

Tata Consultancy Services Limited
Q2 2025 Earnings Conference Call
October 10, 2024, 19:00 hrs IST (09:30 hrs US ET)

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 Ms. Nehal Shah from the Investor Relations team at TCS. Thank you, and over to you.

Nehal Shah: Thank you, operator. Good evening, and welcome to TCS' Earnings Call for Q2 FY '25. 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. K Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Hi. Good day, everyone.

Nehal Shah: Mr. Samir Seksaria, Chief Financial Officer.

Samir Seksaria: Hello, everyone.

Nehal Shah: And Mr. Milind Lakkad, Chief HR Officer.

Milind Lakkad: Hi, everyone.

Nehal Shah: 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

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construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces.

We have outlined this risk in the second slide of the quarterly fact sheet available on our website and e-mailed out to those who have subscribed to our mailing list.

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

K Krithivasan: Thank you, Nehal.

Good day, everyone. As most of you will know, today is a very sad day for all of us. Thank you to many of you who have sent warm words of condolence. It is a deep sorrow, we mourn the passing of Mr. Ratan Tata, an extraordinary individual, whose life and legacy will always be a guiding light for Tata Consultancy Services. His wisdom, compassion and commitment to the lives of millions made him revered across the world.

This morning, the TCS leadership team and our Board of Directors went to pay our tribute to him and offer our condolences to his family. It was touching to see so many people who turned out to pay their respects to him and he also received many messages from our clients, partners and industry leaders.

Mr. Tata was one of a kind. His remarkable leadership marked by a unique brand of humility and confidence, guided TCS through transformative global expansions with a deep sense of service to the communities we operate in and the values we cherish.

He had a rare gift for making those around him feel valued and heard giving the admiration and respect of all who had the privilege of knowing him. His approach to leadership with his genuine care for people has left an indelible mark on every one of us. Thank you for keeping him and his family in your thoughts today.

All my colleagues at TCS and I will remain forever inspired by him as we carry forward his vision. On that note, let me offer you some thoughts

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related to where our business stands this quarter and what we are looking to do so in the future.

Our performance in this quarter demonstrates the resilience of our diversified portfolio amidst an uncertain geopolitical situation. Our biggest vertical BFSI showed signs of recovery. Growth markets also continued with a strong performance.

Revenue grew **5.5%** year-on-year in constant currency. Our operating margin for Q2 was **24.1%** and net margin was **18.5%**.

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

Over to you, Samir.

Samir Seksaria:

Thank you, Krithi. Let me go over the financial details. In the second quarter of FY '25, our revenue was **₹64,259 crores**, which is a year-over-year growth of **7.6%**. In dollar terms, the revenue translates to **US\$ 7.67 billion**, a Y-o-Y growth of **6.4%**. In constant currency terms, our revenue grew **5.5%**.

Our Q2 operating margin was **24.1%**, a sequential decline of 60 basis points. Our long-term investments to ensure sustainable growth, continuing talent acquisition and development strengthening ecosystem partnerships and alliances, opening new delivery offices, near shore centers.

Net margin in Q2 was **18.5%**. Our EPS grew **6.2%** year-over-year.

Our accounts receivable was at **72 DSO** in dollar terms.

Net cash from operations at **\$1.4 billion**, which is a cash conversion of **100.2%**, a percentage of net income. Free cash flows were at **\$1.3 billion** and invested funds at the end of the period stood at **\$6.4 billion**.

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The Board has recommended an interim dividend of **₹10 per share** and our capital allocation policy remains consistent on returning surplus free cash flow back to our shareholders.

Let me walk you through our segmental performance. Please note that all growth numbers are on a year-on-year constant currency terms and unless otherwise mentioned.

- BFSI, Consumer Business Group and Life Sciences Health Care verticals all grew **0.1%**.
- Manufacturing grew **5.3%**.
- Technology & Services declined **1.9%**.
- Communication and Media declined **10.3%**.
- Energy Resources and Utilities grew **7.0%** and,
- Regional Markets grew **50.4%**.

Moving on to geographies, all growth markets grew above the company average. India led with **95.2%** growth, Middle East and Africa grew at **7.9%**, Asia Pacific grew **7.5%** and Latin America grew **6.8%**.

Among major markets, United Kingdom grew **4.6%** and Europe grew **1.8%**, North America declined **2.1%**.

I'm now going to talk about our industry-leading portfolio of products and platform.

- **ignio™**, our cognitive automation software suite, saw 34 new deal wins and 4 go-lives.
 - GenAI conversations are fuelling an increase in conversation around traditional AI and automation. ignio is steadily creating real-life GenAI use cases and making them an integral part of the platform to help customers realize quantifiable value.
- **TCS BaNCS™**, our flagship product for financial services, had 3 wins and 3 go-lives during the quarter.
 - The TCS BaNCS Global Banking Platform now caters to the entire spectrum of banking technology, from commercial to urban co-operative, to rural, private and small finance banks in India. With an installed base of close to 200 banking institutions in India, we

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continue to help our customers to transform and achieve their goals of digitalization and become active players in the thriving ecosystem of Indian market.

- **TCS BaNCS insurance platform** continues to grow with 1 win and 3 go-lives during the quarter.
- **Quartz blockchain platform** had 2 wins this quarter.
- **TCS iON, our platform for digital assessment, exam administration, and learning**, had 17 new wins and 80+ platform capabilities went live.
 - Our assessment platform administered exams for more than **12** million candidates.
- **TCS OmniStore™**, our AI-powered universal commerce suite, had 2 go lives during the quarter.
 - Clients have continued to prioritize enhancing their omnichannel capabilities and optimizing their checkout processes. The focus is on modernizing to create a seamless experience across online and in-store channels. Many retailers are investing in data insights and AI tools to gain deeper insights into customer behaviour and optimize their personalization and marketing strategies. Investments into cloud-based checkout solutions have surged, signalling a long-term commitment to staying agile and adaptable.
- **TCS TwinX**, our digital twin solution, had 2 wins and 2 go-lives.
- In life sciences, our **TCS ADD™** platform had 4 new wins and 3 go-lives this quarter.
 - A US based leading pharma company extended their collaboration with TCS ADD™ for usage and cloudification of metadata repository platform for automation of bio-statistical submissions to health authority. TCS ADD platform is able to automate more than 90% of submissions.
- **TCS HOBS**, our suite of products for communication service providers, had 2 new wins and 4 go-lives during the quarter.
- **MasterCraft** and **Jile** won 35 new deals in Q2.

Let me now go over our key client metrics.

- We now have **more than 1,300 clients** in the \$1 million+ band.
- In Q2, we added **5 new clients** year-on-year in the \$100 million+ band, bringing the total to **66**.

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- We added **6** clients in the \$20 million+ band, bringing the total to 298.
- We added **8** clients in the \$10 million+ band, bringing the total to 491.

Over to you, Milind.

Milind Lakkad: Thank you, Samir.

Our workforce at the end of second quarter was **612,724**. We added net **5,726** associates this quarter after adding a similar number last quarter also.

We remain on track for fresher on boarding as planned for the year and have also commenced the process for recruiting freshers through the National Qualifier Test for FY'26.

Our workforce continues to be well diverse, with **150** nationalities represented and woman making **35.5%** of the base.

We continue our focus on acquiring quality talent. Our current trainee hiring is segmented with differential compensation for each segment. This year, we have more than doubled our intake of higher cadre trainees.

Training intensity has increased across the organization. Employees logged **26.1 million** learning hours year-to-date and acquired **2.6 million** competencies. Education and skill development are also part of our core themes under the community initiatives that we work on.

All our efforts are reflected in our retention rates which are one of the best amongst industry peers. Our LTM Attrition in IT services fell further to **12.3%** which is in our comfort range of 11% to 13%.

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

K Krithivasan: Thank you, Milind.

I am pleased to see some signs of improvement, most notably in financial services in North America, in an environment of global

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uncertainties. Our diversified portfolio and early investments in growth markets are bearing fruit. All the growth markets continue to grow above company average. However, as a general trend in the major market, the demand outlook continues to remain cautious, as seen in the last few quarters.

Key business themes seen across industries were: cost optimization, vendor consolidation, customer experience transformation, supply chain modernization, risk and resiliency. Globally, clients continue to prioritize efficiency through cost transformation programs and demand for discretionary deals with low immediate ROI remained relatively subdued. Some recent trends that we are seeing in our major segments are:

- In BFSI, financial institutions in the US are looking at sustaining the growth momentum with the Fed's first trade cut in four years. Stability in the macro brings initial signs of confidence. With the easing of interest rate environment, consumer confidence and industry confidence will get better. This can potentially lead to improved investment. Customers are focused on operational efficiency and upgrade for the future with an eye on efficiency and automation. While pipeline continues to remain strong, we are yet to see large transformational deals in the BFSI.

TCS partnered with Tryg in the complex M&A integration journey following the Trygg-Hansa acquisition. TCS combined its M&A capabilities and deep contextual knowledge of Tryg business landscape to ensure a smooth IT integration within the stipulated time frame. The entire IT estate of Trygg-Hansa was demerged and unified with minimum disruption to business. Post this integration, Trygg-Hansa user experience has been elevated, and Tryg has been able to realize significant commercial synergies from the M&A. It has also enabled Tryg to focus on growth in the Swedish market, while further unlocking operational efficiencies through consolidation and transformation.

- In Consumer Business Group, growth was led by TTH which saw demand for customer engagement and hyper-personalization, business process transformation, SaaS platform implementation and

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Gen AI as key focus themes. In the Retail sector, customers are taking a cautious approach due to the macro-economic and geopolitical situation. Consumer spending during the coming holiday season will also play a crucial role in determining budgets towards transformation initiatives. Retailers are likely to wait and watch for these parameters and factor these into their planning for the next fiscal.

Supply chain transformation continues to be a key priority, attracting investments from customers in addition to customer experience and M&A.

As an example, a leading US super centre chain partnered with TCS to modernize and transform their supply chain process. The client faced several challenges with the existing virus management system, including system latency, inefficient product floating, work allocation, scheduling and insufficient decision support.

TCS conducted design thinking shops, and implemented a user-centred modular, fully automated data-driven cloud-based system, integrating approximately 40 diverse applications to cover the end-to-end process. This has improved efficiency by 97%, increased agility and scalability to handle surges in demand, enable 5x faster deployment at new facilities, increased flexibility to accommodate diverse and evolving business needs, thereby improving sales, time to market and overall customer experience.

- In Manufacturing, we are seeing some pressure in the near term. Labor and supply side constraints are impacting the industry. However, barring these areas of concern, manufacturing continues to see a strong demand environment and deal pipeline.
 - Smart manufacturing and software-defined vehicles are the two mega long-term trends.
 - TCS showcased its commitment to a sustainable and technologically advanced future for the aerospace industry at Farnborough International Airshow in 2024. Cutting edge solutions designed to solve critical industry challenges were on display, including Generative AI for supply chain and immersive MRO experience and exploration of quantum computing in aviation.

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These innovations underlying this dedication to pushing technological boundaries and shaping "Future-Ready Skies."

- In Life Sciences and Healthcare, we had client-specific headwinds in the US geography, resulting in significant impact. We expect the headwinds to stabilize in Q3 and return to growth in Q4.
- The tech software and services vertical saw sequential growth for the second consecutive quarter. Cost and efficiency remain the top priority for tech software and services customers, and they continue to be cautious on capex investments and transformation initiatives.
- In CMI, telecom and media firms are keeping a keen continued focus on bottom line impact, doing more with less. ROI expectations continue to remain heightened.

Moving on to service lines, growth this quarter was driven by **Cybersecurity, AI.Cloud and TCS Interactive.**

With increasing sophistication, ransom ware, phishing and data breaches, the enterprises are required to invest in advanced cybersecurity measures, including threat intelligence, endpoint security and incident response plans. Artificial intelligence is aiding the sophistication of cybercrime making it imperative for financial institutions to stay ahead of the core.

- TCS partnered with one of the largest ground handling companies based in Europe to help them improve their cybersecurity maturity and reduce risk exposure.

TCS enabled comprehensive visibility of the enterprise cyber risk landscape, which enabled the customer to measure the efficacy of their security operations, establish better control and governance on key security programs and track their returns on cybersecurity investments.

On Cloud front, we continue to see good growth in legacy modernization, data platform modernization and technology landscape simplification.

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Over the past two years, companies have significantly increased their investments in AI and Generative AI. They are focusing on using these technologies strategically to drive business value and are becoming more aware of ethical considerations. Talent development and navigating the regulatory landscape are also key areas of focus. While challenges remain, the potential benefits of AI and Generative AI are driving continued adoption and innovation. On AI/Generative AI, companies have moved past the point of experimentation through proofs of concepts and are increasingly viewing AI and Generative AI as strategic assets, integrating them into the entire value chain.

We are now helping our most mature customers set up interdisciplinary AI offices where business and technology come together to rapidly turn ideas to AI POCs and scale them to production in an agile manner. There is also a growing interest in using Generative AI throughout the software development life cycle, including legacy migration and modernization initiatives across all industries.

- TCS was selected by the UK entity of a leading global insurer to transform its IT organization to meet the strategic growth objectives. As part of the multiyear partnership, TCS will help set up a future-proof operating model built on enterprise-wide distributed Agile. From modernizing the core insurance systems to developing a cloud-native modular platform and embedding Generative AI across the software development life cycle and business value chain, TCS will drive multiple traditional and disruptive initiatives. The program will enable the insurer to enhance productivity and improved customer experience, while growing its market share in the region.
- Openreach, UK's largest telecom infrastructure company has selected TCS as its strategic partner for the business operations transformation of the national rollout of next-gen fibre network. This managed services deal solidifies our role as a trusted partner in end-to-end network transformation journey, delivering superior services for their flagship broadband business, business customers, while optimizing cost of network build, minimizing and shortening of production cycles.

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TCS will harness its unparalleled contextual expertise and domain knowledge of Generative AI and cloud-led innovations to deliver efficient operations.

- A leading global FMCG company has engaged TCS to transform their global quality management. With contextual knowledge of the client's quality management, TCS implemented a Generative AI solution that extracts value from millions of consumer feedback in over 230 languages for accurate translation and contact preservation, sentiment tagging, root cause identification, feedback classification and prioritization. This has increased operational efficiency by over 50% and is delivering actionable insights, enabling improved product quality management, brand perception and customer engagement.
- A global hospitality company partnered with TCS to improve its contract management processes. TCS utilized Generative AI model trained with diverse regional data to analyse contracts, identify differences in contract terms and streamline data extraction. This will improve audit efficiency and delivers approximately 17,000 person days, saving in manual effort, allowing experts to focus on higher-value activities.

We are seeing the rise of AI infused service lines rather than stand-alone AI demand. The re-imagination of contact centres with AI, for example, is showing a very strong trend. Similarly, AI re-imagined business process services and AI powered cloud modernization are also seeing strong traction. So, it is safe to say that AI is now an integral part of everything we do and will continue to significantly benefit almost all services in the coming quarters.

Coming to our long-term growth strategy,

- We are investing significantly to create a large footprint in emerging growth markets. Top bets include India, APAC, Latin America and Middle East and Africa. We believe these markets are likely to turn into a sustainable driver of long-term growth. A scalable presence in these markets is likely to provide the muscle for growth in TCS overall business over the next couple of decades.
- We are establishing robust partnership with our ISV and other ecosystem partners to drive unparalleled efficiency in our operations

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across applications, infrastructure, engineering and business operations for our customers.

- Our client relationships are more about building resilience together. As we face unprecedented global challenges, the strategic approach to collaboration will prove crucial for long-term success and improving market share.
- TCV in Q2 was at **\$8.6 billion**. The BFSI TCV was at **\$2.9 billion**, while TCV for our consumer business group was at **\$1.2 billion**. The TCV of deals signed in North America stood at **\$4.4 billion**.

The gradual easing of inflation in the major markets, improving macroeconomic trends and expectations of a good holiday season spend among consumers give us hope and optimism around the prospect of improved discretionary spend and capital investments by our customers, which should bode well for our business.

Thank you. We can now open the line for questions.

Moderator: Thank you very much. We will now begin the Question & Answer session. We'll take our first question from the line of Ankur Rudra from JPMorgan. Please go ahead.

Ankur Rudra: Thank you very much for taking my question. Just maybe a few questions, maybe starting with demand. It seems like this was a challenging quarter for international business, slightly soft on our headline numbers and also signings. Could you maybe elaborate in terms of the nature of demand environment? Has it begun to perhaps deteriorate overall after a couple of promising quarters? And should one assume that recovery perhaps had pushed out a bit from here?

K Krithivasan: Thanks, Ankur. As we explained, demand continues to be around areas of cost optimization and discretionary spend demand stays where it was and in fact, what we saw is in some of the cases, the deal duration has slightly increased. But otherwise, we don't see a demand drop in a big way. We also mentioned that BFSI North America has done well this quarter. Tech and Services has done well for the second consecutive quarter.

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We had challenges in a couple of accounts in Life Sciences and Health Care, more client-specific where we were quite big, and large account in UK as well. So, barring those instances which are more client specific, I would say the environment has been quite similar to the previous quarter.

Ankur Rudra: Okay. Thank you, Krithi. And maybe just on Financial services, if you could dig in a bit deeper and add some more colour in terms of which are the segments of the broader Financial services portfolio where you're seeing strength? And I think you also mentioned Manufacturing a little bit concerned if you can elaborate on that one as well. Thank you.

K Krithivasan: Yes, what is your question, Ankur, on Manufacturing?

Ankur Rudra: I think there was some comment that Manufacturing has begun to see some signs of weakness, I was just curious if you could add to that?

K Krithivasan: Okay. First on BFSI, in North America, we see all around growth. Actually, both North America and Europe, UK, we see good growth in banking. And capital markets have been weak. Insurance has grown and regulations and risk and compliance have also grown in banking.

And then Europe, it's more or less very similar trend. UK, again, the capital markets has always been a problem. But also, as I said, the UK is probably more a customer-specific situation than an overall trend. Otherwise the good thing is banking is coming up. Insurance is coming up, which we hope will sustain in the coming quarters.

In manufacturing, what we mentioned is there is an overall supply chain issue, like because of that it's impacting the demand situation. But we believe it will be a short term issue. And once these issues are resolved, we expect our demand to pick up in the coming quarters -- because many of our customers have long order book. And their health is strong, and the order book is strong for our customers.

Ankur Rudra: Thank you so much. Just if I can squeeze in a last question on margins. Clearly, there's been a lot of moving parts this time. Maybe the first part of the question would be, if you could highlight the -- I mean there

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appears to be a bit of a margin trade-off here going through at least on the CMT side, perhaps because of one deal. Are they expected to be any sort of synergies? Is the worst of that deal margin impact behind us? Number one.

Number two, overall, if I look at segmental margins, both on manufacturing and CMT, both are opposite directions of significantly out of long-term trends. How long will that last? When will we see this coming back to long-term trends?

Samir Seksaria: So, let me give you the margin break-up, and that will cover most of your first part of the question. So, margins at 24.1% are a sequential decline of 60 basis points. And the headwinds were in form of the higher third-party expenses on account of a large transformational project.

And that project is running at its peak. And that impact is about 60 basis points. We had incremental investments in talent and infrastructure, that combined impact was about 70 basis points, and this was offset by mainly currency and some one-offs not recurring from Q1.

Your second part of the question in terms of segmental margins, the CMT one, as you called out, the large projects' transformational impact does reflect out here. There's nothing else to call out. The trends on the overall margin versus on the segmental one except for in the CMT vertical are on similar sides, one or two segments had a slight positive.

Moderator: We'll take our next question from the line of Apurva Prasad from HDFC Securities.

Apurva Prasad: Thank you for taking my question. As a first off, deepest condolences from my side, too. Krithi, just to tie in with your comments of improvement in discretionary and optimism going forward, how should we think of growth visibility or acceleration beyond the current calendar, especially in absence of mega deals. If I look at bookings for the first half TCV, it's down 20% of course, with no mega deals that is compared to the comparable period earlier. So, any comments on how is the pipeline around some of those mega deals and/or the ACV and duration of what you've been booking?

K Krithivasan: Apurva, on the TCV front, as you would see, it's better than Q1 and like we explained last quarter and the previous quarters also, TCV always has some lumpiness, like what we expect to close in the last quarter sometimes gets pushed to the subsequent quarter and we have always been maintaining that \$7 billion to \$9 billion TCV is a comfort range and particularly in the absence of a mega deal. If you were comparing with last year Q2, we had mega deals amounting to almost \$2 billion.

So, in the absence of those mega deals, I think it's a comfortable number, and from a pipeline perspective, our pipeline is nearly at an all-time high and both what we call a qualified pipeline and the overall pipeline. The pipeline is strong across all geographies and industries. TCV is within our comfort range, and it has shown signs of improvement. And as I said, it may not easily be comparable with last year because we had 2 mega deals also come in last year.

Apurva Prasad: Secondly, how much of the weakness this quarter relative to the previous quarter is sort of emblematic of macro versus the temporary client-specific factors that you mentioned. How long is this expected to last?

K Krithivasan: The overall trend on the demand environment has remained stable compared to last quarter. There are 2 to 3 accounts where we had some client-specific situation, but all happening at the same quarter is probably a little unfortunate for us.

But I think that is a one quarter phenomenon, so we should rebound from that situation. So that's the way I would put it. I won't be able to split between how much is the overall environment specific and how much is client specific. But we are confident that in near term, probably Q3 is also a seasonally weak quarter, but Q4 onwards, these factors should ease out.

Apurva Prasad: And just finally, how is the GenAI pipeline converting to bookings and revenue, especially as one of your competitors is talked of numbers, which is not too different from our own pipeline. So, if you could comment on that in terms of how integral it is becoming part of deals? And just finally, on margins, Samir, how much of the long-term growth

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strategy in growth markets, how should we think about margins from that point of view?

K Krithivasan: See, we have not been disclosing the AI / GenAI TCV, but it has been improving very well, almost doubling every quarter and the pipeline also remains very strong. As of this quarter, the engagements in AI/ GenAI, including the POCs, POVs, and production, we are doing more than 600 engagements, which increased from almost 270 last quarter. It's a very significant increase in the number of engagements.

And we saw engagements that went into production also jump, which is a sign of maturity. Last quarter, we had 8 engagements that went into production. And this quarter, we have almost 86 engagements going into production. So, we are finding all-round improvement and becoming mainstream.

And also, the quality of engagements, like we have always been talking about engagements in terms of Assist, Augment, and Transform and we're seeing more and more engagements in the higher order of Generative AI, namely Augment and Transform. We unveiled our WisdomNext™ platform and that's also getting a lot of traction with the customers. So, we are quite comfortable and pleased.

Samir Seksaria: Apurva, Samir here. From a long-term perspective, we stay committed to our 26 to 28% guiding beacon, and that will factor in any big bets, whether it is growth markets or anything else, which we'll be taking into account. On an overall portfolio basis, we'd like to deliver the guiding beacon which we talk about.

Apurva Prasad: Thank you.

Moderator: Thank you. We'll take our next question from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes. Thanks for the opportunity and deepest condolence for TCS and Tata Group. Krithi, just some bookkeeping questions. I wanted to understand and reconcile as you are saying, the BFSI has been showing signs of revival in the US and North America, but this quarter, North America as a region has not shown a growth, while Europe has shown

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a growth. So, can you reconcile, is it fair to say challenges in non-BFSI segment are bigger in North America?

K Krithivasan: Yes. So, what you said like if I split BFSI across geographies, North America has done well. And I did mention that there is a softness in the UK and Europe because of a client situation for us. But the overall BFSI still continued to grow.

And the other geography, I did talk about life sciences and health care, in North America having a softness because of one-off client issues. So that probably dragged the overall North America revenue growth.

Similarly, like the BFSI growth in Europe has held in while few other verticals have been soft in Europe, the growth of BFSI has helped overall Europe growth as well.

Sandeep Shah: Okay. And just on the BSNL deal, one of the comments of CFO has been it's at a peak rate. So is it fair to assume BSNL deal revenue in the second half would be materially lower versus first half? And this could be a growth headwind in the second half on a consolidated level?

Samir Seksaria: So, Sandeep, it's running at its peak and we would expect maybe a quarter more where it would remain at similar levels. And as you rightly know, the transformational program is going on, then revenue will start tapering down.

Sandeep Shah: Okay. So, this would also be a margin tailwind in the fourth quarter, maybe third quarter could be, again, a difficult quarter in terms of showing upward trend on the margins?

Samir Seksaria: So, while we don't call out deal specific margins, but as you rightly pointed out, third-party expenses are incrementally going up as part of the deal. So, once it starts tapering, that should reflect on both revenue and margins.

Sandeep Shah: Okay. And the last question with the tax ruling change on the buyback, how are we looking at capital allocation? Are we still looking in terms of incline towards buyback or we are more inclined towards dividend?

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Samir Seksaria: So overall, our capital allocation in terms of returning back substantial free cash flows back to our shareholders remains the same. The Board considers in terms of the mechanism of it, whether it should be buyback or special dividend, taking into account preferences of various varied group of stakeholders or shareholders, which we have, and they will take a decision based on that, when it is taken up for consideration.

Sandeep Shah: Okay. Thank you and all the best.

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

Vibhor Singhal: Good evening. Thanks for taking my question. So, Krithi, just to dwell a bit more on North America. If I look strictly in terms of dollar revenue terms, we fell by almost \$60 million in our North America revenue, almost half of it assuming came from the health care segment, which was down almost \$28 million. So, which are the other verticals in which we saw some kind of weakness in US specifically? And was that also of a similar nature like health care or client-specific issue which you expect to may be recover in a couple of quarters? Or do you think there is a more structural issue to some of the shortfall in the revenue, maybe like the telecom sector?

K Krithivasan: From a client-specific perspective, we called out it's essentially what we saw in health care. It's a life sciences' client-specific issue. We saw growth coming up in BFSI. We had growth come up in Energy, Resources, Utilities also and even Technology and Software Services grew. And in the Consumer Business Group, we had issues in terms of demand being slightly soft because of the discretionary spend cut. And we also saw in manufacturing some labour and supply side challenges in near term.

Telecom has been a slightly long-term trend. We are hoping that it will recover once the interest rate environment becomes better, there will be motivation to invest on the capex. We are hoping for a good holiday season, having a good holiday season would be good trigger for investment to resume in Consumer industry.

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Vibhor Singhal: Got it. So, by that count should -- are we sticking to the commentary that we mentioned last quarter, the retail sector has also possibly bottomed out for us and next quarter onwards, we could see some green shoots in that sector as well?

K Krithivasan: For next year, we are hoping we can...because these macro uncertainties ease and economic environment improves, we are hoping things should start improving. At this time, it's only half the year is over. It will be too early for me to call out if next year is better than this year, but we are hoping for the situation to improve with all the macros also improving.

Vibhor Singhal: Got it, Krithi. Thank you so much. Just one last question from my side on the headcount addition. I think another quarter of strong headcount addition. So how to read into this going forward? I mean are we looking at maybe it's not similar, but still a positive headcount addition in the coming quarters? Is that more related to the kind of growth demand environment that you are seeing? Or is it just a backfill of the negative number that we had for the past three to four quarters?

Milind Lakkad: I think we will from a trainee addition standpoint, which is our strategic addition, I think that we'll continue to hire freshers in the coming quarters, including Q3. Now for other lateral intake from the market we'll decide based on the market situation.

Vibhor Singhal: Got it. So, on the lateral side, is it like we are focusing on specific technologies that we are looking to hiring? I know we kind of gave a number that we've trained so many people on GenAI, is that the area that you're looking to hire lateral people or is it more across the board?

Milind Lakkad: See, we are working on various technologies and various transformational programs which are across technologies, right, from SAP S4/HANA to GenAI to very specific skill sets on certain projects. All of that is something we continue to hire in the quarter.

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

Milind Lakkad: Thank you.

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Moderator: Thank you. We'll take our next question from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja: A couple of questions actually from my side. One, Krithi, how's the furlough situation going to be this year from the initial conversation with clients? Is it any different than what you have seen in earlier years?

K Krithivasan: Okay. On furlough, we at this time from whatever we know, it's similar to last year. We don't expect this to be any different compared to last year.

Kawaljeet Saluja: Got that. The second question is on the BSNL deal. Now there are various numbers -- I mean, various sizes, which are being discussed. I think your company announced a \$1 billion in terms of deal size. Whereas when I read your annual report, there was a specific mention of an additional 20,000 sites, which will be rolled out as part of deployment.

I'm just trying to understand the overall size of the scope of the deal. And if it's a \$1 billion, then I guess in the last four quarters itself, the bidding would have reached around \$750 million, so with that as a backdrop, how do you end up with, let's say, flattish deployment or another quarter of strong robust revenue from BSNL in the December quarter?

Samir Seksaria: Kawal, overall, 100,000 sites need to be deployed. We are around the halfway mark on that. And that is the incremental information we can share on it. There is still scope to go and like we have been sharing in the past, the entire scope of deal is from manufacturing, installation and beyond in terms of acceptance. So, there are various milestones also which are intermediately built into the deal. I will not be able to comment on how much of it is already recognized, but back calculations probably can be done. But on client-specific color, we'll abstain from giving specific revenue numbers.

Kawaljeet Saluja: Got it. Now Samir on this, specifically, when you look at the revenue dynamics, right, these large transformation contracts, the revenue profitability dynamics may not be synchronized at least from the

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financials, when I look at the CMT vertical, the absolute EBIT has been flat, whereas the revenues have grown, leading to an impression that it's been no margin kind of a business. Does this dynamic change as the transformation program hit specific milestones here?

Samir Seksaria: During the transformation program, we don't expect the dynamics to change considerably.

Kawaljeet Saluja: Fair enough. The last question that I had is for Krithi, again. Krithi, you mentioned client-specific challenge. Actually, can you just elaborate what this client-specific challenge would be? And did it have any margin impact?

K Krithivasan: No. In this particular case, we had a scope reduction. We had a very significant presence, and the client had a more abrupt scope reduction, leading into our revenue decline.

Kawaljeet Saluja: But does that scope change, let's say, as you move early into the next year or is it just...

K Krithivasan: The client decided to reduce the quantum of our transformation work, they were doing. And because of that, the program was stopped. So will they pick up the program again, we will know only once the situation turns positive, Kawal.

Kawaljeet Saluja: Okay. That's clear. Final question, I don't know if it was asked earlier, but I did hear about a specific instance of focus on growth market. All of us know that growth market may not be the most profitable one. So how do you intend to balance the aspiration of expanding into India or some of the other regions in Asia Pacific and the profitability aspirations you have?

K Krithivasan: Like our experience is that, yes, the profit margin in growth markets may not be as high as the major markets. At the same time, we've been able to manage overall at the portfolio level. And also, it's a market where growth will come in and the kind of transformative engagements, we do are very interesting.

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And as the volume picks up, Kawal, my guess is we'll be also able to manage the margin. Currently, the volumes are low, because of which the SG&A expenses in these markets are slightly higher. Our expectation and the way we would operate is that as the volume picks up, we should be able to manage our cost and improve the margins also.

Samir Seksaria: Just to add to it, we could drive growth in one portfolio and drive efficiency in another portfolio. Our intent would be to deliver a combined mix of growth and profitability in the aspirations which we have set.

Kawaljeet Saluja: Thank you so much for your responses, appreciate it.

Moderator: Thank you. We'll take a next question from the line of Rishi Jhunjunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjunwala: Yes. Thanks for the opportunity. Just a couple of questions. Firstly, if you look at our SG&A expenses as a percentage of revenue, they are pretty much at an all-time low. And in the past four to five quarters, we have seen sequentially even the absolute amount coming down. Just wanted to understand, is it more a reflection of how things have slowed down in the past four, five quarters and hence, you are trying to rationalize that or more a reflection of how the next three, four quarters might look like and kind of managing investments there?

Samir Seksaria: So, if you look at it from an absolute perspective, SG&A expenses have been in the stable level. If you look at it from a year-on-year perspective, there has been investment in infrastructure as well as travel expenses going up. And I'm assuming you're talking about from an absolute one because as percentage of revenue, due to inclusion of some of the non-services revenue, will also have an impact. But overall, SG&A is one of the levers in terms of stable management of margins.

Rishi Jhunjunwala: Okay, sir. And just secondly on deals, right? So last quarter we had indicated that there were delays in deal closures and so possibly that could have been reflected in better wins this quarter. There hasn't been any material uptick, but you mentioned 7 billion to 9 billion is a comfortable range in which you are operating. Just wanted to

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understand in order for our growth to accelerate to maybe high single digit or close to double digit over the next 12, 18 months. Do you still need this number to go up substantially or the overall budgets might just reflect that even if it is not getting reflected in the TCV?

K Krithivasan: No, let's say, for the current revenue trajectory we are in about 9 billion, I'm not saying 7 billion will be comfortable consistently. But close to the range, we have to get close to our book-to-bill ratio. If it gets somewhere around 1.1, 1.2 would service the growth that is required. So that's the reason we are coming up with a number of almost \$7 to \$9 bn. But also, Rishi, idea is that when you say seven to nine, there will be a couple of quarters where you will have a mega deal come in. So, it will also give additional bump to the overall number. For instance, last year, we had TCV of almost more than 40 billion. This year, we had somewhere between close to 16 billion and 17 billion in TCV in H1, with some large deals coming in and with all the better deal closure, we may be closer to the mark than we were last year or if it is lesser, will not be less by a big number and as I said, 1.1, 1.2 book-to-bill is a decent number for sustaining the growth.

Rishi Jhunjunwala: But would you have mega deals in the pipeline, which could potentially...

K Krithivasan: There'll always be a few mega deals in the pipeline, Rishi.

Rishi Jhunjunwala: Okay. All right. Thank you so much.

K Krithivasan: Thank you.

Moderator: Thank you. We'll take our next question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Thank you for the opportunity. I wanted to touch upon one of the markets that you're already strong in that is the Airline Industry. We had heard about how they want to go direct-to-consumer, and I guess, those plans have been put on hold as they struggled on that front. Do you see some of those kinds of investments coming back?

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- K Krithivasan:** Yes, definitely from what we understand, those investments are coming back.
- Ravi Menon:** And in manufacturing, where you spoke of were you talking about aerospace specifically or any other segments?
- K Krithivasan:** Definitely, the labor issue is around aerospace. Supply chain issues are in auto as well as aerospace.
- Ravi Menon:** Thank you so much. And one last question on BSNL deal. I think if I understood correctly, by next year Q1 that's supposed to end? And is there a maintenance phase after that?
- K Krithivasan:** Yes, there will be a maintenance phase, see currently, the existing deal we are on track to in fact close by Q4, okay? And Q1 there could be some residual work, and some maintenance work will be there.
- Ravi Menon:** Thank you so much, best of luck.
- Moderator:** Thank you. We have a next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Thanks for taking my question. The first question is for Krithi. You did talk about optimism around discretionary spend returning back. So apart from macro data points, what are you seeing either in your portfolio or client conversation or the pipeline that gives you more confidence around return of discretionary spend over a period of time?
- K Krithivasan:** See, there are a couple of things. One is there is a lot of optimization work going on. Some of the investments around technology debt have not taken place. For instance, there's a workaround technology modernization, mainframe modernization, that spending, and 1 good thing is with the Generative AI becoming more and more mainstream, Generative AI is also being seen as an important lever through which modernization could be expedited and accelerated. So that's one and the second is our client conversations in terms of enhancing customer experience. That's also in some cases that which should have happened last year did not happen. So, the optimism comes from the

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backlog of work, which some of our customers have not been able to carry forward because of the current environment they are in.

Gaurav Rateria: Got it. The second question is on margins. I know that you gave us the details, and that had a component of capacity building an infrastructure-related investments that had some impact on the margins -- kind of coming back gradually, would you expect margins to return to the range that you talked about in the near term or will it be more like a medium-term phenomenon. Basically, you have levers around India business, sort of tapering down on that contract, which can lead to some margin expansion on top of it some capacity creation has happened. That also kind of can lead to a margin expansion. So, trying to understand 26% is it more of a near-term phenomenon or more like a longer-term margin aspiration that one should think about?

Samir Seksaria: Gaurav, we'd like to get to 26% to 28% or nearer to 26% as soon as possible. Given how the macros are stacked up we can't tell you whether it is in the immediate quarter or two quarters or three quarters or four, but we'd like to get to it. We exited at 26% in Q4 of last year, I'd be really happy if we can exit this year Q4 also at 26%.

Gaurav Rateria: Thank you very much.

Moderator: Thank you. We move on to the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Hi, good evening. You mentioned that the deal tenures have sort of expanded. So, is that in specific cases or is that a very broad-based kind of phenomenon?

Samir Seksaria: Nitin, I think probably what I meant was a deal cycle, like the time to close the deal, we saw an expansion. It's not the tenure of the deal. It's the time to close the deal has expanded between Q1 and Q2 in some other cases.

Nitin Padmanabhan: Got it. And you mentioned that the headwinds that we have seen this quarter in some cases, it could sort of stabilize in the next quarter and then possibly improve I think that was more Life Sciences. But broadly, do you get the sense that in all the areas where you have seen

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headwinds in the current quarter that's more or less peaked out and things can incrementally improve for those specific areas?

K Krithivasan: See, we've never given a short-term commentary or near-term commentary, Nitin. But we believe that once the uncertainties are clear and once we enter a more stable situation, we believe the growth should also return. Current, we believe the short-term freeze or cut down in the discretionary spend comes out as a market uncertainty. One that eases the investment should return, but I don't want to say that it will immediately happen in Q3, but we believe in the medium term, it should happen.

Nitin Padmanabhan: Got it. And lastly, you mentioned that 86 sort of projects on GenAI have gone into production compared to 8 in the last quarter, what are the average sizes of these projects? Are they very large or...?

K Krithivasan: No, at this time, Nitin, many of them tend to be small, but we do also get some large projects. For instance, for 1 of our clients, we established an AI office. It's a program that sets the overall architecture, sets the guardrail and ensures the risk and regulatory framework, legal framework and then looks at all potential POCs and then evaluates the POCs and then creates a backlog and works with each group to deliver. Such projects will be more long tenured and the value could be higher. So, if you are doing 1 single POC or 1 single program, the value may not be very high. But where they are long-standing and long-term projects, the value also could be high.

Nitin Padmanabhan: Got it. Are you seeing any large AI projects where enterprises are sort of looking to build some sort of a broad infrastructure framework where the entire org could sort of use irrespective of the partners, the broad individual building blocks, which is enterprise-wide?

K Krithivasan: That's what I mentioned. These AI offices, we are trying to create an overall infrastructure. It's more a technical infrastructure as well as the framework and guardrail that's required. When I said AI office, that's what these programs tend to do, Nitin.

Nitin Padmanabhan: In the case where an enterprise seeks to create an AI office broadly, typically, how large will these projects be?

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K Krithivasan: See, it can vary, like deal size can vary based on the core size of the organization, tenure of the deal, it could be \$10 million to \$20 million, \$30 million based on the tenure and size of the organization.

Nitin Padmanabhan: That's very helpful, Krithi. Thank you so much and all the very best.

K Krithivasan: Thank you.

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

K Krithivasan: Thank you, operator.

- We are very pleased with our second quarter performance, growing at **5.5% Year-on-Year** in Constant Currency, amidst the challenging geopolitical situation.
- Deal momentum continued to be very strong in Q2, with our order book at **\$8.6 billion** for the quarter.
- Operating margins were at **24.1%**, declining 60 bps sequentially.
- Our LTM attrition in IT services was **12.3%**.
- I would like to thank the **612,000+** TCSers whose valuable work is helping us achieve excellence every day.

With that, we wrap up our call today. Thank you all for joining us.

Note: This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.