



## **Tata Consultancy Services Limited**

### **Q4 & Full Year FY19 Earnings Conference Call. April 12, 2019, 19:30 hrs IST (10:00 hrs US ET)**

**Moderator:**

Good day, ladies and gentlemen, 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, Margreth. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Fourth Quarter & Full Year of Fiscal Year 2019 ending March 31st, 2019. 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 of Global Human Resources.

Rajesh and Ramki will give a brief overview of the company's performance followed by the 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 e-mailed out to those who have subscribed to our mailing list.

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

**Rajesh Gopinathan:** Thank you, Kedar, and once again, welcome everyone. It gives me immense pleasure to share with you that we are wrapping up FY 19 with the strongest revenue growth in many quarters, and a double-digit growth for the full year. Our Q4 revenues grew 12.7% YoY on a constant currency basis, 8.5% in dollar terms and 18.5% in rupee terms.

Full year revenues crossed the \$20 billion mark, growing 11.4% in constant currency, 9.6% in dollar terms and 19% in rupee terms. Our operating margin for the year is 25.6% compared to 24.8% in the prior year, an expansion of 79 basis points. Our net margin for the year was 21.5% compared to 21% for the prior year.

I will now ask Ramki to go over on the headline numbers, financials and segmental performance and I will step in again later to talk about some of the demand trends that we are seeing. Over to you, Ramki.

**V. Ramakrishnan:** Thank you, Rajesh. Let me go over the headline numbers. In the fourth quarter of FY 2019, our revenues grew 2.4% QoQ and 12.7% YoY on a constant currency basis. Reported revenue in INR was ₹ 380.1 billion which is a YoY growth of 18.5%. In USD terms, revenue was \$5.39 billion which is YoY growth of 8.5%.

For the full year, our US dollar revenue was \$20.91 billion, YoY growth of 9.6%. The revenue growth is 11.4% in constant currency and 19% in rupee terms.

Let me now go over how the different segments performed during the quarter. As a reminder, all the growth numbers are YoY and in constant currency terms. Growth was broad-based during the quarter with most verticals and geographies growing in double-digits or thereabouts. We saw continued acceleration in our Banking, Financial Services and Insurance vertical with growth finally crossing over into double-digit territory in Q4 after nine quarters, growing 11.6%.

Life Sciences and Healthcare grew 18.2%, Energy and Utilities grew 11.3%, Communications and Media grew 10%, Retail and CPG grew 9.9% and Manufacturing grew 9.2%.

Revenue from Digital Engagements made up 31% of our revenues in Q4, growth of 46.4% YoY. For the full year, 28.6% of our revenues were from Digital Engagements, growth of 50.6%.

Geography wise, all our major markets grew in double-digits or thereabouts in Q4. Growth was led by UK, which grew 21.3% and Europe which grew 17.5%; North America grew 9.9%. Other markets also continue to grow well; Asia Pacific grew 11.5%, India grew 11.3% and Latin America grew at 16.2%.

Our expanding suite of products and platforms are doing very well in the marketplace. Ignio™, our cognitive automation software is doing exceedingly well and steadily expanding beyond IT operations into business operations. It currently manages over 1.5 billion technology resources autonomously for over 90 clients across the world.

Our Assessment platform, iON™, continues to expand its reach both in terms of having a physical presence in every state and union territory in India and in terms of the number of candidates who have been assessed on this platform. In FY 19, iON conducted 750 plus exams, added 300 plus learning products and also delivered world's largest digital assessment of 23.7 million candidates.

Master Craft, our digital platform to automate and manage IT processes has become all the more relevant as Agile and DevOps adoption accelerate. We had 22 new wins in FY 19. In terms of automating application analysis and code generation, it analyzed 100 million lines of code in FY 19 and generated 25 million lines of code.

We launched JILE, our SaaS based scalable Agile DevOps platform in FY 19 and it has had 11 wins during the year.

Our industry focused products and platforms continue to grow well and gain share. TCS BaNCS, our flagship product suite in the financial services domain, had a very good year with 18 new wins and 29 go-lives in FY 19.

Optumera™, our AI-powered merchandize optimization platform that enables retailers to unlock exponential value by optimizing their space, mix and price in an integrated manner had five new wins this year and four go-lives. Two allied platforms, OmniStore™ and SupplAI™, each had two wins in FY 19.

Life Sciences, TCS' Advanced Drug Development Platform, (ADD) which is a comprehensive suite for digital transformation of drug development had seven new wins and two go-lives in FY 19. HOBS, our Plug-and-Play SaaS-based business platform to digitally transform business, network and revenue management in telecom has now expanded into new subscription-based

businesses such as prepaid DTH, aircraft engines, retail and airline. HOBS had six wins and eight go-lives in FY 19.

The transformational work we are doing for customers is expanding our share of wallet and resulting in broader and deeper engagements. This is reflected in the client metrics which continue to show strong movement of customers up their revenue brackets. In FY 19, we had 44 clients in the \$100 million plus revenue band, 6 more than in the prior year. Other buckets had strong additions as well. We added two more clients in the \$50 million band, bringing the total to 99; 8 clients in the \$20 million band, bringing the total to 215; 21 clients in the \$10 million band, bringing the total to 371; 37 clients in the \$5 million plus band, bringing the total to 532, and 45 clients in the \$1 million band, taking the total to four digits for the first time, to 1,008.

Let me now go over some of the Financials: Our operating margin for this quarter was 25.1%. For the full year, our operating margin was 25.6%, a 0.8% expansion over the prior year. Our net income margin was 21.4% during the quarter, for the full year it was 21.5% which is a 0.5% expansion over the prior year. Effective tax rate for the year was 24.1%. Accounts receivable was at 69-days DSO in dollar terms, the lowest ever. Net cash flow from operations was ₹ 316.7 billion which is 21.6% of revenue and 100.6% of net income. Free cash flow in FY 19 was ₹ 295.4 billion. Invested funds as at March 31<sup>st</sup>, stood at ₹496.5 billion.

The Board has recommended a final dividend of ₹18 per share bringing the total for the year to ₹30 which is a payout ratio of 42%. Including all the dividends paid out in FY 19 and the ₹16,000 crores share buyback we had in September, the total cash returned to shareholders was ₹ 27,472 crores which is 93% of our FY 19 free cash flow.

Moving on to the people front, our investments in organic talent developments are delivering phenomenal learning outcome. TCS' collectively logged in 52 million learning hours in FY 19. As of March 31<sup>st</sup>, we have trained over 311,000 employees on digital technology and over 348,000 employees on agile methods.

To support our growth, we continue to tap into talent pools across the world and add to our ranks. During this quarter, we added 6,356 employees on a net basis, bringing the total net addition for the year to 29,287. Our focus in diversity and inclusiveness continues to yield results. The proportion of women

in the workforce rose further to 35.9%. The number of nationalities represented in our workforce stood at 147. All of this is resulting in a very vibrant and engaging workplace that attracts and retains talent. We continue to enjoy the lowest attrition in the sector globally. LTM attrition in IT Services in Q4 was 11.3%.

I turn it over to Rajesh now for the demand drivers and other trends.

**Rajesh Gopinathan:** Thank you, Ramki. When we look back at the last fiscal year, there are four clear trends in customer spending which has been driving our strong growth and differentiated positioning in this market.

I will go through each of them and starting with Business 4.0™. About 18-months back, we unveiled our Business 4.0 framework, identifying four key behaviors of successful organization in the digital era, namely, mass personalization, leveraging ecosystems, embracing risk and creating exponential value.

We saw this resonate very strongly with our customers particularly in industries which were getting disrupted by technology-based players. I am very happy to note that our Business 4.0 framework is now becoming the de facto model that enterprises across the world are adopting to guide their growth and transformation initiatives.

In a survey we commissioned in December, we found that over 90% of the 1,200 enterprises polled had adopted at least one of the four Business 4.0 behaviors that we had called out. Interestingly, nearly a tenth of the enterprises had adopted all core behaviors and these were the companies that were also at the forefront of adopting cutting edge digital technologies like AI and Blockchain. Understandably, these leaders are also seeing superior business outcomes from these initiatives with six out of 10 such organizations expecting double-digit growth over the next three years.

We strongly believe that enterprises will rely more and more on technology to drive their competitive differentiation and to power their growth and transformation agenda. And this will be a long-term growth driver that we will be participating in. So, Business 4.0 has truly acted as a phenomenal bedrock, on which we have been building our go-to-market strategy, and our participation and the growth that we are seeing out of it.

The second big area has been innovation. It is many ways related to the first one. Enterprises are investing heavily in innovation, looking to harness the combinatorial power of IoT, Analytics and Machine Learning to enhance the customer experiences, to enhance productivity and profitability and establish competitive differentiation.

Many of our customers, like Total and Newcrest, are partnering us to set up dedicated innovation centers, focused on leveraging digital technologies to reimagine core parts of their business. Our investments for the last many years in research and innovation, leveraging our deep domain expertise, have resulted in innovation solutions in every industry vertical and intellectual property like accelerators, frameworks, products and platforms. For example, TCS algorithmic retail which is now powering dynamic pricing and other core retail operations for some of the world's biggest retailers is an outcome of our research and innovation efforts in this vertical. We have set up innovation centers across the world to serve us innovation showcases which are helping us initiate conversations with customers, and better externalize the capability and collaborate effectively with customers, and get them thinking about how to apply these ideas to their specific context.

The third big dimension of our strategy which has been powering this differentiated growth is our focus on Agile and MFDM™. It is impossible to talk about innovation without also talking about Agile methodologies. Speed to market is critical to many of these growth and transformation initiatives and our ability to deliver that speed to market with our reimagined agile model has been instrumental in winning many large transformational deals.

Our big innovation has been to break out of the constraints of co-location that have limited the use of Agile to small localized projects until now. Our unique differentiated Location-independent Agile model is tailor made to suit the requirements of large organizations whose business users are distributed across the world, making co-location quite impractical. Our model enables adoption of Agile at scale, and is helping us win large transformational engagements.

Today, we have an Agile footprint with over 500 of our customers, and have executed over 6,000 Agile engagements. Increasingly, we are talking to customers about Enterprise Agile, taking Agile beyond just IT projects and using Agile concepts to transform all aspects of their business.

The other dimension of our strategy is what we call the Machine First™ Delivery Model or MFDM. This is basically a way of integrating technology deep within the enterprise to redefine how humans and machines work together and to more effectively deliver superior outcomes by offering technology the first right-of-refusal for all work.

These two dimensions go hand-in-hand. Human ingenuity, creativity and empathy are as important as machine-driven speed and scale in meeting the objectives of today's digital transformation programs.

The final element of TCS strategy has been what we call core transformation. When customers launch their innovation and transformation initiatives, the biggest barrier to success is often the legacy operating stack, consisting of process delivery, the underlying systems and the infrastructure. To help them get the digital outcomes they need, we are partnering customers in holistically reimagining their operations by applying our Machine First approach across their entire stack and automating business processes and IT operation and simplifying the legacy application stack, eliminating the redundancies and rearchitecting with modern cloud-native structures. These are very large multi-year transformational engagements, large in scale and scope and we are winning such deals by leveraging our contextual knowledge and our ability to stitch together different capabilities from across TCS.

The outcome of the customer is a new digital core which is a much lighter, smarter and nimbler organization, and positions the enterprise better to win in a Business 4.0 world.

So these four trends have been driving up demand for our services and helping us participate aggressively in the opportunities we see out there.

This quarter we have had very strong deal closures, bigger than in our previous three quarters this fiscal. The total TCV of contracts signed in Q4 was \$6.2 billion.

As we look ahead, despite the macro uncertainties in major markets and pockets of volatility in BFSI, automotive, technology, etc., we see three positives. Our accelerating trajectory through this year gives us a strong exit, locking in 3.6% growth for FY 20 versus the 2.8% tailwind that we had entering FY 19. This, along with the solid order book and a very robust deal pipeline, gives us confidence as we enter the new fiscal year.

Before we open this line for question, I have one more happy news to share with you. We are celebrating Ajoy's 39 years with TCS... this has been a long journey and in many ways Ajoy epitomizes everything that TCS stands for. Over this period, he has seen everything practically and played every role possible, we wish him luck in his future endeavors.

This is going to be his last earnings call, so please go ahead and make use of the opportunity to ask him all the questions you have been wanting to ask. With that we open the line for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead.

**Sandeep Agarwal:** Just a couple of questions: Already you mentioned you do not have much clarity on what will happen on the macro, so you do not have anything to share right now. But I would like to understand that given the uncertainty or early signs of some worries which are coming in, are you seeing any lead indicator which is suggesting that in some of our BFS clients there could be some stress and are you also getting a confidence based on our strong TCV in the quarter that stress could be offset by the new contracts we have signed? And second, on the digital again, what is exactly driving such a strong growth there? We understand the whole ecosystem of IoT and digitization is driving that. But can you just highlight which particular industries are doing extremely well on that, and how do you see it going forward? Secondly, on margins, if some light could be thrown on the range of margin aspirational guidance, or whatever you call it, which you have highlighted earlier, do you maintain that or is there any change in stance on that?

**Rajesh Gopinathan:** Sandeep, on macro, our discipline and our guidance to all our folks in the field is that we should not talk ourselves into a problem, and we should stay focused on the opportunity.

Our experience in the UK over the last year is a great example of this. In a market that is a poster child of macro volatility and all kinds of problems that you could possibly think about, we have delivered 22% growth. It is not the macro that buys from us, it is customers who buy. As long as our field team stays focused on that, and focused on the opportunities that are out there, our participation will continue to be strong.



You guys understand the macro a lot more than we do. We do not have anything incremental to share with you. We can only talk about the opportunities that we see, and the deals that we have. Beyond that, we have a strong team and we are out there in the field to play and we will do our best.

On digital, this is becoming practically a default across multiple industries. Different industries are at different points on this journey. You have industries like media which have been totally transformed. There, the entire product, from its development to its distribution to its consumption, has gone digital. You see it happening in retail where the buying behavior has substantially moved, first away from the store to the web, and now, away from the web to the social media, and it is getting further away from the retailer, and they need to participate where the customer is. You see this in banking and you see this across in automotive, where CASE is reimagining everything. You see it in utilities.

So it is no longer an industry-specific phenomenon. It is widespread, and that is where the growth is coming from. Because it is so broad-based, the participation is also very wide and it has a lot of these.

The last question that you had was on the margin. Given the opportunity that we see, and given the increasing structural significance of technology across the value chains of multiple industries, we believe that our services will be in perennial demand. The specifics of it will keep on changing, but this is a very core element. Given the rate of change of technology, which will only keep accelerating, our relevance to our customers will also keep increasing, as long as we are disciplined to stay invested and continuously transform ourselves. This is not an easy industry to work in, but it is one of those few industries which have perennial demand, and has multi-decadal visibility and that is where our margins confidence comes from.

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

**Ankur Rudra:** Ajoy, you will leave big shoes to fill. Best of luck. Rajesh, the first question: FY 19 clearly was a phenomenal year on the growth front. You broad-based the growth as well. Do you think this creates a tough comparable as we enter into FY 20 on the TCV you had, you do not have comparable numbers of the previous year, and the momentum gives you confidence on maintaining growth leadership?

**Rajesh Gopinathan:** Ankur, we have runs on the board and we have a great team. We intend to go out there and have fun and play.

**Ankur Rudra:** Rajesh, you have been talking about the platform journey and the Business 4.0 journey. How wide has your platform strategy been able to be successful beyond just insurance? And the Business 4.0 as well? Is that quite well spread across different industry verticals or do you see more success in one of them?

**Rajesh Gopinathan:** Actually, great question, Ankur. Platforms are a logical evolution of our products journey. So if you look at what we have done, we have been consistently focused on developing intellectual assets, and systematically internalizing it as frameworks, as accelerators, as products, as point solutions, as product family and finally as platforms.

BFSI has been a great example. This is a net outcome of multiple decades of investment and slowly we are seeing this in other industries. Retail is a great example where our main capabilities are getting externalized more and more as products, and different product families are emerging.

We also have examples of us starting off with a platform strategy, like what we have done in iON in the assessment space where we have really taken the scale TCS operates in and are converting it into a platform which will change the talent landscape nationally. So we are putting our scale to work for the greater good of the overall industry and for the company, and redefining how we go about looking at whether it is talent identification through assessment or training and the kind of reskilling that we see. So platforms have to be seen in that context. It is not a standalone element. It is not a bolted-on strategy. It is a core strategy coming out of decades of investment.

Your Business 4.0 question is actually an interesting one. In fact, the survey that we spoke about, which we have shared on our website, is a very interesting read because it shows how relevant Business 4.0 is across multiple industries. In fact, we were also quite surprised at the results that we saw. While we were seeing anecdotal evidence of it in our pipeline, as well as in the field engagements, to see that sentiment across the wide array of 1200 enterprises, the kind of resonance that it is having, that -- quite frankly -- took us by surprise, and we are gearing ourselves up to make sure that we participate aggressively in the full extent of the opportunity in front of us.

**Ankur Rudra:** Ajoy, the data that we see from USCIS on H1B approvals for most IT companies has fallen quite a bit and so also for TCS. The data we have is probably till December. Is the supply situation stabilizing especially given you have got a very strong order book to execute for next year, how are you thinking about that?

**Ajoy Mukherjee:** Ankur, first of all, thanks for the well wishes that you mentioned in the beginning. Then from a visa perspective, I think yes, there have been certain challenges in terms of the rejection rates going up, but at the same time, the situation is very similar to what it was last year as well. It is a question of planning, and ensuring that you are doing talent acquisition of different kinds in advance to meet the business requirement. I think we will continue to do it that way. From an overall point of view, I think we are in good position. It should not be a major issue.

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

**Diviya Nagarajan:** Two questions from me: Rajesh, could you just run us through what led to this banking surprise that we have seen this quarter? I thought earlier we were quite confident of acceleration but hesitant to call out a double-digit growth. What has really changed for you during the quarter to see this kind of momentum, and what do you expect in terms of fiscal 2020 outlook for the banking space in particular? Could you also then talk about retail for you and you have seen some seasonality this quarter, is that expected to wind off and reverse as the year progresses next year?

**Rajesh Gopinathan:** Diviya, thanks. Banking, we have always been sharing the numbers and this acceleration has been in the works for some time. It has been steadily improving, the numbers are something that makes Krithivasan smile. If I am able to deliver that kind of growth (ie 11.6%) for the full year, I will also be very happy.

But beyond that, I do not want to get ahead of ourselves and call out any such turnaround or transformation. I think the teams are staying very-very focused. It is a very heterogeneous industry. It is a very wide spectrum, with multiple opportunities and multiple challenges across the sector.

Overall Europe banking has been quite positive, whereas there are a couple of large banks where challenges continue, especially if we look at capital

markets which is the most volatile end of this industry. We are quite carefully looking at it as to how this whole scenario will play out. Insurance has seen much more broad-based demand and growth. So BFSI, at 30% of our revenues, is a fairly wide spectrum. But what is most important is that we have the team, and the team is well distributed, and very focused. So we will participate in growth opportunities wherever they emerge.

On the retail outlook also it is very difficult to comment. Let me tell you this. From a medium term perspective, we are very-very positive on retail because it is a fundamental part of the economy, and the kind of focus that we are seeing among the industry players, to invest in technology and to take on peer players, and the early success that many of the large ones have had, puts it up in a very strong position. But period-to-period volatility is very difficult to call. If you are ready to ignore that, and to take a medium-term view on it, we are very positive about retail.

**Diviya Nagarajan:** Ajoy, wish you all the best for your future endeavors and it has been great interacting with you. But before you leave, a question on the attrition number. Till recently and even during this quarter, you have enjoyed one of the lowest attrition rates in the industry if not the lowest. Do you see this under risk as the supply pressures in the industry continue and what do you expect the cost of retention for you is going to be in fiscal 2020 and beyond?

**Ajoy Mukherjee:** Thanks, Diviya. As far as the attrition is concerned, I think it should continue around the same level in the short-term. But over a longer period of time, if the demand increases overall, and industry growth comes back, then it will come under some pressure which we will have to handle. But at this stage, I do not see it posing a major challenge to us.

**Moderator:** Thank you. The next question is from the line of Viju George from JP Morgan. Please go ahead.

**Viju George:** Rajesh, I had two questions on digital. When you look at digital growth, clearly what is quite marked for us is the increasing returns to scale where digital is getting to be larger and larger as a percentage of revenue and growth rates also increasing on top of that \$6 billion base. Do you think that the increasing returns to scale will continue for the foreseeable future, or we should start seeing the large numbers on growth on digital while remaining attractive, will start to come down with base? Secondly, what is leading to this because this

is quite interesting that on \$7 billion base, the growth rate continues to shoot upwards?

**Rajesh Gopinathan:** The answer to everything is inter-related. When we say digital is default, it is also becoming the default technology stack of many-many industries. In fact, I am of the opinion that it is time to retire this term altogether, and just refer to technology as technology. This is *the* technology stack of the day. So we need to stop thinking about it from that perspective.

The other element is that we are again at the midst of huge wave of innovation. This year itself, we have introduced almost 28 different service lines, and we are participating very aggressively across the whole plethora of new product companies. It is similar to what happened in the eBusiness era in the early part of the last decade. It is very widespread, and it is a large scale architecture transformation that is ongoing in the technology field, and probably time for us to stop talking about digital, and just talk about technology.

**Viju George:** When you look at a digital growth, there might be a little bit of the substitutive or the enhancement effect where certain existing technologies and platforms are made better, maybe because you are migrating towards the cloud or automating them with AI, etc., and then of course there is a lot of new stuff that is happening like IoT, Blockchain, etc., that would not have existed four, five years, back. Is there any way to qualitatively say how much of digital growth today is driven by new versus better old if I can put it that way and how do you see that changing over the next maybe couple of years?

**Rajesh Gopinathan:** Sorry, Viju, offhand I cannot give metrics like that. But I would put the construct differently. I would say that if an enterprise spends \$100 today, what is the percentage of technology in that spend? And five years from now, in the \$100 that they spend then, will technology constitute a larger or a smaller percentage of that \$100? The answer, for every single industry, is that technology will constitute a larger percentage, the reason being that there is no other line of spend which can actually claim to have a higher priority over technology.

So this is the dynamic. Now the specific area of technology that the money will get spent in will keep on changing. Our approach is that whatever is the technology that is in vogue, and whatever is the one that is emerging, we need to invest and create a talent pool for it. It is a chicken and egg story – if we do not have the talent, enterprises cannot deploy. So, it gives us the time that is

required to invest in the talent, and to scale up and participate in the opportunity that arises as a consequence of our investment.

Digital was the term that we had used for this new technology some years ago, but these are now the core technology stack. Cloud, automation, mobile, social, these are all de facto. As I said, it is time for us to stop thinking about it as an event, and think about these technologies as the general fabric itself.

**Viju George:** Thank you. Ajoy, like to take a moment to thank you for a fantastic contribution to the services industry and to TCS. All the best going forward.

**Ajoy Mukherjee:** Thank you, Viju.

**Moderator:** Thank you. The next question is from the line of Parag Gupta from Morgan Stanley. Please go ahead.

**Parag Gupta:** I have two questions, Rajesh, one for you and one for Ajoy. Rajesh, just wanted to understand - you had pretty smart deal signings in this quarter despite whatever has been talked about on the macro front. So two related questions there: One is that could you give us some sense of what kind of trends are you seeing on the contracting sizes? Are you actually seeing deal sizes getting larger or are you just seeing many deals of smaller sizes coming through? And the related question there is that while we have not seen any large multi-billion dollar deal announcement per se, I am just trying to understand that is it that platform deals generally have longer sales cycle and hence may not come in with the same frequency as what would on the other hand?

**Rajesh Gopinathan:** On the first question, deal sizes, there is not much of a movement in any direction that is worth calling out. We do have an equal distribution of large and small deals from a regular perspective. So nothing material for us to comment about.

On the platform deals, what you said is absolutely right. Typically, it is a fairly long cycle deal, and takes quite some time. They are lumpy in nature. So leaving that aside, on the regular set of deals, there is not much to talk about deal sizes.

On the TCV data that we are sharing with you, the level of focus and the level of granularity keeps on increasing. With that caveat we are sharing the data with you. In a few years' time, I am sure we will have the same level of confidence and the granularity that we have in our cost and revenue numbers.

**Parag Gupta:** Ajoy, a question for you. Automation is something that I guess most vendors and service providers have been now embarking on for the last few years. When do you see automation actually starting to yield significant results in terms of metrics such as revenue per employee, better operating margins, etc? Do you think we are now reaching a level where the scale is getting larger and you can actually see the results come through in a much more visible manner in the numbers going forward?

**Ajoy Mukherjee:** If you look at automation, as far as we are concerned, we have been talking about the Machine First Delivery Model, and over a period of time there has been a significant focus and resulting in kind of products that we have such as ignio, which is cognitive automation. So this is already in place. It is not that it is something that is going to hit us in the future. As for the question of how well we are utilizing this, and in what way it impacts our operational efficiency, this is already playing out in our numbers. It is definitely giving us operational efficiency.

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

**Ravi Menon:** I think popular perception has been that there is a dearth of system architects in India and particularly the IT services firms. And when Rajesh talked about the core transformation and spoke of how there is a lot of rearchitecting and the biggest barrier is usually the legacy stack and the processes tied to it. So is TCS different in that sense? Do you think that you have got a lot more system architects than others? If so, what has led to that, is it something culturally within TCS that is helping you differentiate in that?

**Ajoy Mukherjee:** I think the single factor that has helped us is our belief in our own people. For a good architect, what needs to be there is not just the technology knowledge, but how it is applied, in the context in which it is being applied. So that is something that we have, and that is the core belief. Given that we have focused a lot on building the competencies of our people, which is what is helping us. I think in a nutshell I would say that has been the core strength.

**Moderator:** The next question is from the line of Sandeep Shah from CGS-CIMB, please go ahead.

**Sandeep Shah:** Rajesh, just want to understand about the four trends which you spoke more about the core transformation because most of the others have been in the

reality and talk for the last three, four years, but core transformation, just want to understand, where are we in terms of the journey in terms of adoption by the clients? Is this in the early adoption stage where deal sizes which has started to move up may continue for next three to five years? Just wanted your color on this.

**Rajesh Gopinathan:** If we are pushed to qualify, we would say that it is probably in the early growth stage, and likely to continue for a period of time. As I said, we saw this in web technologies also. Towards the end of the last decade, large scale architecture transformation programs were getting executed. We are in that kind of a phase on digital technologies, where we are seeing large transformation programs being attempted and flagged off. The speed and intensity of it will, of course depend on the capacity to fund it, and the urgency to fund it, like in a situation like retail. But we are almost on an inevitable journey and this will continue. What is the timeframe, that only time will tell.

**Sandeep Shah:** Is it more broad-based across industry or it is more restricted right now to B2C versus B2B?

**Rajesh Gopinathan:** Industry by industry, it varies. In industries like retail or media, it is extremely broad-based, because it is transformative at an industry level. It is practically a minimum hygiene factor for survival, and therefore it is very-very broad-based. In other industries like banking and others, it is still selective. Depends on the competitive position, depends on their aggressiveness, depends on the product family, regions, so it is a mixed bag. But you can rest assured that in every industry, the dialogue it is only about when to do it, rather than if to do it.

**Sandeep Shah:** Is this dialogue impacted by the macro volatility? What I meant to ask is, actually, whether the sensitivity of these kinds of core transformation deals to macro volatility is reducing, or you believe this may continue to impact in terms of the decision making?

**Rajesh Gopinathan:** Again, as I said, it is industry specific. In scenarios like retail, where it is a matter of survival, then the macro does not actually impact. If anything, it only accelerates the need to transform. In other places it is dependent on the capacity to invest and the prioritization. We saw banking go through a phase where a lot of capital was being pumped into regulatory compliance, and as they have navigated away from that scenario, more and more money is now being moved to transformation engagements. Automotive you find is struggling



to balance this need to transform, as well as to fund their existing base. So there is no single answer, it is industry-specific.

**Sandeep Shah:** Just in terms of the order book, the momentum is really improving for the last two quarters. But if I look at the FY19 book to bill, it is 1.05x and I do agree this is just four quarters old data. But whether that ratio when you enter FY 20 versus when you entered into FY 19, is it worrying you or you believe that there is more to it and time will tell. As you said in reply to the earlier question, that the momentum which we saw in FY 19 may continue in FY 20?

**Rajesh Gopinathan:** I do not want to make a forward-looking statement. When we started looking at this data, we had set ourselves a target of 1:1, for lack of any better benchmark on controlled data. As I said, our quality of this data and our granularity will improve over time. We understand revenue and cost a lot more granularly, and we understand the nuances of the data. We are in early days yet on this data set that we are sharing with you. But we have been at one or greater than one in three of the four quarters; and in one quarter we had 0.9. So overall, we are not too concerned. Trend lines will emerge over time. We will talk about it as they come.

**Sandeep Shah:** Within BFSI, some of your smaller peers are talking about client-specific issues. Because you are one of the largest vendor tends to be those accounts also material for you. So are you worried for a client-specific issue for BFSI demand entering into FY 20?

**Rajesh Gopinathan:** We have client-specific issues on the negative side, we have client-specific issues on the positive side. Net-net where the balance comes, we will have to wait and see.

**Sandeep Shah:** On the supply side issues, do you believe could be a new margin headwind looking at the visa rejection rates entering FY 20. And one of your peers today also mentioned that one of the reasons for higher attrition for the industry is some of the offshore employees are getting lower opportunity, besides the wage hike, lower opportunity in terms of transition from offshore to onsite location because of the preference given to the local employees. So that is also leading to some demotivation to whether making a choice of IT industry versus other industry as a whole. Are we witnessing similar problems in the supply side issues?

**Rajesh Gopinathan:** As I said at the start of this call, Ajoy epitomizes TCS. TCS is about careers. TCS invests in people who have a focus on careers, and people who have a focus on careers see the value in working for TCS. I do not think people come to TCS for a visa or a work location in one place or the other. Our people-first strategy continues unchanged. Just because the technology changes, this core value and core belief does not change. We have stood by our people through this technology change and we are very confident that our employees will stand by the company as the opportunity and the market improves.

**Sandeep Shah:** Just on the electoral trust contribution, it looks like a non-recurring charge for this quarter. What is the nature of this contribution as a whole and one can presume that this would be a tailwind in 1Q, am I right in assuming this?

**Rajesh Gopinathan:** Definitely. The magnitude and the charge can be considered as a one-off. You are right in your assumption.

**Moderator:** The next question is from the line of Sudheer Guntupalli from Ambit Capital, please go ahead.

**Sudheer Guntupalli:** The strong growth acceleration in BFSI in this quarter -- almost 300 bps compared to the previous quarter when you look at it on YoY basis -- can you give some more color on what has driven this acceleration in terms of geographies and sub-segments? Was this driven by European banks or US? And you have also spoken about challenges and volatility in few pockets. So any further color on that will be helpful.

**Rajesh Gopinathan:** Nothing incremental. I will just repeat what I had said. Europe overall, as a geography, continues to be ahead and growing faster than other places. There are one or two large European banks which are going through their own periods of volatility and are a challenge. Overall in Europe, BFSI continues to do well. Insurance as a vertical or a sub-segment under this, is seeing good, strong, stable growth. Capital markets, as a vertical, is the one that is volatile and probably the one with the fastest reaction to any macro impact, whether on the positive side or on the negative side. Beyond that, I do not have any further color to add.

**Moderator:** The next question is from the line of Dhanashree Jadhav from Anvil Shares and Stock Broking, please go ahead.

**Dhanashree Jadhav:** Rajesh, you spoke about the legacy transformation deals that we are witnessing. I just want to know where are we heading towards in terms of

pricing – are we doing something different compared to our peers or the overall industry, that we seeing this kind of execution?

**Rajesh Gopinathan:** Pricing is becoming a fairly complex space, because the deals are becoming more transformation-led. Customers are more and more valuing the capability that you bring to the table, and the uniqueness of that capability and the solution set, and that is helping us deliver of win-win solution which delivers greater value to us and greater value to our customers. Pricing is a net outcome of that, and I think it is a net positive for both parties.

**Dhanashree Jadhav:** Are we seeing some stability in the pricing pressure that generally the commodity business has been witnessing, some color on that?

**Rajesh Gopinathan:** We are seeing quite a lot of stability in pricing.

**Moderator:** The next question is from the line of Vibhor Singhal from PhillipCapital, please go ahead.

**Vibhor Singhal:** Rajesh, I just had one question on the European geography. So I think we have had very strong performance in Europe this time around again, especially from UK. I think time and again, year after year, we have seen higher incremental revenue coming from the European geography for us than US which has been the staple for the entire industry and still gives more than 50% of the revenues. Do you see this European geography momentum continue? We know the strong vendor win in UK this time was probably driven by some of the large deals that we had won last year. But do you see us maybe hitting a plateau curve at some point of time in Europe? If not, then if I were to let us say ask you maybe a long-term vision in terms of let us say seven or eight years down the line, do you at some point of time foresee European geography becoming bigger for us than the US market?

**Rajesh Gopinathan:** Your question is difficult to answer directly. Let me share this with you. We started growing Europe later in our evolution cycle, so our positioning in Europe is actually much stronger than our positioning in US. We are much more integrated in the growth and transformation agenda of our customers and our engagement with our customers is much further up the executive chain, compared to older customers that we have in our more traditional markets. So that positions us better and it also makes us more entrenched. Having said that, the sheer size of the market in US and our continued focus on

repositioning ourselves in that market should also come back and deliver results for us, but that is our long-term focus.

**Vibhor Singhal:** So US will probably still remain a primary market despite the fact that Europe continues to grow at a much stronger pace?

**Rajesh Gopinathan:** Absolutely.

**Vibhor Singhal:** The margin profiles also in the contracts or in most of the engagements that we have across the region would probably be similar as well?

**Rajesh Gopinathan:** Pricing is of course geography-dependent and margins are more complex than that. Margins depend on the country, delivery model, the nature of the engagement, scale of that relationship, etc... but given the fragmented nature of the European market, pricing is typically higher compared to a large scale market like US, where the economies of scale have resulted in lower prices.

**Vibhor Singhal:** So if I were to deduce, on a like-for-like basis, probably the pricing would be a little bit better in European fragmented markets than the US market?

**Rajesh Gopinathan:** Absolutely. And it is probably true for not just for services, for every product or anything that you consider, US is probably the lowest priced location among developed markets. That comes from the size of the market.

**Moderator:** The next question is from the line of Viju George from JP Morgan, please go ahead.

**Viju George:** Rajesh, I want to get a sense of how your org structure and design is keeping up with the base. I think just over a decade back, you did segment yourself to 30 or 35 decentralized units. How has that evolution further come along as you increasingly see multiple service lines and you also deal with base, how are you positioning on that access?

**Rajesh Gopinathan:** The basic organization structure especially on the P&L line continues to be exactly the same as what we had earlier. The organization structure, like we had said at that time, is massively scalable both vertically and horizontally. Today at this granular node level, we run almost 150 P&L units from an industry vertical perspective. In technology architecture terms, we see it as a fairly modular structure, self-sufficient in itself, and therefore massively scalable.

**Viju George:** So each of them is kind of run like a single company where the synergies are derived from each and then from the parent, is that the way to think about it?

**Rajesh Gopinathan:** Absolutely. They are independent, autonomous, and self-organizing.

**Viju George:** One last question here on pricing. Obviously, the cost of operations is rising quite a bit in the US. Do you think that the industry and TCS will have success in passing some of that to client's overtime?

**Rajesh Gopinathan:** I think so. In fact, if you look at our price resilience and compare it to any industry on a like-to-like basis, the technology services industry has the highest price resilience than any other sector.

My favorite example is when we think about a premium phone, the like-to-like price of that model, three years later or four years later, collapses by 50% to 60%, if not more, even for the most premium model in that product line. Whereas in our industry, price resilience is phenomenal. Four years later, the like to like price deflation will not be more than 5% or 10% at the most. So this is a beautiful industry from a price resilience perspective.

IT Services has been misunderstood as a commodity. It does not have any of the characteristics of a commodity. It has huge price resilience as we just discussed, very large switching costs, phenomenally differentiated purchasing and incremental purchases are not possible. The purchase decisions are fairly large and long-winded. So I think the understanding of this industry by many commentators is fundamentally flawed. It is not a commodity, which is why our margins are as resilient as you see.

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

**Rajesh Gopinathan:** Thank you. So to sum up, we had a strong Q4, with broad-based demand across industry verticals and geographies resulting in a revenue growth of 12.7%, the highest in 15-quarters.

For the full year, our revenue growth was 11.4%, highest in the last three years and our operating margin expanded year-on-year to 25.6% showing good resilience. Over the last 12-months you have seen our Business 4.0 framework resonate very well with our customers and drive greater demand for our digital transformation services. The other three key drivers for growth were our

customer's innovation spending, agile and machine first delivery model and the core transformation initiatives that we spoke about extensively during this call.

Lastly, our order book in Q4 was the strongest in the last four quarters, the deal pipeline is also very good and our strong exit from FY 19 gives us comfort on our FY 20 outlook at a time of macro uncertainties. Thank you all for joining us for this call today and have a great evening. Good Bye.

**Moderator:** Thank you members of the management. 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.*