Tata Consultancy Services Limited

Q3 FY22 Earnings Conference Call.
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Moderator: Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali – Global Head, Investor Relations at TCS. Thank you and over to you, sir.

Kedar Shirali: Thank you, Aman. Good evening and welcome everyone. Thank you for joining us today to discuss TCS's Financial Results for the Third Quarter of Fiscal Year 2022 that ended December 31st, 2021. 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 Samir Seksaria -- Chief Financial Officer and Mr Milind Lakkad -- Chief Human Resources Officer.

Our leadership team will give a brief overview of the company's performance followed by a Q&A Session.

As you are aware, we don't 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 which has been e-mailed out to those who have subscribed to our mailing list.

With that, I will turn the call over to Rajesh.

Rajesh Gopinathan: Thank you Kedar and once again, welcome everyone. Wish you all a very happy near year. We had a very strong performance in a seasonally weak quarter. We grew **15.4%** yoy (year-on-year) in constant currency terms, **16.3%** in Rupee terms and **14.4%** in US dollar terms.

Our operating margin was **25%** and net margin was **20%**. The sustained growth over the last six quarters helped us cross an important milestone in our journey this quarter, hitting **$25 billion** revenue in the calendar year 2021.

The 25-fold revenue growth over the last 19 years is a testimony to the strength of our business model and our ability to reinvent ourselves in an ever-evolving technology landscape to stay relevant to our customers while remaining focused on creating value for all our stakeholders.

Another important milestone is that the number of women in our workforce crossed 200,000. Beyond that headline number, it is also an occasion to celebrate the progress we are making in creating a more diverse and inclusive workplace.

As an outcome of various leadership development initiatives focused on women employees, the number of senior women executives in the organization has grown by 68% between 2016 and 2021.

I'll now invite Samir, Milind and NGS to go over different aspects of our performance during the quarter. I'll step in again, later to provide some more color on the demand trends we are seeing. Over to you Samir.

Samir Seksaria: Thank you Rajesh. Let me first walk you through the headline numbers. In the third quarter of FY 2022, our revenues grew **15.4%** yoy on constant currency basis.

Reported revenue in INR was **₹488.85 billion** which is yoy growth of **16.3%**. In USD terms, revenue was a **$6.524 billion**, a yoy growth of **14.4%**.

Let me walk you through our financial performance in Q3.

In earlier calls, I had spoken about how the industry-wide churn is having an inflationary headwind on the people cost. Our operating margin in Q3 was **25%**, a sequential contraction of **60 basis points**.

In terms of headwinds, we had 70 basis points impact from backfilling costs, targeted increments and higher subcontractor expenses. There was 60 basis points impact due to discretionary non-manpower expenses like travel, marketing, recruitment and training and facility expenses going up. This was offset by operational efficiencies from pyramid balancing, improved utilization and a slight uptick in realization. Currency also helped by 10 basis points.

Net income margin was at **20%** and our EPS grew **13.9%** yoy. Our effective tax rate for the quarter was **25.7%**.

Our accounts receivable was at **67** DSO in Dollar terms, same as Q2.

Net cash from operations was at **₹108.53 billion**, which is **111%** of net income. Free cash flow was at **₹99.43 billion** and invested funds at the end of December 31st stood at **₹669.85 billion**.

The Board has recommended an interim dividend of **₹7** per share and also a buy back to the tune of **₹18,000 crore** at **₹4,500** per share. This represents a shareholder payout of **₹24,782 crore** between the buybacks, dividends and taxes, adding to the **₹10,785 crore** already paid out year till date.

Milind will now talk about HR performance this quarter. Over to you Milind.

Milind Lakkad: Thank you Samir. On the people front we had a net addition of **28,238** in Q3 bringing the total head count to **556,986**. It continues to be a very diverse workforce with **156** nationalities represented and with women making up to **36%** of the base. As Rajesh mentioned earlier, the number of women in the workforce crossed 200,000 this quarter.

In the face of industry-wide supply side challenges, we have doubled down on our investment in organic talent development. Over **100,000** market relevant deep skills were gained by TCS in Q3. The number of contextual masters, that is individuals who have demonstrated deep contextual knowledge of their customer's business and IT landscapes has now crossed **38,000**.

The sustained strength of demand, particularly in new technologies, has necessitated large scale hiring of fresh talent. As you know, we had onboarded **43,000** freshers in the first half of the year, all trained on the latest technologies. And in our last call, we had indicated plans of hiring another **34,000** in the second half. I am happy to inform you that we achieved the figure in Q3 itself and are now planning to hire some more in Q4.

Fresher hiring continues to be through our national qualifier test. However, we have increased its frequency to cater to our unprecedented volumes of hiring.

Let me now spend a minute on the elevated employee churn we have seen across the industry for the last few months. Our progressive people policies, empowering culture, investments in our people, fast-track careers linked to learning and, I think, a very differentiated, ample set of opportunities for global deployment, continue to be huge differentiators for us, that have enabled industry-leading talent retention at TCS.

In addition, we have been tactically responding to the increasing attrition by benchmarking our compensation levels with the market and promoting over **110,000** employees this year so far. All this has helped us contain the number of departures and retain the best of our talent.

On an LTM basis, our attrition and IT services was at **15.3%** in Q3. The arithmetic of LTM calculations means that this metric might rise further in Q4, but we believe that the churn is stabilizing for now. Nevertheless, we will continue to closely monitor this metric.

In our last call I had mentioned that we were preparing for a return to office for most of our employees by the start of this new year. As you all know, because of the current pandemic situation, we have temporarily put that plan on hold, and we will recalibrate our timelines. We will be closely monitoring the evolving situation on the ground across our different locations before announcing our new return to work plans.

Now over to NGS for segmental commentary and demand drivers.

N G Subramaniam: Thank you Milind. At the outset let me wish all of you a great start to the New Year. Let me begin by providing the segmental performance details for the quarter.

All growth numbers are in year-on-year constant currency terms. We saw strong double-digit growth across all our verticals.

Growth was led by Retail and CPG which grew **20.4%**. BFSI grew by **17.9%**. Manufacturing grew by **18.3%**. Other verticals also showed good growth. Technology and Services grew **17.7%**. Life Sciences and Healthcare grew **16.3%**. Communications and Media grew **14.4%**.

Among our major markets, growth was led by North America which grew by **18%** and Continental Europe by **17.5%**, while UK grew **12.7%**.

Among the emerging markets, growth was led by Latin America which grew **21.1%** and India which grew **15.2%**. Middle East and Africa grew **6.9%** and Asia Pacific grew by **4.3%**.

Our portfolio of products and platforms continued to show a good growth. We had a fantastic quarter for the products and platform business.

Ignio™, our cognitive automation software signed up 10 new customers and 5 went live. With a growing installed base and expanding channel network, demand for ignio skills is very strong. The Digitate academy has trained over 10,000 professionals till date and certified more than 3,500 professionals on ignio.

ignio continues to transform operations across domains using artificial intelligence and automation to enhance resilience in delivering superior business outcomes. Here is one example. A North America based global hospitality major has gone live with ignio across their enterprise data warehouse, hotel booking information system, inventory and availability, loyalty points rewards, customer feedback and commission settlements. ignio is being used to predict anomalies, identify SLA violations, and notify relevant stakeholders to take necessary actions, enabling resilient operations and near real time visibility to business for over 20 business critical measures covering 7,000 batch jobs.

TCS BaNCS™, our flagship products suite for financial services domain had 9 new wins and 5 go lives in Q3.

TCS BaNCS has been selected by a leading global financial services player in North America to transform their asset servicing operations spanning 65 direct custody and clearing markets and over 100 global custody markets. This is a landmark, one-of-a-kind global rollout, unmatched in scale and spread, further affirming the market leading position of TCS BaNCS in this particular domain.

Quartz Blockchain platform had 3 new wins in Q3. It's being leveraged across a variety of use cases, mobile payments, issuance of bank guarantees, solar energy tracking, inter-bank borrowing and so on.

An American multinational big tech company that has made big inroads in India with their online payment and digital wallet app has selected Quartz Blockchain for handling their compliance and anti-money laundering operations. The firm will also use Quartz Compliance for transaction monitoring and workflow management.

Our TCS HOBS suite of products for Communication Service Providers had 2 go-lives in Q3. In another milestone, HOBS has been adopted for its new age subscription management capabilities in a completely different industry, by a state-owned electrical utility in India. This distribution company intends to use it to enhance the overall quality of service and customer experience.

TwinX, our AI-based digital twin solution had 4 wins and 3 go lives in Q3. Interestingly, the new wins address very different use cases across very different verticals. A steel manufacturer is using it to model their shop floor safety. A publisher plans to use it to run simulations to help decide what marketing campaigns will deliver the most return on investment, and therefore deserve to be funded. A telco is going to be using it to simulate the customer order journey for their broadband product.

TCS OmniStore™, our AI powered commerce suite had two new wins in this quarter. TCS ADD, Advanced Drug Development platform is now live at Amgen, one of world's leading biotechnology companies, and this is supporting the initiatives and new ways of working and digital transformation journeys focusing on pharmacovigilance excellence. The platform leverages machine learning and natural language processing to deliver productivity and improve the quality of adverse event case data.

Lastly, TCS MasterCraft, our suite of intelligent automation products for enterprise application development, modernization and delivery had 24 new wins in this quarter.

Moving on to our client metrics, the robust addition of clients across every revenue bucket in the clearest validation of our customer-centric strategy and our focus on continually expanding and deepening our client relationships.

In Q3, we added 10 more clients over the last 12 months in the $100 million+ band bringing the total to 58. We added 21 more clients in the $50 million+ band bringing the total to 118. We added 26 more clients in the $20 million+ band bringing the total to 255. We added 40 more clients in the $10 million+

band bringing the total to 426. We added 54 more clients in the $5 million+ band bringing the total to 619. And we added 98 more clients in the $1 million+ band bringing the total to 1,175.

Let me now cover some of the demand trends we are seeing in the market.

Our growth continues to be driven by the same three broad trends that Rajesh has spoken about in prior calls. That is, increased investments in building a digital core, tech and operations optimization, and growth and transformation. While we had plenty of deals across all of these three buckets in Q3, I will take up two distinct demand themes in today's call and share some examples of the deals we won and the work we are doing those areas.

Cloud continues to be a big driver of growth. Our early investments in building deep capabilities across all the cloud technologies and creating dedicated business units around the three hyperscalers has made us the preferred partner for customers looking to accelerate their cloud transformation journeys. We are among the top partners to each of the hyperscalers. Microsoft has recognized us as the number one partner contributing to the maximum Azure revenue, that is, we helped move the maximum number of enterprise workloads to the Azure cloud. Similarly, we have received Partner of the Year Awards from both AWS and Google Cloud.

We have been sharing examples of cloud transformation engagements every quarter to give you a flavor of the nature of the demand out there. Once again, this quarter, we had several new wins around Horizon 1 initiatives such as infrastructure modernization or building up a new digital core for enhanced business agility.

TCS helped a leading European retailer migrate their ERP to a hyperscale cloud. We evaluated several cloud platforms and designed the best fit solution leveraging our contextual knowledge of their business processes. The solution has been implemented initially for one country and will eventually be rolled out to other markets. From the first go-live, the customer is already seeing improved agility, accelerated financial processes, advanced pricing, and operational efficiency through real time supply chain insights.

TCS is helping a large specialty retailer in ANZ transform a complex ERP estate of more than 50 different ERP systems and complex business processes to consolidate them onto a hyperscaler platform to implement enterprise grade, cloud capable, mission critical workloads on the cloud.

We also helped a leading Canadian bank unlock significant organizational agility by migrating a complex ecosystem of over 70 business applications onto a hyperscaler cloud. In addition, we deployed a new cloud-based call center solution with IVR and phone payment capabilities, drastically improving call center response time and customer experience.

What we have observed is that the movement to the cloud is also triggering tremendous innovation within the enterprise, with teams exploring the art of the possible, using the native capabilities of the cloud to try out new ways of working or new business models, build new capabilities into existing products or offer new services to customers. We call these Horizon 2 initiatives.

We helped Maersk, the world's leading ocean carrier, build an industry first cloud-based solution to remotely monitor the ambient conditions of refrigerated containers or reefers which are used to ship temperature sensitive cargo, like fruit, vegetables, meat, pharmaceuticals and so on. The traditional manual approach was inefficient and resulted in spoilage of the cargo.

The cloud based IoT solution that TCS help built uses real-time data from reefers to enable quick decision-making on conditions and gives visibility of the ambient conditions to the end customers, that is the shippers. Other capabilities include automated alarm detection, corrections and closure, a workflow system, a vessel-based solution to onboard reefer technicians, integration of predictive algorithms to help detect issues before they turn into problems and support the implementation of a mobility solution for Maersk equipment maintenance and repair vendors. The solution monitors a fleet of over 385,000 reefers and provides monitoring capabilities for over 450 vessels.

This innovative use of technology has enabled Maersk to carry cargo in the exact ambient conditions inside the container as desired by their customers, reduce the risk of spoilage and improve customer satisfaction.

The global leader in medical devices has partnered with TCS for their IoT based fleet management initiative for connected health to enable healthcare providers to monitor key patient vitals across various carrier units. The fleet of sensors and devices will be remotely provisioned to monitor the key parameters and control software updates. The next generation medical device connectivity solution leverages a cloud based IoT stack that will be the foundation on which these new features will be enabled.

Another key theme we have been speaking about for a while and which continued to drive growth in Q3 is sustainability.

Today I wanted to share a story of how we are helping manufacturers manage the downstream environmental footprint of their products by strengthening the end-of-life recycling and recovery of non-biodegradable components of their products and become better environmental stewards. This is known as Extended Producer Responsibility and is a legal obligation under the `Polluter Pays' principle in many parts of the world.

TCS is helping a multinational furniture retail chain meet their Extended Producer Responsibility around plastic usage in their products and enable better recovery and recycling. TCS' solution leverages advanced PLM and CAD to help the chain move away from guesstimations, and accurately calculate the plastic usage in each of their products using product 3-D models.

This enables more accurate tracking and end-of-life recycling, or recovery of the plastics and synthetic textile fibers used in their products. This ensures the right amount of compliance and enhancing the brand's image as a responsible business.

Of course, reduction of carbon footprint continues to be a major concern across board rooms and executive suites. We have several ongoing engagements and new wins in this area. Let me share a few examples.

TCS is a trusted partner and advisor for a multinational food and drink processing conglomerate's multi-year global program to build a robust digital data governance system that can reliably measure and analyze greenhouse gas emissions and track the progress in emission reductions versus corporate targets.

TCS' consulting-led approach started with the use of its data maturity framework for storing and selecting the right emission factors based on a variety of input drivers. The solution leverages its DAEzMO toolset to create a platform that integrates data from across the entire supply chain, calculate emission footprints based on standardized carbon accounting protocols with drilldowns into departmental impacts, and generates carbon accounting disclosures with complete traceability and sums up the performance and progress in an executive dashboard.

Beyond just tracking the carbon footprint, TCS teams used their manufacturing process knowledge to analyze the data and recommend alternates for reducing emissions. The recommendations were accepted and downstream plans for a global rollout are currently underway.

We had a high-profile win for our TCS Clever Energy™ product, our award-winning enterprise level energy and emissions management solution. It uses IoT for data acquisition, has an in-built digital twin for energy usage, modeling and machine learning and augments that intelligence to provide an integrated energy view. It's a comprehensive platform covering multiple energy functions, including heating and cooling, process energy optimizations, demand response, intelligent tariff, and carbon management.

In Q3, a leading multinational consumer goods company signed up to implement the platform at 10 of their plants to make them energy efficient, reduce emissions and meet their sustainability cum financial goals.

With that, let me hand it over back to Rajesh for some color on industry level transformations and our order book. Thank you.

Rajesh Gopinathan: Thank you NGS. In addition to helping our customers in their growth and transformation journeys, we are also participating in larger industry level changes. I want to give an example from a couple of industries.

I will take up the utilities industry first. There is a growing focus, as you know on sustainability, energy efficiency and demand for carbon free clean energy and that is driving a significant transformation in the utility industry and TCS is participating fully in this transition.

The big theme that is currently at the heart of this transformation is the shift to what is known as Distributed Energy Resources (DERs) like solar and wind farms. And we are participating with many of our customers in this space. As an example, for one of the largest fully regulated utilities in North America, they are going through this similar kind of a transition, where they will be retiring aged and expensive coal fired facilities and will replacing them with DERs in the portfolio. What we have done is to help them build a renewable energy performance center that will help track the performance and asset health of the renewable assets.

The platform is already connected to 171 wind turbines and three large solar farms. And it will gradually be rolled out across all their renewable assets as part of an ongoing multi-year initiative. This will not only help our client meet regulatory requirements, but will also help build a sustainable energy ecosystem in the country.

The growing reliance on DERs also poses new challenges in grid management, given the intrinsic variability in generation when you shift to distributed energy and a distributed generation model. That along with growing incidents of extreme natural events precipitated by climate change has necessitated grid modernization for greater resilience and enhanced customer experience.

We are helping a Fortune 500 utility customer on the West Coast of US to manage their grid performance better using analytics and data from various fields sensors. As you are aware, that part of US suffers from frequent wildfires. We’ve helped the utility build a predictive data model that can identify customers with vulnerable assets to potential wildfires, and cuts off power to those customers before the event. Over time, the model’s accuracy has gone up to 99%, significantly boosting the utility’s goodwill in the community.

Let me come to another industry that is in the midst of transformation, the healthcare sector. A multi-dimensional transformation is playing out there. The industry structure itself is undergoing change, as also patient engagement models and the back-end operations. At the heart of it, the sector is moving from a two-tiered structure consisting of individual care providers and integrated hospitals, to a much more distributed scenario, where more specialized hospitals and chains are coming up for individual aspects and trying to upend the industry. You have people like pharmacy chains they are trying to get into this space.

I will give an example of a large specialty healthcare provider in North America that we are working with. We are developing and implementing a next generation cloud-based patient care platform which connects an ecosystem of physicians, labs, dieticians, and pharmacies. It provides the stakeholders an integrated patient centric view across the entire network of over 3000 outpatient centers, making the patient experience very location agnostic.

Regardless of which center the patient visits, the local physicians and care providers will have a seamless view of his or her integrated health record, significantly enhancing the patient experience, care delivery, clinician productivity, etc. The simplified user interface also reduces training efforts for care providers and the risk of data entry error.

Another trend that took off during the pandemic is telemedicine and remote care. While this has been adopted in peripheral areas at the moment, we expect it to find broader adoption across all non-critical care over time, once again boosting accessibility and clinician productivity while reducing cost.

An example of our participation is - early on in the pandemic, we partnered with Align Technologies, a leading global medical device company, to build a remote care solution to support thousands of orthodontists across the world who are challenged with ensuring continuity in patient care.

TCS leveraged its contextual knowledge, location independent Agile delivery model, and expertise in creating superior user experiences to accelerate the development of virtual tools for a cutting-edge mobile app. The app enables remote consultations, treatment progress assessments, and communication for doctors and the patients to discuss adjustments or concerns during the treatment. Another tool enables doctors to easily schedule and host HIPAA-compliant video appointments with patients, when needed.

So, overall across the examples that NGS gave and the couple that I shared, the main message that we wanted to leave you with is that, we are seeing significant amount of transformation both at individual company levels as well as at an industry level, and we are participating strongly in that.

Coming to the overall order book in Q3, our total TCV was **$7.6 billion** and it's a good mix of large, midsize and small deals. By vertical, BFSI had a very strong TCV of $2.9 billion, while retail posted an order book of $1 billion. The TCV of deals signed in North America stood at $4.5 billion.

With that we'll 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 lineup Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: So, Rajesh I have one simple question on the demand environment. We are continuing to see very robust demand on the non-traditional side particularly on the digital side and cloud adoption side. What is your sense that what will be the second portion of this growth once this cloud adoption and transformation journey starts and reaches to some extent? Will hyper scalars start adding capabilities on their offering additional add ons, will that contribute more revenue, or you think the transition towards cloud and adoption of cloud will be a big revenue driver for the next two, three years and then probably that option value will emerge. So, what is your sense on how the demand will shape on the technology front on those two areas, if you can give some idea on that will be very helpful thank you.

Rajesh Gopinathan: Cloud adoption will continue to drive significant amount of demand in the short term. We call this Horizon One, which essentially involves moving workloads onto the cloud, and using Infrastructure-as-a-Service as the primary value proposition there. And that, as you are pointed out, is a time bound phenomenon because once the majority of the workloads have moved, the demand for that will taper off.

But what we're really excited about, is that once enterprises are on the cloud, it opens up opportunities on Horizon Two and Horizon Three. NGS had laid out a couple of examples that we have seen in the shipping industry and the medical devices industry. But across industries, we are seeing horizon two opportunities opening up.

Horizon Two is when native capabilities of the cloud are leveraged to generate significant transformation at the company level. These native capabilities could be seamless fabric of the cloud, so that security and ability to handshake with partners is significantly enhanced. Analytics is another native capability that we're seeing and also other areas. So, between the three hyper scalers we're tracking more than 250 native capabilities, that we are now seeing greater adoption among our customers.

And the last but not the least, are Horizon Three opportunities, where the ecosystem play becomes a very important driver for what we see as the industry structure of the future. So, the example that I gave in the specialty healthcare space, the approach there is to actually to act as an anchor to an ecosystem of doctors for care delivery, or dieticians, and the entire chain of people involved in not just the diagnosis, the treatment and the ongoing maintenance of the patient, including bringing in the labs into it, bringing in the pharmacies into it, and providing an end-to-end ecosystem.

The cloud significantly increases the ability to adopt this kind of an ecosystem play. And we believe that these are all unbounded opportunities. Unlike Horizon One, this isn't a bounded one. So, overall, we are quite excited about the cloud journey.

Sandip Agarwal: Thanks for that detailed answer. If I can squeeze one more small question: When do you see this attrition scenario pulling up? We are already seeing some signs that HR interventions and other things are helping so when do you think it will be completely rationalizing to pre COVID level? Is there any view on that, or you will abstain on giving any view right now?

Rajesh Gopinathan: Let Milind take that. Milind if you could?

Milind Lakkad: Yes, thanks Rajesh. Like I said, the churn for this quarter may be a little less than what we had in in the last one. But our LTM percentage may still go up, based on the way it is calculated. So, I see more of flattening, flattening off of this and eventually slowly coming down. That is the way I am seeing it right now. But, that is how it's going to be. Churn will be less and less as we go forward. LTM percentage will eventually straighten out over a few quarters.

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

Diviya Nagarajan: Just a couple of things from my side. Firstly, I am trying to understand your margins. While I do appreciate that now the attrition has gone up in line with the sector, it still seems to be pretty much in line it is not the headline numbers touching the floor. So, I'm trying to understand why then we are not seeing the kind of margin performance that you should normally see in a quarter like this, that's my first question.

Samir Seksaria: I'll take that question Diviya. So, as we said, on the margins, we had headwinds from the supply side churn as you called out, linked to the backfilling cost, retention related increments, and our sub-contractor cost going up. This is a one off from a usual trend.

Also, from historical savings perspective, there has been the 60 basis points impact on the discretionary and non-manpower expenses going up, like we had called up at the beginning of the year itself. And you would expect as normalcy continues, we would expect this cost to come up.

Offsetting these were the operational efficiencies, which we either ways have it during the period. But specifically, so, with the increase trainee hiring, we had a pyramid balancing coming up, and also we were able to improve our utilization and had a slight uptick in realization. So, that's the maths around it Diviya.

Diviya Nagarajan: Okay. My second question is on pricing. It's something that I've been checking with your peers as well. You expect that the demand kind of seeing another lease of life and supply constraints kind of continuing, we should see a little push through for price increases in the next few quarters?

Rajesh Gopinathan: Yes Diviya, we are seeing a slight uptick in pricing in the current quarter. And we should be able to get some of it, but keep it balanced by the fact that in long term existing customer relationships, we will need to be more nuanced about it. But overall, there is definitely an expectation of a rising pricing environment.

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

Sandeep Shah: Just the question in terms of entering into CY22 for the industry as a whole rather than TCS, do you believe industry may see some moderation in a pent-up demand or you believe no, the demand pipeline, the IT spent, transformational need and the urgency of the client is well enough to compensate any tapering of the pent up demand which we may have seen in CY21?

N G Subramaniam: As you see, Sandeep, we called out that we are seeing a multi-year cycle of investments sometime back. Everything that we are seeing from a demand perspective is in line with that. Our interactions with clients during the last quarter-end also indicate that there is no reduction in budgets. Some of them may have increased, they would like to keep investing in specific initiatives across safety, resilience and growth, along with innovation.

So, from that perspective, at least for the foreseeable future, we believe that the demand environment will continue to be there. And the industry per se has been on an accelerated hiring number one, number two is that the demand for such skill sets is increasing for sure. What I would say is that, the demand will continue for at least the next two, three quarters, and barring any unforeseen events in the world, the trend is likely to continue.

Sandeep Shah: Okay. And just a follow up question, which is on book-keeping. We have two large deals in the BFSI, which may have a contractual rampdown which may be coming in the fourth quarter. So, is it fair to say fourth quarter may be seasonally softer than the earlier years or we believe there are enough number of new deals which will mitigate the same as a whole? And on margins, whether most of the supply side intervention, which we consciously took in Q3 are largely over or may continue in the next 4Q or 1Q as well?

Rajesh Gopinathan: Deals in BFSI will not have a ramp down, but the base effect will kick in in the fourth quarter as you rightly pointed out. But overall the demand environment is fairly strong. So, if we are unable to maintain the demand momentum, but next quarter, we will see a base effect kicking in in BFSI specifically.

Sandeep Shah: Okay. And this question on the supply side intervention?

Samir Seksaria : So, we would expect some more interventions coming in and going into Q4 and Q1. As far as the churn remains at an elevated level, we will do all the things which would be required to sustain the requirements and capture the growth, Sandeep.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: So, firstly Rajesh has there been any difference in the trend for ACV versus TCV perspective, because of the change in the tenure of the deal, just trying to understand that is TCV a fair reflection of how revenue growth is going to pan out or the ACV trends are looking a little different?

Rajesh Gopinathan: In the last few quarters TCV is primarily constituted of relatively smaller deals. If I take a two quarter back kind of a perspective, it’s not that deals were small, but there are no billion-dollar deals inside this TCV. These are more regular sized deals with regular sized tenures. So, to that extent this has got greater short term drawdown value so the ACV should be better.

But when we look at the pipeline, the pipeline has an equal distribution of very large and mid-sized deals. So, overall, there is no shift towards one or the other. It is just that period-to-period, the TCV will have different constituents.

Gaurav Rateria: Got it. Second question is around continental Europe. You had talked about some large program ramp down and some impact of that, is that totally behind us or it will take some more time after which this issue will be kind of behind and the drag from that will be away from a growth perspective?

Rajesh Gopinathan: Technically, it's another quarter could also be. You might recall that last time I had said that we should see recovery into Q3 or Q4. Q3 surprised us pleasantly, but there will be some amount of the base effect, in fact, coming into Q4. But overall, Europe is on a very strong, trajectory. And touch wood, unless something goes wrong in the current situation, Europe visibility is very high.

Gaurav Rateria: Got it. Lastly on the realization at a portfolio level, you did talk about some positive impact. From a flow through perspective is it fair to believe that this impact comes in the financials with some lag, and not necessarily in the same quarter when the realization impact comes in?

Rajesh Gopinathan: No, we report realization, not pricing. So, realization impact is the net impact in the quarter after everything has happened. So, there's no lag to that. But overall pricing trend expectation is that it has an upward bias. And that would show through in future realization.

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

Manik Taneja: I had a question related to the step up that one has seen in terms of subcontracting charges across the industry as well as the TCS, and some of it has been driven by the employee turnover as well as the limitations in terms of employee travel. When do you think this starts normalizing and would this aid margins?

Samir Seksaria: Manik, so our usual subcontractor expenses used to be around 7.5%, they are currently at 9%. And that's a direct impact of what we see across in the industry. Our view is that, this would continue till the churn remains elevated. And then once it settles down, this would be one of the primary levers to double down upon, from an operational efficiency perspective.

Manik Taneja: Sure, I had an additional question that across the industry, one has seen a significant offshore shift. However, when one looks at the revenue productivity metric one has still seen a significant increase over last few quarters despite a significant offshore shift. So, if you could spell out what do you think has been driving that and shouldn't that be seen as an indicator of pricing strength for you as well as industry?

Samir Seksaria: So, offshore leverage shift was particularly prominent in the last financial year. And it settled down towards the end of the financial year. We would expect the offshore leverage to remain around the same and maybe with travel opening up, we would expect a start of shift towards onsite . To your question on being visible on the pricing part, it has been if you look at our efficiency, it has been balanced Manik.

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

Rajesh Gopinathan: Thank you. To sum up, we had a strong broad-based growth across all our industry verticals that overcome normal seasonality, and post 15.4% year-on-year growth. The order book continues to be very robust and well distributed.

Our strong customer focus and continual expansion and deepening of client relationships showed up yet again, in a very strong client metrics with strong additions across all revenue buckets.

Our margins continue to be industry leading. We have responded to the strong demand by hiring large numbers of fresh engineers. In addition to the 43,000 freshers we onboarded in H1, we have brought in another 34,000 in Q3 and plan to bring onboard some more in the fourth quarter.

We have also taken tactical measures to retain our best talent including instituting promotions for over 110,000 employees this year. Our attrition went up this quarter but continues to be the lowest in the industry. We will continue to watch this closely.

Lastly, the Board announcement of a buyback as well as a dividend is a reiteration of our shareholder friendly policy of returning cash to shareholders.

Thank you all for joining us for this call today. Enjoy the rest of the evening or day and do stay safe. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of TCS, that concludes this conference call. Thank you all 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.*