



Tata Consultancy Services Limited

Q4 FY20 Earnings Conference Call. April 16, 2020, 20:00 hrs IST (10:30 hrs US ET)

Moderator:

Ladies and gentlemen, good day and welcome to the TCS Q4 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, Margaret. First of all, my apologies for the delayed start. Good evening and welcome everyone. Thank you for joining us today to discuss TCS' Financial Results for the Fourth Quarter and Full Year of Fiscal Year 2020 ending March 31st, 2020. 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. Milind Lakkad – Global Head, 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 which is available on our website, and which has been 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 good evening to all of you. I hope that all of you and your families are safe and continue to be staying healthy.

Over the last few weeks our priority has been to safeguard the health and well-being of our employees, while continuing to support our customers' mission critical activities globally.

The lockdowns across the world in response to this pandemic have tested the agility, resilience and adaptability of our delivery model. And it is immensely satisfying to say that we have come out stronger and our model is more proven than ever before.

From a highly centralized model consisting of work spaces set in large delivery campuses capable of accommodating thousands of employees, we had to switch to an extreme form of distributed delivery in a matter of days. To do that across an organization of 448,000 is, you will all appreciate, not a trivial challenge. The most important aspect of it is, it is not just moving the person from inside the office to outside, but being able to actually extend all the elements of our delivery model to be able to work seamlessly with this kind of a distributed pool. Our IT support teams analyzed the various connectivity options and came up with an extension of what we call our Open Agile Delivery model concept into a next-generation Secure Borderless Workspaces™ or the SBWS model. It is not just a matter of enabling remote access to hundreds of thousands of employees. We rejigged our cyber security posture, and all our project management practices and systems to ensure that proper work allocation, work monitoring and reporting continued, so that the high quality and delivery certainty that our customers have come to expect from us was never compromised.

The logistical challenges of physical enablement were formidable. In the final push, our Admin, IT support and HR teams work very hard, and in the true spirit of TCS and did a magnificent job. Close to 90% of our employees have now been enabled to work in the SBWS model.

The other area where our model truly shone was in the manner in which our global teams stepped in to seamlessly take up the load, and the flex with which work moved between teams. It was very encouraging in terms of what it means from an organizational perspective and also from the perspective of the

underlying technology architecture that holds together our talent pool in one seamless delivery organization.

The fungibility across teams ensured that there was no slippage in support levels to customers' mission critical operations and systems, and this has been widely noticed and appreciated by many stakeholders. Our SBWS experience over the last few weeks has been, I would say, amazing. Our cloud-based monitoring system is tracking the progress of all our engagements, covering more than 23,000 projects across the organization on a real-time basis, and ensuring that customers continue to experience the same high quality of delivery that I spoke about.

Associates are also in many ways, actually enjoying the luxury of not having to commute. And in fact, some of that is showing through in increased energy levels and engagement that we are seeing across the organization. TCS HR and Milind will speak a lot more about it, but has been also very proactive in making sure that employee engagement across multiple dimensions, whether it be emotional well-being or even addressing areas of common interest, continue to remain high on the priority and as we actually transition to this kind of a distributed one.

Clients are comfortable with what we have done, and they want us to take more work in fact, from other providers who might not have the kind of flex and seamless options that we have been able to demonstrate. We received more than 500 customer appreciations and accolades in the last two, three weeks, appreciating how seamlessly we manage this switch.

Coming to our Q4 performance, even though the actual disruption took place only in the last couple of weeks of the quarter, the pandemic completely reversed the positive momentum that we had seen building up in some of our biggest verticals in the first two months of the quarter. Our Q4 revenue growth was 3% year-on-year on a constant currency basis and 5.1% in rupee terms and that translated to 0.9% in dollar terms.

For the full year, we crossed the \$22 billion mark, growing at 7.1% in constant currency, 7.2% in Rupee terms and 5.3% in Dollar terms. Our operating margin for the quarter was flat YoY at 25.1% and net margins in Q4 was at 20.2%. Our cash conversion continues to be strong.

Our full year EBIT margin was at 24.6 while the net margin was at 20.6.

I will ask Ramki to go over all the headline numbers, financials and segment performance and I will again step in later to talk about the demand trends that we are seeing and way we are modeling the next few quarters ahead.

V Ramakrishnan:

Thank you, Rajesh. I will go over the headline numbers. In the fourth quarter FY2020, our revenues grew 3% YoY on a constant currency basis. The reported revenue in INR was ₹399.46 billion, which is YoY growth of 5.1%. In USD terms, revenue was \$5.44 billion which is YoY growth of 0.9%.

For the full year, our revenues grew 7.1% in constant currency. In INR terms, revenue was ₹1.569 trillion which is YoY growth of 7.2%. In USD terms revenue was \$22.03 billion, which is YoY growth of 5.3%.

Going over to the segmental performance, as a reminder, all these growth numbers are YoY and in constant currency terms. BFSI revenue declined this quarter by 1.3%. Much of the revenue leakage was due to the supply side impact arising out of delays in or inability to activate remote access for some of the offshore teams due to regulatory concerns. Retail grew 4.2% despite a sharp hit in the Travel, Transportation and Hospitality sub-vertical, Life Sciences and Healthcare continue to grow strongly clocking 16.2%. Likewise, Communications and Media business continues to do well, growing 9.3%. Manufacturing grew 7% this quarter, while Technology and Services grew 3.5%.

Geography wise, Europe continue to outperform, growing 11.9% while UK grew 5.4%. North America was flattish at 0.2%. Among the emerging markets, Latin America and APAC grew 3.9% and 3.5% respectively, while MEA grew 1.3% and India declined by 1.9%.

Coming to our portfolio of products and platforms, they perform quite well in Q4. Ignio™, our cognitive automation software had 11 new wins and 13 Go Live. The product suite continues to expand into newer areas and with new features and capabilities. Our channel partner program continues to expand, onboarding five new partners this quarter, including three value added resellers and two technology partners. ignio is now available on the Microsoft Azure marketplace.

TCS BaNCS™, our flagship product suite in the financial services domain had nine new wins, of which three were in the core banking, two in insurance, two

in securities processing, one in lending and one in payment. We also had five go lives in Q4.

The Quartz Blockchain Solution had three new wins in Q4, of which two were for the Quartz Dev Kit launched in Q3.

In the Algo retailing space, we had one go live each for Optumera™ and OmniStore™. In Life Sciences, our award winning Advanced Drug Development suite had three go lives, including a new innovative, AI-based solution for pharmacovigilance implemented for a UK-based global pharma company.

The GXP compliant solution uses the TCS Decision Fabric AI engine to transform case intake and triaging by converting natural language to structured clinical data.

Lastly, TCS HOBS™, our SaaS platform for communication service providers had two new wins and one go live.

Coming to the client metrics, we report our client metrics every quarter because these are an important measure of the strength and success of our customer-centric strategy of continually investing in building newer capabilities, and launching newer services and products to steadily broaden and deepen our customer relationships. In Q4, we had very good client additions across all revenue buckets.

To give you some of the details, we added five more clients in the \$100 million+ band bringing the total to 49, six more in the \$50 million+ band bringing the total to 105, 25 in the \$20 million+ band bringing the total to 240, 20 clients in the \$10 million+ band, bringing the total to 391, 33 clients in the \$5 million+ band, bringing the total to 565, and 64 clients in the \$1 million+ band, taking the total to 1072.

Going over to the financials, our margins in Q4 were impacted by the slower growth and also by the lower utilization in projects where customer approvals for work from home were not yet received or were delayed. Currency support mitigated these headwinds, resulting in an operating margin of 25.1% and net income margin of 20.2%.

For the full year, our operating margin was 24.6% and the net income margin was 20.6%. Effective tax rate for the quarter was 23%. Our DSO was 67-days

in dollar terms. Net cash flow from operations was ₹88.09 billion which is 109.4% of the net income. Free cash flow was ₹80.68 billion, for the full year it was ₹323.03 billion, which was 9.4% YoY growth. Invested funds as at March 31st stood at ₹443.11 billion.

The board has recommended a final dividend of ₹6 per share, taking the total dividend for the year to ₹73. This translates to over ₹318.9 billion returned to shareholders this year.

On the people front, we ended the year with a total headcount of 448,464, a net addition of 24,179 in the course of the year. It continues to be a young and diverse workforce, with 144 nationalities represented and women making up 36.2% of the base. TCS organic talent development initiatives continue to deliver industry-leading outcomes. Employees logged 37.7 million learning hours in FY2020, resulting in over 335,000 employees getting trained on multiple new technologies, and over 417,000 trained on Agile methods. The LTM attrition IT Services in FY2020 was 12.1%.

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

Rajesh Gopinathan: Thank you, Ramki. The pandemic has introduced an unprecedented level of uncertainty in an already unstable global economy. All major economies have virtually ground to a halt. And it is difficult to predict when and how the recovery might commence. What is clear though, is that individuals as well as organizations have to mentally prepare themselves for a prolonged period of uncertainty and a new normal.

Now that we have stabilized from the initial shock of the lockdowns, our focus is on helping our customers navigating that new normal, and building in these three elements of resilience, adaptability, and agility into their organizational structure. And one of the biggest learnings for organizations on the four weeks has been the importance of investing in these capabilities as horizontal organizational capabilities.

These are attributes that an organization needs to survive shocks like what we just gone through and also to pivot into new business models or launch new offerings and thrive, even during periods of economic uncertainty. These attributes do not come from adopting any one management practice or technology or toolset, but are the aggregate outcome of a customer-centric,

forward-looking world view, an empowering culture which motivates people and enabling processes and robust technologies.

Several of the core themes that we have been speaking about for the last couple of years, and which have been our strongest growth drivers and where we have invested significantly have become all the more relevant in the current situation, because they directly address the pressing need with resilience and agility.

Let me go over a few of them. First of all, the Location Independent Agile model, and its evolution into what we are calling the SBWS model or Secure Borderless Workspaces. I have spoken in the past on how we have innovated to break out of the constraints of co-location that were limiting the use of Agile methods and methodology, and pioneered the Location Independent Agile model.

We have been systematically transforming our development centers to what we call agile operating centers, and encouraging our clients to move to Open Agile Collaborative Workspaces, and away from the ODC model that permeated the earlier period. This promotes an open office environment, and co-working with people working for other clients from different verticals and organization, and all of this without compromising on the security features available in the more constrained work environment.

Today, it has become the default model for transformational programs at large organizations whose business users are distributed across the world. In FY20, we executed over 15,000 Agile projects for 912 of our customers using this model. The disruptions caused by COVID-19 only highlighted the thought leadership in our Location Independent Agile approach, and gives us a clearly differentiated positioning. But we are not stopping with that.

Our Secure Borderless Workspaces model, which we rolled out in response to COVID-19 disruption, is an extension and the next generational evolution of the open agile collaborative work spaces thinking, but making it further location-agnostic. It leverages all the investments that we have made, and incorporates all the learnings and best practices around network management, the internal security operations center benchmarked to the best in the industry, a standard service delivery environment, digitized delivery governance processes, and collaborative and Cloud-based technologies, including things like Microsoft teams and Office 365. This is our new operating model and

represents future of work. It helps our employees enjoy a better quality of life and it helps organizations become more resilient, because the fully distributed nature of this model is inherently less risky and better suited for business continuity and agility. Our Location Independent Agile model and its evolution to, as I said, the Secure Borderless Workspaces model, we believe, will define the delivery model of the future.

The second key element of it has been what we have always been speaking about as the Machine First Delivery Model™ or MFDM. This is another thought leadership framework which I have spoken about in these calls before, and which has again proved its mettle during the current crisis.

MFDM is basically a way of integrating technology deep within the enterprise to redefine how humans and machines can work together more effectively. It combines human ingenuity, empathy and judgment with machine-driven speed and scale, and delivers vastly improved outcomes and at scale. Most importantly, it marries the here and now benefits of automation, and provides a framework to continuously increase the leverage of both automation and AI technologies at an enterprise scale.

Over the last couple of years, we have executed many large core transformation engagements where we have helped customers reimagine their IT operating model, incorporating the cognitive power of ignio to preempt issues and autonomously resolve a lot of those, essentially making the technology stack self-healing and thereby adding to the resilience. This resilience has been particularly appreciated by our customers in sectors like retail, where they have been able to handle the peak volume level traffic in the panic buying that came along with the lockdowns across multiple countries and economies.

The pandemic has put the spotlight on both these models and we have some early indicators in our deal wins, of customers who are increasingly willing to adopt this as the new operating model going forward.

In terms of order book, we have the highest TCV in signed deals this quarter from the time we have started reporting this. The overall order book signed in the quarter was at \$8.9 billion and BFSI stood at about \$2.4 billion, while Retail was \$3.1 billion, which includes the \$1.7 billion of the Walgreens deal that we had announced earlier. In both cases, these are the highest ever figures. TCV from deals signed in North America as a region stood at \$5.3 billion.

Several of the large deals are core transformation engagements incorporating agility or our Machine First approach for enhancing operational resilience. Going forward, I expect more and more customers to think seriously of ways to incorporate these into their operating models if they have not already done so.

So let me conclude by saying that when we look ahead, we are going to have to deal with a lot of near-term uncertainty. I mentioned it in my press conference as well. We believe that the peak negative impact from the current situation would be comparable to the peak impact of GFC, which happened 10 years back. It would be in that ballpark, plus or minus a few percentage points.

The way we are modeling it, is to look at it across four dimensions. The first being operational, which I have taken a lot of time to talk about how we are ensuring that we continue to deliver on the delivery quality and execution quality that we are known for, even with this highly distributed model. More importantly, we are once again providing the thought leadership, in terms of migrating to the operating model of the future. We are very happy that many of the investments that we have been making over the last few years are actually proving to be very, very pertinent in this current scheme, and we believe that this will only accelerate this movement to that.

The second big component is our interaction with, and the feedback that we are getting from, our customers. Our customers' confidence in us has actually gone up and many of them have been very, very open in sharing their appreciation with us, and expressing what they have experienced in very profuse terms. So we are confident that our customer relationships will continue to strengthen, and will come out even stronger post this crisis. We continue to stay focused on doubling down on those relationships.

Thirdly, our talent model. Our continuous investment in reskilling has prepared our employee base for fungibility and rapid shift and self-learning. And these traits and these principles and values are even more re-emphasized by the current situation that we are in. The strong commitment that we have to our employee base is being reflected and repaid in the kind of phenomenal effort that each and every TCSer has put to transition the company into this new operating model.

The last aspect of it is of course, our financial model that Ramki spoke about, and on which we will be happy to take more questions on.

So overall, it is likely to be challenging few quarters, but we are looking forward and modeling three quarters forward or four quarters forward, by which time we can get back to the same revenue and profitability levels that we are currently at, so that we can continue our journey forward from there.

With that, I want to turn this over to the operator for your questions which we will try our best to answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sudheer Guntupalli from Motilal Oswal Financial Services. Please go ahead.

Sudheer Guntupalli: Some of the deals we have already won and about to be ramped up may need end-to-end virtual processes be it onboarding, so on and so forth. So how prepared are we on this front? for those deals which we might have won during the first half of the quarter, are the expected ramp up timelines on track, especially post the shock in the last two weeks of the quarter?

Rajesh Gopinathan: As you can imagine this is not a scenario that had been modeled for. But I am happy to report that anecdotally, there is quite a lot of positive action happening in that area. In fact, for one of the deals that we have announced in the North America space in mortgages and insurance, the initial transition kickoff and town hall with many of the employees involved, has been entirely conducted online and has been very, very positively received with bulk of the impacted people actually giving us very positive feedback on it and deciding to switch over to the new model that we were suggesting. So, there is good, strong anecdotal evidence. Structurally, we are rapidly working to see how to create digital spaces that are rich and engaging to be able to do something of this nature. So we are using our learnings from the Location Independent Agile and our distributed work teams to actually push that into this new norm of doing transition in a location independent manner. There have also been past examples of this, but the speed and scale at which we are trying to achieve that now is unprecedented.

Sudheer Guntupalli: And in terms of the expected ramp up timelines, is there any change post the shock or as of now there is no change?

Rajesh Gopinathan: Early days yet, because some of the ramp-ups are going on as normal, but the actual impact of it will be better felt and better quantifiable through this quarter. We are expecting some impact from it and building that into our model.

Sudheer Guntupalli: My second question is on the fixed price contracts. In those cases where there might be slippages in terms of timelines or SLAs due to the lockdown situation across the globe, how are clients responding to it -- do we have some kind of protection embedded in all the contracts given that it is an act of God kind of situation? Or can there be any possibility of some penalties being imposed in such cases?

Rajesh Gopinathan: Not a single one of our fixed price projects has seen either a SLA slippage or a schedule slippage. Actually, that is something that we are phenomenally happy with, and proud about. NGS, maybe you can add to it in terms of what you have been seeing.

N.G. Subramaniam Sure, Rajesh. As we moved from the employee safety situation to enable them to work remotely, the first and foremost thing that came very handy for us is the digitized operating model that we have, and the digitized delivery processes that we have. So, overall, that helped us to track at any point in time more than 25,000 projects that we execute, pretty much on a real-time basis. Our project managers and client partners have constantly been polled to ensure that any red flags that they see are tracked to closure. Overall, the rigor in operations that we brought in, using the digital framework that we established, came in handy. As Rajesh mentioned, we are proud to see that each and every project is on track. We are not seeing any milestones being missed at this point in time in our fixed price projects.

Sudheer Guntupalli: In the near term, we understand that our ability to predict anything is pretty limited. But if you take a slightly longer term or medium term view, what would be the major technology shifts in the IT world that you anticipate in a post-COVID world? And how are we preparing ourselves to build leadership even in the new paradigm as well?

N.G. Subramaniam I think from a technology shift perspective, there are two or three things that are emerging. One is, how do you build more resiliency into operations? I think the whole business continuity planning will get further strengthened. Further rigor will be brought into that. Second is, respecting every technology in which we are operating, right, in every market that we are operating, and staying fundamentally committed to that is going to be very important. As we spoke, there are customers of ours, and there are others who are not customers of ours, who are seeking help on mainframe technologies and COBOL and a few other older technologies that we have been able to systematically support as well. But as we see it, the biggest technology shift is going to be in areas like

collaboration tools and digital technologies. The acceleration that we are seeing in migration to cloud will be even faster. I think the whole area of intelligence analytics, and adoption of technologies for self-healing of the infrastructure that will provide you that resiliency will also be accelerated.

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

Diviya Nagarajan: Rajesh, my first question is to you. Could you clarify what you mean when you say the peak impact which you expect in Q1 is going to be as severe as what you saw in the global financial crisis -- are you talking about revenue on a year-over-year basis dropping by a similar proportion or how should we think about that?

Rajesh Gopinathan: Diviya, what we mean is that the impact on the demand side in Q1 that we are expecting will be similar to the peak revenue impact on a sequential basis that we had seen during the GFC.

Diviya Nagarajan: To your other point of getting back to the previous revenue and margin base in a few quarters, again, are we talking growth rates here, are we talking absolute numbers?

Rajesh Gopinathan: No, we are talking absolute numbers. We were on a certain trajectory. We already had a sequential negative in this quarter coming from Q3. So the first target will be to get back to the Q3 FY20 level in absolute terms. The next target is the margin. We are at 25% this quarter. There is no way this is going to get defended in the near-term. But our intent is to get back to this level, and our current modeling is to be able to get back there by Q4 of FY21, so that we can start off where we left off.

Diviya Nagarajan: My second question is on the margin front. Perhaps, Ramki could add some color here. What are going to be your key cost levers here? You already spoke about honoring the campus offers that you have already done. But could you kind of talk about what is happening on the hiring side and specifically, are you considering any cost control measures such as furloughs or possibly looking at an accelerated involuntary program compared to what you have done in the past?

Rajesh Gopinathan: Let me take that Diviya and I will let Ramki add further color to it. The immediate term levers that we are looking at, unlike what happened in the GFC time, in GFC, we actually significantly changed our operating model and moved

offshore in a significant way. That is not on the table right now, given the current situation that we are in. So, what we have done is we have put a complete freeze to new hiring, except for all existing offers that are out there. On the lateral offers side, in the next few weeks I think all our existing offers will run out, and we do not expect any further lateral hiring till we have very strong visibility on what is going on.

We have more than 30,000 offers outstanding to campus recruits and we are going to honor that. We expect that given the impact that the current crisis has had on the university system, their exams might get delayed to June, July or sometime later. But immediately after that, we will start bringing them on board. So, Q2, Q3, we should be bringing them on board with some spillover into Q4, which is the typical path that we used to have till about a year back. Last year, we had done an accelerated program, but this year that would not be possible.

As for your question on retrenchment or involuntary separation, we want to be very clear that is not in our model, and we are not planning on any of that as a response to this current crisis. We are going to be significantly looking at driving the Secure Borderless Workspaces model to change the overall utilization paradigm and to try and continuously upskill and move our people into higher value-add roles with a very, very aggressive online training program that we have already commenced upon which we called Wings-I and II, and there are multiple ones of that coming and planned.

So, the focus on getting back will be to actually get that demand back to the levels that I told you about, and to maintain the cost structure in a manner in which we are able to get to that, whenever we first secure and the demand for it. I hope that answers your question.

Divya Nagarajan: Got it. And any consideration on furloughs for employees either in India or abroad...India, I am sure, there are legal issues?

Rajesh Gopinathan: As of now, no. But our focus will be to protect jobs and at the cost of salary, and we will see what are the options available on that.

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

Ankur Rudra: Could you perhaps elaborate in terms of how you set your modeling business in terms of revenue levels for 3Q and FY21? You seem to be saying that you think the peak negative impact will be in Q1. So maybe you can elaborate why

you think it is in June and what is your thought process about getting back for the full year, is this supply-led, is there some demand-led recovery based on the conversations you have had with your clients? Some more color there will help?

Rajesh Gopinathan: Ankur, a lot of it is also coming from the pipeline that we have had so far and the order book that we have. So we believe that we have the order book that can be executed on, and we are turning to see how we can accelerate some of that and use the capacity that comes free to try and accelerate some of those kind of transformation programs that have.

We believe that if you look at the impact that is currently playing out, as and when we actually start seeing manufacturing activity coming back, that should have a cascading positive impact. So, if you look at the GFC learnings that we had, after the first one or two quarters of the peak, actually, we were able to get back to a steady demand growth curve, and that came not just because there was net new demand creation in the market, but it also came through market share gains, and the reliance of our customers on the quality of work that we do, as well as the quality of the franchise that we represent.

So, we believe that a combination of market share gain, acceleration of the order book that we currently have, and the ability to actually participate more thoroughly in various digital transformation that we think will get accelerated... All of that is what we are actually using to model getting back to the absolute levels.

Ankur Rudra: And in the near-term bottom you see, how much of that is because of continued supply issues as opposed to demand issues?

Rajesh Gopinathan: Our impact in Q4 was about two-third supply and one-third demand. As we cycle forward into Q1, the first week or 10-days we continued to have supply side challenges, especially in sectors like BFSI where there was initially quite a lot of reluctance to adopt this kind of distributed model, partially because they also required a more structured approval process given their regulatory and risk framework. But many of that we are systematically working on both dependency of infrastructure availability at our end, as well as customer approval, so that we can actually get out of that supply side problem.

We think that net-net, the total impact in the first two weeks in absolute terms is similar to the last two weeks of Q4, and the next two weeks in fact will be

about half of it. But beyond that, we still think there will be a residual impact on the supply side because we will not be able to shift everything to a 100% remote model.

The peak negativity that I was talking about in Q1 is primarily coming from the demand side; our Q1 expectation is that about 80% of the revenue impact is going to come from demand impact, rather than supply side. And that point is where the trajectory upwards will start.

Ankur Rudra: Thank you. Just lastly, given the learnings you mentioned from the GFC crisis, how are you just thinking about balancing the need to stay relevant with clients competitive with the motivated workforce as we come out in this crisis or the resource actions you have to take in this period to balance the tactical and the strategic parts?

Rajesh Gopinathan: From a motivated workforce perspective, we are actually increasing our investment into that. As I said, our engagement levels with our distributed workforce is very high and we are in fact rolling out very, very unique and innovative ways to stay engaged with the distributed workforce. So, workforce motivation is quite high. And that is one of the reasons why we are also reiterating our commitment to the workforce from the medium-term and long-term perspective.

From the customer side, we have always maintained that our business has been built on long-term relationships with customers and we enjoy a healthy respect with our customer base. So, we stand shoulder to shoulder with them, and as long as we are clear about where the ask is coming from, and what the immediate as well as the medium term trajectory of that is, we are very, very proactive in participating in those.

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: Firstly, could you give us a sense of what do you think is happening between consulting kind of projects and outsourcing projects? Is there a significant divergence in trends there? I can understand in the immediate short term, do you see those trends kind of playing out through most of this year? And the second question was, while again I guess it is early days, but do you see any of your clients who are significantly challenged, which can

potentially create permanent impact on revenues rather than just being temporary in nature?

Rajesh Gopinathan: The first one, I think always in situations like this, customers value execution over advice, and actual work over PowerPoint. That has been something that we are always focused on. I think that will continue to play out. Typically, consulting is the most volatile business, while there will be, of course, opportunities to participate in the newer areas. In aggregate, we think the impact on consulting will be negative.

There will be specific areas like security, like cloud migration, like rolling out these new-age, what we call Distributed Digital Workspaces, all of that, which require a very strong binding between consulting and execution. Those are the kinds of consulting areas that will be in demand. That is where the focus of our Consulting and SI practice is, and we are rapidly cycling into those services. We are creating a catalog of many of these execution-cum-advice-led services, which we believe will be very valuable and in demand in the near future.

On your question about client specific issues, I do not want to comment about that. You know what our client universe is, and it is fair to assume that some of them might have extreme impact. But in aggregate, let me say that our client franchise is very good and therefore our net impact will be lesser than others' on the competitive landscape.

Parag Gupta: Do you think that there could potentially be any interesting vendor consolidation and on a separate note M&A opportunities that could probably come up which you could potentially be interested in?

Rajesh Gopinathan: Both of those are opportunities that we are always very open to. Our stance is that for the right asset at the right price, we are always game for it. And if this current market throws up those opportunities, we would definitely snap them up. Again, our largest M&A to date was actually executed at the peak of the GFC. So, we are not shy of M&A and we believe that the best time to execute it is when nobody else is buying.

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

Ashwin Mehta: I had a question on the vertical side. So we have seen Life Sciences, Communications Media being defensive, so you were doing pretty well. Do you think even during this era that defensiveness can possibly continue?

Rajesh Gopinathan: Life Sciences and Communications are relatively the lesser impacted. But there are also, there are pockets of weakness. For example, in Life Sciences, the cancellation of elective surgery is having quite a lot of impact on many sub-segments like medical devices and even certain specialty hospitals and facilities like that. So, it is not that Life Sciences is completely immune to it, but if you were to pick one sector, they are the most resilient and likely to remain the most in the near-term in this current crisis.

Communications is an even more mixed bag. While there is strong demand drivers with this whole shift to a digital operating model and which will be a long-term shift and will continue to benefit all forms of capacity providers. But, on the media side, there is significant impact. Cancellation of large sporting events, Olympics and other sporting events, is having significant subscription as well as advertising revenue impact. Closure of amusement parks and other such facilities is also having a lot of impact. Closure of studios and the lack of new content will have downstream impact. So, Communications and Media is a more mixed one.

But the biggest difference in the impact of this pandemic compared to GFC is that the GFC started in the financial services world and then slowly moved into the real economy. Here, the impact has been across most sectors very rapidly. The hope is that the recovery will also be equally widespread given the nature of the impact that has happened.

Ashwin Mehta: Rajesh, secondly, on Banking and the Insurance platform, BPO side of your business, how are things panning out there because some of the other players seem to have suggested more disruption on the BPO side of business in this whole work from home environment?

Rajesh Gopinathan: Actually, our own Insurance BPS has been quite protected because a lot of it is SLA and output based, and we have been able to switch the model. There might be some impact but less so. But the larger banking operations business has been the one that is most impacted, like I mentioned in response to the question that I think Ankur or somebody else asked in the beginning. Banking operations, their security processes, their regulatory and compliance processes are quite complex and involved, and getting a sign off on the new operating model has been time-consuming. It is heartening that many of them are coming through, but they have taken the longest time in coming through. So, of the supply side impact that I spoke about in Q4, as well as in Q1, a disproportionate amount of it is coming from the BFSI BPS space.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Is it possible to give some color on the impact of the pandemic on your order pipeline? I mean, are clients approaching the decisions on new deals -- new deals signing in a similar manner? Or do you think some elongation is going to happen on that? And related to that, do you also expect the profile or the sizing of such deals will undergo a shift or possibly come down as people start looking at more cost savings?

N.G. Subramaniam Our overall pipeline and the qualified pipeline continue to be strong. And the deal closure value of about \$8.9 billion that we announced this quarter is one of the highest in recent times. We are fairly confident about the qualified pipeline that we have. We continue to stay engaged in each one of those opportunities. Even in the last two weeks, we are seeing that presentations and propositions are being worked upon. But having said that, in these kinds of situations, there are two types of organizations that we come across.

One, I am sure that you would have also got that WhatsApp forward that talks about who accelerated the digital agenda -- is it the CEO, CTO or COVID-19? In that context, I think there are many who are pushing ahead saying that this is the time. Let us go ahead. And then, can you do this faster? Can you do this differently? Do you have a readymade solution for all of this? Those kinds of inquiries are coming up. There are others who are taking a much more cautious approach and saying, "Look, resilience is the key. And I want to step back and then think about resilience. Think about what is absolutely core to me and things like that." So, we are seeing a mixed bag of both of these situations.

From where I see, and what I think Rajesh articulated earlier, the migration to cloud and approach to building resilience in terms of self healing and self learning, these are key and then they will continue. So overall, from where we stand and see things, we have a good pipeline. We continue to engage with our customers. At this point in time, our associates are on the ground, working hand in glove with our customers, listening to them, giving them what they are looking for, and at the same time, sharing with them what we are doing with others, and our own learnings and best practices in terms of enabling, let us say, the best model of work and so on.

Pankaj Kapoor: My second question is on the pricing demands. So is there any vertical flavor to what you are seeing in terms of the demands for pricing cuts?

N.G. Subramaniam No, not really. The Life Sciences and Communications, Media and Information Sciences, they continue to do well and there are significant opportunities that are emerging. And then M&A and the carve outs have been one of the strong portfolios that we have and we have seen that playing out well for us in the last four or five quarters. In the current situation, I do believe that M&A and carve out kind of opportunities will keep coming a lot more across verticals.

As I said, we are at this point in time staying with every one of our customers and listening to them and working with them on their short term and the long term opportunities, but at the same time seeing how the situation pans out in the future.

Pankaj Kapoor: My question actually was on the demands for pricing cuts which probably many clients are asking for. Is there any vertical flavor to that or are you seeing that across the board?

N.G. Subramaniam Not really. Here is a situation, Pankaj. Every individual is affected, every enterprise, every vertical, every client segment is affected. And each one has a different approach to deal with it. But the larger theme is one of staying safe and keeping the operations going and seeing how they can move their products and services to their customers in as short a time as possible and see if they can get into new business opportunities and so on, so on.

Customers who have invested in digital and adopted Business 4.0™ paradigms and created the ecosystems, naturally, they are able to move faster... manufacturing companies seeing how they can diversify themselves into medical device manufacturing, and so on. So there are several things that are happening, but overall, I think still digitization is key to the whole thing.

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

Sandeep Agarwal: So my question, Rajesh and team is that, while this crisis is much more severe and it involves lives, so cannot be probably compared with GFC. But since GFC has been pulled up so many times in today's call, I just wanted to know. I see it a little differently. When GFC happened, probably Indian IT was not core to the business of the clients like what it is today. With digital removing the interfaces, and becoming so critical to the businesses, don't you see that this as a very big opportunity which will get accelerated, because now people will realize the way Amazon is doing, the way Walmart is performing...

enterprises will have an urgency to accelerate the tech and much more aggressively? Maybe there could be challenges for two, three months or six months, we do not know when the peak of this disease is. But on the other side, does this not accelerate the process of spending in a very big way to be more technology-savvy to avoid disruptions in future? Or am I being too optimistic?

Milind Lakkad: Hi, this is Milind. I will answer this question. See, I think you are absolutely right. I think like NGS said, every organization's resilience is being tested. Every customer, in every industry would like to basically ensure that resilience is there in situations like these, and that is point #1. Point #2 is that all the things which we are talking about, whether it is Machine First delivery model, or whether it is Agile, or whether it is specifically, very vertical specific challenges which people have, they would get addressed even more quickly now than ever before, considering the uncertainty this can bring over the next two years. So I think resilience definitely will drive a lot of thought process in many, many CEOs of the companies, and also the fact that some of the digital models we talked about will also basically drive some of those aspects of bringing in more stability to their business.

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

Shashi Bhushan: Rajesh, your comment of cut as deep as GFC in terms of year-on-year growth and then reaching to Q3 levels, if we go something like 4% to 5% year-on-year decline in Q1 and then see sharp turnaround from Q2, Q2 to Q3 FY'20 would be like something on quantitative basis 1.5-2% kind of CQGR which is pretty steep. So are we expecting a sharp turnaround from Q3 and what is driving that comfort?

Rajesh Gopinathan: First of all, as I said this is not a guidance. We are not saying that X will happen. The mathematical models, you can model it yourself and see. We are looking at it in terms of the operating model with which we are currently going about planning. And as for the sharp turnaround, if we go back to similar kinds of situations in the past, deep cuts are typically followed by those. Where are the avenues for that? As I said, it is a combination of execution on what we have in the order book, it is about gaining market share and it is about positioning new services which are relevant to customers in this current scenario. All three will be elements that we play on. Beyond that I do not want to comment about

the specific numbers. But we just wanted to share with you the kind of financial and operating models that we are currently working with.

Shashi Bhushan: Any outlook on DSO, how things are shaping up there? Are we seeing some divergence now over the last few days from the client asking for longer credit and all those?

V Ramakrishnan: So far nothing material. But we will continue to watch that space because it is important. Our track record has been very good on collections and it has been demonstrated in significant reduction in DSO over the years. We want to stay that way. So this is a definite area of focus, but so far, nothing material to call out.

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

Nitin Padmanabhan: Rajesh, just a clarification on what you said on TV and I think it was asked in the previous question as well. But did you specifically mean that you would achieve Q3 FY20 revenue in Q3 FY21? So that was the first question. Because it looks extremely deep and requires a very quick recovery post-COVID.

Rajesh Gopinathan: As I said, that is the model that we are working with currently.

Nitin Padmanabhan: So does this build in any acquisition in the way you had CGSL in the fourth quarter of FY'09? Or it is all organic, that is the alternative question?

Rajesh Gopinathan: I am not getting into it.. As I said, it is a combination of our expectations in terms of where the order book is, and where the market opportunities are. And I think somebody else once asked it. If the right opportunities come about, we are absolutely game.

Nitin Padmanabhan: The reason this question is coming is because as analysts when we sit back and look at a lot of global companies, we see all of them sort of disbanding guidance, and basically suggesting that they have very limited visibility. And in that context, our heightened visibility is really commendable. So the...

Rajesh Gopinathan: Do not put words into my mouth. Let me be very clear. This is not a guidance. I am not taking away your job. Okay? You guys have to do what you have to do. Our stance of not providing guidance continues.

In normal times with business as usual, we believe it is your role to model the ebbs and flows of business and to make the short-term predictions which your business works on. Our business works on a longer time scale. Whereas in the current highly volatile scenario, we believe that it is important for all our stakeholders to have clarity on what are the underlying assumptions with which we are modeling our work, so that they can make informed decisions on what their stance vis-à-vis us should be.

So let us be very, very clear about what this is and what this is not. You are in a much better position to do your job. I have no intention to take that over, today or in the future.

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

Rajesh Gopinathan: Thank you. To sum up, over the last few weeks our priority has been to safeguard the health and well-being of our employees while continuing to support our customers mission critical activities globally. In the face of disruptions caused by the lockdowns, our delivery model demonstrated its agility, resilience and adaptability and has now evolved into what we are calling the Secure Borderless Workspaces model which we believe will define the operating model of the future. Clients are comfortable with what we have done and we have received over 500 customer accolades in the last two, three weeks and has resulted in some enhanced work as well.

We closed FY20 with a growth of 7.1% which is all organic, an industry leading operating margin of 24.6% and an all-time high order book of \$8.9 billion in Q4. While that is definitely comforting, we are already seeing the economic impact of the pandemic ripple across all our industry verticals and major markets. And this has created significant uncertainty and demand impact that we spoke about. But we stay confident vis-à-vis our relative competitiveness and our ability to get back to the industry-leading growth and profitability position that we enjoy over the long term. With that, I want to thank all of you for joining us today. Once again, wishing you safety and health, and good night to all.

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.