

Tata Consultancy Services Limited

Q4 & Full-Year FY 2021 Earnings Conference Call. April 12, 2021, 20:00 hrs IST (10:30 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kedar Shirali – Global Head, Investor Relations at TCS. Thank you and over to you, sir.

Kedar Shirali: Thank you, Margreth. Good evening, and welcome, everyone. Thank you for joining us today to discuss TCS' Financial Results for the Fourth Quarter and Full Year of Fiscal Year 2021 that ended March 31st, 2021. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter.

The financial statements, quarterly fact sheet and press releases are also available on our website.

Our leadership team is present on this call to discuss our results; we have with us today Mr Rajesh Gopinathan – Chief Executive Officer and Managing Director; Mr NG Subramaniam – Chief Operating Officer; Mr V Ramakrishnan – Chief Financial Officer and Mr Milind Lakkad – Chief Human Resources Officer.

Rajesh and Ramki 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've outlined these risks in the second slide of the Quarterly Fact Sheet available on our website and e-mailed out to those who have subscribed to our mailing list.

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

Rajesh Gopinathan: Thank you, Kedar. Once again, welcome, everyone, and very good day to all of you from wherever you're joining in. Before I start the call, I hope all of you are safe and staying healthy in these trying times.

I'm very pleased with our performance in Q4 on the top line as well as on the bottom line. Continued strength in demand for core transformation services, market share gains and large deal ramp ups powered strong sequential and year-on-year growth.

Sequentially, our revenue grew 4.2% in constant currency, 4% in rupee terms and 5% in dollar terms. On a year-on-year basis, we grew 5.9% in constant currency and 10% in dollar terms and 9.4% in rupee terms. For the full year, we crossed over into positive territory in reported terms, with revenue growth of 4.6% in rupee and 0.7% in dollar terms, and with constant currency degrowth of 0.8% negative.

Our operating margin for the quarter was 26.8%, an expansion of 0.2% sequentially, and 1.7% year-on-year. Net margin in Q4 was 21.2%.

Our full year EBIT margin was at 25.9% while net margin was 20.3%, excluding the one-time provision that we took for the legal expenses.

I will now ask Ramki to go over all the headline numbers, financial and segmental performance, and I'll join you again later to talk about the demand trends we're seeing and the emerging opportunities in growth and transformation. Over to you, Ramki.

V. Ramakrishnan: Thank you, Rajesh. Let me walk you through the headline numbers first.

In the fourth quarter FY'21, our revenues grew 4.2% QoQ and 5.9% YoY on a constant currency basis. Reported revenue in INR was ₹437.05 billion, QoQ growth of 4% and YoY growth of 9.4%.

In USD terms, revenue was \$5.989 billion, QoQ growth of 5% and YoY growth of 10%.

Full year revenue in INR was ₹1.642 trillion, which is YoY growth of 4.6%. In USD terms, revenue was \$22.17 billion, YoY growth of 0.7%. In constant currency, revenues declined by 0.8% over the previous year.

Let me now get into the segmental details for the quarter. All growth numbers are in constant currency terms.

All our verticals had strong sequential growth in Q4; BFSI grew 7%, powered by large deals as well as greater investments in enhancing customer experience, expansion into newer businesses, core transformation and RegTech. Year-on-year growth was also very strong at 13.3%.

Our Retail cluster, that includes CPG and Travel, Transportation and Hospitality, also had robust sequential growth of 4% despite continued weakness in some of the sub-sectors. Despite the good recovery over the last three quarters, Retail is still in negative territory on a year-on-year basis.

Our Life Sciences and Healthcare business continues to perform very well growing 3.8% QoQ and 19.3% YoY during the quarter. It is worth noting that over the last decade, this business has significantly outperformed the rest of the company growing from 4.5% of our revenue in FY 11 to 9.8% in FY 21. In dollar terms, its revenue has grown over 5.9x during this period, a 10-year CAGR of 19.5%.

Manufacturing also did well, growing 3.9% QoQ and 1.3% YoY. Technology and Services grew 2.8% QoQ and 3.9% YoY, while our Communications and Media business grew 1.8% in QoQ but remained below prior year levels. On a full year basis, Life Sciences and Healthcare grew 17.1%, BFSI 2.4% and Technology and Services at 0.2% while the rest continues to be below prior year levels.

By geography, growth was led by our major markets; Continental Europe grew 8.5% QoQ and 11.7% YoY; North America grew 3.9% QoQ and 5.9% YoY and UK grew 3.4% QoQ and 1.1% YoY.

Other markets grew well too; Middle East and Africa grew 4.2% QoQ and 10.6% YoY. India grew 2.8% QoQ and 11.2% on a year-on-year basis. Latin America grew 2.5% and 1.5% on a QoQ and YoY basis respectively, and Asia Pacific grew 1.1% on QoQ and 1.5% on YoY basis.

On a full year basis, with the exception of Continental Europe which grew 5.5%, all the markets continue to be in negative territory compared to the prior year.

Coming to Products and Platforms, our portfolio performed well in Q4.

ignio™, our cognitive automation software signed up 15 new customers and had 7 go-lives.

With a significantly expanded portfolio of products within the suite, Digitate is now able to cross-sell and upsell better to existing customers. There were 21 such upsells to existing customers in Q4. All in all, we added over 50 customers in FY 21, taking the total to over 200 customers for ignio.

During the quarter, we onboarded 7 more reselling partners to our channel partner program. The product suite won 2 more awards and was granted 3 more patents, bringing the total to 30 patents granted till date.

TCS BaNCS™, our flagship product suite in the financial services domain had 5 new wins and 5 go lives in Q4. One of our marquee wins this quarter was State Street. TCS will help enhance its retiree services offering, leveraging the newly launched TCS BaNCS retirement platform, enabling access to expanded operational capabilities and enhanced technology to State Street's clients.

Overall, it's been a very good year for TCS BaNCS with over 19 wins, half of them for the SaaS version. Our platform is also attracting a diverse clientele including digital-only neo banks, and existing banks launching new crypto banking products. This momentum enabled our financial solutions business to grow sequentially every quarter this year despite the deflation resulting from the shift to SaaS.

The Quartz™ Blockchain Solution had 2 new wins in Q4, and 1 go live.

In Retail, we had 1 win and 1 go live for TCS OmniStore™, our AI-powered commerce suite that provides unified and personalized checkout experience for shoppers across all channels.

In Life Sciences, our award-winning Advanced Drug Development suite had 2 go-lives. We deployed the TCS ADD Analytics and Insights platform for a top-3 life sciences company, transforming their clinical trial oversight process, enabling remote monitoring of ongoing trials at globally distributed sites using dynamic monitoring and predictive analytics. This platform is live now for over 200 studies.

We implemented the TCS ADD Regulatory platform for a leading pharma company for automation of submission planning through a real-time and online portal-based collaboration tool.

Our HOBS suite of solutions for communication service providers had 3 new wins and 3 go-lives in Q4. TCS TwinX, our AI-based Digital Twin solution also had 3 wins this quarter.

Lastly, TCS MasterCraft™, our suite of intelligent automation products for end-to-end enterprise application modernization had 8 new wins in Q4. While Jile™, our enterprise agile planning and delivery platform, saw 7 new wins.

Coming to client metrics, we showed some improvement in Q4 versus the prior quarter, but at higher levels, it is flattish. This is because the revenue contribution by customers is calculated on a last 12 months or LTM basis, and so these metrics somewhat mirror our overall revenue growth on a full year basis.

The number of clients in the \$100 million-plus band stayed flat QoQ at 48. We added four more clients in the \$50 million-plus band, bringing the total to 101. We added one more client in the \$10 million-plus band, bringing the total to 387. We added four more clients in the \$5 million band, bringing the total to 569, and we added 19 more clients in the \$1 million-plus band bringing the total to 1,096.

Let me now move over to the financials. Strong growth and improved operating metrics resulted in operating margin of 26.8%, an expansion of 0.2% QoQ and 1.7% YoY. Net income margin was at 21.2%.

For the full year, our operating margin was 25.9% and net income margin was 20.3% excluding the prudential provision of ₹1,218 crores as an exceptional item towards a legal claim that we are contesting in the US courts.

Effective tax rate for the quarter was 25.9%.

Our DSO in dollar terms was at 68, down one day compared to Q3.

Net cash flow from operations was ₹92.47 billion, which is 100% of our net income. Free cash flow was ₹80.85 billion. For the full year, it was ₹379.68 billion, up 17.5% YoY.

Invested funds as of 31st March stood at ₹504.3 billion.

Board has recommended a final dividend of ₹15 per share, taking the total to ₹38. Excluding the final dividend, over ₹306.6 billion of cash has been returned to shareholders this year in the form of dividends and buybacks.

On the people front, we had a net addition of 19,388 employees during the quarter, an all-time high. Total headcount stood at 488,649, a net addition of 40,185 in the course of the year. It continues to be a young and diverse

workforce with 154 nationalities represented and with women making up 36.5% of the base.

At the heart of our success in gaining share in the growth and transformation opportunity has been our organic talent development strategy. We have programs that anticipate emerging technology trends and tweaks individual learning programs to build up capacity in those areas, while creating fulfilling career paths that help our customers meet their expectations.

Our other programs help identify individuals with deep customer-specific contextual knowledge and augment that with deeper solutioning capabilities to help create teams of change agents who can build transformative solutions that are deeply rooted in the customers reality. These learning and development initiatives have gained immense popularity in TCS. Employees logged over 43 million learning hours in FY 21, resulting in over 379,000 employees getting trained on multiple new technologies and over 457,000 trained in Agile methods.

Our last 12-months attrition in IT services in FY 21 was 7.2%, an all-time low. Keep in mind though that this is partly due to the LTM effect and with growth returning across the industry, we expect this to inch up in FY 22.

Now, I turn it over to Rajesh for the demand drivers and trends. Thank you.

Rajesh Gopinathan: Thank you, Ramki. The key growth drivers during the quarter continue to be the ones we have spoken about in the prior two quarters. We continue to see many wins around core transformation. This includes cloud migration, application modernization and data modernization.

In other cases, organizations are revamping their operations in anticipation of cloud migration, freeing up resources, people as well as funding, which are critical to their success there. You can see this in the increased activity around overall outsourcing.

We also saw plenty of growth and transformation type engagements. These are initiatives where enterprises leverage the power of new technologies to embrace new business models, pursue new revenue lines, deliver superior customer experience or engage with newer segments of customers, and transform operations.

In our January call, I had given examples of some typical transformation themes we are seeing in the market: M&A, supply chain transformation,

customer experience, ecosystem innovation and operations transformation. We continue to see the same themes play out in Q4 as well. If you look at the key highlight section of our Q4 earnings release, there are at least three new wins in the M&A or divestiture area, where TCS is helping plan and implement the separation of assets and processes and ensure that the divested entity hits the ground running from day one.

We now have several success stories in this space, validating our approach and capabilities. For example, for a large medical devices company which wanted to spin off an independent publicly traded NewCo, TCS carried out the initial consulting-led due diligence exercise and developed a separation strategy business case. Subsequently, TCS led the transaction management office for the carved-out entity and developed day one readiness plans including rationalization of the parent company application portfolio, developing the target operating model post-IPO, and the operations blueprint for all functions in the new organization.

The overall plan minimized the TSA needs to less than three months while reaching operational day one readiness in nine months. The cloud solution designed by TCS transformed the core operations and substantially reduced the technology debt while enabling best-in-class resiliency and security.

Similarly, customer experience continues to be a very popular investment theme among our clients. Again, we had several wins in this area in Q4. This is particularly urgent in the retail vertical where the pandemic-driven change in shopping behaviors has driven new investments in creating consistent experience across digital and physical channels.

We are very pleased with the example that we have here, which is the PGA Tour Superstore, which is an experiential specialty golf gear and apparel retailer. It selected TCS OmniStore™ platform, our award-winning unified commerce platform to transform the shopping experience of the retailer's 8 million customers. Our platform enables a one-cart checkout, seamless omni-channel journeys, personalization and flexible fulfillment with endless inventory across all stores. A journey that starts at multiple places, you can add on to the same cart and check that out, which is one of the first instances of such a capability going live in this industry.

We are also partnering customers in helping them launch new products and services to address new market segments, to provide richer upsell and cross-sell opportunities and to drive growth.

TCS helped a North America based insurer known for its best-in-class customer experience and innovation culture to venture into commercial lines for small business insurance, which was being done by their own members. TCS played a strategic role from inception to implementation, including market research, competitive benchmarking, product conceptualization, technology transformation and integrating with partner ecosystems for the launch of their small business insurance and business owners policy and general liability product.

The new product was launched within a year across five states with the plan to expand to eight new product lines across all US locations and to increase the customer base by approximately 4%, which is expected to generate a \$1 billion over five years in new revenues.

The last illustration I want to share is one of core modernization enabled by TCS using its domain knowledge and intellectual property. TCS has entered into an agreement with State Street to help enhance its retiree services offering with a provision of a new benefit payment technology platform. We will leverage our TCS BaNCS' Retirement platform in a SaaS model, bundled with operations on a managed services basis. This will enable State Street to provide its clients access to expand its operational capabilities and enhanced technology.

Coming to the Q4 order book, with some of these trends driving strong demand for our services this year, we have had strong deal wins every quarter this year. We are closing the year with the highest TCV in signed deals this quarter from the time we started reporting this metric. The overall order book signed in the quarter was \$9.2 billion. By vertical, the BFSI order book of deals signed during the quarter stood at \$3.9 billion while the Retail order book was at \$1.4 billion. TCV from deals signed in North America stood at \$4.2 billion. Our total order book in FY 21 was \$31.6 billion, a growth of 17.1% over the prior year.

Looking ahead, as we are entering FY 22 with much better visibility for future growth, with significant momentum built up over the last couple of quarters, a strong order book and a robust deal pipeline.

In the medium and longer-term, the technology refresh cycle that our customers are embarking on will unfold across three horizons that we have spoken of in the past, and will provide strong structural growth drivers over the next three years to five years.

The large scale shift by customers and consumers to digital channels over the last 12 months now makes it all the more important for enterprises to differentiate themselves in these channels using technology. That necessarily entails greater use of data, analytics, machine learning and AI for mass personalization. For others, it means exploring new business models that will allow addressing new market segments or enable stronger, stickier customer relationships. This might involve collaborating and co-innovating with ecosystem partners to knit together the individual products and services of each of the partners to create new emergent offerings that are purpose-led. All these represent the large growth and transformation opportunity that we have been talking about for the last three or four years, and which has crystallized over the last 12-months, especially around the hyperscaler cloud stacks.

The accelerated adoption of cloud by enterprises over the last few months means that going forward, cloud will be the unifying and enabling technology fabric that powers their growth-linked transformation imperatives. However, it is important to note that the technology by itself does not lead to competitive differentiation. In fact, if anything, cloud models by default are about standardization and commoditization. Therefore, differentiation can take place only when a technology solution is contextualized to each customer's unique circumstances. That's where our approach to growth and transformation engagements differs from that of legacy models.

One of the weaknesses of the legacy consulting model is that it places an undue premium on an outsider's expertise and invariably ends up replacing extant ways of working with shiny new, and most likely cookie cutter, solutions. And that by its very nature dilutes differentiation rather than drive innovation. In sharp contrast, we recognize that there is tremendous value in the tacit knowledge that resides inside the customer organization and which often goes untapped. This is foundational to contextualizing technology within the enterprise.

By harnessing the collective knowledge of the customer teams and TCS teams, we are able to co-innovate and come up with transformative solutions that are uniquely rooted in that customer's reality. These bespoke solutions take into account the nuances of that organization's business and technology landscape, amplify the strengths, reduce the risks and result in highly differentiated outcomes.

Another important difference is around accountability for outcomes. Our customers truly appreciate our approach of taking end-to-end responsibility

and leveraging our know-how for their transformation agenda and working along their teams with a sense of shared purpose.

For the eighth consecutive year, we have been ranked #1 in Customer Satisfaction in one of the largest independent surveys of its kind polling over 1,700 CXOs of top IT spenders across Europe about their service providers.

It is remarkable that on the attributes most critical to growth and transformation – like proactivity, innovation and business understanding, TCS scored seven to nine *percentage* points higher than the industry average.

Of course, success on the growth and transformation space is entirely predicated on capability. Our verticalized customer-centric organization structure has helped us build and foster domain and contextual knowledge within the industry solutions units. Our systematic investment in upskilling our workforce, in research and innovation and in intellectual property, have all helped us build strong solutioning expertise.

Our business and technology services unit has been steadily launching new service offerings aligned to the emerging transformation themes relevant to our customers. The divestiture factory that I have spoken about in the past, the supply chain transformation offerings, our Bringing Things to Life™ framework for IoT and for connected products and services, are all examples of these new offerings.

Equally importantly, we have created structures that give us the ability to pull all the different capabilities from across different parts of TCS to put together the holistic solutions that help our customers achieve their business objectives. All of these have helped us gain a beachhead in the growth and transformation opportunity over the last few years, winning share at the cost of legacy consulting organizations. We have had some high-profile successes that significantly enhance our visibility in our customer organizations and give us a seat at the table in their strategic discussions. From a business point of view, these engagements are driving high quality revenue growth for us and industry-leading profitability. We have been sharing these customer stories with you in our earnings calls as well as in our recent annual reports.

The growth and transformation opportunity is very large. And in my opinion, yet to be fully scoped. The transformation imperative will only strengthen over time and as new technologies emerge, newer combinatorial possibilities will open up, driving further investments by our customers. So, we believe this part of

the market opportunity will see tremendous growth in the coming years. That puts us in a very advantageous and promising position.

In addition to the large outsourcing opportunity, which we continue to dominate, we are now entering a large, growing opportunity that expands and significantly increases our addressable market. Our focus and investments will now be on growing further and gaining more market share in this space. Towards this, we are investing in deepening our transformation capabilities. Programs like Contextual Masters, which I've spoken about in the past, are scaling up nicely. We have added newer learning and development initiatives that will identify high potential candidates and put them through experiential courses that help them become more effective transformation leaders.

We are strengthening our partnerships with large technology providers, as well as start-ups, academia and domain specialists towards co-innovating and collaborating to create new service offerings.

We also refreshed our brand last month and launched a new brand statement, "Building on Belief", to reflect who we are today and to support our aspirations in the growth and transformation space. It talks of how every new idea; every new innovation is born out of a belief that it will help make the world better and how TCS partners with customers in bringing those beliefs to fruition.

With that, we can open the line for questions.

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

Sandip Agarwal: I have only one question Rajesh. If you see, only 45% or 50% of the business for us has started growing on a year-over-year basis and the balance 45%, 50% is still flattish or is slightly lower than the last year. What is your sense that when this business starts contributing next year what will be the overall impact on our overall growth particularly when we have 17% higher order wins? If you can throw some color on these verticals particularly the manufacturing piece which has not grown much in this quarter also, and also the retail, CPG and communications. Where do you see these businesses going forward? Will there be still one or two quarters before they start recovering strongly or you think we are probably going to see big recovery from here?

Rajesh Gopinathan: Sandip, I think this quarter and probably for the next one or two, our standard metric of year-on-year growth is not necessarily the best one to look at. On the shorter-term trajectory, the sequential growth metric provides a better visibility of the trajectory. So, if you look at retail itself, it is about 4% on a sequential basis, but it's still lagging on a year-on-year basis given the kind of impact that it had taken in the first half of the year.

Same is true for manufacturing; sequential growth numbers are much better than the year-on-year comparatives, reflecting the returning strength. But by far, no means has it fully recovered. So, we are more focused on the trajectory. As you will notice, this is our third consecutive quarter of 4%+ QoQ growth. And in line with our overall commentary at the beginning of the year, that we think there'll be a deep correction in Q1 and we will see strong demand recovery going into the rest of the year, and that is playing out pretty much along the lines that we expected.

As we look forward, other than sectors like travel and hospitality, other sectors are well on their path to recovery, subject to a few individual cases. But by and large, we remain very optimistic about the overall demand scenario.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: In terms of the deal wins or deal TCV witnessed for the sector in general for TCS in particular, any color on what share of this pertains to absolutely net new spends by clients and what share pertains to say something like the renewals, renegotiated or restructured deals?

Rajesh Gopinathan: Not very different from our typical trends. As usual, year-end or beginning quarter of the year, some of the shorter-term contracts get renewed, but it is no different from the typical trend in the past. From a segmental perspective, it's quite broad-based across all the segments that we reported, whether it is North America or BFSI or retail, it has seen a very strong growth on all the three segments.

Sudheer Guntupalli: The general understanding at this juncture is that in the post-COVID era, industry should see structurally higher growth rates given the multi-year technology transformation cycle we are betting on. But if you look at the growth rate reported this quarter, adjusted for the couple of captive takeovers, it's more or less in line with typical March quarter's growth. So, at a fundamental

level, how do we read this gap, or should this quarter be read as an aberration and going forward, do we expect higher than usual growth rates?

Rajesh Gopinathan: No. Captive takeover is an integral part of our business model. So, I don't see any aberrations.

Sudheer Guntupalli: Quickly, on the reason for the strong increase in other expenses this quarter?

V. Ramakrishnan: You mean, Other Operating Expenses, right? So, there is a slight uptick in the subcontracting expenses which is more tactical. We have said that in the past. It's more a flex pool. But for that, I think there is no significant increase. You have to look at it along with the overall employee costs, which overall, is in line. We don't see a significant increase otherwise.

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

Diviya Nagarajan: Couple of questions from my end. I think we've seen the sequential growth numbers being pretty strong in the last three quarters. How should we think about what is normalized sequential growth for a company of your size from here on? And second, on the margin side, Ramki, we have seen margins go up to almost 27%, the reason it also moved a little bit in favor now. So how do you see margin trends going into fiscal '22?

Rajesh Gopinathan: Thanks, Diviya. I'll take the first question. I think on a steady-state basis, as we have discussed in the past with the pre-COVID spend, double-digit is the aspirational band. I believe that if we can achieve that, we are on a good wicket. That growth itself has whatever construct you can think of from a sequential basis once you bring in a bit of seasonality into it.

That's the steady-state target that we are working towards. I've said that in the past that the management team is focused on trying to achieve that. This year will be a bit of an aberration because of the kind of denominator that you have coming off this year. But otherwise, our long-term strategy is built on trying to achieve that double-digit number.

V. Ramakrishnan: Diviya, our objective has been to be resilient on the margins. And what you're seeing is that in action. Growth has been a factor and continues to be a contributing factor to that margin resilience as well. Apart from that, there are discretionary expenses and also our globally distributed model helps. Plus on operational parameters, we have been able to do a lot of things and that is also helping the margins to consistently be within our target range. Currency over

the full year during FY 21 helped to take care of our compensation increases. And that is again another factor which we'll continue to watch as we go along.

Diviya Nagarajan: We have seen a fair amount of deal wins in the quarter, your highest ever. In terms of the deal dispersion, I think a few quarters ago when the crisis hit, you had talked about how there was a bit of a dumb-bell shaped curve and how the deal dispersion had shaped up. Has that normalized and how do you see that trending into the next 12 months?

Rajesh Gopinathan: Yeah, Diviya, it's a very interesting thing. If you remember, two quarters back I had said that we had unusually high number of smaller deals, but the pipeline itself was more evenly distributed. Right now, when we look at it, we have a fair number of large deals in here. But the \$9.2 billion TCV actually has a good mix of large, as well as very small deals. The volume of small deals is continuing to remain quite high. So, is that normalization? We can't comment right now. But the volume of smaller deals continues to stay quite high, and the large deals are coming in and acting as a kicker on top.

To put it in perspective, our largest deal in this quarter is in the range of about \$500 - \$600 million and that's a one-off, whereas if you compare to the year-ago period when we had TCV of \$8.9 billion, we had a \$2 billion deal in that setup. So it's a much more spread-out kind of dispersion, but I'm not yet ready to call it as a trend or to generalize beyond that.

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

Sandeep Shah: Rajesh, some of your peers have indicated that in some pockets there is a pricing pressure. Are you witnessing for this year?

Rajesh Gopinathan: I can't comment on them. From our side, pricing remains quite stable. In our industry, old services get priced differently and newer services have price resilience, but overall portfolio remains quite stable.

Sandeep Shah: And just a few bookkeeping questions. If you look at the Free Cash Flow (FCF) generation for the quarter, though it is still healthy, but has come off from the very strong trends in 1Q through 3Q. So, is it a growth factor which is leading to FCF now getting normalized, or is some collection delayed as a whole and FCF may continue to remain robust even in FY 2022? And secondly, the two large deals of BFSI, are they fully ramped up in the Q4 of this financial year?

V. Ramakrishnan: I'll take that question on the FCF. Ramki here. There have been no delays in collection. Our overall collections have been very steady, very good. You can see that in our metrics around the DSO and other working capital elements.

To some extent, it is true that when growth returns, there will be a release of working capital, but the thing to note is that our cash conversion is upward of 100% of our net profit, and that is what is critical. A little bit of ups and downs within quarters is not signifying anything else, beyond a growth factor.

Rajesh Gopinathan: On the second question, both are fully ramped up.

Moderator: Thank you. The next question is from the line of Sajeet Manghat from BloombergQuint. Please go ahead.

Sajeet Manghat: Hi, Rajesh. Just wanted to get an idea on the growth which you spoke about. At the end of Q3, you had mentioned that the kind of momentum in deal wins as you were expecting a double-digit growth for FY 22. Are we still in line to get that double-digit growth? And you just mentioned that this year might be an aberration. What exactly does that mean?

Rajesh Gopinathan: We are definitely on track to achieve double-digit growth in FY 22. I was answering to Diviya's question about the overall model that we have. The exit momentum that we have currently is the aberration that I was talking about.

Moderator: Thank you. The next question is from the line of Keith Bachman from Bank of Montreal. Please go ahead.

Brad Clark: Hi. This is Brad Clark standing in for Keith Bachman. Would you be able to comment on attrition trends in the industry? The last 12-months have been at an all-time low, but as competitive dynamics and demand for skills and services pick up over the last year or so, could you comment on both the expectations for employment and attrition trends going forward potential margin impacts and more specifically, what you've been observing in the past couple of months as it relates to competitive dynamics for talent?

Rajesh Gopinathan: Brad, attrition is directly dependent on employees' belief in the organizations they work for. TCS has a great history of believing in its employees and continuously investing in them, and therefore, we continue to maintain our industry-best retention rates. Beyond that, I wouldn't like to comment about industry.

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

Pankaj Kapoor: I had two questions. First, are you seeing any change in how customers are looking at the technology spend, what I mean is that are you seeing spend coming back in discretionary areas or in the longer-term payout projects?

N.G. Subramaniam: Overall, Pankaj, the technology spend stays stable and what we see is a number of opportunities coming in what we call as the growth and transformation side, right. If you take, let's say, a financial services customer, aspects like portfolio expansion or market penetration are the type of opportunities that are coming. And we are very excited about those kind of opportunities. In the case of Retail, again, it is supply chain resilience. And every one of the segments that we operate in, opportunities are around collaborating horizontally with ecosystem partners in addition to being vertically integrated. All the investments that we have made over the last three years, whether it is Agile, whether it is Machine First thinking, whether it is the Machine First methodologies that we have come up with, all of them are pretty much contributing to participating in such opportunities.

Pankaj Kapoor: The second question I had Rajesh was on the deal pipeline. Just taking forward from the earlier question from Diviya, do you still see cost take out and vendor consolidation deals are out in the play or as a trend has it normalized now?

Rajesh Gopinathan: No. They will continue to be there. The flight to quality that we've spoken about in the past, Pankaj, is still a fairly large one because people, as they're going through this re-platforming, are using that as an opportunity not just to clean up their legacy estate, but they're also re-looking at their vendor landscape and seeing what can be done.

There are multiple drivers to that. Best-in-class cost is a very big driver, but it's also about future proofing and selecting vendors who are aligned to that technology vision and who can play proactively in that space. It's a complex set of drivers and not just a pure consolidation play. It is a fairly large opportunity set as people relook at what is the kind of vendor landscape that they want and what is the kind of investments and commitments that they are looking for in this transformation opportunity. So, a very, very large set of those opportunities are also in play and will continue to be there for the next few years.

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

Ankur Rudra: Rajesh, you have indicated in the last quarter, and I think even on this call that double-digit growth for CY 21 or FY 22 looks clearly certain, I think that's probably a low bar right now for you. How high should we think FY 22 can be? Can TCS gun for industry growth leadership again given the order book you have and the momentum you see in the markets? And a related question to that, are there any headwinds you are wary of, as you start the year, for example, supply of talent availability a constraint?

Rajesh Gopinathan: Ankur, that's the easy part. I think supply is definitely not a constraint. Our model as you know is significantly organic, and as Ramki also mentioned in his early commentary, the kind of investments that we are doing and the kind of platforms that we're building for reskilling is unprecedented.

How high? I don't want to speculate on it. Growth is not the main, what should I say, strategic factor when we look in FY 22 or the next few quarters ahead. Our bigger opportunity and our biggest strategic agenda is around this whole growth and transformation theme and how do we participate in that opportunity and how do we build on the early gains that we have made and really concretize that and consolidate that position. That is where our key strategic focus is. And that is something that we are executing on across the full value chain.

That is the nature of opportunities that we are looking out for. We are trying to increase our participation on the upstream part and in conceptualizing those kinds of transformative engagements and being part of that whole chain.

We are looking at the way we go to market on these models. We are experimenting with various risk-taking models. We are experimenting with various engagement models with customers. We are focusing on capability build-up to support the scale of the opportunity that we see and have highly integrated development plans. We are also bringing together multiple service practices into holistic solution combinations and making the necessary structural changes internally.

Similarly, I've spoken at length about our focus on innovation two, three years back. From then on, we took our R&D capability and put a very strong explicit innovation focus to it and started externalizing that R&D capability and embedding it deeper into our business value chain. We have spoken about our

investments in Pace Port™. We have spoken about how we are actually looking at it as a new product development pipeline. And we have embedded what we call Innovation Champions, more than 200-250 of them, in the field in various accounts. We are focused on holding those innovation forums that we do across the globe. We do four to six every year in New York, London, Europe, Latin America, Japan, etc.

We were on a very large enterprise-wide transformation agenda post-FY'19. Last year, obviously, we had to step back and focus on the here and now and stabilize the organization. But we are now going back to that strategic agenda and making sure that we consolidate the gains that we see there, because that is the transformative opportunity and that is what will define who we are over the next five years.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura. Please go ahead.

Rishit Parikh: Rajesh, given the strong pipeline and given the strong upcycle that we are in, how should we think about the TCV trends in the next couple of quarters? That's one. And then to that extent, how should we think about transformation into revenues as well? Any headwinds that we should be aware about, which would mean that the revenue translation might be slightly weaker?

Rajesh Gopinathan: We are in uncharted territory on this currently. So, I don't want to comment on what should be the trajectory forward. As you know, this is the highest that we've ever reported since we started reporting the TCV. And we have also been calling out as we see the mix changing within this. But the last year has been such a volatile year that I would hesitate to extrapolate further from here.

Let it run for a few quarters and then we should have better visibility. But smaller deals have faster run down and faster conversion to revenue. Larger deals obviously give us visibility over a longer period of time. In the last couple of quarters, we have seen a fairly large volume of small deals.

It is also linked to our greater participation in these growth and transformation engagements, which, by definition, tend to be more project-centric and incremental project-centric. Many of the transformation programs nowadays get conceptualized as a series of sprints rather than as one single mega program. With Agile as our overall enterprise philosophy, we are quite comfortable with that kind of model. The enhanced engagement that comes with the transformation opportunity may not have contractual visibility but

secures us continued participation in the overall transformation agenda. So, those are the kind of things that we are focusing and developing on.

Rishit Parikh: And just one follow-up question on BFSI, right. Even if you remove more or less the contribution from the larger deals -- obviously, that's a part of the mix -- but still, outside of that, if you look at the growth, I think, it is similar to company average broadly. If you could just talk about the demand environment in this vertical and how we think about various sub-segments here?

N.G. Subramaniam: I think as Rajesh explained, we are very excited about participating in many of these smaller, but very focused and value-adding engagements. Just to quote a few example, the First Digital Bank in Israel is part of the TCS Banking Service Bureau, something that we conceptualized it with the government. We established it, we onboarded the First Digital Bank into that platform in less than six months, right. This is the kind of engagement.

Second is, that when there is an opportunity for someone in Switzerland to come and say that look, I'm going to have a completely crypto-driven private bank, right, then how do I actually participate in it? That's something that we have positioned our solution for, and then the whole value discovery framework that we came up with was exactly the kind of opportunities that are coming our way. All the investments that we have made in the last two, three years, whether it is in the area of cloud, in the area of data, in the area of analytics, the whole idea is to really bring everything to the table, conceptualize and shape the opportunity and then say, 'Look, this is the art of possible'. That's the kind of opportunities that we are giving.

They are often conceptualized today as a series of sprints and it's important that you are there in the beginning, shape it, and then contract it, conceptualize it and then execute it in the shortest possible timeframe. The contextual knowledge, the Agile frameworks, the way that the talent is managed across in a distributed fashion, all of that is helping us to participate in this and that's the kind of opportunities that we see in the banking, financial services space.

Moderator: Thank you. The next question is from the line of Chandra Ranganathan from MoneyControl. Please go ahead.

Chandra R: Rajesh, just wanted to ask you what would be the two biggest challenges for you -- Would it be talent? Would it be the second wave perhaps in Europe? If you can take us through one or two key challenges that you see going forward? Also, a question for Milind. This quarter is when you will really hit campuses.

So, do you expect to hire at the same pace, 19,000 plus, will that continue to be the case? And a question for NGS on how the second wave in India has really impacted your thoughts on work from home or is it business as usual for you?

Rajesh Gopinathan: Chandra, we will try to take it one-by-one. See, the key challenge, as I explained in one of the earlier questions is not talent. We are very confident about our ability to both acquire as well as develop our own talent. And even more specifically, the kind of opportunities we're seeing are very differentiated and we believe that we need to grow the talent internally because the philosophy that we're bringing to this growth and transformation agenda is very unique and the first of its kind in the industry.

The typical approach to this has been what we call the legacy consulting model, which is very outside-in: throw out everything that you have got and replace it with a shiny new template. Our approach on the other hand, is in line with our strong beliefs that we have internally, and we have always been building on is that it is better to take an inside-out organic approach to transformation. The contextual knowledge, the collective knowledge that resides inside the organization is the one that should be harnessed.

You have known us over the years, you would have seen that we have always believed in this and we have executed on this internally. And the more we speak about it to the customers, the more they find this as a very refreshing change, and therefore, they're quite excited about partnering with us. So, the skill set that we are bringing to fore is very unique and very, very organic. And so, we are quite confident about that talent availability because it is coming from our own people and our investments in our own people. So, we are quite confident about it.

The health challenges that you laid out, you've asked Milind and NGS. We are obviously very concerned, but I'll let Milind talk about what we are doing about dealing with it proactively and in a positive way. Over to you, Milind.

Milind Lakkad: On the health front first, we have been continuing to do this for the last 14-months. Associate health and well-being has been our top priority in making all our business decisions and that continues, even more so now in the second wave. We are significantly increasing our communication with our people, basically continuing to use our own isolation centers and re-imagining what else we can do for our people in this context of a really bad situation right now

in India, and many other things such as how do we take care of vaccinations, enable and also encourage people to get those vaccinations.

All of that is happening in a very, very systematic manner. And we'll continue to do it day-in and day-out, continuously connecting with our 480,000-plus people on an ongoing basis across the globe. That has been there from day one and that continues like that for the entire year. So that is about the health part.

With respect to your question on the overall numbers, like last year, our overall numbers from the campus would be similar if not little more. And we continue to hire. Basically, like Rajesh said, one of our key sources of our talent is internal, and strategic talent development which we do quarter-after-quarter and looking at the longer horizon as well as mid-term goals. So, both of that happens and basically, we depend on people from campus, internal talent development, and then whatever we need from the market in addition. So, these three together, will drive our numbers from a supply side, and I don't anticipate any challenge on the supply side.

Chandra R: Will it continue to be 19,000, 20,000 a quarter, sir?

Milind Lakkad: What I can tell you is that we will hire similar kind of numbers from the campus. We will continue to do internal talent development and we will actually also take it from the market. So, what number will it be, depends on how we do on all fronts. But from a talent standpoint, from a supply standpoint, we will be ready to deliver those numbers.

N.G. Subramaniam: Thank you Chandra, for that question. For three quarters consecutively, delivering 4% and above sequential growth wouldn't have been possible but for the can-do attitude and the resilience shown by our associates. So I just want to, first of all, thank them for their focus, passion and commitment towards customers.

Overall, I think the SBWS™ operating model that we launched and elements of the Vision 25x25 that we have rolled out, they are all auguring well, and we have been able to sell, contract, execute, onboard people, associates, and customers all remotely. Our HR has also done a remarkable job in terms of connecting one-to-one with almost every one of our employees at least once a quarter. It's been a tremendous achievement because you just imagine our strength of about 400,000-plus employees to be contacted at least once every

quarter and on a need basis, has been a remarkable achievement. I again want to salute our HR officers for that.

Our focus is really on moving to a mobility-based infrastructure and enabling people to work from anywhere in a secured basis. I think that will continue. And the demand environment looks positive for us. I do hope that the second wave is not going to bring in a lot more surprises than what we have already faced. I think we seem to have managed many of the levers as it applies to our operating model. So, wish us well.

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

Manik Taneja: Rajesh, I just wanted to pick your brains around the pricing trends. Just wanted to understand if customers are much more open to skill-based pricing rather than location-based pricing as they've got used to the global delivery model much more with the pandemic reinforcing the market?

Rajesh Gopinathan: See, the initial quarter and all, there were obviously, as you said, different customers in different situations and we were very accommodative and supportive to long-standing relationships. But as the recovery has panned out across multiple industry segments, the pricing scenario has changed significantly, and it's much more stable and supportive.

Beyond that, trends are not very different from what it was pre-pandemic also. Higher quality service areas command a premium, and higher quality vendors also significantly command a premium. That has improved post-pandemic where the value of quality is much more explicitly recognized and rewarded either through market share, or better pricing, or both.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

Dipesh Mehta: Rajesh, you earlier alluded about growth and transformation initiative as the new focus area for next three-to-five-year perspective. So, do you think it could have any implication on your deal win and tenure? Should one be mindful of any implication on any of your reported metrics on a going forward basis? Second question is what would be our thought process on salary hike? Whether because it is happening within six months, it would be adjusted for it, we have delayed salary hike last year, now it would be normal kind of impact? And the last question is Japan market. We have made investments in that

market and now I think sufficient time has passed. So, if you can provide some update about Japan market?

Rajesh Gopinathan: The G&T opportunity should unlock newer segments and should be a net new opportunity. So overall, it should be supportive to our business model, especially because as I said, we are building upon it in a fairly organic and systematic way. And we have been putting together the building blocks of it for many years now. So overall, I think it is a net new opportunity. Size and scale of it? We'll have to wait and see how it pans out, but we are quite excited about opening up a new segment and participating strongly in it. But we are at early stages and we will have to take on the incumbent base one-by-one.

I'll answer the Japan one and then hand it to Milind on the salary hike side. Japan is a market of strategic focus. And as everybody knows and we have spoken about it, it's a market that tests patience. We have been systematically developing it, our delivery models, our relationship with customers, etc., being the major focus rather than immediate revenues. We currently have about 35 priority customers there with whom we have substantial growing business. Slowly, the focus is to move the overall portfolio into a lesser number of clients but with larger relationships, which is the typical model that we have always had globally, and which was different from the business model that existed from the acquired entity. So, we are making steady progress on that strategy. It is a long haul, but the payoffs are worth it and big. Beyond that, nothing more specifically in the short-term to add to it. Over to you Milind on the salary hike.

Milind Lakkad: I think the short answer to that question about salary hikes is, it will be similar to what we have been doing in the past, no differences on that front.

Rajesh Gopinathan: We were the first to announce salary hikes last year. The moment visibility came back, we announced and immediately rolled out starting October 1st itself. Once again, we have been the industry leaders in announcing our salary hikes for April and committing that it will be rolled out from 1st April. Both are in line with our historical trends over the last few years. So, we are fully on the trajectory, both on salary hikes as well as promotions.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam S Sriram: From a competitive landscape perspective, you were alluding that this quarter, for example, we saw more of small size deals than the large size deals. Is there anything to read into it in terms of our strategic priorities, looking at more of the

smaller size deals as compared to the larger deals, is there any heightened competition that we are seeing in the marketplace that is if you look at these smaller deals, I just wanted to get your perspective on that?

Rajesh Gopinathan: No, Shyam. I think you misunderstood what I said. Answering to Diviya's question I said, two quarters back we had called out that there were significantly more small deals compared to larger ones, whereas last quarter and this quarter, the larger deals are also equally there. The only area that I pointed out that in the enhanced TCV that we have reported the strength of small deals that we saw a couple of quarters back have continued, it has not been replaced by large deals. Large deals have come and added on top of it. So, it emphasizes our competitiveness in large deals as well as in smaller deals. But our strategic focus that I spoke about is on growth and transformation, where the size of deals will be smaller. So that's two different things.

Shyam S Sriram: My second question is on the margins per se. I mean you clearly said, supply side pressures are not there, and we have very well managed the talent pool development in-house per se. So just trying to understand when we think of some of the margin headwinds as we head into the next year, would it be some of these sub-con flex pools that we spoke about that could rise in lieu of the travel restrictions or it could be higher local hiring, what could be some of the margin headwinds that we could think of as we head into the next year?

Rajesh Gopinathan: The immediate one is of course the normalization of some of our operating expenses that in the last year were slightly artificial from an operating model perspective, but that is an obvious one. Otherwise, what you said are all there, which is short-term talent requirement in various locations. If supply is constrained, we will have to do something on subcontractors, like you saw it spiking this quarter.

But structurally, there are no major issues that we see out there. In the immediate horizon, more tactical and operational ones, some amount of normalization, some amount of individual ones, otherwise no structural headwinds.

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

Rajesh Gopinathan: Thank you, operator. To sum up, strong demand for our services has helped us build up an all-time high order book and strong momentum as we enter the new financial year.

We continue to enjoy very resilient industry-leading profitability that gives us the wherewithal to continue investing in building newer capabilities that will allow us to increase our share in the growth and transformation opportunity.

The growth and transformation opportunity represents a significant expansion of our addressable market. It will continue to expand as enterprises depend more and more on technology to differentiate themselves and drive their top line imperatives.

Our investments in our people, in research and innovation, intellectual property, alliance partnerships and new business models, all of which I spoke about, has helped us gain a beachhead in this opportunity and our focus for future will be to expand our footprint, while continuing to dominate our traditional area of strength. We are investing in new initiatives to deepen these capabilities to enable this. The launch of our new brand statement is also an important initiative to support this aspiration, and we look forward to your support and good wishes in this journey.

To conclude, I will also want to call out Ramki and the role that he has played across TCS and also in the larger group, and thank him for his contributions and for being a pillar of strength for the company in its own growth journey over the last many decades. Thank you all for participating and over to you, Margaret, to close. Thank you.

V. Ramakrishnan: Thank you.

Moderator: Thank you, members of the management. On behalf of TCS, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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