Tata Consultancy Services Limited

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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kedar Shirali, Global Head of Investor Relations at TCS. Thank you and over to you, sir.

Kedar Shirali: Thank you operator. Good evening and welcome everyone. Thank you for joining us today to discuss TCS's financial results for the second quarter of fiscal year 2024 that ended September 30th, 2023. 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 statement, 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. K Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Hi, good day everyone.

Kedar Shirali: Mr. N G Subramaniam, Chief Operating Officer and Executive Director.

N G Subramaniam: Good evening everyone.

Kedar Shirali: Mr. Samir Seksaria, Chief Financial Officer.

Samir Seksaria: Hello, everyone.

Kedar Shirali: And Mr. Milind Lakkad, Chief HR Officer.

Milind Lakkad: Hi, everyone.

Kedar Shirali: Our management 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 emailed out to those who have subscribed for our, on our mailing list. With that, I would like to turn the call over to Krithi.

K Krithivasan: Thank you, Kedar. Good morning, good afternoon, good evening to all of you. Our Q2 performance shows continued strength and demand for our services, particularly around cloud and cost optimization, resulting in strong deal wins, a robust order book, and a good pipeline.

This was true in prior quarters as well. In each of the past three quarters, our order book has exceeded $10 billion TCV compared to the average of $7 to $8 billion range in the 2021 and 2022.

The newly won deals are converting into revenue as expected, but these revenue inflows are getting neutralized by reduction in the existing revenue base as the transformation projects get completed, or RTB projects get optimized, or in some cases, downsized. This has led to muted revenue growth.

In Q2, our revenue grew **7.9%** in rupee terms, **2.8%** in constant currency terms, and **4.8%** in dollar terms. Our operating margin was at **24.3%**, and net margin was at **19%**.

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

Samir Seksaria: In the second quarter of FY24, our revenue was **₹59,692 crore**, which is a year-on-year growth of **7.9%**. In dollar terms, the revenue was **$7.21 billion**, a Y-o-Y growth of **4.8%**. In constant currency terms, the revenue growth in Q2 was **2.8%**.

Let me now go over financial performance. Our operating margin is at **24.3%**, which is **110** basis points expansion sequentially. We got **100** basis points benefit from disciplined execution, which resulted in improved utilization and productivity and further optimization of subcontractor expenses.

Additionally, we gained **35** basis points from driving efficiencies in discretionary expenses, which I had referred to last quarter as gaining critical mass. On the other hand, we continued to invest in infrastructure.

Net income in Q2 was **19%**. Our EPS grew **8.7%** on a year-on-year basis. Effective tax rate stayed unchanged at **25.8%**. And our accounts receivable was flat sequentially at **65** days' sales outstanding in dollar terms.

Net cash from operations was at **₹118.23 billion**, which is **104.2%** of net income. Free cash flow was at **₹113.57 billion** and invested funds as of at the end of 30th September stood at **₹596.77 billion**.

The board has recommended an interim dividend of **₹9** per share. Further, the board has recommended a buyback to the tune of **₹17,000 crore** through the tender route at **₹4,150** per share. Over to you, Milind.

Milind Lakkad: Thank you, Samir.

Our workforce at the end of the second quarter was **608,985** strong. Our strategy of proactively hiring bright freshers and investing in training them with the right skills is paying off now. With that talent coming on stream and with reduced attrition, we were able to recalibrate our gross additions, keeping it below the departures during the quarter, driving up productivity and enhancing project outcomes.

Our workforce continues to be very diverse with 152 nationalities and with women making 35% of the base. We continue to invest in organic talent development.

Year to date, TCS has logged **26.4 million** learning hours and acquired **2.6 million** competencies, including over **350,000** high demand competencies. We have over **100,000** Gen AI ready employees today and we are now investing in deepening their expertise further on this exciting new technology.

LTM attrition in IT services was at **14.9%**, down **2.9%** sequentially, close to our historical range of 11% to 14%.

Over to you NGS for some color on our segments and products and platforms.

N G Subramaniam: Thank you, Milind. Before I get into segmental performance, I wanted to highlight some changes in how we report segmental performance in our fact sheet from this quarter. Historically, we reported revenues from North America, Latin America, UK, Europe, and Australia under the industry verticals, separating out other emerging market revenues, products and platforms and a few other small businesses, or those with atypical revenue profiles, in a separate line called Regional Markets and Others (RMO).

In Q2, we made three changes:

First, we reclassified revenues from Asia Pacific (excluding Japan), and Middle East and Africa, hitherto part of RMO under their respective industry verticals.

Second, with our Energy, Resources and Utilities vertical gaining critical mass, we have extracted out the first two sub-verticals from RMO, and we'll now start reporting it as a standalone industry vertical.

With these two changes, revenue contribution from RMO is down from over 17% to around 11%. We have provided comparatives for the last four quarters in our fact sheet.

The third change is the renaming of our retail cluster, consisting of Retail, CPG, Travel, Transportation and Hospitality verticals as the Consumer Business Group or CBG.

Let me walk you through our segmental performance now. As a reminder, all growth numbers are in year-on-year constant currency terms.

Growth was led by the newly carved out Energy Resources and Utilities vertical, which grew **14.8%**. Manufacturing grew by **5.8%**. And life sciences and healthcare grew by **5%**.

Our Consumer Business Group grew by **1%**. Banking, Financial Services and Insurance grew by **-0.5%**, Communications and Media by **-1%**, and Technology and Services by **-2.2%**.

By geographic markets, we see maximum caution in North America and Continental Europe, which grew **0.1%** and **1.3%** respectively. We continue to have good momentum in the United Kingdom, where the market grew by

10.7%. In emerging markets, Middle East and Africa grew **15.9%**, Latin America by **13.1%**, Asia Pacific by **4.1%**, and India by **3.9%**.

Let me move on to our products and platforms. Our industry-leading portfolio of products and platforms had a very strong quarter. All of the products and platforms are now offered on a SaaS basis only, and we have a healthy ARR as a product portfolio.

ignio™, our cognitive automation software suite, saw **28** new deal wins and **18** go-lives.

TCS BaNCS, our flagship product for financial services, had **2** new wins and **11** go-lives during the quarter. Among the go-lives this quarter is JPMorgan Security Services, where our real-time, event-driven multi-market platform is helping the bank provide clients with a standardized and streamlined process in each of the 100 markets they operate in, enhancing the customer experience around corporate actions.

TCS BaNCS insurance platform continues to see strong momentum in Q2 with **4** new wins and **2** go-lives during the quarter. For a global financial institution based out of South Africa, TCS has completed a massive migration from a heritage platform to TCS BaNCS for insurance. This is the largest and most complex migration of its kind in the history of the market, entailing 4 million policies. With this migration, the client's entire retail protection business is on TCS BaNCS. Post migration, the policies are now available to both advisors and customers through digital channels.

Quartz blockchain platform had **2** go-lives this quarter.

In life sciences, TCS ADD platform had **2** new wins and **1** go-live this year. TCS ADD Safety went live at a top 10 UK based pharma with its latest version that uses advanced AI algorithms to process adverse event cases, a first of its kind in industry.

With this, TCS ADD Safety has successfully automated more than 1 million cases, a landmark by any technology company using AI in pharmacovigilance, delivering industry-leading efficiency and accuracy metrics.

TCS HOBS, our suite of products for communication service providers, had **1** new win and **2** go-lives during the quarter.

TCS iON had **44** new wins. Our platform administered assessments for **16.2 million** candidates, **150%** higher year-on-year.

MasterCraft and Jile won **34** new clients in Q2.

Our business model is built on continually delivering tangible value to our clients, which results in them rewarding us with repeat business, consuming more of our services and solutions over time.

The deep and enduring client relationships we build give us tremendous contextual knowledge of how their businesses runs at a very granular level, the individual processes, and how the underlying systems support them. The various interrelationships among systems and databases and infrastructure there beneath, all these are extremely useful as we build out our Gen AI capabilities and position our Gen AI services for our large clients. This contextual knowledge and our track record of consistency and predictability in our deliverables is our competitive edge.

From the outside, the success of our customer centric strategy is best validated through client metrics we report, which show a steady increase in the number of clients in every revenue bucket.

In Q2, we added 2 more clients year-on-year in the $100 million+ band bringing the total to **61**, 13 more clients in the $50 million+ band bringing the total **137**, 9 more clients in the $20 million+ bringing the total to **292**, 28 more clients in the $10 million+ band bringing the total to **483**, 38 more clients in the $5 million+ band bringing the total to **688**, and 62 more clients in the $1 million+ band bringing the total to **1,272**.

I will now request Krithi to speak on the demand drivers during the quarter.

K Krithivasan: Thank you NGS. Given client caution over the macro overhang, we continue to see a reprioritization of spending from discretionary areas to cost optimization. This is driving a significant deal momentum towards large outsourcing deals, vendor consolidation and operating model transformations.

We had a very strong order book in Q2 with a TCV of **$11.2 billion**, our second highest TCV ever and a book-to-bill ratio of **1.6**. BFSI TCV continued to be very robust at **$3 billion** as also the consumer business order book at **$1.4 billion**.

The TCV of deals signed in North America stood at **$4.5 billion**.

The order book in Q2 had two mega deals BSNL and JLR each roughly $1 billion in TCV versus 1 mega deal in Q1. We had a detailed press note on the JLR deal, so I won't spend time on that. But the BSNL win is very special and showcases our unique capabilities. So let me give you a high-level overview.

BSNL selected TCS to roll out a modern 4G and 5G mobile communication infrastructure across India covering 100,000 telecom sites. The project involves supply, planning, design, installation and commissioning and optimization of this mobile network, satisfying a detailed set of requirements conforming to 3GPP standards.

Our solution caters to needs such as trusted source of components and equipment, advanced RF planning, intelligence on the edge to support cognitive network operations, software driven radios and reconfigurations and so on. This is part of the Government of India's efforts to build indigenous telecom technology and local manufacturing of telecom gear. TCS and partners have integrated the EPC Core, RAN and NMS and have started the rollout of the network which is expected to be completed in stages over the next 18 months.

Moving on to other large deals, our deal momentum in operating model transformation continues to be very strong. A big differentiator for us is our TCS Cognix™, which significantly accelerates the operations transformation. It embeds AI, machine learning and increasingly, Gen AI, to enable superior business outcomes with increased velocity, improved user experience, reduced turnaround time and superior decision-making powered by rich dashboards and predictive analytics. In Q2, we won 6 large operating model transformation deals with TCS Cognix at their core.

The other interesting thing is that we also saw several large deals featuring first-time outsourcers. For instance, we were selected by the British Council, the UK's international organization for educational opportunities and cultural relations, to transform its professional services function that includes finance, procurement, human resources and digital technology.

TCS will leverage its deep domain expertise and proprietary platforms to help develop more innovative and user-friendly services. The partnership will also enable the British Council to focus on improving the quality and efficiency of services, ultimately leading to an enhanced customer experience.

Last quarter, I had highlighted how clients have taken to TCS' integrated operations model, wherein we take ownership for the entire slice of operations, from back-end to front-end, along with the underlying application and data estates and the IT infrastructure layer.

We call this integrated offering, Business-as-a-Service. Our AI-powered business command center provides end-to-end visibility and holistic control across that entire stack, resulting in more resilient operations and better alignment with business KPIs. Our proactive leverage of next-gen technologies to redefine processes reduces the need for human intervention, increases process velocity and delivers superior process outcomes.

From a competitive standpoint, our holistic approach, deep contextual knowledge, and the unmatched speed to value from TCS Cognix is providing a deep moat that is powering strong deal wins and market share gains.

In Q2, we won a large deal from a leading media company that is currently transforming to focus on new lines of business which will drive future growth.

They are partnering us to improve customer retention by providing superior experience while reducing engagement costs. In keeping with our business-as a-service value proposition, TCS will take full ownership of the operating stack, with an integrated solution across customer interactions, which includes voice, chat, email, and social, and support for the IT applications and infrastructure.

Incidentally, this is also a vendor consolidation across multiple countries and vendors, and multiple business lines, and good illustration of how our IP and innovation differentiates us. Our solution uses TwinX, our digital twin solution to model customer engagement and reduce churn; ignio to make the underlying infrastructure self-healing; and Gen AI for directing voice to chat, voice to text and for customer sentiment analysis for emotionally responsive chats and emails.

The level of innovation and next-gen capabilities embedded in our solution and the business alignment of our value proposition were our key differentiators in winning this large deal.

Speaking of Gen AI, it continues to dominate our conversations with IT and business leaders in every market. There is tremendous interest in harnessing its power to drive productivity and enhance customer experience. We are co-innovating with clients across multiple industry verticals, executing proofs of concept and pilots, and helping them draw up the Gen AI strategy and roadmaps.

Last quarter, I shared examples of client engagements, exploring the use of Gen AI for contract administration and customer service automation. Many of the projects we executed this quarter are conceptually similar, focused on task automation around knowledge abstraction and content creation.

We are now seeing a progressive increase in the complexity and sophistication of Gen AI use cases, from simple knowledge discovery use cases and chatbots to complex ones, such as augmentation solutions for financial advisors and wealth management strategists, automated underwriting for insurance policies, AI-led molecule discovery, as well as engineering design space explorations for automotive and gas turbine.

Slightly more mature clients are taking a broader enterprise-wide approach to Gen AI deployment. For a European airline, TCS is helping re-imagine its core business functions, leveraging Gen AI and analytics to create a future-ready enterprise. The TCS team co-presented with the CTO to the Board and is now engaged in helping draw up a holistic Gen AI strategy.

A leading US-based specialty retailer is partnering with TCS for multiple Gen AI-led interventions to enrich customers as well as employee interactions, including customer request handling, virtual assistant for shopping, knowledge management, designs for creatives, marketing and sales collaterals, and code enhancements.

Some other organizations are using Generative AI to reimagine an entire activity. A good example is a client in the construction industry for whom we are using Gen AI to prepare the preliminary architectural plans for a new building project. The AI generated designs are then validated and detailed out by the human team.

We see similar opportunities in product innovation where Generative AI can visualize multiple new form factors for a product in the manufacturing industry or perhaps new types of packaging in the CPG industry, significantly increasing and accelerating the design process.

While these are examples of standalone deployment of Generative AI, we are also beginning to bring larger transformational projects that involve multiple technologies where Generative AI is infused to address specific parts of the value chain.

We believe that as the technology matures, we will see more instances of activity level automation and eventually end to end value chain transformation using Generative AI in combination with other technologies. That is when the mainstream adoption of this technology will really take off and the full potential of this technology will be realized. In the meantime, we continue to invest in building capabilities on this exciting new technology.

Last quarter, I had mentioned our plans to train a large number of employees on Generative AI. I am happy to inform you that we now have a 100,000-strong Gen AI ready cohort and our focus now is on further deepening their expertise. Going beyond skilling and certifications, we are launching an AI Playground that will be an alternative work environment where TCSers can safely and securely access various Generative AI platforms and a curated set of startup technologies from our COIN or co-innovation network partners.

This will give them the hands-on experience of experimenting with large language models, trying out new ideas and building out solutions to real-life business problems without exposing data in our network. Over time, we plan to hold hackathons in the playground, throwing challenges for TCS' best and brightest to solve, using these opportunities to identify the most talented engineers within the organization and nurture their talent.

Our various product and platform teams are working towards leveraging Generative AI to create differentiating capabilities in their respective products. ignio, our flagship AIOps product, has been at the forefront of leveraging AI to drive autonomous operations.

The latest enhancement to its knowledge accelerator module leverages large language models to extract information from various sources, create a comprehensive enterprise context, and gain a deeper understanding of each organization's unique environment, challenges, and objectives.

This context-aware approach lets ignio optimize automation through situation- and technology-specific actions, delivering tailored and efficient solutions that fuel enterprise agility, resiliency, and innovation. We have also launched AI Assist, an intelligent conversation engine designed to offer plain language explanation of diagnosis and resolutions, as well as insights for continuous improvements generated by Ignio. AI Assist uses Gen AI's ability to understand language, capture context, and learn from feedback. As a result, it presents analytics insights in a simpler and more intuitive way, guiding users through intricate processes, helping them sift through large volumes of analytics and make data-driven decisions with confidence and ease.

In TCS OmniStore, we are adding Gen AI plugins to augment product discovery, create personalized buying guides for customers, store management operations, automation of marketing campaigns and promotions. We are also introducing Generative AI to automate our product helpdesk and support operations.

TCS Optumera, which already uses AI and ML to finesse product pricing, will now see the infusion of Generative AI in the pricing process workbench for merchants.

In life sciences, we see plenty of opportunities for Generative AI infusion in the drug development value chain. The TCS ADD product team is working on Gen AI-enabled solutions for narrative writing, pharmacovigilance, health authority submissions and intelligence search.

Coming back to our demand commentary, while cost optimization remains a dominant theme overall, clients continue to invest in projects with a clear ROI and ones that drive business growth. Here are some examples.

A leading UK bank partnered with TCS to help renters living in shared accommodation with an app that helps with bill splitting and in building their credit profile. TCS designed and built the app which scans through monthly payment of customers, pulls rental records and automatically shares it with credit bureaus which helps in improving renters' credit profiles. Using open banking capabilities, the app is accessible to anyone with an eligible UK bank account and enables the bank to cross-sell, upsell its products and services to even non-customers.

TCS is now working with the bank to enhance the marketing strategy to increase adoption of the app and drive growth. The product recently won the Best Product Innovation and Jury's Choice Award at the 2023 Financial Services Forum Award.

A leading Nordic insurer is pursuing a completely new business model with a subsidiary in the mobility space.

The new venture is building a mobility ecosystem that offers a wide range of services like tire replacement and used car servicing using a TCS-built digital platform and mobile app as a direct distribution channel to acquire new customers – that is, car owners – to whom insurance can then be cross sold.

The app is expected to drive up new insurance sales and create new upsell opportunities with 10% to 15% increase in customer realization. The app has been very well received and is expected to cross 100,000 downloads by December.

In the retail domain, retailers are looking to leverage technology to meet evolving customer expectations and offer tailored experiences, reach more audiences in the market, and to enable better decision making on merchandise using and analyzing data.

We are helping a global fashion retailer in Europe to reimagine the visual merchandise planning and commercial rehang process. The collaborative, intelligent, digital solution enables visual merchandisers to plan and optimize store layouts, presenting locally relevant assortments based on integrated insights of sales and stock information and performance targets.

The planning solution has enhanced the productivity of visual merchandisers in sample picking process by 50%. The solution enables new capabilities for the stores, including digital interactive maps, article search and details integrated with the stock data in stores and warehouse. Store data is now available on a daily basis compared to the weekly cadence earlier.

Similarly, we are partnering with Kingfisher plc Group in transforming their customer and associate experience across banners in UK and Europe, using TCS OmniStore to realize an AI-powered, unified, and composable commerce platform. The platform's capabilities around flexible fulfillment, self-checkout, clienteling, and dynamic promotion is helping Kingfisher PLC drive greater associate productivity, increased revenue, faster checkout, and broader sales opportunities.

Lastly, divestitures and spin-offs present enterprises a great opportunity to start with a clean slate and build a new future-ready technology estate from scratch to support a differentiated business position. In Q2, we won a very large divestiture-related transformational engagement, coincidentally in the retail vertical.

We have been engaged by a large UK retailer to help build out a separate IT estate following its divestiture, and digitally transform its business. TCS will build a new greenfield digital core by implementing cloud-based ERP platforms to streamline core business functions, including supply chain warehouse management and e-commerce processes.

We will enhance employee experience with new digital solutions, enabling efficient and resilient business operations powered by our machine-first delivery model. We will also implement a new organization-wide IT operating model that consolidates and simplifies their vendor landscape.

On the front end, TCS will help them grow their e-commerce business, starting with their grocery and apparel sites. We will leverage our experience-first commerce implementation services across functions such as shop, fulfill, and care to drive improvement in customer satisfaction and business growth.

Lastly, cloud migrations continue apace.

We can now open the lines for questions.

Moderator: Thank you very much. We have a first question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Thank you. Good evening, gentlemen. Just wanted to ask you about the BSNL deal. It seems like the IP that you created is something that lets you compete with the likes of Nokia and Ericsson. Is this understanding correct, or would most of the IP rest with your partners like Tejas?

N G Subramaniam: Hi Ravi, this is NGS here. TCS is a system integrator in this opportunity. For the EPC core software, the IP lies with our partner, C-DOT. The Radio Access Network is developed and designed by Tejas Networks, and the IP rests with Tejas Networks. There are a few other things that are required for integrating the software. For all the network optimization, network planning, cognitive network operations, some of those are traditionally done by the SI. We have built those platforms. The IP of those components is with TCS.

Ravi Menon: Great. Thank you. We have historically been used to, as investors, perhaps unfairly comparing your with Accenture's outsourcing, that division is what we thought that TCS most compares to. But now with your focus on growth and transformation, should we think about a larger part of TCS revenues being exposed to a segment closer to Accenture's consulting?

N G Subramaniam: No, I don't want to compare it like that. I think we are focused on multiple types of engagements and cost and optimization, growth and transformation is a broad categorization. I think consulting is typically included as a part of every growth and transformation opportunity. There are certain verticals and certain customer segments where we have really built a lot of expertise. In those engagements, I think what you alluded to, may be true.

Ravi Menon: One last follow-up on the BSNL deal. There are news reports quoting this deal at ₹15,000 crores. So the number that you're putting out, $1 billion seems to be just about half of that. So is this just phase 1 of the program?

N G Subramaniam: What we have contracted so far with BSNL is this. But there are things like follow-up activities on some of this, like for example, annual maintenance. It will come as we progress this. Overall deal size is something larger because multiple things are there. But currently what we have contracted is for the supply, installation, commissioning, design and optimization of the network. That is the one that we talked about, a little over $1 billion.

Ravi Menon: Perfect. Thank you.

Moderator: Thank you. We have a next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Good evening and thanks for the opportunity. Just wanted some color on the demand, overall. So if you see the last three quarters, including this one, our book-to-bill has been consistently above 1.4. However the revenue accretion is soft. So just want to hear your thoughts on how one should think about this?

The second is you did mention that reprioritization and cutting discretionary has been sort of driving revenue headwinds. Do you get the feel that this is sort of at its peak and it's -- are you seeing signs of this abating in terms of the overall impact on the existing book of business, right? So those are the two questions.

K Krithivasan: Nitin, last quarter also we explained the situation. On the one hand, our customers continue to entrust us the building of new technology capabilities and based on that, we continue to win new deals. But at the same time, given the overall market uncertainty, they are trying to conserve cash and optimize their current spend, particularly on projects that have been running for long.

Also, sometimes such projects end, and we may not have sufficient replacement of those revenue streams. So this is causing the revenue growth to moderate. Like you said the reprioritization is also a factor into that like a large project may get reprioritized into smaller chunks or maybe slowed down. All these factors are at play, but how long this will last is not a question that we can answer at this time.

Nitin Padmanabhan: Sure, and just one last thing is how do you see furloughs? Are there any conversations on furloughs? Do you think, are you seeing any signs to suggest it's going to be normal, or…

K Krithivasan: Our planning is based on the belief that it will be normal like every other year. We don't see any difference.

Nitin Padmanabhan: Fair enough. Thank you so much and all the very best.

K Krithivasan: Thanks, Nitin.

Moderator: Thank you. We have our next question from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good evening. Thank you for taking my question. Krithi, my question was around the revenue side. If you see over the last three quarters, our revenue in absolute terms have largely been steady, while at the same time, our deal win has accelerated, now crossing consistently $10 billion.

So that is fair to expect that the incremental new part of the revenue within that about $7.2 billion of revenue, the new part would be more sizable now. That implies that the underlying impact of the existing project rampdowns or reprioritization which we're talking about sequentially is increasing. Is that inference correct?

K Krithivasan: Mathematically, what you're saying is correct. There is an increasing reprioritization of long running projects.

There are a few places where a large program may have come to an end. For instance, in Germany we're doing a large integration. Once the integration of the two banks came to an end, that was a large revenue stream that stopped, and not replaced by something else.

So both are possible. There is an increased focus on cost optimization, which is causing our revenues not to increase in line with the increase in TCV.

Kumar Rakesh: Got it. My second question was for Samir. So in the second quarter after the wage hike, our margin improvement has been ahead of what historically we have done, at least in the recent past. And you did talk about that these cutting down on the discretionary expenditures now picking up pace and scale. Should we expect that our margin recovery trajectory should be ahead of what we have seen, say, last year or in the past years?

Samir Seksaria: I think two points. First, we are happy with what we were able to deliver in Q2, a 110 basis point sequential improvement. Given the current macro uncertainty impacting top line, it's fairly decent. Our focus will be to use the existing levers, that is, productivity, utilization and further optimizing subcontractor expenses to continue the journey. And if growth returns, it will only help accelerate this journey.

Kumar Rakesh: Got it, thanks a lot.

Moderator: Thank you. We have a next question from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Yes, good evening. Thanks for the opportunity. NGS, sir, just one clarification on your characterization of the BSNL deal. When you say you're looking to complete the project in 12 months to 18 months, is it the entire $1 billion TCV will be converted into revenue over the next 12 to 18 months? Or is there any sizable part of the $1 billion TCV which is also structured as network maintenance revenue over a longer horizon?

N G Subramaniam: When I said the 12 to 18 months, the rollout of the 4G and 5G network for 100,000 network sites is what we will install, we will commission. And afterwards, you know, we hope to win the maintenance and network operations effort, which will be for optimizing the network and continuously modernizing it.

In the payment terms with BSNL, there are certain clear milestones. Of the $1 billion that we have put in place, a part of it will definitely mature within these 12 to 18 months. Some part of it will be subject to warranty and acceptance by BSNL and things like that. Overall, it's safe to assume that a good part of this $1 billion is something that we would like to bill and collect from BSNL within 12 to 18 months' time.

Sudheer Guntupalli: Understood, sir. So any maintenance will be probably a subsequent phases, any maintenance revenue will be subsequently...

N G Subramaniam: Absolutely. It could be subsequently or it could be even concurrent. For example, at the end of the six months, if we have completed one zone consisting of a few circles, then we might go ahead and contract the annual maintenance, etcetera, specifically for that circle.

Sudheer Guntupalli: Understood, sir. Thanks for that. And Krithi, we know it's difficult to second guess the macro and sorry for persisting on this aspect. But given you have seen these clients over, let's say, multiple decades, multiple macro cycle, any specific macro events, outcomes, time lines or variables these clients are looking forward to now, post which they may sort of bite the bullet and move forward in terms of spending and ramping up the deals?

K Krithivasan: Sudheer, they are probably looking for some very definitive signs of economic recovery. Currently, the CY 23 outlook, and some people are extending it to CY 24 also, is uncertain. Once they have a definitive sign of recovery I think the confidence will come into the market. Until then, this will continue.

Sudheer Guntupalli: Sure sir. And lastly, to Milind, so the headcount reduction we have seen is purely because of the fact that we have not fully replaced the normal attrition during the quarter. Is that a fair assessment, sir?

Milind Lakkad: Yes, that is a fair assessment.

Sudheer Guntupalli: Thank you, sir. All the best.

Moderator: Thank you. We have a next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes, thanks. Thanks for the opportunity. So, just a question in terms of this commentary about -- there is a conservatism on discretionary spend and the cost takeout deals are increasing, outsourcing deals are increasing, vendor-consolidation deals are increasing. This is almost happening in the sector, including for TCS for last two to three quarters.

So, is it fair to say these deals may start ramping up in the second half and which will try to actually reduce the impact of the leaking bucket, and there could be some gradual turnaround in the revenue? Is it the right way of looking at it?

K Krithivasan: Sandeep, all the deals are yielding the revenue as per plan. We have not had delays in the revenue conversion on the deals we have signed. So there is no change there. Whether H2 will be stronger than H1, I cannot comment on that.

Sandeep Shah: Okay. Okay. And just another question to CFO, sir. In terms of margins, how to look at second half margin? Generally, we do well on a Q-on-Q basis across from Q2 to Q4. But this year, in the second half, we will also have some headwind coming through BSNL deal and what I believe the $1 billion deal will have a thin margin. So directionally, still one you can expect, despite that headwind, which would be incremental where margin can still go up on a Q-on-Q?

Samir Seksaria: As you rightly pointed out, usually we have been taking our biggest headwind in the first quarter, and we gradually claw back. In a typical year where it's supported by growth, we get a higher leverage from growth, also helping us on the margin front. In the first two quarters, we have seen the top line being sluggish.

But at least in Q2, we have been able to deliver the 110 basis points. And collectively, we have been focused on specific initiatives, which have helped us deliver this. And as I said in response to the last question, we'll try to use the same levers and continue the journey.

Sandeep Shah: Okay. This would be despite the BSNL headwind, which could be there on margins?

Samir Seksaria: We manage margins at an overall portfolio level, and don't call out deal-specific headwinds.

Sandeep Shah: Okay, okay. Thanks and all the best.

Samir Seksaria: Thank you.

Moderator: Thank you. We have our next question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Yes, hi. Thanks for taking my question. So sir, a couple of questions from my side. In terms of the vertical performance that we are looking at, Retail continues to be quite weak, I think, for multiple quarters. What is the outlook on that segment? Are we seeing any signs that spending might come back in a quarter or two? Or what are the client conversations in the overall retail segment specifically? And then I have a follow-up question.

K Krithivasan: So, on the retail segment, your observation is correct. Like it's been a tough quarter. But see, on a year-on-year basis, retail segment has grown marginally. But this quarter has been tough because we are seeing that even the essential spending has also come down. Normally -- essential with a strong sector for us. This time even essential has been quite weak.

We need to see like, as I was mentioning before, once the consumer spending picks up, all these things will bottom out and then we'll be able to grow. But as I said, I cannot call it when it will turn, but it's been, as I said, multiple sub-verticals within retail have been weak, like essentials normally will be strong, but this time it's been weak, which has resulted in this weakness.

Vibhor Singhal: So no signs of conversations with the clients, which could hint that some -- their expectations as to what are they looking at?

K Krithivasan: As I was mentioning before, they look at one, what is the forecast for the coming quarter if they expect there's a certainty on growth or they look at what is the projection on spending.

Once one of these two comes back, the retail sector will also start investing. Currently while the spending is still reasonably high, household savings in US have come down which is creating some sort of uncertainty. So, but there could be a holiday season optimization also. So we will get to see when some of these macros turn positive, we'll see more of the growth indication coming in.

Vibhor Singhal: Got it, got it sir. Also, just one follow up question in terms of just a bookkeeping question. What did you mention was the reason for the sharp reduction in headcount in this quarter?

Milind Lakkad: We have been investing in fresh talent for almost 18 months and that investment is now paying off. And as a result, and also because of lower attrition, we kind of recalibrated our gross hiring and those numbers are less than our attrition. And hence, there's a net reduction.

Vibhor Singhal: Got it, got it. And do we expect this thing to maybe continue? Because I mean, attrition is, I think, easing off further. And so do we believe this headcount reduction will continue for some time? Or do you think it could stabilized in the coming quarters?

Milind Lakkad: We will continue to look at all the other parameters including growth and based on that, make the calls. I expect the numbers to be, may not be this high or maybe similar or may be little more than zero - in that range in the coming quarters.

Vibhor Singhal: Got it sir. Thank you so much for taking my questions and wish you all the best.

Moderator: Thank you. We have our next question from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: Hi, good afternoon and thanks for taking our question. I have a question on deal wins. I know, you mentioned that the quarterly run rate has gone up from $7 billion to $10 billion. Just wanted to understand, given that the contribution of the deal now is more cost take out. How should we look at ACV of the deal? Any color Has the ACV also gone up in-line with improvement in TCV or there is any difference in ACV?

K Krithivasan: There is no specific call-out on that. I think that ACV has remained similar to what it was before. I don't think the deal tenure has significantly increased. It's more or less same as before.

Abhishek Kumar: Okay. My next question is on Gen AI. I was just wondering about the investments that we are doing or many of our peers are doing in Gen AI. There doesn't seem to be any margin headwind. Essentially, it looks like we are reprioritizing our own budgets for investing in Gen AI. Is it something that clients are also kind of creating investments in Gen AI in a similar fashion? And therefore, it is at best kind of a net neutral from a demand perspective?

N G Subramaniam: I think it's safe to assume that it is neutral, primarily because I think we are in an investment cycle like our clients. We as a company are also investing a lot in training our employees, in creating learning platforms and you know separate environment, like we talked about the AI Playground, which we launched, in which we are making available all the digital infrastructure tools and technology in which people can train and people can actually develop things, right? And get used to how this particular technology works and that can be meaningfully deployed to our clients.

There's a lot of investment happening outside. Our clients also invest in the technology to do small projects, proof-of-concepts, a proof-of-values and then structure typical use case and so on and so on. We also invested in cataloguing several use cases by verticals and by technology to see how this particular technology can meaningfully deliver value on a sustainable basis.

So I think in all that, there is demand, but I wouldn't rate it to be very high. But I would say that look, I think all directions indicate that this is something that will mature and the potential for embedding it and embracing it all across our IT services value chain is huge.

Abhishek Kumar: Great. That was helpful. Thank you and all the best.

Moderator: Thank you. We have our next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi, thank you for taking my question. So the first question, again, coming to revenue. There are multiple moving parts, which is inflow of new work, project completions and reprioritization of existing book. But if we were to just look at only the inflow of the new order wins, would it be fair to believe that inflow number should be better in the second half compared to first half based on the deals that we have already reported?

K Krithivasan: Yes, the inflow should continue to improve from the new order wins. That's a fair assessment.

Gaurav Rateria: Secondly are there anything to call out with respect to any unusual project completions, which are scheduled in second half which is keeping your optimism under check? I understand the leakage part of the business, but just trying to understand any project completions, which also could be one of the reasons for keeping your optimism under check?

K Krithivasan: Gaurav, nothing material that comes to our mind. In fact project completions will take place in the normal course, but nothing very material that comes to mind.

Gaurav Rateria: Got it. Last question on the margin levers front, how much more room we may have on the utilization and productivity metrics. Those would still continue to be levers in the near term in 3Q, 4Q point of view? Thank you.

Samir Seksaria: Yes, Gaurav. Those will continue to be levers. We invested significantly when the supply environment was challenging. And utilization as well as some flab sitting on the direct cost itself, are levers. So all of it, which you mentioned, that is, productivity, utilization and in the given environment, the subcontractor costs also, continue to be levers in Q3 and Q4.

Gaurav Rateria: Thank you.

Moderator: Thank you. We have our next question from the line of Moshe Katri from Wedbush Securities. Please go ahead. Mr. Moshe Katri you may please proceed with your question. As there is no response, we'll move to the next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Yes, hi. Thanks for the opportunity. I just wanted to understand little bit on the rationale of reassigning this regional markets and others segment. What is left out of here because it seems the same vertical, which has been losing some component into this line item has again gained back in a similar fashion. So which region do we ascribe to and what is left now?

K Krithivasan: Rahul, we wanted to give you all a global color of what is happening in a given industry vertical rather than splitting them into regions. So as much as possible, wherever revenue streams are stable and mature, we put them under the industry vertical. And where there's still a lot of volatility, we continue to keep in Regional Markets and Others.

With that, we have moved our APAC and EMEA region revenues into the respective industry verticals. We continue to keep India, Public Services, Japan and Products & Platforms in the Regional Markets and Others line. It's to ensure that we can give you more global color at the industry level.

Rahul Jain: Okay. So what I understood is that India, Japan and product and platform is broadly the component in this at this point?

K Krithivasan: Exactly, in the regional market. Yes.

Rahul Jain: Yes. And just a small extension to that, if we see over a period of time, our contribution from Asia, Middle East, Africa, the market which you called out have come off over last six years, while the contribution in this period has increased for Europe as an end market. So does that also mean that are very large portion of P&P implied -- would it be Japan and Europe?

K Krithivasan: No, I didn't get the last part, Rahul?

Samir Seksaria: No. So Rahul, if you look at it, it's also a matter of growth coming in across various segments. We are not breaking those out into respective segments, but every component has grown. P&P has grown, Japan has grown but not P&P in Japan.

Rahul Jain: Yes, I understand. Probably I'll take it offline. Thank you.

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

K Krithivasan: Thank you, operator.

In Q2 our revenue grew **7.9%** in Rupee terms and **2.8%** in constant currency terms. Our growth was affected by the holding back of discretionary spends by clients.

Improved utilization, productivity and other efficiencies helped expand our operating margin by 110 basis points sequentially to **24.3%**. Our net margin is at **19%**.

Generative AI continues to drive client conversations. We have hundreds of opportunities in the pipeline and embedding Generative AI solutions is helping us win large deals. We continue to invest in building our capabilities. We now have over 100,000 Generative AI-ready employees and are investing in building differentiated capabilities within Generative AI in our portfolio of award-winning products and platforms.

Deal momentum continued to be very strong in Q2, with our order book at **$11.2 billion**, the second highest TCV ever.

On the people front, we continue to have the right talent, but have recalibrated our grass hiring to ensure better utilization of our existing capacity. Our LTM attrition in IT services fell further to **14.9%**.

Lastly, our Board has recommended a second interim dividend of **₹9** per share and also a share buyback to a tune of **₹17,000 crore** at **₹4,150** per share.

With that, we wrap up our call today. Thank you all for joining us. Enjoy the rest of your evening and -- or day and stay safe. Thank you.

Moderator: Thank you, members of 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*