



**Tata Consultancy Services Limited**  
**Q3 FY21 Earnings Conference Call**  
**January 8, 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, Margaret. Good evening and welcome everyone. Thank you for joining us today to discuss TCS Financial Results for the Third Quarter of Fiscal Year 2021 that ended December 31, 2020. This call is being webcast through our website and an archive including the transcript will be available on the site for the duration of this quarter.

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

Our leadership team is present on this call to discuss our results. We have with us today, Mr. Rajesh Gopinathan -- Chief Executive Officer and Managing Director; Mr. N G Subramaniam -- Chief Operating Officer; Mr. V. Ramakrishnan -- Chief Financial Officer and Mr. Milind Lakkad -- Chief HR Officer.

Rajesh and Ramki will give a brief overview of the company's performance followed by a Q&A Session. As you're aware, we don't provide specific revenue or earnings guidance and anything said on this call which reflects our outlook for the future, or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risks that the company faces. We have outlined these risks in the second slide of the quarterly fact sheet

available on our website and emailed out to those who subscribe to our mailing list.

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

**Rajesh Gopinathan:** Thank you, Kedar. Good morning, good afternoon and good evening to all of you. I hope all of you had a good year-end break, and I wish you and your dear ones a very happy new year.

I'm delighted with our performance this quarter. The strong demand for core transformation services, market share gains and quick revenue conversion from all the deals we won earlier helped us build up a robust momentum that overcame seasonal weaknesses and post one of our strongest sequential growth figures for December quarter.

Our revenue grew 4.1% quarter-on-quarter in constant currency, 5.1% in dollar terms and 4.7% in rupee terms. The growth momentum of the last two quarters also helped us get back to growth on a year-on-year basis, one quarter ahead of what we had originally expected in April, at the start of the pandemic. On a year-on-year basis, we grew 0.4% in constant currency terms, 2.1% in dollar terms, and 5.4% in rupee terms.

The strong top line performance was matched by our various operating metrics, reflecting the power, flexibility and responsiveness of the SBWS™ operating model that we have spoken about many times in the past. Our operating margin for the quarter was 26.6%, an expansion of 0.4% Q-o-Q and 1.6% year-on-year. Our net margin was at 20.7%.

I will now ask Ramki to go over all the headline numbers and the financial and segmental performance. And I'll come back later to talk about the demand trends. Over to you, Ramki.

**V Ramakrishnan:** Yes, thank you, Rajesh, I will now go through the headline numbers. In the third quarter of FY21, our revenue grew 4.1% sequentially on a constant currency basis. This is the strongest December quarter growth we have had in nine years. Reported revenue in INR was ₹420.15 billion, a quarter-on-quarter growth of 4.7%. In USD terms, revenue was \$5.702 billion, which is quarter-on-quarter growth of 5.1%.

Coming to the segmental details for the quarter, as a reminder, I will be sharing quarter-on-quarter growth numbers in constant currency terms. Our largest two

business verticals, BFSI and Retail, showed good sequential growth in a seasonally weak quarter. BFSI grew 2% quarter-on-quarter, one of its best December quarters in the recent past and adjusted for seasonal headwinds, the performance was on par with Q2. Growth was well rounded across all geographies, except APAC, and across sub verticals. The business themes that drew customer spending during the quarter included customer experience enhancement, new product initiatives, regulatory work and ESG initiatives. From a technology perspective, this translated into investments in call center modernization, analytics and insights, workplace transformation, cloud adoption, core modernization and cyber security.

One last point on BFSI; of the two large deals we signed in Q3, the Prudential financial deal was closed in mid-December. But very little revenue was added in this quarter. And the Postbank Systems deal was closed actually on January 1.

The Retail cluster grew 3.1% despite the seasonal softness of the holiday season, and continued weakness in discretionary retail, CPG, travel and hospitality sub verticals. US retail showed good recovery, followed by Europe and UK. Retailers continue to spend on initiatives to enhance customer experience, reimagine customer journeys by providing a seamless experience across channels, optimize fulfillment costs and find ways to leverage the physical store to provide value added services and experiences.

The Life Sciences and Healthcare vertical continue to outperform growing 5.2% sequentially. Other verticals also showed good growth; Manufacturing grew 7.1%, Communications and Media 5.5% and Technology Services 0.8%.

On a year-on-year constant currency basis, Life Sciences and Healthcare continue to grow in double digits at 18.2%. BFSI and Technology and Services both moved into the positive territory, growing 2.4% each, while others continue to be below the December 2019 levels.

By geography, sequential growth was led by North America (+3.3%), India (+18.1%), UK (+4.5%) and Continental Europe (+2.5%). Other markets grew as well, with Asia Pacific growing 2.6%, MEA 6.7% and Latin America 3.1%. All positive.

Coming to products and platforms, our portfolio of award-winning products and platforms continue to grow well.

Ignio™, our suite of cognitive automation software acquired eight new logos in Q3 and saw seven customers go live on the product. During the quarter the product won three more awards, and was granted two more patents bringing the total to 27 patents granted till date.

As customers embark on their cloud transformation journeys and look to redeploy talent from business-as-usual tasks to transformational projects, they are deploying ignio's various solutions in very creative use cases to proactively monitor their infrastructure, automate routine maintenance activities, create self-healing capabilities, and build operational resilience.

A European multinational chemical company is using ignio's health check dashboard to proactively monitor SAP operations around BASIS, ABAP and the core ECC technical stack. ignio provides start of day business checks around a range of transactions, looking out for system unavailability, performance analysis, license expiry, etc. Such proactive monitoring helps preempt issues before they arise and avoid business disruptions due to system outages.

An American Life Sciences multinational is using ignio to manage its Azure, AWS and GCP-based cloud operations. Over 5500 virtual machines and 100% of incidents are currently being managed by ignio with a 36% automation index within weeks of implementation.

Another North American utility is using ignio for user group management, cloud waste, cloud infrastructure migration, drive space administration and patch management. ignio helps detect, qualify and report wasteful resources on the cloud, using its contextual knowledge of operations, helping the customer reap the full economic benefits of its cloud investment.

Coming to TCS BaNCS™, our flagship product suite in the financial services domain, it had five new wins and six go lives in Q3. We had two new wins for our digital banking product, two for our wealth management solution and one for payments. This includes one of the largest deal wins ever for TCS BaNCS, when it was selected as the preferred cloud-based platform for its wealth management business in the US by a global investment bank.

Quartz™, the Smart Ledger Solution had four new wins and one go live in Q3. Here too, customers are discovering all kinds of areas in their businesses

where Quartz can transform their operations and are deploying it in an ever-expanding set of unique use cases, often the first of the kind in the world.

A global investment bank has selected Quartz Surveillance, a next-generation Blockchain plus AI solution for trade surveillance, for its US wealth management operations.

A leading energy and urban development corporation in Singapore has used the Quartz DevKit solution to build a blockchain-based system for buying, selling and transferring of renewable energy certificates.

In a first of its kind, one of the largest global custodian banks in the US has deployed Quartz Announcements as part of modernizing its asset servicing offering and replacing in-house legacy systems. The new system has resulted in higher levels of straight through processing, world-class corporate actions announcements processing standards, and helps the bank deliver superior customer experience and drive growth in its prime services book of business.

Our HOBS suite of solutions for communication service providers had three new wins and four go lives during the quarter. TwinX, our AI based digital twin solution also had three wins.

TCS MasterCraft, our suite of intelligent automation products for end-to-end enterprise application modernization had eight new wins in Q3.

Coming to the client metrics, they stayed more or less flattish in Q3 versus the prior quarter. Revenue contribution by customers is calculated on an LTM basis. So, we expect these metrics to remain soft for another couple of quarters until we fully cycle out the revenue declines of the June quarter.

At the end of Q3, we had 48 clients in the \$100 million plus band, 97 clients in the \$50 million plus band, 229 clients in the \$20 million plus band, 386 clients in the \$10 million plus band, 565 clients in the \$5 million band and 1,077 clients in the \$1 million plus band.

Moving on to our costs, we had our annual salary increase going into effect from October 1st this year. So, our Q3 operating margins saw the full impact of that, amounting to 160 basis points.

I'm happy to point out that the operating efficiencies brought about by our SBWS operating model, aided by operating leverage from growth, and a little

bit of currency support helped us mitigate the impact to the salary increase and still expand our EBIT margin sequentially by 0.4% QoQ to 26.6%. Our net income margin was at 20.7%. The effective tax rate for the quarter was 25.4%. Our DSO was 69 in dollar terms. Net cash flow from operations was ₹119.52 billion, which is 137.4% of net income, our all-time high in cash conversion. Free cash flow was ₹112.3 billion, up 28.5% year-on-year. Invested funds as of December 31 stood at ₹653.77 billion.

The board has recommended an interim dividend of ₹6 per share.

On the people front, our HR organization has shifted its focus to supporting growth. In Q3, we had a net addition of 15,721, our highest ever in a quarter, resulting in a total headcount of 469,261. This includes around 1,500 employees joining our new delivery center in Ireland, from Pramerica Systems Ireland Limited. Our workforce continues to be a very diverse one, with women making up 36.4% of the base and with 147 nationalities represented.

We have reimagined our HR value chain to enhance the employee experience and increase throughput. Last quarter, we had mentioned the early training and 100% virtual onboarding of project-ready trainees. In Q3 we onboarded 12,000 trainees. Our TCS National Qualifier Test, re-established its pioneer status by pivoting completely to a virtual mode, evaluating over 225,000 fresher candidates in the safety of their homes, leveraging advanced digital assessment methods. Including laterals, over 130,000 candidates were remotely interviewed, giving them a seamless experience and giving us access to the best available talent.

At the end of Q3, we have trained 366,000 employees on new technologies, and over 444,000 employees on Agile methodologies. By prioritizing qualified internal candidates for open positions, requiring digital skills, we have increased role mobility, and career growth opportunities for employees, while improving our velocity of project ramp ups and utilization.

As you are aware, TCS has been a global industry benchmark for talent retention. In Q3, our LTM attrition in IT services, which includes all departures, voluntary and involuntary, was at 7.6%, an all-time low, even by our own standards. However, as growth returns across the industry, we expect to see attrition inch up from these very low levels.

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

**Rajesh Gopinathan:** Thank you, Ramki. Coming to the demand side of it, I'd spoken earlier about how cloud adoption is driving a multi-year technology spending cycle, and that this will remain a secular growth driver for us over the next three to five years with the transformation playing out over multiple horizons. The trends we spoke about in October around cloud transformation are continuing very strongly, and much of our order book and pipeline reflect that spending.

Last quarter, I'd also spoken about how we have created new dedicated business units focused on the three leading hyperscaler platforms. The idea was to make sure that we stay focused on each of these individual ones separately. These units have hit the ground running in Q3, and we've been winning cloud engagements from across more than 200 customers in this quarter itself. During the quarter, we are also very happy to share that we have been ranked a Leader by leading industry analysts for the public cloud system integrator space in each of these platforms, apart from this cloud infrastructure, brokerage orchestration services, etc., So, it's a full court press across the entire partnership ecosystem and the initial traction and pipeline visibility is very strong.

Today, I also want to discuss opportunity from the two lenses that we are looking at it. One is what we call the growth and transformation opportunity, where enterprises leverage the power of new technologies to embrace new business models, pursue new revenue lines or to deliver superior customer experience or engage with new segments of customers.

The second one is the more traditional use of technology to drive efficiency and greater productivity. We believe that from a demand perspective, we will see traction on both these aspects. I want to spend a few minutes looking at demand from this perspective and giving you a flavor of the kind of engagements that we won in Q3 with either or both of these ideas.

Coming to growth and transformation, a great example is the work that we're doing for a leading insurance provider in the North American market, where we are using our contextual knowledge of this customer, and the insurance domain knowledge and combining that with our location independent agile to operate in this challenging environment, and our expertise on cloud and APIfication to implement a new platform that has significantly changed the way the insurance provider integrates with an ecosystem of third-party providers that are critical to its customer servicing.

So, if you consider an area like an auto loan, there are more than 10 outside providers or outside enterprises that they need to link to, to be able to either generate a quote or to do an efficient claim processing. Similarly, if it comes to a home loan area, there are almost more than 15 ecosystem partners that are involved in this whole value chain transaction. By leveraging cloud, by leveraging API, and exposing core functionalities in a manner in which it can be seamlessly consumed, we've been able to reduce their quote time by 41%.

Similarly, we have been able to help them bring products faster to market, achieving 40% lesser time to market in states where they're already present in, and 50% faster time to market to enter new states with new products. So, that's the kind of impact and transformation that this combination of contextual knowledge, and our ability for an end-to-end solution can deliver to our customer. And all of this translates into being able to get into new markets, deliver new products and enhance customer experience. In this specific case, Net Promoter Score also went up by 10 points.

Similarly, for a leading pharmacy player in North America, we have been able to deliver a business benefit that is significantly impactful for their customers, by being able to delink the individual customer from a specific pharmacy, and allowing the customer the ability to actually get his or her prescription filled from any pharmacy in that chain. Underlying this is, of course, the transformation of the pharmacy system, migration of that into a cloud-based infrastructure and ability to ensure that data, analytics, security, audit, all of that is able to be done in a node independent manner, and be able to deliver that to the customer. The added benefit of a solution like this, from the pharmacist perspective, is that if an individual pharmacy node starts becoming a bottleneck with more customers than originally expected, they can actually farm out part of the work to other nodes which are free, and leverage the pharmacists available there. We are also able to use advanced AI/ML techniques to actually predict the nature of that load. In certain cases, some of the formulations are very time sensitive, so being able to predict the load and predict when that customer will come significantly reduces wastage, and improves customer experience.

So, these are examples of how cloud transformation goes beyond pure infrastructure and how we leverage these native capabilities, and also how ecosystem-based transformation helps.

We have similarly worked with a leading airline alliance group. Typically, these groups have been able to deliver end-to-end reservations. But we have been



able to extend that to end-to-end inter-airline baggage checking, baggage verification, travel document verification, so that security standards underlying validations are being transferred airline-to-airline, they can meet their individual regulatory requirements. Once again, by exposing it onto the cloud, by actually delivering on that borderless enterprise promise, we can significantly improve both efficiency and customer experience. So, that's one area around the cloud-based transformation.

Another big area that we are seeing, which is also linked in some way to this idea of borderless organization is the increased volume of corporate restructuring, mergers and divestiture that we are seeing. We see this as accelerating part of our customer's strategy as they realign themselves to the new industry norms. This is a space that we have been investing in significantly and enhancing our capability to participate across the value chain. So, we have been setting up capabilities on both integration as well as divestiture planning, day one readiness, running the integration management office, and being able to ensure that this whole idea of a TSA is removed, and we can get to seamless operations in the least possible time.

For one of the leading health insurance providers, we have been able to carve out their group insurance business with around 3,000 people and deliver that such that the carveout was fully functional across all its operational parameters, from day one of the separation, so that there was no lag in that whole activity.

So this space we believe will accelerate not only because of the business realities around us, but also because this idea of borderless organization, allows for logical separation and logical integration of businesses, both inside enterprises and across multiple enterprises.

The other big area that we are seeing is in the area of supply chain. For example, for one of the leading cement manufacturers in India, we have been able to transform the way they do supply chain optimization. They need to do one-day demand fulfillment in an environment with a very highly fluctuating demand outlook and very noisy environment in terms of data points across almost 2,000 distribution nodes. Again, being able to clean up the data structure in a manner in which learning algorithms can be deployed and integrating that with our platform solution allows for providing that kind of high certainty and reduced stock outs and reduced outages across their entire distribution network.

We are also participating significantly in customer experience transformation, leveraging these kinds of combination of mobile and cloud applications. For one of the leading European postal operators, we are helping them transform and deal with the e-commerce era and the e-mail era where they're moving away from delivering letters to delivering packages and moving to a customer-oriented delivery schedule. We have helped them actually enable their customers to select delivery windows in a two-hour window, rather than an eight hour or one-day kind of a scenario that they were used to. This one has resulted in more than half a million downloads of that app for them and the customer NPS improving by five points, and they are expecting in their country to be the leading provider on package and courier side of it. So, these are the kinds of transformation opportunities and the transformation engagements, which give us the confidence and the excitement on long-term prospects that we have been speaking about.

The story is equally powerful on the operations transformation side. We have been significantly investing in integrating our multiple solutions across operations and automation. As part of our MFDM journey, we have now integrated our solution suites into what we call the CogniX™ platform that is a AI / ML-enabled human machine collaboration platform, that is reimagining the way cognitive business operations will be delivered to customers.

I want to give you a very classical example of how we have been able to use it in a B2B scenario. For one of our customers, one of the largest players in the workforce management space, we have been able to deliver a solution which allows them central procurement, but localized fulfillment by a large ecosystem of vendors across a large ecosystem of business users. So, while the contracting and optimization happens at a central level, what the solution allows is for reduced reconciliation errors and reduced friction while providers are able to actually satisfy local demand and provide local invoicing and local reconciliation and ensuring that this entire track and trace of it is done in a manner in which both speed and efficiency as well as the overall business experience is enhanced.

And this scenario is, in an abstracted form, very similar to any B2B procurement in a multi-node kind of scenario, where both the purchase organization or the user organization and the supplier organization is going to do a multi-point to multi point fulfillment. So, these are examples of the kind of work that is getting enabled by the large-scale transformation that is currently

going on in which our teams are participating, and that's the nature of demand that makes us so excited about opportunity looking forward,

Let me summarize by saying that our total contract value signed this quarter is \$6.8 billion. When you compare that against \$6 billion in Q3 last year or \$8.6 billion in Q2 this year, or rather \$6.1 billion excluding the very large deal that we did last quarter, it is a significant growth on both sequential basis and on an annual basis.

If you look at the components also, BFSI has delivered \$2.6 billion TCV in this quarter. Only one of the two deals that we spoke about in the past is counted here. The other deal closure happened early Jan, so that's not counted in this. So, BFSI demand is also very strong, and we are very positive about it. Similarly, Retail at close to \$0.98 billion, and North America at \$4 billion, so the TCV spread across all segments is also very strong.

With that, let me open up 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 Yogesh Aggarwal from HSBC. Please go ahead.

**Yogesh Aggarwal:** Just have a couple of questions. Firstly, Rajesh, if you look at it from a macro standpoint, almost every vertical was impacted differently, some verticals actually got benefitted from the pandemic as well, but your growth is broadly great across all the verticals. So, what is happening? Are customers behaving the same manner, even if their business is getting impacted versus benefiting or the type of services are different, but the net result is the same for you? And related to that, did you see any kind of budget flush this time as most CIOs won't have been able to spend their budget last year through the year?

**Rajesh Gopinathan:** Yogesh, I think the common factor across industries is that technology is the solution, irrespective of what the problem is, whether it is how to grow, or how to find the efficiency or how to secure. In all of these cases, technology leverage is at the core of whatever we are doing. Some common themes were all pervasive, especially in the early part of the pandemic. Digital collaboration suite, those rollouts and cyber security were very common themes. But in the recent quarter, it's a more heterogeneous spread of both growth-oriented investments, as well as efficiency-oriented investments. So, there is no common theme other than technology leverage as being a theme.

We have not seen it as a budget flush, but rather as strengthening of the investment mandates that they were receiving through the second half of the calendar year. So, we are seeing a steady strengthening of that. I had shared last quarter that while our TCV was strong, there were smaller deals that were closing, though the pipeline had quite a few large deals. Actually, this quarter, many large deals have closed, not just the two mega ones that we called out, but also in the 50 million to 100 million range, the number of deals that have closed is significantly high. So, we've made up for that skew in the last quarter that I spoke about. So, I would say it is strengthening of that trend that we saw, rather than a flush in terms of where the demand is.

**Yogesh Aggarwal:** Just secondly, Rajesh, with every technology, in the initial few years, the pricing is better, and as it scales up and the learning curve it normalizes. So, going forward, do you think with cloud ramping up on a net basis, will pricing improve from here, and can it help margins, or you think it will remain stable as things scale up?

**Rajesh Gopinathan:** Yogesh, our pricing strategy is more broad-based and relationship-led, rather than a specific service or product-led. We are not a product company. So, our approach is based on building more long-term strategic partnerships, where we are investing in creating the technology capability and making that available to the customer on an on-demand basis. So, there are small variations, but you don't see significant volatility in our pricing across individual technologies. That's not our strategy.

**Moderator:** Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

**Mukul Garg:** I had two questions for Rajesh and Ramki. Rajesh, very good detail qualitatively on cloud. Is it possible to quantify some of the areas where spending is going to happen on operations or, if you can comment about the top three cloud partners, verticals which you have created? What is the addressable market you have? Will this be an early bump in spend on cloud as people are migrate which should stabilize or do you expect it to accelerate?

**Rajesh Gopinathan:** Very difficult to quantify. Significant shift will happen. How it happens is difficult to predict and quantify right now, but the addressable market is so large, that it merits those organizational changes that we have spoken about.

**Mukul Garg:** Second part of question was; you definitely have seen two quarters of very strong growth. Would you attribute partially to increased pick up in cloud spending, which should settle down as clients kind of move more into the maturity phase or do you expect cloud to accelerate further?

**Rajesh Gopinathan:** Well, again, sorry, we are keeping on saying difficult to quantify, but think about it this way: as I said, the lens to see it is what we have shared with you as the multi-horizon strategy, and the first value proposition is the migration of the infrastructure to the cloud. And second, after that comes this actual rollout of programs that capitalize on that native capability, and they use it. So, some of the examples that I told you, for example, the pharmacy one that I mentioned, these are all, when you think about it logically, they come easier when you are onto a common fabric of cloud.

And the other insurance example, the ecosystem integration, once again, those are business model changes, and one enabled by the fact that you are on to some kind of a common discovery-based infrastructure. So, the first is about the immediate basic demand from cloud. But the second and the third horizon, you could classify it as cloud, or you could classify it as any other standard application development activity. That is why we characterize cloud as the new ERP because the incremental functionality and the incremental differentiation will happen on these platforms. And that we can classify whichever way, but that will definitely be a big driver of future demand.

**Mukul Garg:** Ramki, this quarter margin performance was quite commendable. But if I look at the INR employee expenses per employee that has come down a bit versus Q2. What would you characterize besides lower attrition or on maybe some currency impact, is there some benefit from variable pay or what is leading to the lower increase in employee cost?

**V Ramakrishnan:** One of the things which we talked about this new adding up people in Ireland, for instance, the employees have just come at the end of the quarter, right. So, when you do the arithmetic, so your denominator is higher, but the revenue from that will come into the subsequent quarter. So, other than that there is no other structural issue or anything to explain this.

**Rajesh Gopinathan:** To your question, our variable pay has been 100% in last quarter as well as the quarter before that. And we have gone through the year promotions, we continued the cycle as normal, and the volumes were more based on what the actual business volumes were. And salary increases also, we have rolled out

from H2 onwards, which is fully reflected in it. So, to your question, this is inclusive of everything, no one-offs.

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

**Ankur Rudra:** On the demand side, Rajesh, thanks for the detailed commentary. I was curious whether the nature of the incremental demand you are seeing, especially the lenses you mentioned on growth versus efficiency, wouldn't the volume of that be higher on the cost takeout efficiency side, maybe supported by the cloudification you're doing, rather than the growth side, given the state of the economy?

**Rajesh Gopinathan:** Depends on a client-to-client situation. But in aggregate, I think there is enough. So, especially when you think about it in terms of incremental money, there is almost an equal sized opportunity on both sides of it. Our participation has traditionally been more on the efficiency side. And the investments that we have done, the capabilities that were created are designed to increase our participation on the growth and transformation side. But the net money spent, especially when you think from an incremental perspective of what is out there as demand, is almost equal.

**Ankur Rudra:** A follow up question I have been clearly very strong growth and unseasonal strength. I was curious if there's been any impact on the supply side, have there been instances where you might have faced or you anticipate supply issues with certain skill sets given the growth you're seeing is not typically of this part of the cycle as projects are ramping up?

**Rajesh Gopinathan:** We had shared with you earlier about our commitment to completely honor our outstanding hiring offers that we had made, and we had hired and made offers assuming a much stronger demand scenario. So, we have that inventory of almost 40,000 trainees that we had committed to bring onboard. That is a big part of it.

Some amount of it, we have also been tactical in using subcontractors. As you see that to mean fairly sticky element, and it has marginally trended up also this quarter. So, we are both strategically on the hiring side, tactically on the subcontractor side, and even more structurally, on the entire training and reskilling side, which I will ask Milind to talk about a bit. We have actually

executed in all three. Milind, would you like to elaborate a bit on the reskilling and fulfillment from that?

**Milind Lakkad:**

Yes, sure Rajesh. There are a couple of dimensions here. The linkage between the organic investment in our talent through cross-skilling and business growth has emerged stronger than ever. For example, there has been a 100% increase in the number of open positions we fulfilled with internal candidates in Q2 versus Q1. Basically, very contextual talent development, looking into short term needs, in the two quarters from now, and building on top of that is really working for us very, very well.

Our contextual masters grew by 25% in this quarter. This is helping continuously strengthen our pool of growth and transformation leaders, capable of engaging with CXOs of customers on their transformation agenda. We have reached a number of 15,000 contextual masters. Contextual masters are, for the benefit of those who don't know, people who are working with our customers for quite some time and have deep contextual knowledge of the customer, whether it is industry domain, whether it is technology, whether it is the nature of the relationships, and what will work, what will not work, all of that.

So, from all angles, building the contextual knowledge, building technology understanding, building domain understanding, and bringing it all together on time when it's needed the most, is actually our key talent strategy.

In addition to that, we're also basically building very strategic talent development programs internally at all levels, whether it is at a lowest level of people with zero to three years' experience, whether it is the middle level, where we think of building specialists, and then nine years onwards, we are starting to build growth and transformation leaders for the company. So, talent development has been a significant aspect of our growth, with direct correlation to that and a long-term strategy as well.

**Ankur Rudra:**

Any thoughts on investing the near-term gains on margin from travel and G&A we benefited in CY'20 to gain market share as clients open up for captive sales consolidation, etc., and also helping them fund transformations?

**Rajesh Gopinathan:**

Ankur, we are closing with 65,000 crores. So, I don't need travel savings for investment. As you know, we have a very structured investment plan and very

long-term commitment to investing in capabilities to drive strategic growth. And that agenda continues. We are hardly capital constrained to be able to fund it.

**Moderator:** Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** While performance has been fairly consistent with what you said in the first quarter, it'll be interesting to know which are the areas that performed better than your anticipation versus at the beginning of the quarter, be it in terms of any verticals, or sub verticals, or in terms of maybe stronger deal transition or faster conversion, is there anything which is more structural in it, which can probably prolong? And you did mention the heterogeneous nature this quarter. So, any comments around that will be really helpful, Rajesh?

**Rajesh Gopinathan:** Actually, quite frankly, no. There are no standout individual industry or market segments that performed differently. UK, if anything, if you specifically push, UK is difficult to call. So, as we have always maintained over the last many years on UK, we stay very, very positive and staying very close to our customers and helping them deal with an extremely volatile environment. But yes, that's a market that is extremely difficult to assess, and we are very happy with how it has turned out. And we hope that it will continue to remain equally strong. But it is a difficult market to talk about.

Others are trend wise; I wouldn't say that any major surprises or turnarounds or significant changes. Obviously, there is broad-based acceleration. And beyond that, I don't see anything.

**Apurva Prasad:** Rajesh, this is also tied to your earlier comments of more midsize earlier versus now more large size and a better mix. Do you see more vendor consolidation opportunities getting bigger by volume or value as budgets are probably going to unlock more and for the end-to-end transformation versus more piecemeal transformation, which is happening earlier, and thereby, larger end-to-end service providers benefiting disproportionately, anything around that?

**Rajesh Gopinathan:** I think it was more a timing issue last quarter. And also, of course, the fact that the pandemic had changed the decision cycles and all. So, the smaller deals were obviously happening faster. But last time also when we said that our Q2 TCV was more weighted towards smaller one, I had also said that our pipeline was more reflective of our traditional one. So, I think it's just a timing issue between quarters, and this quarter our large deals are back to normal and in



fact some amount of catch up on the last quarter has also happened. So, I don't see a significant shift in the distribution or the deal structure.

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

**Sudheer Guntupalli:** My first question is to Ramki sir. You indicated that the margin expansion is driven by higher utilization and productivity levels. I want to know your thoughts on the sustainability of these higher utilization levels and margins. Can they correct as we come out of the recovery mode and start chasing growth or do you see a case for structurally higher utilizations and margins going forward compared to FY'19-20 levels?

**V Ramakrishnan:** See, growth will be one factor. We continue to maintain the momentum. I think the margin resilience will also be there. From other drivers like whether it is utilization or productivity or leverage, etc., we will continue to see where there are opportunities and we will continue to improve because in a large organization with more than 450,000 people, there will always be areas where we can work on some of those aspects. So, we continue to stay focused on where we think the businesses can deliver. Nothing more specific to call out on that.

**Sudheer Guntupalli:** Rajesh, we understand that Continental Europe is a geography where the presence and competitive positioning of TCS has been notch ahead of its closest competitors. However, in the recent past, we noticed a trend of aggressive large captive takeovers by competition in this geography. Given the current situation and the fact that more such captives may be up for sale, do you see the possibility of heightened competition for us in the future in this particular area?

**Rajesh Gopinathan:** We see that as indication of the market becoming closer to global norms, and our relative competitiveness continues to be strong. I think it's a normal progression that you would expect as the market converges with other markets.

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

**Diviya Nagarajan:** You have spoken about how next year you are looking at getting back to double digit run rate. And we have seen a fair amount of margin upside as well. How should we think about your 26% to 28% aspirations going into next year? Will

the revenue mix then help you kind of get from the back end that are closed, you are already there, but from a full year basis do you think that's a sustainable number even if some of your costs like hiring and further rate hike should recur?

**Rajesh Gopinathan:** The way we look at margin is as a strategic lever. It is two things for us; it is a validation of our strategic positioning and our relevance and our relative competitiveness within the market. Secondly, from a tactical perspective, it is a strategic lever for us, because it gives us the headroom required to participate in more complex and longer-term kind of deal structures when the right opportunities come about. So, this is I would say that coming back to that range is more reaffirmation or validation of what we have always maintained, but as I maintained earlier also, we are not wedded to any given range. We will chase opportunities aggressively when we find the right opportunities, and in areas that are of long-term interest to us.

So, period-to-period what happens to the margin will be a combination of that, plus the environment in terms of where the currency is and also some of the other elements like attrition, etc., So, we're not that worried about that, but we are very interested that over a cycle we are able to bring it back and then be able to use that as a lever to feed our growth.

**Diviya Nagarajan:** And the second point was something you did alluded to, attrition. We have seen attrition come down to a very, very healthy number right now. Is this sustainable or should we think about this as a new level where things are likely to be in a shorter range or a narrow range going forward? Or as the industry starts to hire more meaningfully into the next 12, 18 months, we expect this to fast inching up a bit towards where we used to be earlier?

**Milind Lakkad:** This number of 7.6% is the last 12 months' attrition, it reflects that number. Going forward, we expect the number to go up a bit. Whether it will come to original levels or not, we don't know yet. But the point is, this is something which is last 12-months attrition, and we expect that marginally it will increase over quarters.

**Diviya Nagarajan:** And you just finished a round of wage hikes. Going into the next year, what are we thinking about the cycle for wage hikes?

**Milind Lakkad:** This year was an exception for us. Instead of giving the raises in April, we gave them in October. We expect the next year to be a normal year. We'll decide by

this March on the increments and timing and all of that, but we expect it to be a normal year.

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

**Sandip Agarwal:** Rajesh, I have just two small questions. First is on the BFSI side. We have not seen BFSI spending very aggressively for now like more than 10, 11 years. But with the kind of movement in the online traffic, do you see that banking sector will once again start big capex and upgrade their core infrastructure? And if that happens, will it not move up the growth rate very, very substantially? That is part one. And part two is on the hyper scaler side, I just wanted to know a little more on that side. How are we taking the hyper scaler approach? Is it the one business basically we are targeting the whole hyper scalar as one type of business or you're breaking it down and individually targeting each hyper scaler through one kind of unit, so, just some light on that? And finally, in last few years, we have seen our subcon cost tripling. So, now, with this work from home and other things, will it recede to a substantially lower level? What I mean by tripling is that a few of the players in the industry have tripled, some have seen substantial increase, so, will it recede significantly from here or are you thinking there is a little limited room there?

**Rajesh Gopinathan:** See, there are multiple levers that we think will drive long-term BFSI demand; one is related to the whole public cloud space. Almost all our customers in the BFSI space either already have some kind of a public cloud strategy or are currently experimenting with it. But substantial workloads have not shifted and there are still lingering issues being sorted out both from redundancy perspective, security perspective, validation, etc. So, there is acceptance, but not complete large scale adoption yet across the client universe, which means that there is significant headroom, because almost everybody is now conceptually aligned that that is the right way to go. And that is the only way to go in fact, and with the multi cloud hybrid kind of structure. So, that will be a fairly long-term demand driver, and it is linked to the overall plan that we have spoken about.

Similarly, from a product perspective, wealth management is a huge aspect of realignment that many of our customers are doing. And there is significant amount of investment going into that space. And given our very strong domain capabilities, and both product and platform capabilities, we are participating

very well in that space. Other elements like customer experience, etc., continue to grow.

Insurance is another area that is significantly leveraging cloud to change its operating parameters and the way it is structured in terms of its complex operations. So, we see fairly robust long-term demand drivers in this space. And as the largest service provider to the BFSI industry globally, we are very well positioned to participate in this upside.

The question that you had about hyper scalars, the units that we have set up are dedicated units by each of these large platforms. And we believe that when we take a slightly longer term, five years plus kind of view, each of them will evolve in their own unique ways. And therefore, it is important that we invest and create those kinds of differentiated capabilities, which will drive long-term value creation for customers.

On the subcontractor side, NGS, you want to address that? The question was about our long-term strategy towards subcontractors and how SBWS and work from home, does it impact our subcontractor strategy?

**N G Subramaniam:** Thanks, Rajesh. I think, you answered that in the earlier question also. I think we have been proactively investing in building the skills organically. And that is our strategic priority. And that's something that has paid us rich dividends, which we will continue to do.

On the subcontracting side, we have always been tactical about it. Where it is absolutely required for market skills or for fulfilling immediate opportunities, we've always used it, and we will continue to use that. We have a phenomenal ecosystem of partners that we have built over time, in both emerging as well as established markets, that help us in terms of bringing in the necessary skills on an immediate basis, as well as typical market skills or regulatory skills that we keep looking for, that will continue to be practiced.

**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. So, as we said, strong demand for our services and revenue conversion from the strong deal wins of the last few months have given us a strong momentum, helping us clock 4.1% growth in constant currency sequentially. We also grew on a year-on-year basis in constant currency terms, something which we were expecting to accomplish only in

March, but we've done it quarter earlier. So, we are very happy to draw a line under this year, as it were, and look forward to the future.

Our operating margin expanded by 0.4 basis points, to 26.6%, our highest in the last five years even after absorbing the impact of the salary hike that we did in this quarter. Our strong growth momentum and order book of \$6.8 billion, which includes an all time high order book in BFSI and North America positions us very well in the new year.

On the people front, keeping with our strong demand expectation and growth expectations we have had an all-time high net addition of 15,721 people and our retention continues to be industry benchmark with an all-time low of 7.6% from the IT services attrition perspective.

Looking ahead, both in business as well as in our personal lives, there is a reason to be optimistic, but also to stay cautious. We are definitely not out of the woods yet. And so we maintain a positive but cautious stance. But that caution aside, the medium and long term business opportunity is fairly substantial. And our scale as well as our sustained investments, position us very well to participate in that.

Once again, thank you all for joining us on this call today and wishing you all a happy and healthy 2021. Good night and stay safe everyone.

**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.

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