Tata Consultancy Services Limited

Q2 FY19 Earnings Conference Call.
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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 and 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali. Thank you and over to you sir.

Kedar Shirali: Thank you, Karuna. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the second quarter of fiscal year 2019 ending September 30, 2018. 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. Rajesh Gopinathan – Chief Executive Officer and Managing Director; Mr. N.G. Subramaniam – Chief Operating Officer; Mr. V. Ramakrishnan – Chief Financial Officer; and Mr. Ajoy Mukherjee – EVP and Head (Global Human Resources).

Rajesh and Ramki will give a brief overview of the company's performance, followed by a Q&A session. As you are aware, we do not provide specific revenue or earnings guidance, 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 mailers.

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

Rajesh Gopinathan: Thank you, Kedar. Once again, good evening to all of you. We are very happy to report an all-round strong performance in Q2, with revenue growth of 20.7% YoY in rupee terms, 10% in dollar terms and 11.5% in constant currency terms.

Our operating margin for the quarter was 26.5% compared to 25.1% during the same period last year. Our net margin for the quarter was 21.4%.

I want to give you some color in terms of the demand that we are seeing overall across our customers. Our strong performance is being driven by our participation in the fast expanding digital opportunity that we have been speaking about it for some time. Last year, we introduced this concept of Business 4.0 which is our thought leadership framework to help our customers leverage digital technologies to power their growth and transformation agenda. This is resonating very strongly with them. In Q2, we held our Customer Summits both in Europe and in US and senior executives from customer organizations spoke extensively about how all of the eight elements that we have in the Business 4.0 framework are individually, and collectively, actually seeing very strong reflection in the way they are looking at strategic transformation.

What was heartening was that the speakers and the participants that we had were not just from the technology side. There was very strong participation from the business side as well. One of them actually had also visited India and had been in the press recently: the CEO of KLM, where he very nicely spoke about the transformation and the engagement model between clients and TCS and this is a relationship we have celebrated its 25th anniversary this year and very beautifully put about how it has gone from being a technology services and capability delivery relationship at its beginning, to build in a complete business transformation engagement and the difference in the way they are perceiving us in their partnership ecosystem, as a critical component of their overall value chain.

Similar sentiments were reflected in varying ways and the kind of examples that we are talking about, all of them gave us a lot of confidence that the strategy that we have adopted and our execution model is something that is finding a lot of value among all our stakeholders.

I think primarily these customers are recognizing our ability to reinvent ourselves in an ever-changing technology landscape, and they are seeing us as being very critical to their growth and transformation agendas which will keep on evolving and is not going to be static about this skill or that skill. It is an ongoing change agenda that they have.

That said, the current transformation that we ourselves are going through internally is probably one of the most profound and complex ones that we have gone through over the many decades now in terms of extent, the various dimensions and the scale that is absolutely unprecedented.

Let me focus today on the transformation that is happening on the overall services model:

There are two aspects to this change: The first is a switch to what we have been calling as the Agile delivery model. While Agile itself has been around for almost two decades now, we are taking a very fundamentally fresh look at multiple elements of what constitutes Enterprise Agile.

Agile has been seen as a scope management and a very tactical kind of program management approach. Similarly, Agile has been seen in a very-very operational way as a technology-led initiative and there has been this underlying assumption that Agile means Colocation.

We are actually fundamentally challenging each of these and really repositioning Agile as a business transformation agenda with very strong enterprise and operating model transformation at the core of it, and it is an ability to deliver business innovation at scale and at speed in a reliable way which actually underpins the transformation to Agile.

The whole aspect of colocation fundamentally changes the economics of the industry. If that were to be a constraint, the economics of Agile would not work out. So our pioneering approach with what we call our “Location Independent Agile” is very strongly resonating across our customer base and is getting repeated continuously and we have been investing on it very heavily. I have spoken in the past about how NGS driving our focus on getting to 100% Agile by 2020. So this whole Enterprise Agile agenda is very very crucial to the transformation that we are seeing.

At a later point I am sure NGS will expand on the many elements of it, but we are fundamentally looking at what it means from workforce perspective as well as from a workplace perspective and looking at all elements of it, whether it be security, whether it be project management methodologies, collaboration tool sets, everything is being relooked at to redefine the whole aspect of Enterprise Agile.

We have spoken about our recruitment process and rejig that is going on in our recruitment and training processes to create multi-skilled, multifunctional agile practitioners at scale. Today, we have about 280,000 employees who have been trained in Agile methods and all our delivery processes and controls have been reworked to support Agile engagements.

This quarter we actually started measuring our Agile engagements on the TCS proprietary agile maturity framework and helping them move up the maturity curve. We are modeling this something similar to the CMMI framework and looking at it as a journey in terms of incremental change that we can help clients deliver.

The second and equally fundamental dimension of this transformation is what we call the “machine first” philosophy, and the underlying machine first delivery model. The way to understand is if we will think about the many technology elements under the Business 4.0 framework: Agile, Cloud, Automation, Intelligence, Analytics all of it, the speed of change that is going on there is challenging us to fundamentally rethink how these are integrated into enterprise technology landscape.

We have an opportunity to take a leadership position in this, and we are doing that in saying that we have traditionally been trying to use these technologies to do work as it is currently done, in a more productive way, but we need to step back. We introduced this concept saying digitization of workflow is a legacy concept, and we need to fundamentally rethink how work gets done. The machine-first philosophy, at its heart, is about giving technology the first right of refusal on all work, and elevating the role of humans to be able to deliver greater value together. It is beyond productivity, and is about redefining customer experience.

Even the success that we are seeing on our platform play is from repositioning it from being an operations and optimization model, to being a growth and transformation enabler, driven by customer experience and quality at its core. So these strategic aspects are all playing out very nicely and are at the heart of the kind of change that we are currently seeing.

For now, suffice it to say that our Business 4.0 thought leadership framework, our contextual knowledge, our differentiated capabilities and the large scale multidimensional transformation that we are going through are helping us gain significant market share as well as mind share with our leading customers.

As they progress their this core transformation initiatives that are central to the Business 4.0 journey, we believe larger and larger chunks of their existing technology estates will get transformed through the digitalization process. Legacy core systems are getting dismantled and replaced by digital equivalent at an ever increasing pace, while newer systems are anyway engineered on this new stack. This, in turn, reflects in our accelerating revenue trajectory, the fast expanding digital component of our revenues, and deal closures in this area. Revenue from digital engagements now constitutes **28%** of our revenues and which is YoY growth of about **60%**.

Deal closures continue at a good clip. The total value of contracts signed in this quarter is **$4.9 billion**. Deal pipeline is also fairly strong and well balanced, and we are seeing increasing traction in the US geography.

The other key highlight of this quarter and a reflection of things that we have spoken about in the past, is our client metrics. We are glad to report that our $100 million+ client count has increased incrementally by **4**, while our client pyramid continues to grow and nicely balanced across all sizes.

From a segmental perspective, I am happy to inform you that our BFSI vertical continue to accelerate this quarter along expected lines. Our YoY revenue growth in BFSI has now accelerated to **6.1%**. I want to again point out that these numbers cover only our BFSI services business, and we report our BFSI platform business separately in the segment called Regional Markets and Others. So the BFSI services business, excluding the platforms, itself is continuously accelerating.

The growth has been very balanced across North America, Europe, and Rest of the World. It is well balanced between banking and insurance. The growth is coming from strong demand in areas like cloud migration, micro services, cyber security, and intelligent automation. So all those expected new areas of investment are coming through. We are seeing acceleration in digital investments in areas like wealth management, commercial banking, consumer facing parts of the business and NGS also spoke today in the press conference about increasing volume that we are seeing on Blockchain deals with more than 15 projects that we are currently executing on. We are also very happy to announce that our Blockchain-enabled solution and underlying BaNCS infrastructure is getting adopted in the African continent, I am sure NGS will share more details of it later on for those who are interested.

Our total contract signed value in BFSI during this quarter was **$1.5 billion**. Retail is also accelerating, nicely growing at **15.6%** YoY this quarter. The total value of contracts signed in Retail was about **$0.7 billion**. Other verticals are also continuing to do well; Energy, Resources and Utilities continues its strong growth across from a YoY perspective growing at **22%**, Life Sciences at **14.7%**, etc.,

From a geography growth perspective, Continental Europe continues to grow strongly at **17%**, UK had a got YoY growth of **22%**, driven by the platform deals that we saw, the large Retail deals that we have spoken about, and also strong growth in the BFS segment. But UK is a complex geography and overall demand there is difficult to model right now.

On Products and Platforms, TCS BaNCS, our flagship product in the financial services domain had **6** new wins and **5** go-lives during the quarter. It is a matter of great pride that TCS BaNCS for Market Infrastructure is becoming the default platform at the core of many market transformation initiatives, and one of them as I mentioned, is what is going on currently in South Africa.

In Life Sciences, our Advanced Drug Development platform was selected by a Europe-based pharma major for their site feasibility information hub. ADD's Clin-Ops and Insights Solution will intelligently digitize the global site selection process for improved efficiency in clinical trials. The whole aspect of connected clinical trials which is at the heart of the program is getting significant traction and increasing attention across a broad spectrum of our customers.

ignio™ – our cognitive automation software had **7** new wins this quarter across North America, Europe and India. Both, go-lives, as well as new deal signings in this space continue strongly.

TCS' iON won **4** new clients for their Digital Assessment platform including the Railway Recruitment Board's massive recruitment drive which has transformed the way recruitment is happening in India.

From a people and talent perspective, we added 10,227 employees this quarter on a net basis, a substantial part of that number made up of local hires, which is the highest net addition that we have done in the last 12-quarters. The workforce continues to become more and more diverse. The proportion of woman rose further to 35.7% in Q2 and we now have 147 nationalities represented in the workforce.

In keeping with this organizational transformation theme that we spoke of earlier is changing many aspects of talent management process. In the past I have spoken about how our digital learning platform has completely re-imagined the learning and development function, allowing us to undertake digital talent development at scale and better integrate those skills across the organization. In Q2, TCSers logged **12.4 million** learning hours on the digital learning platform. As of September 30th, we have trained over **279,000** people on digital technologies and agile methodologies.

Today, I want to spend a minute on the talent acquisition process and how that is being re-imagined. For the skills we need to go Agile in a machine-first world, we have started identifying and hiring individuals who fit the desired profiles through gamified programming contests and hackathons.

This quarter we reimagined entry level college hiring with the TCS National Qualifier Test which opened up access to fast track careers in TCS to talented youth even in remote parts of the country. To give you a sense of scale, we traditionally used to visit campuses and hire directly from campuses across somewhere in the range of about 400 campuses. By conducting this exam at a national level, we have actually attracted students from over 1800 colleges across the country, more than 200,000 youngsters participated in this examination.

We have completely re-imagined the entire process – both, the examination as well as subsequent interviews. We have been able to create an agile supply chain and buffer inventory stock. It is really transformative in terms of being able to take calls closer to demand, on how much of the fresh hiring we need to enable, and act on.

In conclusion, let me sum up by saying that it has been a very good all-round performance in Q2 with BFSI and Retail cluster continuing to accelerate. We are gaining significant market and mindshare with our customers and this is showing up in our accelerating revenue growth, strong digital growth and in the outstanding client metrics. The investments we have made and the transformation we are going through to become Enterprise Agile by 2020 and to embrace the Machine First philosophy is positioning us very well to participate and even shape the transformational opportunities in the longer term.

In the medium term, we have good demand visibility from a strong order book and deal pipeline. As I said, we are well positioned from the perspective of double-digit growth and this has been something that has been the very focused strategic target for the entire organization. We are happy to see that we have now been able to deliver on it, and we have secured the numbers that we need to be able to be quite confident that we should be able to end the year with double digit growth.

With that I want to turn the forum over to Ramki for his comments.

V. Ramakrishnan: Thank you, Rajesh. I will go through the headline numbers. In the second quarter of FY 2019, our revenues grew **3.7%** QoQ and **11.5%** YoY on constant currency basis. Reported revenue in INR was **₹ 368.5 billion** which is QoQ growth of **7.6%** and YoY growth of **20.7%**. In USD terms, revenue was **$5.215 billion** which is QoQ growth of **3.2%** and YoY growth of **10%**.

Moving on to the operating margin, disciplined execution has helped us to generate efficiencies to the tune of **0.3%** QoQ. The sharp depreciation of the rupee against all major currencies gave us a further margin benefit of **1.2%** QoQ, resulting in an operating margin of **26.5%** compared to the **25.1%** we had in the same period last year.

Our other income was lower during the quarter. The net income margin remained flat QoQ at **21.4%**. The effective tax rate for the quarter was **23.5%**.

Our accounts receivable DSO was **72** in dollar terms, down 3-days QoQ. Net cash flow from operations was **₹ 73.6 billion** which is **20%** of revenue and **93.2%** of the net income. Free cash flow was **₹ 68.7 billion**. We returned **₹ 160 billion** through the buyback and paid another **₹ 18.4 billion** as the interim dividend during the quarter. Despite this, the invested funds as of September 30th stood at **₹366 billion**. The board has recommended an interim dividend of ₹ **4** per share.

With that we can open the line for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: A couple of questions for Rajesh and one for Ramki. So Rajesh, just wanted to know how digital is still maintaining very strong momentum, in spite of it being 28% of the revenue, so the only thing which comes to mind that is it much more broad-based where a significant number of clients are contributing to this kind of growth. If that is true, then probably 40, 50% range of growth could be maintained for a much longer time than what one would expect. Or it is like some clients who are kind of completing what is required to meet the new changes in the business and if that is the kind of spend, then probably we would be topping out in that sense. What I am trying to understand here is that can digital become 40%, 50% of the overall business in next few years or there is a cap of 33-35% like we have seen in past, most of the businesses doing?

Question #2 is again on pricing and what you are seeing there in the digital side?

On the book keeping side, just wanted to know if there is any change in our policy on the hedging side or you continue to hedge very conservatively for next couple of quarters only or you think that this is the opportunistic time for hedging as currency is a little favorable?

Rajesh Gopinathan: Let me take the first one and then Ramki will answer the rest. Digital, we have been saying for some time that the big demand and big numbers in digital will come when enterprises start taking digital to the core, and start doing architectural transformation in digital. We saw the same thing happening in web technologies around the 2004-2005 timeframe where people essentially embraced the web technologies as the underlying architecture for their enterprise stack, and there was a significant move into that.

Digital is very clearly at that position today. From that perspective, now we need to start thinking about whether it is incrementally useful to start calling these things: digital versus non-digital. Any program that ends, any large investment that happens, is now on this new technology stack. I think incremental value of both segregating the revenues, as well as looking at it from a credibility perspective - whether we have participation and whether we have the skill - is losing its relevance. Over the next two quarters we will take a call on whether it is time to sunset it and look at a different form of calling out what the services split is.

On pricing, there is not much to say. It is a fairly stable pricing environment, both on a QoQ basis as well as on a YoY basis, so not much of change is going on in pricing.

V Ramakrishnan: Sandip, this is Ramki here. On the hedging, there is no change in our policy. We continue to stay focused in a disciplined manner. Being opportunistic would mean leaving our positions unhedged, or going long on cover, both of which we do not believe are sustainable.

Moderator: Thank you. We will take the next question from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: First, I would like to ask on the Regional Markets. There has been extremely strong performance for another quarter, along expected lines, but are we at the fag end of this and how should we expect that this should continue for the rest of the year as well?

Rajesh Gopinathan: As you know, we report our platform revenue numbers there. So, it will continue for a few more quarters as these revenues start getting into a more steady state. It will also depend on what the deal flow is, so I do not want to get ahead of myself and comment on it. But you should definitely see at least a few more quarters of steady growth from our existing deal wins, and then any incremental wins from the deal pipeline.

Ravi Menon: Rajesh, last quarter you had mentioned that the rupee is still not stabilized at a new level where we should have to think about how we should reinvest that, so perhaps in another quarter, or do you think you are ready to make the call on how to do that now?

Rajesh Gopinathan: I think in the last earnings call itself, I mentioned that we need to see rupee in a pragmatic way. Rupee depreciation is an integral part of the differential inflation story. Our salaries are benchmarked to local inflation in the local currency, whereas our prices have been benchmarked to inflation in the markets that we serve. We have continuously been providing 8% salary increases YoY irrespective of what the rupee does.

So when you look at margin movement from a given base line, you need to keep both of this in sync. And seen from that perspective, the rupee depreciation is not very significantly different from the trajectory that you would expect it to be on, when you think of the differential inflation that is going on.

So I do not see it as the way it has been characterized as a one-off windfall gain. It is just that these movements are sticky and therefore it happens at any given point in time.

Ideally, from an industry perspective, I would have preferred a steady decline in currency, in keeping with the economics of the inflation differential, but that is too much to expect. So we have a hedging strategy which smoothens this out at the net profit level. We have a target operating model that assumes a weakening rupee as integral to our business model and which is where our commentary of steady margins comes from.

So I think the industry and various stakeholders in this industry have been with us long enough to be able to take a longer view on the currency, and I do not see any change in strategy for us coming out of what is currently going on in the currency markets.

Moderator: Thank you. We will take the next question from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: Two questions from me: One is currently you are seeing very strong pickup in demand in most of your problem verticals from last year. If I were to look at any potential risk we should look at, is there something that you worry about on a macro especially you called out UK as a tough market, are you kind of seeing or expecting any volatility in that space? Secondly, US has also gained in the last six months recovering. If there was a tapering off in US GDP growth, how do you expect your demand would trend out? That is question #1.

Two, I think coming back to the margin question in a slightly different way, I think the last earnings call you had discussed that at a certain margin point, maybe towards top end of your guidance you would look at putting money back to work. Assuming that we are already well into the margin guidance band right now, and if you view the rupee as a reset, at what point should we expect these investments to be deployed?

Rajesh Gopinathan: With regard to UK, it was a very specific comment coming from the fact that we are seeing a 22% YoY growth. I just wanted to caution that it is no way the start of a big demand cycle in the UK. The word I used was it is a complex market. We are seeing demand coming both because of the deals that we had which is both on retail as well as in BFSI, as well as we are seeing demand in the banking sector. In fact, interestingly, in the Manufacturing sector also we saw demand in this quarter. But it is difficult for us to call and we are not economists who are predictive. So we are well positioned, it is a market where we are very strongly present and will participate in the demand wherever it appears. But how will it play out? It is difficult for me to call.

US is a more structural shift change in the demand uptick. We are downstream participants, you should remember that. We are seeing the trickledown effect of some of these incremental investments coming through both with the lifting of the regulatory overhead, as well as the greater confidence that that is the way it is going to stay, as well as the tax benefit. Each of this is trickling down into investment plans and we are participating in it.

The demand side metrics that you spoke about in US, those are realities but we have not yet started seeing that. Maybe if we start seeing that in our client interactions and budgets during the course of next two to three quarters, we will talk about it. At this stage, we are reacting to events which are two, three quarters ahead and we are seeing the money on the table. What will it be like in future? Actually you guys are better placed than us to say.

More sectors are doing well. We are seeing softness in the auto sector, but auto sector softness also does not seem to be due to demand side issue. It seems to be more because of a technology change where auto OEMs are struggling to match investments where they were channeling new investments into their electric car, autonomous car and connected car projects and pulling back significantly investments in more traditional areas. But other than that, there are not too many areas where we are seeing any demand stress per se. But, as I said, we are downstream. You guys are the ones who look forward, you are in a better position to talk about it.

In terms of margins and investments, I would like to leave it at the point that I mentioned in the press conference also. We as organization, the management team and associates all together, we have been ultra-focused on getting back to double-digit growth, not because it is some artificial threshold that we have set, but because it was about validation of things that we believe in deeply, and strategies and points of view that we have held very strongly.

It is a landmark quarter for us. We are very happy that on almost every call that we have taken, we have been able to pull through and execute beautifully on it. It is time for us to step back: first, to secure this growth and to secure this momentum, which I think we are in a good position to do, and for us to take a fresh look at the medium to long-term. So what would those be? Where are the opportunities? Where are the investments? We will share with you as we have greater clarity. Typically, as we have always done in the past, we are unlikely to talk to you about that upfront. We will talk about it as we execute and some of the earlier results start coming in.

Moderator: Thank you. We will take the next question from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: I had two questions: Could you break up the growth you are seeing in North America into the ramp up of the large platform deals you have won and the services business. Should we expect any kind of further pick up based on your outlook and based on the benefit you see from tax breaks and so on and so forth?

Rajesh Gopinathan: Ankur, the growth is fairly broad-based. From a North America perspective, as you said, sector-wise actually BFSI - both with platforms and without platforms is actually accelerating in growth. At an entire segment basis for the full company, I want to point out that 6.1% that we are talking of BFSI does not include the platform play in there. So for North America also, with and without, it is doing well.

The segment-to-segment changes on a quarter basis, there is no structural one that I want to call out.

Even the comment on manufacturing was as I said it is a nature of demand where it is coming from and the kind of work that we are seeing there.

Retail continues to do well but that industry is not structurally out of the woods yet. So we are participating very strongly in the technology investments of these clients and there are good solid wins that the customers are having in their war on customer experience and owning an integrated customer experience, not just a price-led eCommerce kind of a deal. So that is likely to set the theme going forward in retail, but one off financial stress in any of these customers cannot be ruled out, we are nowhere near that.

Life Sciences continues to be good, Healthcare is good. Areas like technology by nature are volatile and that volatility is likely to continue, but overall it is a good environment.

Ankur Rudra: Just as a follow up, while you are seeing pick up in banking and retail, it appears that manufacturing and tech and telecom has slowed down a bit. Is there something that concerns you on those verticals? You mentioned volatility just now. Is that something that you might see in the near-term?

Rajesh Gopinathan: Technology and Telecom are areas which are quite volatile. If you look at technology that has been the case for some time now and likely to continue.

Communications is a space which is going through massive changes which gives both opportunity as well as risk. We are participating very strongly in the front end transformation and shift to a product based organization that most of our customers are going through. We are also participating heavily in their new investment areas.

In fact, at our Customer Summit in Europe, one of our keynotes spoke about the work that we are doing for Elisa, a Finnish telecom major which is really taking a very aggressive Business 4.0 strategy to the whole aspect of 5G and data. They are actually taking data, which is growing the fastest, and converting it into a big bet. They rolled out the first large commercial 5G network in Europe, and we were very closely involved with their strategy.

The important thing is that they have shifted that into a flat-priced data plan, actually betting on the fact that by giving data practically free, they will drive consumption of incremental value added services on which they will be making bulk of the money. Revenue growth is strong, data consumption is strong there, average data consumption there has now shot up to 20 GB per customer per month.

So we are seeing very aggressive and differentiated strategies being tried out. We are participating strongly in these areas. We have started very strongly in network redevelopment on the actual fiber network, our network planning group is very strongly involved, we were deeply involved in what happened in Australia and we are participating strongly now in opportunities in Europe. Network virtualization is another area that we are participating in. So Communications is a space which is very active but the big bets, big strategies of where it will play out and how it will pan out, we will have to wait and see.

Moderator: Thank you. We will take the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Sir, my question was basically on the European business. I think in the past five quarters we have seen a remarkable growth in the European business averaging around 22% YoY growth in revenue, with constant currency even better and that has been basically driven by both UK as well as Continental Europe. So could you just maybe take us through as to what basically is driving in the past has been driving this growth? Is it some of those clients which had never outsourced, they are coming on board and driving this growth and of course there are renewals which came in so what is basically driving this growth for the past 5 quarters?

How do you see the disparity between the growth in US and Europe continuing, right now of course US and BFSI which have a larger base have been slow is hampering the US growth, but do you expect this difference between the growth of US and Europe to continue going forward for some time?

Rajesh Gopinathan: Almost everything that you spoke about is at play here. There is definitely a convergence with global sourcing standards and models happening in Europe as they look to participate in the big leverage of technology. That is a given, and that has been going on for some time, and likely to continue just because of the point that they are on in the adoption cycle. The more interesting and more dramatic thing that is going on is this aspect of leapfrogging because they are at an early stage in the technology investment cycle.

We have seen significant investments coming from European customers in areas like Agile and Automation, and in some of these areas they are actually way ahead of even customers that we have in the US. Especially in Agile, I would very frankly say that Europe is way ahead in adoption compared to anything else that is happening anywhere else in the world.

So we are seeing demand coming from both sides. We are seeing demand coming from operating model transformation side, from technology catch-up and technology debt reduction side and we are seeing demand come from leapfrogging investments side. So it is an exciting market to play in, and we are also broad-basing our investments. Our investments in Germany and France are all paying rich dividends and we are participating across the entire spectrum in this group.

Vibhor Singhal: So any specific pockets that you might want to just maybe highlight here, as you mentioned the investments in Germany and France are kind of yielding results, any more specific geographies that you think are growing better than the other ones or let us say segments like maybe manufacturing or retail are doing well as compared to the other ones?

Rajesh Gopinathan: I do not have anything further than what I shared with you.

Moderator: Thank you. We will take the next question from the line of Srinivas Rao from Deutsche Bank. Please go ahead.

Srinivas Rao: A couple of questions Sir. First, just on the headcount growth. Obviously, you have a large number this quarter. Even if I have to analyze, it looks like your headcount growth is somewhere around 7-8% versus your demand guidance of almost (+10%). So are we looking at an implied pricing going up this year, or you think pricing would remain flattish on a dollar basis?

Second, the question is on the spend which you are seeing from your clients. As you have mentioned, Retail is where the industry is in a stress, but they continue to invest on account of the necessity. Can you triangulate and let us know how you feel about how much of the revenues are demand-led or customer demand of how much of it is the clients spending to basically survive in the respective sectors? The context is that if there is a slowdown in GDP, can we get a sense of how much potentially we can see revenues getting impacted?

Finally, are you seeing any impact of the rupee depreciation in the competitive context in terms of when you are responding to RFPs, are you seeing pricing move by your peers in India or abroad, that is are you seeing them being more aggressive in the RFPs which are coming through?

Rajesh Gopinathan: You are asking about our manpower versus revenue growth. There are multiple variables that we have to play with. We could continue to hire at an aggressive level which would reset the numbers that you said about the manpower growth. We have utilization as a lever which we have said that we are constantly focused on and then we have pricing as a lever. So I think there are enough variables in there. It is not a single linked kind of solution and all of those operating levers are available to us and we will exercise it as appropriate at various points of time.

The question about breaking up of demand, I realize where you are coming from in terms of its linkage to GDP, but I do not think I can give you a greater clarity. Definitely if there is a big problem in global demand, GDP, etc., we will be impacted by it. But what is the percentage of impact? What is our beta to that demand? I have no clue.

Pricing is stable. And this currency depreciation impacting pricing, we have had this dialogue before also, I am sure there will be some opportunistic impact from some sectors, but the point is that pricing in this industry is very sticky and there is a significant amount of price transparency. So the headroom that people have in terms of being able to incrementally lead on a price-based competition is very minimal. It will not rule out opportunistic or one off things but I do not think there is a structural breakdown of price anywhere in the horizon.

Moderator: Thank you. We will take the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: I had a couple of questions: Firstly, Rajesh, you mentioned about reimagining the hiring and the interview mechanisms which is allowing you to take the call closer to the demand as far as adding resources goes. So does this facilitate greater headroom in terms of taking utilization further up and does your potential maximum utilization improve significantly as a result of it?

Rajesh Gopinathan: The answer to the first part is 'yes'. Second part we will have to wait and see what is significant, how much. But taking a structured supply chain management approach to it, we now have essentially a standardized score across the database of 200,000 people who are likely to become available into the work stream next year. Our ability to engage with them, and constantly stay in touch with them so that we are able to bring them on board, on demand, is very high. The scale of the infrastructure we have deployed is unparalleled in this country, and we have been doing this for commercial purposes through the iON network, and we are now using it for our internal transformation.

The transformation that iON has brought about in recruitment in the country across all elements -- we spoke about the railway recruitment earlier -- and the scale that it has been deployed at, is unprecedented and absolutely transformative. We are now using that scale to transform our business model. We are very excited about it. It is just very early days yet. The opportunities to leverage this are practically unlimited.

Ashish Chopra: Just secondly, you split out the TCV for BFSI and Retail which are still maybe slightly less than 50% of the total deal wins. So are there any verticals worth calling out which stand out in terms of the deals in the remaining portion or would it be more or less evenly split?

Rajesh Gopinathan: We gave that breakup last quarter primarily because the big concern was about demand coming from BFSI and Retail and given that we have even shared it once, we are just continuing to share it. But as I said, for TCV it is early days yet. This is the metric that we just started sharing.. whether we actually further give you greater clarity on it or we pull back and just give you the aggregated TCV, that is a call that we will take. So this TCV metrics and how we share it and what level of detail, we will be working on it during the course of the next few quarters.

Moderator: Thank you. We will take the next question from the line of Parag Gupta from Morgan Stanley. Please go ahead.

Parag Gupta: I have two questions: Firstly, you talked about Enterprise Agile. I just wanted to understand how ready are enterprises today to deploy Agile technology and do you think they are still currently in the consulting phase or do you think these have ripened and have started becoming larger deals which are getting outsourced?

N.G. Subramaniam: Hi, Parag, this is NGS here. I think we are seeing overall Agile adoption per se is kind of a default now. If we take the Fortune 1000 kind of corporations or large national champions in each of the markets that we operate in, Agile is becoming the norm. Whether Agile is tactically being used to deliver rapidly the business value or they are really using it to bring about an operating model transformation is the level of maturity that one has right now.

But Europe specifically, I think Rajesh alluded to it earlier, is one of the early adopters of Agile philosophy and we are seeing organizations in Europe, Nordics are all operating at enterprise level. They have clearly a strategy to move towards an Enterprise Agile principles across the board. In US, typically we are also seeing that it will be fast catching up and large number of corporations are adopting it at enterprise level… or at least have a goal of adopting it at enterprise level.

I think in that context the investment that we are making and we have made in terms of our own vision of being Enterprise Agile by 2020 and the methodologies, frameworks, tool sets and expertise that we have is resonating very well and we are actually participating in some of the large scale Agile transformation programs.

Parag Gupta: Thanks, NGS. And my other question was based on your discussions with customers in the last couple of weeks or so, have you started seeing customers beginning to talk about the trade war having an impact on the business and as a result of that potential percolation into their IT budgets, any early signs or do you think that is not necessarily a concern for most of your customers currently?

N.G. Subramaniam: I think our customers are closely watching out what is happening, but at this point in time it is too early to call with respect to how it is going to percolate it into the budgets for the next year but overall the way where we are seeing right now, the demand for digital projects and digital environment and investments in digital is continuing to grow and people are really looking at growth and transformation, as opposed to purely efficiency driven. And the Wave-2 of digital investments or that what Rajesh alluded to as digital getting into the core is happening, and it is for real. The investments that they are making in cloud as a way to make everything as a shareable asset, and investing in creating ecosystems and investing in creating APIfication and micro services based architecture are large scale adoption that we see right now.

Moderator: Thank you. We will take the next question from the line of Viju George from JP Morgan. Please go ahead.

Viju George: I had a couple of questions: When you step back and look at your portfolio today and compare it with maybe three, four years back, would you say that you have greater pricing power or greater discretionary power today over a greater percentage of portfolio versus three, four years back?

Rajesh Gopinathan: Viju, a good question but we cannot really comment on it right now. Probably at the end of the year or so, we will step back and do it.

Viju George: No, I asked this because even though there were digital contracts that are getting larger and larger where presumably pricing is not a key variable there, yet there are the regular optimization contracts that have been bleeding through but where as a percentage of contribution is coming off. So on a blended basis I would think that the portfolio might be giving better pricing power relative to three, four years back?

Rajesh Gopinathan: I don't want casually answer this. It is a fairly complex set of things that are happening because a) there is a service line mix that is changing; b) the stakeholders involved are changing, c) our business itself has become fairly complex through different business models and different spaces. So the whole idea of pricing is becoming very difficult to take a call on. The kind of pricing models that are in play are much more complex. So to be able to compare and give an answer, is very difficult. But it is a question that we do ask ourselves from our three year strategy review kind of a perspective. Right now we are not in a position to answer that. I will share that once we have a perspective.

Viju George: Just to get a data point, right. You had given your TCV at $4.9 billion in this quarter, right which is the same as the previous quarter?

Rajesh Gopinathan: That is right.

Viju George: Is there a YoY compare for us in this case?

Rajesh Gopinathan: We have only started reporting this metric from last quarter and we caveated it last time that you have to allow this metric to take some time to gather more data points.

Viju George: Because the second half of last year, Rajesh saw this burst of large deal wins which is obviously explosive for TCVs, so I am guessing that this period that so far, you have not seen that kind of deal flow because this is lumpy in nature. Is that the fair characterization?

Rajesh Gopinathan: It is a fair characterization and I do not think there is a seasonality to it also.

Moderator: Thank you. We will take the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: So with very strong acceleration in digital, anything that you can call out in terms of segments which is driving growth or maybe in terms of the deal sizes that are going up, so anything that you can call out there? Secondly, if you can just give the North America TCV number which was given out last quarter please?

Rajesh Gopinathan: Sectoral call on growth is again that we said BFSI is doing well, Retail is doing well, Life Sciences continues to do well, geography wise Europe and UK are close to 20% growth, US is accelerating at 8%. So nothing incremental to what we have been discussing over the last one hour. Our North America TCV number was $2.4 billion.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, sir.

Rajesh Gopinathan: Yes, thank you. So to sum up our call:

- Our Q2 revenue grew by 11.5% YoY marked by continued acceleration in BFSI and Retail.
- Growth was fairly broad-based across all segments.
- Our investments in workforce and workplace transformation as well as our Business 4.0 Thought Leadership Framework are helping us gain market share as well as mind share across our client base.
- Our digital revenue is now at 28% and it is growing at close to 60% YoY.
- We had excellent client metrics with strong additions, it is not just highest revenue bands where we added more than four in the 100 million plus, but also a steady growth at the entry level.
- From a margin perspective, we are back in our preferred range of operating margins.
- Our innovation in Talent acquisition and our investments in organic talent development and employee engagement is making us an industry benchmark which is reflected both in our performance as well as in our strong retention rate.

Thank you all for joining us in this call today and have a great evening ahead.

Moderator: Thank you members of the management. 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.