium price guys to offshore guys or is there some element of companies moving to the Cloud and that also leading to strong demand for the Infra Services. Any insight would be very, very useful?

N. Chandrasekaran: Sandeep, I would say there is strong momentum in cloud transformation. There are a number of engagements including a deal that we won this quarter which is the largest public cloud migration that is being done for an enterprise. That is just one. We have just signed that contract, so including that, there are a large number of engagements where we are involved in Public Cloud, Private Cloud, Hybrid, On-premise, Off-premise, Cloud with application migration which may or may not involve direct fitment into Cloud, but sometimes it will involve going into a SaaS platform...a large variety of engagements.

Cloud has to be looked at as a big transformative theme not only from infrastructure point of view although it is driving a significant amount of infrastructure opportunities, but also it has implications on higher ends of the stack.

Sandeep Muthangi: As you have highlighted with other services also, elements of Digital are trickling down into Infra, trickling down into Enterprise Solutions, etc., but I think we as analysts also are hobbled by the fact of seeing this ADM growth being very weak and expecting this Digital growth to sort of impact ADM in a positive way. Is that a wrong expectation to have because Digital is now in lots of other services. Basically, I want your color on seeing whether there is any expectation around this ADM growth to improve because Digital Services are becoming larger and larger, or is it that there are lot more elements that Digital impacts and this ADM growth may not improve?

N. Chandrasekaran: I think that depends on how you look at it. If there is an application portfolio that goes into a SaaS platform as part of the Cloud transformation, then it will be seen as an Enterprise Solutions engagement rather than a pure application rationalization engagement. Those kind of things will happen. So it depends on how it plays out. But

suffice to say that all engagements will start to have Digital components sooner rather than later.

We have got to look at how we view the Services portfolio - do we report it the same way that we report today or we simply go into a much sharper couple of service lines. That is something that we are internally debating and that is something that we got to address.

Sandeep Muthangi: In terms of general margin pressures around the pricing and some of the Automation-related issues also, are you seeing any change compared to the past couple of quarters just in terms of margin headwinds?

N. Chandrasekaran: If by pricing pressure, you look at whether some competitors are bidding [irrationally], yes, that pressure is there. That has been there for some time. We have answered that question before, and we do face that.

It is a question of how we respond. It is very important for us to maintain our discipline and then do it in such a way that we can execute the engagements both from a delivery perspective and also from a financial perspective. I think there are enough deals and we are continuing to win. So it is a fact and also it is something that is not a concern.

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

Sandeep Agarwal: Chandra, I have 2-3 questions for you, they are all related. First, on the Application Development side, we see very muted number and I understand that this question has been already asked in a different way. But what I would like to ask here is that we have 40% concentration here and if this 5% kind of constant currency growth comes in, will it not impact our overall growth or are we getting it compensated in that through Digital in some other verticals? So, I am not asking for a specific number, but just your thoughts on that. Secondly on the Communications side, it has now come out very strongly in this quarter. So will you call that it has already bottomed out in the previous quarters or you think that this may be a temporary thing and we may not see the same trend or would you like to be more optimistic on that front? Finally

on the IMS side, what we are doing so differently that the growth is so much. Is it only Cloud momentum led growth which is coming or you are seeing something else like is the re-bid market getting stronger? So, these are my questions on the revenue front. On the margin one, simple question, we are not seeing significant increase quarter-on-quarter, Rajesh, on the employee cost in spite of hike. So, can you explain that part, why it has not gone up?

N. Chandrasekaran: On the first set of three questions, I would say that please do not take it as a Q2 or Q3 answer, but if you look at the next couple of years ahead I think that in general, any dip you see in pure ADM service line will get compensated by Digital revenues definitely for the replacement as well as for growth. That is the way I look at it.

The second question that you asked was with regard to the Communication industry. I think the communication industry has bottomed out last quarter but there will be volatility in growth rate, if it is 7% growth rate this quarter on CC terms, what will it be next quarter I do not know. But I can say that I think we are quite positive about the sector.

The third question was with regard to Infrastructure. I think our Infrastructure business is pretty comprehensive. Definitely, it is a combination. We are winning a significant number of Cloud engagements and we are also winning re-bid engagements. So I think it is a combination of both. That is what is driving growth.

Rajesh Gopinathan: Sandeep, for us employee cost is 80% of our cost. So whatever happens on the margin front, the final impact that you will see is on the employee cost and vice-a-versa. If you do not see it on the employee cost, nothing is going to happen, because that is where the bulk of the pie is.

Now if you look at what all are the levers, it is a combination of business and operational levers. Our higher-margin service lines and geographies have delivered better growth this quarter, Enterprise Solutions has done well as Chandra said, Europe, UK all the developed markets have done well. Similarly, Digital is increasing in its margin profile.

On the operations side, the impact of attrition is fairly direct on the employee cost side. Typically most of the attrition happens from people who are in currently billable jobs, and when you replace them, there is a period of transition where the billing goes down. So each of that will reflect finally in the employee cost as a ratio of revenue improving or declining.

Somebody mentioned this earlier in a question - automation typically is a net margin positive lever which again results in the same thing. The employee cost as a ratio will go down. Each of these is incrementally adding to it. Nothing specific to point out in.

Sandeep Agarwal: Can you quantify the impact of hikes if any?

Rajesh Gopinathan: We said 200 basis points.

Moderator: Thank you. The next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.

Yogesh Aggarwal: Just a couple of questions: Firstly, Chandra any comments on the pickup in Enterprise Solutions. So, is it led by SAP or certain parts of the business or it is broad based?

N. Chandrasekaran: I think it is a combination of SAP, Oracle and other such platforms.

Yogesh Aggarwal: So, most of the enterprise platforms are picking up?

N. Chandrasekaran: Yes.

Yogesh Aggarwal: Just a clarification: Rajesh, earlier when you were on TV, actually there was a confusion on the margin band. So, can you just reiterate your view on the margin outlook going forward?

Rajesh Gopinathan: Yogesh, our target operating margin band continues to be 26% to 28%. We are currently at 25.1%. We have had a good quarter, a good trajectory, and the intent is to try to drive profitable growth to get us back into that target band.

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

Sandeep Shah: Chandra, just the first question is on BFSI. Just looking at BFS, earlier we were positive about the growth outlook for BFS entering into FY17. Looks like from your comments, you are not happy with the growth which you might have anticipated versus what has come. So, is it the cut in the change the IT spend or is it the cut in the run the IT spend, what are the nature of the slowdown in the BFS you are witnessing?

N. Chandrasekaran: I don't think the issue is whether I am happy or not. All of you will agree that in a first quarter where we have done 3.7% dollar growth, we would have expected a little bit more growth in BFSI.

The other, positive, way to look at it is that despite the 1.7% growth in BFSI we still managed to deliver a very good growth of 3.7%.

But specifically coming to BFSI per se, as I said, I think there was a question earlier, I think from Anantha or someone, where I clearly articulated that there is no specific engagement or a customer where I have seen a cut due to the macro environment, which I can quantify.

We have tried to find correlations, but there are no correlations at this point in time. There is some softness in terms of what we should have captured and where it is, but our pipeline looks good. I have been in touch with the customers and so far, there is no negative news. But we will watch this very very closely -- what it means for ramp ups, what it means for decisions, what it means for their own businesses... because it will play out in weeks and months. Hopefully we will get much more clarity sooner than later. If uncertainty prevails, if it gets into an uncertainty mode, then people will switch to a let us wait for some time, let us not commit... that kind of situation. We do not want that to happen, so we will see.

Sandeep Shah: Chandra, if we look at the start in terms of the constant currency growth for the start of the year, it is one of the lowest both in terms of actual constant currency growth and the volume growth in the last 7-years. So,

do you believe at the scale at which this could be a new normal or do you believe there could be a change in a strategy where we are at a point where we may have to be a little flexible on pricing, get the more wallet share and try to make the margin more flexible by doing or accelerating our strategy on the automation at the backend?

N. Chandrasekaran: No, we have always said that it is very important to pursue profitable growth. We have defined our profit segment, our target profit band and we have been operating in the band. It is our intent to operate in that band.

I do not subscribe to the theory that “You drop margin and capture growth or you drop growth and capture margin.” It is a question of capturing growth *and* margin. I have a very strong view about that, based on the data points and based on the track record, based on what we have been able to deliver.

We are *not* shying away from investments. Every investment that is needed, whether it is in terms of talent development, talent hiring or in terms of intellectual property development or in terms of partnerships or in terms of building our own frameworks, design work spaces, design studios...across the board, we have been very focused on making investments in all the Digital technologies and domain capabilities to leverage Digital. We are not shying away from any one of those, those investments will continue. That is the approach we have.

I do not agree that you can blindly drop prices to capture growth. I don't think there is a pressure [to do that].

Sandeep Shah: In terms of Brexit, you also said that besides challenges there could be opportunities. Can you throw some color in terms of what kind of these opportunities which can come?

N. Chandrasekaran: We look at it this way; Brexit impact will play out in two stages – during the process and thereafter. Even if you take just the Financial Services industry, there are three types - companies which are Europe-based, UK-based and global companies... all these companies operate.

Whatever is the outcome from Brexit – in terms of access to the single Europe market or free movement of people or any of the other negotiation outcomes between UK and EU, it will have different implications for these companies. If this takes a prolonged time, people who want to do certain things may want to hold on to that decision-making. So, that will create slowness on the one hand.

On the other hand, when the decisions are made, there will be rule changes, there will be different reportings, there will be systems that need to be separated, and there can be all kinds of opportunity that will come out of it because it is a different entity and will need different kind of reporting, sometimes different regulator. All these kinds of things will throw opportunities.

So we need to anticipate the challenges as well as opportunities. The only way to address it is to stay close both what is happening in terms of policies, the rule changes as well as individual customers and how they are thinking about it.

Moderator: Thank you. The next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: This was with regards to the attrition which has come off in the past few quarters. Just trying to understand from you most of the industry players are essentially saying that they will reduce their hiring and focus on improving productivity. So how should we be reading this trend on attrition -- do you think this is also an indication of the industry as a whole looking to hire lower number of employees or you would credit this entire improvement that we have seen on this front to the measures that you have taken over the past several quarters?

N. Chandrasekaran: I have spoken about this at length in the last quarter. I said our gross hiring this year will be significantly lower than the hiring last year; last year gross hiring was almost 90,000+. That number will significantly be lower this year for a variety of reasons.

Primarily I gave three reasons – one, definitely attrition management. We had embarked on a process of increasing retention significantly and you are seeing the benefits of that already. For example in Q1 of last year, we had a gross addition of more than 20,000 people and a net addition of about 5,500. This year same quarter, we have 17,000+ gross hires and almost 9,000 people net addition. I think it is a very dramatic shift, which we are very proud about, happy about. That has implications on hiring as well as margins, both on the positive side. We are pretty happy about that.

Second dimension is our business model. As visa regulations change, we will use a combination of hiring and third-party resources, etc., so we need to see how it plays out.

The third point is automation and productivity. That is something that we have embarked upon. There will be definitely impact hiring in the BPO space as more and more Robotic Process Automation happens, and tools like ignio™ on the Infrastructure management space and other automations which are not procedural but more insights-driven automation...we are doing lot of pilots.

When all these things become main stream – I would not say that the third leg will impact immediately in Q2 or Q3 – it will have an impact over a period of time. Net-net, as I said last quarter, I can only reinforce that *our* headcount addition will be lower.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: In your media interview, you talked about Digital revenue contribution grew to 16% in Q1 from 15.5% in the last quarter. How many employees as a percentage of total workforce would be Digital or Cloud ready for TCS?

N. Chandrasekaran: We have said that the total number of people who have gone through our Digital training using our platform is 165,000 people.

Shashi Bhushan: So, nearly 50% are ready for Digital and Cloud?

N. Chandrasekaran: It is much more than 50%, because in our workforce you need to remove the BPO staff. Out of 360,000, there is a lot of BPO staff as well.

Shashi Bhushan: Can you give some more color on your training program, how long it is and is it like online curriculum that you have prepared for this?

Ajoy Mukherjee: Training programs address different segments. We have smaller segments which are awareness kind of modules to much more detail segments with hands-on and virtual labs where people can experience, people can do different kinds of things.

So, depending upon the needs, we have different kind of training modules. Most of it is delivered digitally but they are modules which are delivered in classrooms or on multiple sites delivered from one specific location.

Shashi Bhushan: Did you see any change in the spending patterns especially in Digital in the last 2-3-weeks due to Brexit?

N. Chandrasekaran: We have not observed any specific trends yet.

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

Dipesh Mehta: I just want to get sense about weakness in Japan business. If you can help us understand what is happening there?

N. Chandrasekaran: I have said that one is that we are going through a transition to the TCS delivery model. That is taking time. Also, the Japanese economy is not doing well. They have just downgraded their GDP growth by more than half. So, I think we need to look at that.

But growth in Japan even by our own estimate is at least a few more quarters away, I hope that it will settle down and create a stable environment sometime this year.

Dipesh Mehta: In Japan, just getting better sense about, because of weakness in revenue performance, we see implication on margin as well in that particular business?

N. Chandrasekaran: It is both.

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

Ravi Menon: Chandra, you had spoken of how gross hiring will be materially lower this year. But, it looks like that has happened in overseas hiring over this quarter, but not for lateral hires. So is demand a little stronger than you had anticipated earlier?

N. Chandrasekaran: The way to look at it is that the trainee addition will pick up in Q2 typically.

Ravi Menon: Some more color would be great on the Enterprise Services and Consulting. You spoke of how this is SAP, Oracle plus other things, but is this SaaS implementations as well or this is SAP, Oracle maintenance?

N. Chandrasekaran: No, when you look at the Consulting side, there is a lot of Digital strategy involving customer journeys in the consumer segments, cloud strategy across the board, then Digital marketing. Many of those kinds of engagements are driving the Consulting revenues. Enterprise Solutions growth is mostly from transformative engagements which are falling out of some of these opportunities that we are discussing.

Ravi Menon: Then similarly on Engineering and Industrial Services, what sort of projects is driving this high growth?

N. Chandrasekaran: Engineering and Industrial Services is a combination. There is traditional revenue, a lot of design work we do across disciplines - whether it is Automotive, whether it is Utilities and so on and so forth. Now we are seeing a significant traction in IoT. A lot of IoT engagements, some leveraging our own framework ie the TCS Sensor Data Analytics framework. It is not only happening in Manufacturing and Utilities and asset-intensive businesses, it is also happening in industries like Retail

where we are linking DCs and stores and getting lot of sensors to emit data that provides visibility to supply chain, etc.,

Ravi Menon: It looks like when we are adding lower number of freshers for this year, we would be looking at the pyramid kind of starting to bulge a year or two down the line. So this would have a negative effect on margins, right, because pyramid is one of the traditional levers that we keep talking about. So what do you think can help offset this?

Ajoy Mukherjee: Last year we had given offers to 40,000, so this year the number of trainee hires will not be lower, trainee hires will be there.

N. Chandrasekaran: So the trainee hires this year is not slowing down, we have already given offers to 40,000 trainees last year, who will be joining this year.

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

Mukul Garg: Chandra, just two questions: First, you mentioned that you have won a large Public Cloud Migration deal and a few other deals in the Public Cloud side. So are you now seeing the work in Public Cloud overwhelming what is happening on the Private or Hybrid Cloud side?

N. Chandrasekaran: No, it is a mixed bag. There are some types of applications that customers are willing to put in public cloud. There are other applications that customers want to have in a private cloud. There are certain industries and there are situations where there is customer data involved...when there is customer data involved, people are more comfortable with a private cloud. Some people prefer on-premise, some people prefer off-premise... I think it is a mixed bag in terms of the trend and also what the customer is comfortable with. Sometimes, it has a regulatory implication as well.

I was very surprised - in one of the Asian countries, they were very uncomfortable moving to a Public Cloud, than what I saw in the West. So, we are not able to find patterns yet.

Mukul Garg: Second was just a clarification, impact on Brexit. So in case visa free movement is not allowed between UK and continent, will that result in TCS increasing their hiring in the Continental Europe?

N. Chandrasekaran: That does not affect us because we do not have people moving between UK and Europe.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

N. Chandrasekaran: Thank you all for joining us for this conference call. To sum it up, I will just make a few comments: One is, overall we are happy with the footprint of the metrics from an overall growth, margin, then the different business segments, the Digital revenues, the employee metrics, all of this together it is a good metric.

Definitely, the BFSI growth metric is low. But the macro being what it is, we have to watch how Brexit, the US elections, all of these things will play out going into the subsequent quarters of the year.

Third, we see a serious adoption of Digital from a front office side, from a Cloud – both the Infrastructure and the Applications layer -- side and for B2B businesses also from an IoT and Analytics perspective. In many sectors, we are seeing growth being driven by incremental business we are winning on the Digital side.

We believe that our employee retention is an absolutely fantastic metric to have arrived where we have arrived. We will continue to keep the focus and ensure that we leverage on all the investments that we make, because we are making significant investments for our employees. So it is very important that we connect the two.

Those are the final comments I want to make. With those words, I want to thank you again and will see you either during the middle of the quarter or next time.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of TCS, that concludes this conference call. 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.