



Tata Consultancy Services Limited

Q4 and Full Year FY16 Earnings Conference Call April 18, 2016, 19:00 hrs IST (09:30 hrs US ET)

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the TCS Earning 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 4th Quarter and Full Year of Fiscal Year 2016 ending March 31st 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 Sheet and Press Releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr. N Chandrasekaran -- Chief Executive Officer and Managing Director; Mr. Rajesh Gopinathan -- Chief Financial Officer, Mr. Ajoy Mukherjee -- Executive Vice President & 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 risk that the company faces. We have outlined these risks in the 'Second Slide' of the 'Quarterly Fact Sheet' available on our website and 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 ended the fiscal year 2016 and Q4 on a relatively stronger note. For the quarter we have delivered a robust volume growth of 3.2% quarter-on-quarter which is very impressive for a seasonally weak quarter. That resulted in a constant currency revenue growth of 2.1% Q-o-Q and rupee revenue growth of 4% Q-o-Q and USD revenue growth of 1.5% Q-o-Q.

Our operating margin during the quarter was 26.1 at the operating level and the net margin was at 22.3%.

For the full year, constant currency revenues grew by 11.9%, an incremental revenue addition of \$1.83 billion. Volume growth was 12% over the prior year while the constant currency realizations were flattish.

In INR terms our revenues crossed a trillion rupee mark this year clocking Rs.1.086 trillion, a growth of 14.8% year-on-year. The reported USD numbers on the other hand were severely distorted by a cross currency impact of 4.8% resulting in USD revenue growth of 7.1% year-on-year.

Coming to the Margin, we had the gross margin of 43.9% and the operating margin for the year of 26.5% was well within our preferred range of 26% to 28%. Net margin for the year was at 22.3%.

From a client metrics point of view, our customer-centric business model and our philosophy of investing in building newer capabilities to continually broaden our participation in our customers' IT spending has paid us rich dividends. Our client metrics continue to be outstanding.

During the quarter, we added 3 more clients in the \$100Mn+ revenue band, 8 in the \$50M+ band and 17 in the \$10M+ band.

For the full year, we added 8 more clients in the \$100Mn+ revenue band bringing the total to 37. And in the \$10Mn revenue band, we added 37 clients this year, bringing the total to 298.

Let me now give you some color on how our various segments performed.

Given the severity of the currency-induced distortion, I'll stick to only constant currency numbers in the rest of my commentary tonight.

In Q4, growth was led by BFSI which grew 3.2% QoQ. Clearly, the weakness in Insurance is now behind us and even Diligenta is bottoming out.

Three other verticals -- Retail, Manufacturing and Energy & Utilities -- also grew above the company average during the quarter.

Geography-wise, North America grew by 2.4% QoQ, Continental Europe by 3.6% QoQ, India by 2.2% and MEA by 9.5% QoQ.

From amongst our Services, growth came from Asset Leveraged Solutions, Engineering & Industrial Services, Assurance and Infrastructure Services.

For the full year, growth was led by strong performance by BFSI which grew 11.7% year on year, an acceleration over the prior year's growth. Excluding Insurance, our Banking and Financial Services business grew 14.8% year on year.

Besides BFS, another five verticals -- Retail, Manufacturing, Life Sciences and Healthcare, Energy & Utilities and Travel & Hospitality -- grew above company average growth in constant currency terms.

Geography-wise, growth was fairly well-distributed, with smaller geographies like Latin America, Asia-Pacific, Middle-East and Africa showing higher growth.

From a Services perspective, growth was led by Asset Leveraged Solutions, Infrastructure Services and Assurance.

In terms of demand, we signed seven large deals this quarter which were distributed across six verticals; two in Banking, one each in Insurance, Manufacturing, Healthcare, Hi-Tech and Media.

Geography-wise, North America accounted for five of the seven deals and of the remaining two, we had one each in Continental Europe and United Kingdom.

If we step back and look at what have been the broad drivers of demand for our services, we can put them into three broad categories -- Digital Adoption, the Quest for Efficiency and Simplification. All the three are interlinked but of these, customers are most excited by the possibilities opened up by Digital Technologies and are investing big time. Their Digital programs are now well established and progressing well. The scope and size of programs are continually increasing.

Revenues from Digital Engagement grew in double digits Q-o-Q and made up 15.5% of our Q4 revenues. For the full year, Digital revenues made up 13.8% of revenues, crossing the \$2 billion mark, a growth rate of 52.2% over the prior year. Within the Digital stack, our Digital Marketing and Mobility revenues crossed the \$1 billion milestone in FY 16.

Over 52% of our clients have engaged us for Digital Services and in many key verticals, we are the primary Digital partner for our large clients in those verticals. Many investments made over the last several years have helped us achieve this level of trust.

Let me now spend a couple of minutes on these investments: We firmly believe that there are only legacy technologies and not legacy people. Our response to technology change has always been to invest in re-skilling our people. This is how we adapted when mainframes gave way to client-servers and client-servers gave way to web technologies. Now, as digital adoption proceeds we are once again in the midst of another

transformation of our work force. Only this time the scale, the complexity and rapidity of change are of a different order of magnitude. Digital is not any one technology or any one particular skill. To be relevant in the Digital era we need soft skills, design skills, multi-technology skills and most importantly, strong domain skills.

We are responding to the challenges of the Digital revolution in a couple of ways – first, we are hiring individuals with the right, in fact very diverse – sometimes niche – skills, quite different from our historical preference for engineers. This has resulted in very rich, multi-disciplinary teams that can examine design problems from very different viewpoints and deliver very creative outcomes.

Second, we have fundamentally re-imagined our approach to talent development. At the center of this new approach is our Digital Learning Platform, an integrated ecosystem that combines virtual, physical and experiential learning with high quality content available anywhere, any time and on any device. The platform offers courses on 400 different digital tools, platforms and skill sets and allows individuals to pick what they need to learn and learn it the way they can and they want and to the depth that they require for their particular role.

From a push model we have now moved to an employee-centric pull model which is more in line with the demand for the Digital era and also the millennial mindset. Feedback from our employees has been immensely positive and outcomes have far exceeded our expectations. In FY 2016, we were able to impart over 349,000 competencies to over 120,000 plus employees.

There is another transformation that is underway at TCS today which is even more fundamental to our delivery model. In the Digital era, where customers are investing in leveraging these new technologies to transform themselves and gain competitive advantage, speed is of the essence and agility is key.

Consequently, new projects use Agile development and DevOps by default and we are systematically driving Agile adoption across the company.

We have successfully demonstrated that the globally distributed delivery model can significantly leverage Agile, and have plenty of instances of successfully delivering very large programs using Agile/ DevOps in our Global Network Delivery Model framework.

For one European telco we delivered a program with over 90% global leverage out of the 13 global locations. For a US Financial Services client, we used Agile delivery with over 80% global leverage using 14 global locations.

These kinds of engagements entail a different style of working and we have invested in building very collaborative workspaces required for this purpose in our development centers.

A big part of the success we have had in the Digital space has been on account of the industry-specific innovation that we have been able to develop and proactively offer to our clients. Some of you who visited our Executive Briefing Center last month in Mumbai have seen live examples of how we have leveraged Digital technologies to help our clients in different industry verticals to reimagine their businesses.

These solutions are conceptualized and designed through collaboration between domain experts and the technology experts at our various innovation centers. These groups are now working on emerging areas like block-chain and frictionless access in Banking, in-store experience and multi-node supply chains in Retail, connected cars and predictive maintenance in Manufacturing, genomics and medical devices in the Life Sciences area.

Then there is a foundational research where a core Research and Development team is focused on emerging areas like metagenomics, materials, machine learning, cognitive computing and so on.

In addition, we look for innovation from outside TCS as well. Our Co-Innovation Network (COIN) is a very scalable program to tap into the innovation pools within academia and the startup ecosystem.

In the startup universe, we have cast a wide net, screening over 1400 startups from across the world after detailed evaluation, we have engaged with around 38 of them to do a couple of things; either go jointly to the market or in some times integrate their solutions and products into our overall solution for the client or into our products.

The other important area I should talk about is the Design Studio and our investment in the Executive Briefing Center. The other model we are following is one of co-innovation with our customers. To facilitate this, we have invested in building co-innovation work spaces. One such facility is our Digital Reimagination Studio in Santa Clara, staffed with top notch talent from across the globe. These creative-led multi-disciplinary teams work closely with our customer teams, applying the principles of design thinking to ideate, develop and even prototype creative digital solutions to our clients' business problems.

Likewise, the Executive Briefing Center that some of you have seen at our Banyan Park Campus in Mumbai is another such work space where we not only showcase many of our on the ground digital solutions, but also collaborate and co-innovate with our clients on new ones.

The fifth form of investment we are making is in building our own Digital Intellectual Property. We now have a portfolio of Digital products and platforms, some in the technology space, some targeting horizontal functions and others which cater to industry-specific needs.

Last year around this time, I had spoken of our seven Cloud platforms and how they had crossed the \$100 million mark in terms of annual revenue run rate. This year, those platforms have delivered \$172 million, a growth rate of 37% year-on-year.

iON Assessments continues to be on a roll, crossing a major milestone this year. As of March 31st it had assessed more than 50 million

candidates including 7.7 million in Q4 and delivered 88% reduction in turnaround time.

Chroma, our HR platform to enable next-generation employee experience is gaining good traction in the market. In FY 16, it was adopted by four clients including one in Q4.

TAP, our accounts payable platform also did well, winning five clients this year including two in Q4. Our Integrated Urban Exchange and our Customer Intelligence and Insights Products both had a win each in Q4.

In June last year, we launched Ignio, the world's first neural automation system for IT operations and enterprises creating a brand new category that we call "Services as a Software".

With its cognitive capability, ignio is technologically ahead of other automation products in the market. We have filed 24 patents around ignio till date, and have some more in the pipeline.

ignio has proven itself in very diverse customer environments using its context other capabilities to deliver incredible result even in use cases quite different from the usual Infrastructure Maintenance Services. For example, for a US-based Financial Services client, ignio have been able to compress the time taken to run proactive anti-health diagnostics from 4 hours to 10 minutes. For another client, ignio has been able to streamline the employee onboarding process which used to take several days to complete it in less than 2-hours.

This has generated a lot of interest amongst clients and prospects. Since the launch we have signed up 16 customers for ignio.

In addition to the horizontal platforms and technology products we have also invested in building a portfolio of industry-specific Digital products and platforms.

Our advanced Digital merchandising suite, Optumera, is showing good promise with two leading retailers adopting this product in FY 16, including one in Q4.

Likewise, TCS Advanced Drug Development product is transforming the clinical trial process for our customers. Today, three out of the top 10 pharma companies are using this software product. In FY 16 we had seven wins in this area, including one in Q4.

TCS HOBS, our comprehensive pre-integrated suite of hosted OSS/BSS applications and pre-modeled business processes is finding good traction with 16 clients using its various modules till date. In FY 16, we had six new client wins for this platform including one in Q4.

From a people front, we have ended the year with 353,843 employees, adding over 90,000 employees on a gross basis and over 34,000 employees on a net basis.

Attrition rate continues to be on a downward trend; Q4 attrition on a LTM basis has come down further by 60 bps Q-o-Q to 14.7% in IT Services.

For FY 17 we have announced wage increase of 8% on the average and going up to 12% for top performers, for employees in India. In other geographies, the increase ranges from 2% to 6%.

Further, we have done away with the bell curve for forced performance ranking. Performance ranking is now based on individual performance.

With all our investments and training increased employee engagement and implementation of employee-friendly practices, we expect further improvement in employee satisfaction and retention levels in FY 2017. The improved retention and increased productivity should also result in reduced overall hiring next year. In addition, we have worked on Automation of many of the engagements that we are doing.

So we expect about 32,000 trainees to join us from the campus offers made in FY 16. Any other lateral addition will be very calibrated, but I can tell you it will be a much lower figure compared to FY 16.

Equally, we are focused on reducing our dependency on work visas through increased local hiring and leveraging of the global delivery

network. This April, we have applied for only a third of the work visas that we had applied for in the prior year.

We have taken in a significant number of local recruits in all markets, including from university campuses. Today, we believe we are one of the biggest recruiters in the markets in which we operate, particularly in the United States.

When we look at FY 17, while we do not give revenue or earnings guidance there are a number of business trends that give me great confidence.

First, we are witnessing dramatic acceleration in Digital spending by customers. Their focus is now shifting from the pure front-end work of prior years to a tighter integration with their existing application stacks. With speed to market being critical, our scale and Digital capability position us very strongly to become the preferred Digital partner for more and more clients and win a disproportionate share of their incremental spending.

Second, large segments of our business – BFSI, North America and Continental Europe – have shown very good resilience and have grown very well in Q4 with a good exit, building up strong momentum going into FY 17.

Third, all the major headwinds from the same time last year, be it Diligenta, Insurance or Japan have all softened, in fact, Latin America has actually turned the corner and has done very well during the last couple of quarters and India has also done well reasonably this quarter.

Lastly, our order book is looking good and our deal pipeline is strong. Customer metrics are looking excellent. Our Digital platforms are gaining customer traction and are in a growth mode. So all in all, we are well placed to deliver a strong year in FY-2017.

Before I conclude, I wanted to make a brief statement on the adverse jury verdict from the recently completed trial in a law suit filed against

TCS by Epic Systems in the Court of Western District Madison, Wisconsin.

We want to reiterate that TCS did not misuse or derive any benefit from any of the documents downloaded from the Epic Systems user web portal. We have already issued a press statement. As the case is with the court, we would not like to make any further statements as far as this particular case is concerned.

This is something that I wanted to share with you and conclude my speech.

Over to you, Rajesh.

Rajesh Gopinathan: Thank you, Chandra. I will quickly just go through the headline numbers once again before we turn it over for questions.

In the fourth quarter, our revenues grew 2.1% Q-o-Q on a constant currency basis. In INR terms we had a cross currency benefit of 1.9% resulting in reported revenue of Rs 284.486 billion which is a sequential growth of 4% and a Y-o-Y growth of 17.5%.

In USD terms, cross currency impact was (-60) basis points resulting in a reported revenue of \$4.207 billion which is a Q-on-Q growth of 1.5% and a Y-o-Y growth of 7.9%.

The constant currency growth of 2.1% is made up of a volume growth of 3.2% and realization impact of (-1.1%).

Our full year revenue for FY 16 was Rs 1.086 trillion, a Y-o-Y growth of 14.8% in INR terms. In US dollar terms our revenue was \$16.545 billion which translates into an annual growth of 7.1%.

Our constant currency revenue growth for the year is 11.9% which is made up of a volume growth of 12% and a constant currency flattish realization (-0.1%).

While our incremental revenue on constant currency basis is \$1.83 billion, the reported incremental revenue is \$1.1 billion, with cross currency movements during the year erasing nearly \$750 million of our revenue.

At the operating margin levels, these currency movements resulted in a benefit of 0.6% mitigating the 1.1% increase in expenses mainly towards our various investments. So overall our operating margins are at 26.1% for the quarter and at 26.5% for the full year.

Net income for the fourth quarter stayed flat at 22.3% and for the full year net income margin declined 0.6% Y-o-Y to 22.3%. Our effective tax rate for the year is at 23.6%.

In cash flow terms we ended this quarter with cash from operations of 22.5% and overall cash from operations of Rs. 64.1 billion.

For the full year net cash from operations amounted to Rs 233.8 billion which is 21.5% of revenue and free cash flow was Rs 214.2 billion, a growth of 17% Y-o-Y.

After paying out Rs 95.15 billion in dividends during the year, our invested funds as of March 31st is at Rs 329.3 billion.

The board has recommended a dividend of Rs 27 bringing the total for the year to Rs 43.5 per share, a payout ratio of 42% on our consolidated profits.

With that we open the line for Questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Two questions for you Chandra. In your earlier remarks on CNBC, you talked about having the leeway to invest within your margin band. My question to you is what form of investment would that essentially be, what are the key areas that you are thinking of in terms of investments?

N. Chandrasekaran: We have primarily said that we will operate in the 26 to 28% band and most of the investments are going in building out our Digital business. The Digital business is picking up momentum and when it is picking up momentum, we do not want to be shy of making any investments. So we want to have the flexibility.

If you look at the investments that we have made, they are pretty significant. We are undertaking what is probably the largest digital training exercise of any corporation in any part of the world; already 120,000 people have been trained on 350,000 plus competencies. We have built a state-of-the-art Digital Learning Platform which brings physical and digital together, we have an innovative high-class framework which integrates the Digital learning with the physical work space. We have built a number of foundation platforms, technology platforms or functional platforms and industry-domain solution based platforms. I walked through some of them in the commentary that I gave. As we see opportunities we are not shying away from making those investments. Then in terms of the physical work spaces, whether it is building out Design Studios or building out Executive Briefing Centers there are many such investments happening. It is in people, it is in infrastructure, it is in the area of intellectual property, creative thinking workspaces. I think it is of different nature. Then we are also winning a lot of Cloud business, we are also winning a business that integrates different digital technologies in transformative redesign of business processes. All these require a large number of investments and that is what I meant.

Diviya Nagarajan: In the past couple of quarters we had cited some sporadic instances of irrational pricing in the market. Has that eased... how do you see the price competition in the market today?

N. Chandrasekaran: I have always said that you always see sporadic situations of pricing which we find strange. Those things do happen and it is not that we do not see them happening, but it is not any different from what we have seen before. We have said that our pricing is generally stable. There might be variations in between quarters and we have seen that play out

this year as well. So that is something that we got to watch out for, but I would not put a cautionary statement on that.

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

Ashwin Mehta: Just two questions; one, while Digital has grown well for you, wanted to check on the outlook for the non-digital piece of business which seems to be flattish for us for the past two quarters. Do we see an acceleration in that going forward?

N. Chandrasekaran: If you look at the services lines we are doing very well on Asset Leveraged Solutions -- some of it is Digital platforms, some of it is non-digital platforms and products. We are doing very well in Infrastructure, we have seen good momentum in Engineering and Industrial Services this time, we are also seeing good momentum in Assurance, but each of these service lines also morph into Digital.

So when we say Digital, it is cutting across all these service lines. As you go into the future, these service lines will transform themselves more and more and exhibit themselves as Digital. So that is what we will look for. So Digital should not be seen as another service line, Digital is to be seen as a transformation that is happening across service lines as the world goes towards Digital.

Ashwin Mehta: Second question is in terms of what are the items in your cost side which is cost of equipment and software that seems to have jumped by almost 40% this quarter, it is more than half of your incremental revenues. So what is causing such a sharp jump because typically geographies like MEA and India is what causes the jump in equipment sales and they do not seem to have contributed that much to incremental revenues?

Rajesh Gopinathan: Ashwin, if you look at it on a Q-on-Q basis, it looks that way, but if you go back and look at prior years' numbers, our typical average has been 2.5% of sales. That line item of cost reflects third-party equipment or software that we buy as part of our servicing of customers. It could be System Integration deals, it could be Cloud deals, it could be Managed

Services deals -- any of those. So this quarter's figure is broadly in line with our long-term average and beyond that, there is nothing much to call out on it.

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

Ankur Rudra: Chandra, you have obviously done very well in Banking, Financial Services and Insurance this time. How do you see the rest of the year is shaping out given the recent challenges we have seen from banks; are you expecting your market share gain to overcome the headline challenges?

N. Chandrasekaran: When we met in March at our Analyst Day, I clearly articulated that we are seeing good traction in the BFSI space. If you look at our BFSI revenue for the year, it grew at 11.8% but BFS revenues ex-insurance grew at 14.8%. Arguably Insurance was a drag last year and Insurance has turned the corner. So that is an added confidence that we get that the BFSI is going to do well and it is going to be a strong segment in FY 17.

Ankur Rudra: Also, if you could help me with one thing, we have seen some progressive changes in disclosures in operating metrics such as onsite-offshore, utilization. I understand this is probably because of change in your business model. If you could elaborate, why this is less relevant now and also the new metrics that investors should be looking at beyond the headline numbers?

Rajesh Gopinathan: In fact, we continue to maintain from a global benchmarking perspective, one of the highest disclosure standards in this industry. As business becomes more complex, and business models become more heterogeneous, some of these metrics like utilization will steadily lose relevance as we grow more and more into investment-centric models.

As the business models develop and as they mature and stabilize, we will consider what kind of new metrics could be used and we constantly

monitor the disclosures coming from our competitive set to get an assessment of where the metrics side of it is going.

I would like to assure you that we will remain among the best quality disclosures and as new metrics become available, we will share with you.

Ankur Rudra: You mentioned that you are moving to front office to full stack implementation to many of your digital clients. As this happens, do you think the ability to leverage offshore and Asset Leveraged Solution that you have been developing over the last several years to improve and hence gross margins and those kinds of deals improve as well?

N. Chandrasekaran: I think there is an opportunity there because there are many things that are playing out here – a very strong integration capability, a very strong backend capability in addition to the front-end capability and tools, automation, all those things will play a part.

At the same time, from the gross margin perspective, it is okay, but we should not forget that investment cycles are going to continue because when we see an inflection point, when we see the momentum continue, we do not want to be shy.

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

Nitin Mohata: Chandra, I had a specific question on the Infrastructure Services practice, another solid year of 20% CC growth. There are two-part questions; firstly, there are some concerns amongst investors, as deals come up for renewal, do you think there is more pricing pressure that we are seeing in this particular practice. Secondly, as we have seen very solid 10-years of growth in this underpenetrated area, are we going to see kind of plateauing of growth rates?

N. Chandrasekaran: There are two answers I would like to give. In terms of pricing pressure, I already said there will be sporadic instances - there will be companies which will try to be very sharp on the pricing. But from my point of view,

Infrastructure has huge growth opportunities. There is a tremendous transformative play here, with private cloud, on-premise private cloud, off-premise private cloud, public cloud -- not just from the infrastructure point of view, but what happens to everything that is sitting on top of it. How do we integrate and deliver value? That is something that we have been pretty successful in and we are seeing traction. So I feel that we should look at that and look at the differentiation in the play. We cannot just be looking at a commodity pricing.

Nitin Mohata: So, we should consider that these kind of growth rates sustainable you do not think we are going to hit a plateau given that has been such a solid performer for the industry overall?

N. Chandrasekaran: I am not giving guidance, but I think that area has a lot of growth ahead.

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

Sandeep Agarwal: Chandra, I have one question. While I understand that Digital as you said it has grown at 52% year-over-year and Digital cannot be bifurcated from verticals or service lines. But if you exclude the Digital part, does it look like that the non-digital part of the business is growing at a very, very low rate? If yes, then what is actually hitting us there? My question is also followed by on the Enterprise Solution and Consulting side. I think that is one area where we have not done probably well this year. So, what is your view there and what is impacting us on that side? Finally, one question to Rajesh, while you have given a margin band of 26 to 28, but will it be on a year-over-year basis, you are saying or there could be quarterly volatility or even yearly volatilities in that range?

N. Chandrasekaran: As I said earlier, Digital should not be looked it as a service line. The key service lines that we report, all have digital components, whether it is Enterprise Solutions, whether you have Infrastructure, you got to look at all those things, there is a digital play. The digital play comes from three major areas which is Big Data Analytics, Digital Marketing, Mobile Channels and then Cloud. So, when you look at all these three, they penetrate across service lines. So taking that and then leaving the rest

will not give you the right comparison. So, I would request you or suggest that you do not do that kind of comparison. Second, with respect to Enterprise Solutions and Consulting, we have taken a number of steps where we have integrated these two practices to bring in the necessary capabilities that are particularly required in the future from a Digital point of view, what it mean to provide the consolidated capability. So, you should see growth from here.

Rajesh Gopinathan: On the margin front, we are very happy with our overall performance during the year. We are ending at 26.5% which is fairly in the midpoint of our stated target band. From a cash generation perspective also, it has been a good year. We will be ending the year with free cash to revenue of about 21.5% and this quarter has been 22.5%. So, overall the profitability performance has been very good.

As we build out into a more heterogeneous business model, we are committed to chasing opportunity and making the investments required to maintain our leadership position. The impact of that on margins, we believe, is containable.

However, period-to-period numbers will depend on a complex set of variables - how the growth pans out and how the currency impacts and certain other variations that could happen on a period-to-period basis. But structurally, the pricing side is stable, demand side is positive. Overall, we see very strong momentum in the areas where we have made investments and therefore we remain optimistic on the profitability.

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

Sagar Rastogi: Could you explain what drove the margin drop this quarter?

Rajesh Gopinathan: We had a fairly good performance. The idea of having a targeted margin range is to be able to give us the flexibility to operate within that.

In terms of pure numbers, gross margins were down about 90 bps and we pulled back some of it on the SG&A side, primarily driven from benefits on the employee part of the manpower cost. So net-net, we are ending with about 50 bps down compared to that.

For the full year, we are at 26.5% which is net of an exchange impact of about 130 bps positive. So, broadly it is in line with what we have been saying.

Sagar Rastogi: Sorry, Rajesh, would you be able to split out the impact of INR depreciation, the realization like you used to earlier?

Rajesh Gopinathan: Impact of INR depreciation for the quarter is 60 basis points and for the full year is 130 basis points. Realization, we do not split out, the rest of it is business, in fact.

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

Sandeep Muthangi: A question about some of the Automation initiatives you might be doing. When do you see the tipping point for some of these Automation initiatives to gain real scale...would you be looking at second half '17 or FY18 to be the year when some of these things become really material? Also, what would your strategy be when they become material...would you be competing on price point or would it be just gaining more efficiencies and using it as margin lever?

N. Chandrasekaran: Sandeep, if you really look at the charts presented in the March meeting, we have shown how our incremental revenue per person -- basically the incremental revenue over the incremental headcount -- for the last 5-years has consistently gotten better, with the last calendar year showing about \$78,000. That is a pretty significant and steep progress if you really look at where we are as overall average and from the numbers for 2009 and where we are today.

It is a result of many things -- some utilization and also automation and business model changes that we have been proactively bringing in. So,

I believe that we are at a stage that we will see benefits accruing from automation, whether it is in Managed Services contracts or in Infrastructure contracts or in other types of contracts and we have done some engagements and we have done some thinking and work and so on and so forth.

That is why in my opening commentary I clearly said that we will see a material reduction in the gross hiring numbers; if you look at the gross hiring numbers over the last several years it has gone up year-on-year for the past several years and this year you will see a big trend in terms of a material reduction in the gross numbers, that is our estimate. So how it will pan out? Let us wait and watch. What we will do? How will we compete? This will evolve. We have options in front of us, but we need to evolve.

Sandeep Muthangi: In terms of the timeline of the case, could we get some clarity on the Epic case about what are the next steps and are you waiting for the judge's verdict or what is the basic timeline we are looking for?

N. Chandrasekaran: As we had said in the press statement, the judge's verdict will come in about 6-weeks' time. After that, depending upon the outcome we have an opportunity to appeal. That is all I can say.

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

Sandeep Shah: Sir, any discussion with your clients indicates that clients maybe a bit cautious in terms of releasing the Digital IT spend looking at the volatile macro or do you believe the Digital spend sensitivity to macro will not be that big versus what we used to see earlier in terms of the traditional discretionary spend?

N. Chandrasekaran: From what I see I can tell you that the discretionary spend on Digital is happening.

Sandeep Shah: Even the client discussion does not foresee any kind of conservatism or some amount of skepticism now in terms of the macro headwinds spreading from Asia to developed countries?

N. Chandrasekaran: I have not heard it in any of my discussions nor has anyone from my management team heard anything and highlighted.

Sandeep Shah: Rajesh, in terms of margins, generally we exit the financial year with a better margin exit rates, this time we are exiting with a lower end of our comfort of 26-28%, when we enter FY17 there could be some additional headwinds through declining currency benefits, there could be higher visa charges which could be because of US fees increase as well as some UK visa change in regulations. So do you believe this time the challenge could be slightly higher in FY17 in terms of managing the margin band of 26-28%?

Rajesh Gopinathan: Sandeep, you are right, FY17 is going to pose quite a few challenges which will have negative impact on the margins, but equally, FY17 also has fair amount of positives, if you look at it, the momentum in our larger segments whether it be the US market or the Banking market continues to be strong and that provides quite a lot of comfort. Similarly, our investments across the board are doing quite well. While we are likely to continue to remain in an investment mood, but scale in these investment and momentum in these investments give us a lot of confidence and as Chandra has been mentioning, areas like Automation, areas in terms of Digital learning productivity, etc., are all positive elements under margin side of it. So, it is going to be a tough year. I will have to earn my salary. But there are negative elements and there are positive elements, we will see how it plays out.

Sandeep Shah: Just a follow-up; any quantification for the UK visa rule change about the salaries?

N. Chandrasekaran: That is next year. But, I want you to take note of the opening commentary I gave; we have made significant efforts over the last few years to reduce our dependency on visas in every market and both in

the US and UK it is true. We believe that we are a top recruiter in both these markets and in other markets.

We have filed one-third of the work visa applications this year than we filed last year in the US. The number of applications in the UK this year will also be considerably less compared to last year as we go into the future and that is the business model which we are operating on.

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

Ravi Menon: I had two questions; one is ISG deal was having pretty strong even in restructuring contracts. Again, your comments also been encouraging regarding that. Would you say deal whatsoever last three to six months was significantly better than during the first half of FY 16?

N. Chandrasekaran: I am more interested in saying that the headwinds we had six months ago are not there today. This momentum is from a company point of view, our own business perspective. But from the deal momentum point of view, it continues to be solid.

Ravi Menon: So, do you think that the client environment too has improved compared to last year, the demand environment overall?

N. Chandrasekaran: From the demand environment point of view as I said Digital has significantly improved. Many of the other deals you are talking about is all connected with Digital in one form or another.

Ravi Menon: Do you think that the Digital Learning Platform that you described for use for your employees, can it also be opened up to clients to retrain their work force?

N. Chandrasekaran: Let me put it this way. We have a lot to do at this point in time, so we are focused on the complete retraining of our 300,000 plus employees. The Digital Learning Platform is getting enhanced and new experience is coming up all the time. Potentially, it has got opportunities, but at this point in time, we are pretty focused on what we need to achieve.

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

Shashi Bhushan: So we talked about BFS to be stronger enough by '17. What is driving the confidence -- is it our discussion with clients, deal pipeline or deal wins? Some insight in BFS in terms of service lines that are resulting in the optimism?

N. Chandrasekaran: The BFS segment last year delivered 14.8%. BFSI segment delivered 11.8%. So the 14.8% which is the BFS segment came down to 11.8% because of the overhang we had in Insurance and Diligenta as part of Insurance overall from segment perspective. We feel that the BFS momentum is continuing to be there and we have come off the headwinds we had in Insurance. So, overall BFSI should do well and have a strong year. So, that is where the confidence comes from. Obviously, it has to be followed up with the fact that we are winning deals and everything else.

Shashi Bhushan: As we are towards the lower end of the margin guidance in terms of exit rate, do you think that our ability to invest in the business has diminished or is there a possibility of lowering our margin guidance if that become hindrance to growth?

Rajesh Gopinathan: Shashi, we have Rs.32,900 crores on the balance sheet and 26.5% margin, 21.5% cash performance - which is way ahead of anybody else in the business. If this does not give us the ability to invest, something must be seriously wrong with us.

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

Ashish Chopra: Chandra, you touched upon the turnaround in multiple weak segments in the opening remarks. I just wanted to understand in particular about two of them. So, while areas like India and Latin America have been more volatile, I think Diligenta and secondly Japan have been in a slightly more secular decline. So, how would you see those panning out going forward, the latter two?

N. Chandrasekaran: So, Diligenta has been consistently dropping for the past several quarters, definitely the last four by a good drop and now it has bottomed out. So we believe that from here it will be at least flattish, if not growing. So that is where it is. In Japan, also, we believe that it has bottomed out and it needs to grow. It will grow, but how much it will grow is something that I cannot tell.

Ashish Chopra: Would you like to call out any segment or a sub-segment within the portfolio right now which would probably be the most challenging in the overall business for TCS?

N. Chandrasekaran: As I have said, if you look at the metrics even this quarter, where the constant currency growth has been 2.1%, all segments except Hi-Tech have all grown. So, no particular segment has a specific headwind that I can call out at this point in time, but all of them grow at a different pace. We feel pretty good about our large segments like BFSI, Retail, Manufacturing, Life Sciences, Travel and Energy Resource, Utilities have done well this quarter though we have Energy headwinds, so I believe that will do well as well, Telecom and Media has had challenges last year and this year I think it is out of the woods. But how much it will grow, we will wait and watch.

Ashish Chopra: On the Asset Leveraged Solutions business, assume that the regional split of that business would be very different than overall TCS' business. Just would there be any particular regions where the growth has been particularly strong on the product side or would it have been across the board.

N. Chandrasekaran: I think it is across the board and it will be a different mix from the TCS' service mix, but there is no lopsided effect from any markets.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec Bank. Please go ahead.

Nitin Padmanabhan: You spoke about the investments in hiring a lot of local across the US and UK over the past few years. I just wanted to understand where are we today versus where we were a few years ago. How close are we to

possibly be 50% of the headcount there have been locals today and much more is there to go.

N. Chandrasekaran: I do not want to give specific numbers. As I said, we are increasingly becoming less dependent on work visas and that is the direction we have taken and as I said, the number of visas we applied for this year is far lower compared to last year.

Nitin Padmanabhan: Do you think that would be an additional headwind on margins for this particular year?

Rajesh Gopinathan: In terms of margin, the whole issue needs to be seen in perspective. On a like-to-like basis at onsite cost expats and all are not any less expensive than local recruits. The decision between local versus expat is a purely business decision based on the quality of the supply available, the nature of the demand, mobility requirements of the job and the interests of the various stakeholders. It is not a margin driven call and I would not see it having a substantial impact on the margins.

Moderator: Thank you. The next question is from the line of Aniket Pande from Karvy Stock Broking. Please go ahead.

Aniket Pande: Sir, given the impetus on the Digital in the business, just wanted to understand in that case, every company is focusing on Digital business and they are able to grow also. So, how TCS could be able to give a competitive edge to its competitors? What are the EBITDA margins in this Digital business and how is the Digital business environment in the coming next two to three years?

N. Chandrasekaran: As I said clearly, the investments that we have made in Digital which we articulated from a talent perspective, from Intellectual Property perspective, industry domain as well as technology expertise that we bring, the type of hiring we are doing, the different skill sets that we bring, the spaces for creative thinking, the design studios, many such investments we are making and we build some very unique solutions and as it goes along, that will differentiate us from others. I think while

there will be individual engagements which will be of a particular margin, but the investment cycle will continue to build out this.

Moderator: Thank you. The next question is from the line of Dipen Sheth from HDFC Securities. Please go ahead.

Dipen Sheth: Just one quick follow-up on the UK business which I suppose the drag is obviously a result of the drag in Diligenta, but still the fourth quarter exit CC growth is actually negative, right, on a full-year basis, the UK business might look optically excusable let us say at 8.3%, but the fourth quarter exit looks particularly weak. So, the specific question is, is this directly related to Diligenta which would be what, 13%, 14% of the UK business?

N. Chandrasekaran: I think that is a good question. The answer to this question will very nicely fit into my concluding remarks. So, with your permission I would like to start the concluding remarks and as part of the remarks will address this question.

The key thing that I would like to highlight is the exit rate in general for FY 16 compared to where we were in FY 15 is lower at the company level on a constant currency basis. For the Diligenta business, definitely it will be lower because during the last four quarters consistently it has been a drag and so every quarter the drag has affected the growth rate. So, you are obviously ending up with a much lower exit rate.

So, my commentary is that definitely we are at the lower exit rate compared to last year same time, but last year at this point in time, I had single doubt and called out many drags or many headwinds, whether it is Diligenta, whether it is Japan or Insurance, Telecom, Media, the Energy verticals compared during the year. So there are many such instances. The thing that I feel good about in our Q4 performance is first of all, I am happy and relieved that we have been able to deliver a very good quarter, meeting the expectations and some places exceeding the expectations. But the point here is the footprint is very good. The volume growth is 3.2% on a seasonally weak quarter, particularly when we were coming off of a very bad Q3. If you look at the core sectors - Banking,

North America, Continental Europe - which are important segments for us to watch out, are all growing nicely. The headwinds that I talked about same time last year have bottomed out and I am not seeing those headwinds.

The Digital business is gaining traction and scale and we are seeing that incremental contribution of the Digital business to our overall business as a percentage has rapidly improved. Many of the investments that we have made in Digital, although we will continue to make more investments, are beginning to deliver results in terms of customer wins and as a result, revenues will grow.

I think the footprint is very good. So that is what I feel good about in this quarter, not so much the specific numbers. I would take a good footprint than a better number with a poorer footprint...when I say footprint, the operating metrics, the different things that you look at.

If you look at the customer metrics, they are incredibly good. From 29 \$100+ million customers to 37, of which three happened this quarter. A significant increase in the \$50+ million customers, of which 8 happened this quarter. I think the customer metrics are absolutely top-class.

Our key initiatives, whether it is Digital Learning or whether it is investments that we have made into work spaces, thought leadership that we are trying to build and build a profile that is required in order to be able to partner clients is very good. I also pointed out that 52% of our customers see us as the key partner of choice for Digital. So, given all this, I think we are in a good place.

How it translates into business, growth rates, we will have to wait and see. Thank you for your patience and I deeply appreciate your taking the time for this call.

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.